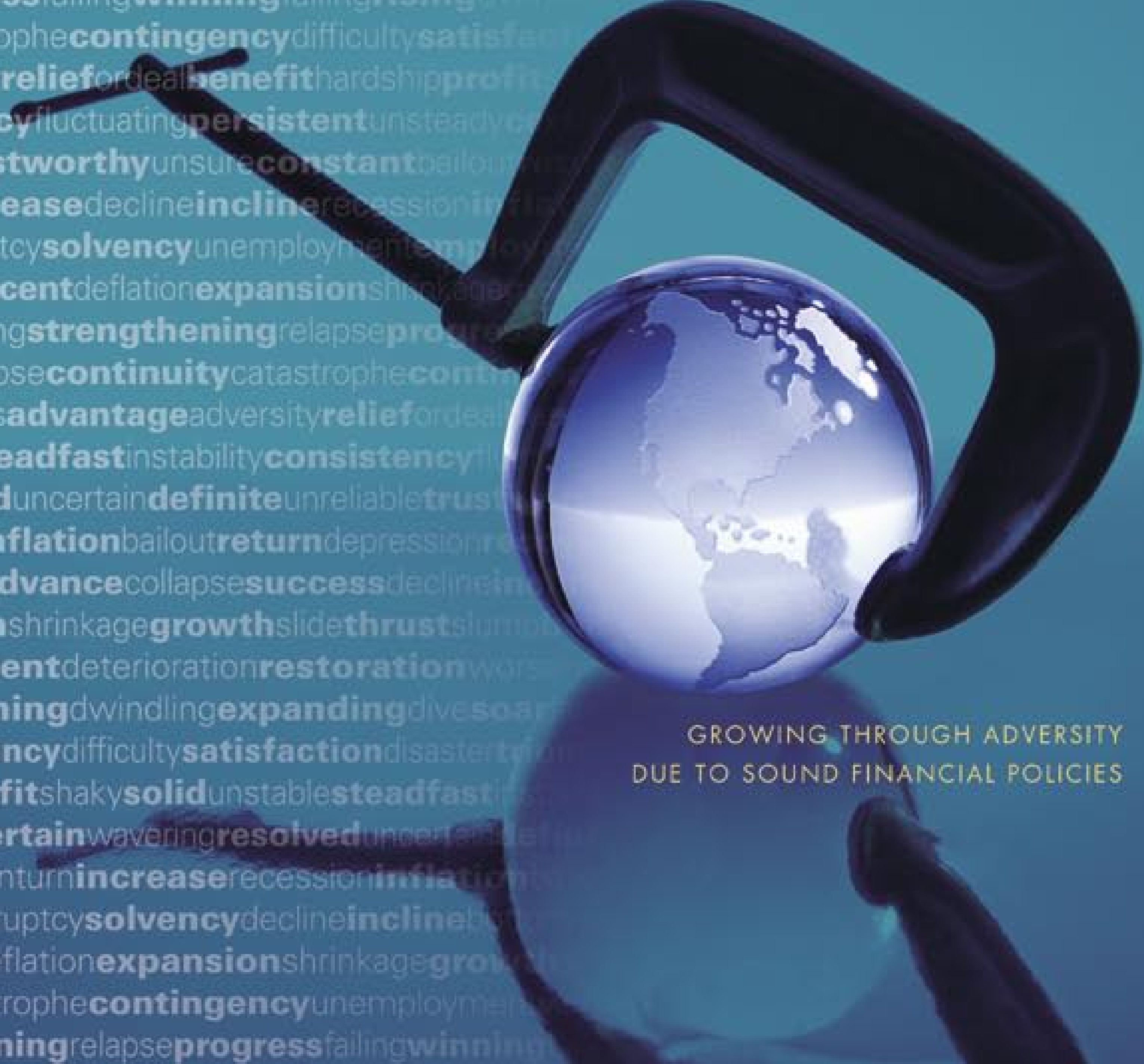
American National Insurance Company

2009

ANNUAL REPORT



GROWING THROUGH ADVERSITY
DUE TO SOUND FINANCIAL POLICIES

AMERICAN NATIONAL INSURANCE COMPANY

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American National Insurance Company has evolved to thrive in an ever-changing world. In 1905 our founder, W.L. Moody, Jr., envisioned a company that would flourish for centuries. His conservative business approach created a unique corporate culture that remains the heart of the Company today. This culture has helped American National persevere through wars, hurricanes, economic volatility, extraordinary technological advancements, evolving products and the changing needs of policyholders and agents. As we end a year of unprecedented financial crisis, American National remains financially strong and committed to providing a steady and sure source of financial protection for policyholders and investors alike.

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vision

TO BE A LEADING PROVIDER

OF FINANCIAL PRODUCTS AND

SERVICES FOR CURRENT AND

FUTURE GENERATIONS

Key Results

2009

Assets were $20,149,507,000 at December 31, 2009.

Stockholders' Equity was $3,460,454,000 or $130.29 per share.

Life insurance in force totaled $69,448,250,000.

Dividends are currently paid by American National at an annual rate of $3.08 per share.

The year 2009 was the 99th consecutive year in which dividends have been paid to stockholders.

Financial Strength Ratings

American National Insurance Company ("American National") has been evaluated and assigned the following ratings by nationally recognized, independent rating agencies. The ratings are current as of March 31, 2010.

A.M. Best: A (Excellent)
3rd highest of 13 active company ratings[1]

Standard & Poor's: AA- (Very Strong)
4th highest of 20 active company ratings[2]

Ratings reflect current independent opinions of the financial capacity of an insurance organization to meet the obligations of its insurance policies and contracts in accordance with their terms. They are based on comprehensive quantitative and qualitative evaluations of the company and its management strategy. The rating agencies do not provide ratings as a recommendation to purchase insurance or annuities. The ratings are not a warranty of an insurer's current or future ability to meet its contractual obligations.

Ratings may be changed, suspended, or withdrawn at any time. For the most current ratings, view the full rating reports on American National's Internet site at **www.anico.com**.

1. A.M. Best's active company rating scale ranges from A++ (Superior) to D (Poor). **2.** Standard & Poor's active company rating scale ranges from AAA (Extremely Strong) to CC (Extremely Weak). Plus (+) or Minus (-) modifiers show the relative standing within the categories from AA to CCC.

mission

TO BE THE COMPANY OF CHOICE FOR INSURANCE AND OTHER FINANCIAL PRODUCTS AND SERVICES WHILE MAINTAINING SUPERIOR FINANCIAL STRENGTH

Management Message

ROBERT L. MOODY
Chairman of the Board
Chief Executive Officer

G. RICHARD FERDINANDTSEN
President
Chief Operating Officer

The world-wide financial crisis continued to have effects that were far reaching into 2009. The Federal Funds rate was held between 0% and 0.25% throughout 2009, and returns on available investments were low. Credit continued to tighten, affecting valuations of otherwise sound investments. Consolidation of financial institutions resulted in sudden concentrations of certain invested assets. Additionally, unemployment rates grew to double digits. These are a few of the challenges American National faced during 2009. While we were affected by these events, steadfast and conservative management of operations, including investments, risks and expenses, softened their impact and transformed many of these challenges into successes for our company.

By the end of 2009, American National had regained a large portion of the amount of equity lost during the height of the crisis. The company remained strong and ended the year with $3.4 billion in Stockholder's Equity. This includes a robust increase of $326.6 million over the prior year, even while maintaining our dividend rate.

We ended the year with $20.2 billion in assets, an increase of 9.6% over prior year assets of $18.1 billion. The increase in accumulated assets is largely the result of more than $2 billion in annuity sales and improvements in asset valuations. At the end of 2009 American National's assets remained more than 120% of those required to support the company's liabilities.

Capital and Investments

The return we earn on investments is a significant contributor to our earnings. We manage our investment portfolio to optimize our return while keeping it consistent with sound and prudent underwriting practices. American National focuses on ensuring that the duration of invested assets is in alignment with the anticipated cash flow needs from liabilities. Utilizing various risk management techniques, we maintain a well diversified portfolio with the liquidity necessary to support our liabilities.

American National recorded $98.9 million of other than temporary impairments during 2009, primarily due to stock valuations in the first quarter. However, many of the securities impaired in 2008 and early 2009 rebounded to show unrealized gains at the end of 2009. Due to accounting rules, these gains are not allowed to be reflected in income until the investments are disposed of. The fixed income bond and short-term investment portfolio remains sound, with only 7% rated below investment grade by Standard and Poor's.

Our strong capital position has allowed us to maintain a higher percentage of our investments in equity securities than our peers. In recent years, however, we have changed our investment mix to increase the percent of investments in bonds to support our growing annuity liabilities. Additionally, we sold some equities in the last quarter of 2009.

We invest in commercial mortgages where the yield is appropriate for the risk. For the year, we had a net increase of $353 million in these mortgages over 2008. We do not invest in residential mortgages, but otherwise our distribution by mortgage type is similar to the industry. We maintain a high-quality, soundly underwritten portfolio of mortgages that are performing even during the current economic downturn.

Our cash and short-term investment position at the end of 2009, at $750.3 million, was more than double the amount held at the end of the prior year. We decided to maintain this higher level until longer term rates available in the market were more commensurate with the risks we would assume. This approach did impact our investment income somewhat; however, our strong liquid position provides for additional yield enhancing investment flexibility in 2010.

Operating Earnings

After-tax operating earnings from insurance operations were up $20.0 million for 2009, the result of stronger earnings from our life and annuity segments as well as improved results from our property/casualty segment. These results were offset by lower operating earnings in non-insurance lines, primarily from our real estate investment subsidiaries. The net result was a decrease in overall operating earnings from $92.8 million in 2008 to $64.8 million in 2009.

Life Insurance

Life insurance continues to be a mainstay for us. The combination of generally improving mortality rates, positive cash flow generation for many years after policy issue, and favorable persistency suggest a continuing profitable future for this segment. However, recent market and economic conditions have led to a decreased demand for certain life insurance products. American National experienced reduced life insurance sales during 2008 and 2009, as did the industry at large.

Life results vary dramatically based on the product type. Earnings on traditional policies are suffering as a result of the low interest rate environment and our inability to adjust interest rates priced into the products. Our universal life policies are more flexible, as we are able to adjust crediting rates as interest rates decrease. However, they still maintain a minimum guaranteed rate that must be supported. In total, our life segment reported an after-tax operating gain of $26.4 million, compared with a $12.6 million gain in 2008.

We manage our product lines to respond to current market conditions and needs. In the current environment, we expect our newly introduced Indexed Universal Life product to be popular, offering individuals insurance protection as well as the ability to participate in upswings in the market.

Annuity

After-tax annuity operating gains of $9.8 million for 2009 were $3.6 million below the gains achieved in 2008. Earnings were significantly affected by spread compression during 2009. The annuity market is aggressive, with insurance companies often lowering their return expectations in order to remain competitive. Toward the end of 2009, the market improved, allowing us to credit interest at spreads commensurate with our target returns. We expect this trend to continue, albeit to varying degrees, as the market is continually in a state of flux.

To date we have not been comfortable that the industry is adequately pricing guaranteed living benefits. As a result, we have not included these options with our variable annuities. This has resulted in substantially lower variable annuity sales relative to the industry. We will continue to monitor the pricing and trends relative to these benefits as we determine features available on these products in the future.

We are in the process of expanding our annuity and life sales by establishing a New York insurance subsidiary. Initially we will offer a variety of annuities sold through independent and multiple-line agents and traditional life insurance utilizing direct channels. Once fully established, we expect annuity deposits from the New York subsidiary to represent five to ten percent of total deposits received. Annuity sales are expected to begin in the first half of 2010. Sales of life insurance products are expected later in the year.

Property/Casualty

Our property/casualty segment, which was significantly impacted by extreme weather events in

2009 and 2008, reported a 2009 operating loss of $10.5 million, compared with a loss of $19.1 million for 2008. During 2009, our property/casualty business was impacted by a very high frequency of strong, violent storms. For us as well as the industry, 2009 was a near-record year for thunderstorm losses in the Midwest. For 2009, net catastrophe losses and loss adjustment expenses totaled $87.9 million.

We anticipate a continued competitive property/casualty environment in 2010. Additionally, with reduced consumer spending, we expect a continuation of reduced sales of credit-related property/casualty insurance products, particularly through the auto dealer market.

Underwriting, pricing, expense and risk management actions have been taken to address the losses in the property/casualty segment. We are growing in states which have historically experienced a lower degree of catastrophes and have been less prone to the negative impacts of volatile weather patterns. We have also improved our reinsurance program to provide additional protection in certain areas that are more likely to be impacted by storms.

Health Insurance

Our health segment results were plagued by significantly higher than expected claims during 2009, resulting in losses of $22.2 million. The higher than expected benefit cost adversely affected not only a legacy block currently in a run-off status, but also the current individual and association insurance lines. The benefit cost increases can, to a large extent, be attributed to a dramatic increase in large claims. In response to escalating benefit ratios we have begun to implement a series of appropriate premium rate increases. Additionally, commissions and expenses have been reduced in an effort to restore profitability.

The final impact of our government's health care reform on the insurance industry is yet to be determined. Still, we anticipate government involvement in the coming years will increase in an attempt to provide minimum coverage to all individuals. Additionally, we believe that our focus on limited benefit products could provide opportunities for American National as individuals attempt to supplement that basic coverage. We continue to closely follow the developments at a Federal level and will react accordingly.

Expenses

We incurred significant expenses again in 2009 in consulting costs for assistance with our SEC registration project and to ensure the company's compliance with Sarbanes-Oxley Act requirements. Consultants were employed as additional resources to ensure that we attained our goal of registration by August of 2009. We believe that the additional Sarbanes-Oxley processes implemented over the past year will support a more robust reporting process that should provide additional security to our investors and policyholders.

The additional expenses associated with SEC registration and Sarbanes-Oxley implementation impacted results of each area within the company. As these activities reached their completion, expenses were reduced, and profitability improved in the fourth quarter of 2009. We expect this trend to continue, with 2010 expenses decreasing to an overall level more in line with our product pricing.

Over the past year we have streamlined some of the company's infrastructure and centralized some of the company's shared services. One of the largest undertakings completed during 2009 was the consolidation of three data centers into a single center.

Risk Management

As insurers, effective management of risks is our primary business. Resources must be managed through a variety of events in order to be successful. At American National, risk management is integrated into all facets of our operations.

Some considerations are unique to segments while others, such as regulation, span the corporation, although to varying degrees. Regulation will likely increase in all insurance lines over the coming months. We constantly monitor these changes and assess their impact to our business in order to make informed decisions on how to respond. Similarly, litigation is an ever-present threat to be managed and addressed.

Capital is important to our success in providing long-term protection. We effectively manage billions of invested assets and associated liabilities to ensure they are adequately matched. We also manage catastrophic risk in order to preserve our capital adequacy. We study the tools available to manage these risks, such as hedging and reinsurance, and implement those that are compatible with our objectives. Finally, we do not use external debt or leveraging within American National to bolster returns.

Outlook

We remain focused on conservative values, a vital aspect of our success. These values have helped us face challenges, change them to opportunities and maintain our strength. We believe our operations are sound, and the outlook for 2010 is encouraging.

AMERICAN NATIONAL INSURANCE COMPANY

Ten-year Financial Highlights

(In millions, except per share data and ratios) *Unaudited*

For the Years Ended December 31,	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
OPERATING RESULTS										
Revenues (a)	$ 2,950	$ 2,527	$ 3,066	$ 3,114	$ 3,045	$ 2,879	$ 2,629	$ 2,221	$ 2,138	$ 1,834
Operating earnings (a) (b)	65	93	214	208	181	220	161	102	61	125
Realized capital gains/losses (c)	(49)	(247)	27	65	55	36	21	(85)	4	15
Net income/loss	16	(154)	241	273	236	256	182	17	65	140
Operating earnings per share, diluted (a) (b) (d)	2.44	3.50	7.90	7.82	6.79	8.30	6.07	3.87	2.29	4.73
Realized capital gains/losses per share, diluted (c) (d)	(1.85)	(9.32)	1.14	2.45	2.08	1.33	0.81	(3.23)	0.16	0.56
Net income/loss per share, diluted (d)	0.59	(5.82)	9.04	10.27	8.87	9.63	6.88	0.64	2.45	5.29
FINANCIAL POSITION										
Assets	$ 20,150	$ 18,379	$ 18,461	$ 17,932	$ 17,493	$ 16,571	$ 15,140	$ 12,237	$ 11,258	$ 9,270
Invested Assets	16,606	14,546	14,956	14,526	14,257	13,365	11,962	9,173	8,280	6,990
Liabilities	16,677	15,245	14,724	14,357	14,115	13,275	12,028	9,363	8,322	6,247
Policyholder liabilities	15,311	14,003	13,255	13,027	12,876	12,212	11,062	8,467	7,516	5,590
Total American National Stockholder's Equity	3,460	3,134	3,737	3,575	3,378	3,296	3,112	2,874	2,936	3,023
INSURANCE PRODUCTION INFORMATION										
Life insurance sales	$ 9,501	$ 11,244	$ 12,368	$ 11,263	$ 12,077	$ 13,021	$ 12,373	$ 12,874	$ 11,821	$ 11,487
Life insurance in force (e)	69,448	69,871	68,683	65,991	64,051	61,404	58,736	56,504	54,414	48,777
Policy account deposits	2,268	1,997	1,220	1,092	1,212	1,554	2,695	936	588	325
COMMON STOCK STATISTICS										
Market close	$ 119.44	$ 73.73	$ 121.24	$ 114.11	$ 116.99	$ 104.16	$ 84.48	$ 82.02	$ 84.10	$ 73.00
Book value per share, basic	130.29	118.35	141.12	135.03	127.57	124.46	117.52	108.52	110.89	114.19
Dividends per share	3.08	3.08	3.05	3.01	2.97	2.96	2.96	2.96	2.92	2.86
Shares outstanding (000's) (f)	26,558	26,480	26,480	26,480	26,480	26,480	26,480	26,480	26,480	26,479
FINANCIAL RATIOS										
Return on equity (g)	11.3	(14.0)	6.9	8.2	4.7	8.4	11.0	0.5	(0.3)	1.2
Operating return on equity (h)	1.9	2.7	5.9	6.1	5.6	7.2	5.7	3.5	2.0	4.1
Dividend payout (i)	127.2	89.2	38.1	38.7	43.9	35.8	49.0	76.8	127.8	60.5
Assets per $100 of liabilities	$ 121	$ 121	$ 125	$ 125	$ 124	$ 125	$ 126	$ 131	$ 135	$ 148

(a) Includes discontinued operation amounts to preserve comparability with prior year data
(b) After tax and excluding gains from sale of investments
(c) After tax gains or losses on investments
(d) 2009 Net Income – basic per share
(e) Includes insurance acquired of $4,125 million in 2001
(f) Number of unrestricted shares outstanding at year end
(g) Change in total equity before dividends to stockholders, ASC 740 implementation and stock options divided by total equity at the beginning of the year
(h) Operating earnings per share divided by book value per share at the beginning of the year, adjusted to exclude the effect of ASC 320
(i) Total dividends paid to stockholders divided by operating earnings

Segments

RONALD J. WELCH
Senior Executive Vice President
Corporate Risk Officer and Chief Actuary

JAMES E. POZZI
Senior Executive Vice President
Chief Administrative Officer

American National is focused on being a leading provider of financial products and services for current and future generations. The company is organized into five segments, four of which cover a wide range of insurance operations. The fifth segment, Corporate and Other, consists of non-insurance related operations and invested assets that are not specifically designated as supporting the insurance businesses.

Our marketing areas support our insurance segments, and are core to our success. We currently manage six broad distribution channels, including Independent Marketing Group, Multiple Line, Career Sales and Service Division, Health/Senior Age Marketing Division, Credit Insurance Division and Direct Marketing.

Life insurance is the foundation of American National. We first offered traditional life insurance in 1905 through career agents selling door-to-door. Today, we offer traditional, interest sensitive, indexed and variable life insurance products designed to fit a variety of individual and small business needs. All of our marketing areas sell life insurance products through a wide variety of distribution methods.

Life insurance sales for American National and the industry at large have suffered recently. In such

DAVID A. BEHRENS
Executive Vice President
Independent Marketing Group
C.O.O., Garden State (Direct Marketing)

BILL J. GARRISON
Executive Vice President
Career Sales & Service Division

GREG OSTERGREN
Executive Vice President, Director - Multiple Line
Chairman, President and C.E.O.
American National Property And Casualty Companies

SUMMARY OF INSURANCE SEGMENTS

LIFE	Independent Marketing Group Multiple Line Career Sales & Service Division Health/Senior Age Marketing Division Direct Marketing Credit Insurance Division
ANNUITY	Independent Marketing Group Multiple Line Career Sales & Service Division Health/Senior Age Marketing Division
PROPERTY AND CASUALTY	Multiple Line Credit Insurance Division
HEALTH	Multiple Line Career Sales & Service Division Health/Senior Age Marketing Division Credit Insurance Division

JAMES W. PANGBURN
Senior Vice President
Credit Insurance Division

STEVEN H. SCHOUWEILER
Senior Vice President
Health Division

TIMOTHY A. WALSH
President and C.E.O.
Farm Family

difficult times, many individuals are focused on meeting more immediate needs, and do not have the resources to plan for uncertain events. Still, we believe this distraction is temporary and the market will return to normal in the near term.

Historically, our annuity segment has represented a small portion of the company overall. Over the past decade, this segment has been developed into a major and growing contributor to our insurance operations. Our annuity success has been particularly strong with regard to fixed products sold through independent agents. Sales of fixed annuities continued to increase in 2009, even though the economy was generally poor. We attribute this success to a "flight to quality" as individuals sought more reliable investment vehicles with secure companies.

Annuity volume can vary substantially from year to year, and is difficult to predict due to the uncertain economy, a smaller available pool of quality assets and the highly competitive marketplace. We generally anticipate that 2010 sales will be lower than those achieved in 2009. Additionally, we expect our annuity sales to shift somewhat from the traditional fixed products to our indexed annuity, as the equity market has rebounded. Our indexed annuities allow policyholders to participate in a portion of the increase, if the market continues to gain, while still providing some protection on the downside using a minimum guaranteed return.

The regulation of indexed products is still in question but this is not anticipated to have a material affect at American National. Should the SEC expand regulatory control over indexed products, processes are in place to support the additional requirements.

To date we have not been a significant player in the variable market. This is due to our discomfort with market pricing on the popular guaranteed living return product features. Our marketing and sales of variable annuities in 2009 largely supported pension plan sales.

The property/casualty segment covers personal lines, credit related and commercial lines, including agricultural related and other targeted commercial insurance. This segment is cyclical in nature, and is subject to potentially large catastrophe-related losses. We maintain a rigorous risk management program specifically aimed at the property/casualty lines in order to mitigate our more extreme risks. Additionally, we continually monitor evolving risks and learn from adverse events.

Our property/casualty products are primarily sold through Multiple Line Exclusive Agents. Many of these agents are able to coordinate sales of these products with life insurance. This has resulted in American National achieving one of the highest tri-line ratios in the industry, with the 2009 ratio ending at 23.4%. Tri-line accounts have three policies, which provide auto, home and life insurance coverage. These accounts result in improved persistency, profitability and life sales for American National. For the covered individuals, they represent peace of mind that their major insurance needs are met.

Credit-related property/casualty insurance is sold by American National through various outlets, including banks, auto dealers and furniture dealers as well as other distributions that offer credit. These lines now represent approximately half of all our credit-related sales.

Although the U.S. government has been highly focused on healthcare and health insurance for some time, it is still difficult to predict the changes that will be enacted in an attempt to insure all individuals. American National has remained a relatively small provider of health insurance, with the exception of the senior age market. While Medicare Supplement insurance is highly regulated, we have established a successful track record and plan to continue offering traditional products in the future.

We also anticipate remaining in our MGU lines, which are heavily reinsured against losses and typically have favorable results. Other health lines will be maintained only if they can be managed to profitability. Efforts to manage our health business to profitability, including appropriate rate increases, resulted in a substantial decrease in 2009 sales. Corrections will continue into 2010, with a continued decrease in new business.

We are committed to providing our customers with value-added products that meet their needs and expectations. This is even more important in these times of economic uncertainty, as individuals struggle to manage limited resources. We remain focused on providing a steady and sure source of financial protection for policyholders and investors alike.

Board of Directors

ROBERT L. MOODY
Chairman of the Board and Chief Executive Officer
American National Insurance Company
Galveston, Texas

Chairman of the Board
National Western Life Insurance Company
Austin, Texas

President
Moody Bancshares, Inc.
Galveston, Texas

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The Moody Foundation
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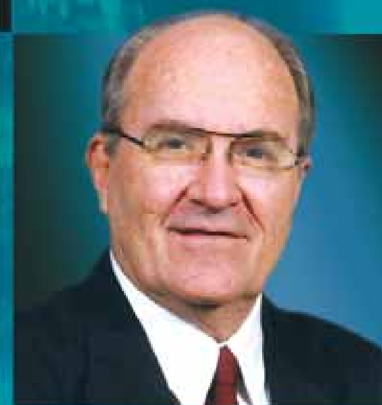
Galveston, Texas



ARTHUR O. DUMMER
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Insurance Company
Levonia, Michigan

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Moody Insurance Group
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Galveston, Texas

R. EUGENE LUCAS
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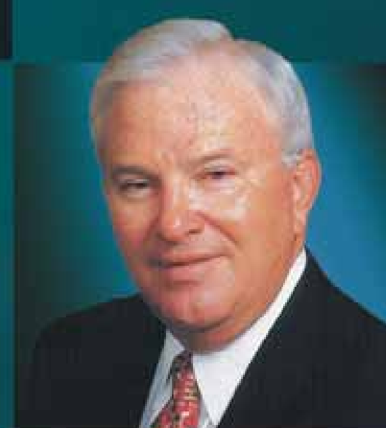
Gal-Tex Hotel Corporation
Galveston, Texas



IRWIN M. HERZ, JR.
Attorney
Greer, Herz & Adams, LLP
Galveston, Texas

Officers and Directors

American National Insurance Company

(As of March 31, 2010)

OFFICERS

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and Chief Executive Officer

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Chief Administrative Officer

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Corporate Risk Officer and
Chief Actuary

J. Mark Flippin
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Life Product Actuary

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and Illustration Actuary

Sara L. Latham
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Criminal Investigations and
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Corporate Audit Services

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Real Estate/Mortgage Loan Investments

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Senior Vice President
Securities Investments

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Vice President, Real Estate Investments

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Vice President and Assistant Corporate
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Mortgage Loan Production

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Assistant Vice President
Mortgage Loan Production

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Life Policy Administration

D. Lanette Leining
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Assistant Vice President
Pension Administration

Thomas R. LeGrand
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Life and Annuity Claims

Michael S. Marquis
Assistant Vice President
Life New Business

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Assistant Vice President
Associate Medical Director

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Vice President, Information Security
and Enterprise Architecture

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Director of Telecommunications

Meredith M. Mitchell
Vice President
Application Development and Support

Barbara J. Huerta
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Enterprise Financial Systems

Kenneth J. Juneau
Assistant Vice President
Advisory Systems Engineer

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Assistant Vice President
Life and Annuity Systems

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Life Insurance Systems

Deanna L. Walton
Assistant Vice President
Field Systems

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Senior Vice President
Chief Multiple Line Marketing Officer

Ronald C. Price
Senior Vice President
Chief Marketing Officer
Career Life Agencies

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Senior Vice President
Chief MLEA Administrative Officer

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Vice President
Chief Life Marketing Officer
MLEA

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Vice President
Market Training and Development
MLEA

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Assistant Vice President
Director of Advanced Life Sales

John D. Ferguson
Assistant Vice President
Creative Services

Emerson V. Unger
Assistant Vice President
National Business Development
Executive

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Director of Career Sales
& Service Division

Hoyt J. Strickland
Senior Vice President
Career Sales & Service Division

Wayne A. Smith
Vice President

Raymond E. Pittman, Jr.
Assistant Vice President, Director
of Marketing/Career Development

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George C. Crume
Vice President
Brokerage Sales

Douglas A. Culp
Vice President
Financial Institution

Steven L. Dobbe
Vice President
Broker Dealer Marketing

Franklin J. Gerren
Vice President
Payroll Deduction

Richard S. Katz
Vice President
Direct Marketing and Sales

Robert W. Schefft
Vice President
Advanced Sales and Marketing

J. Truitt Smith
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Dwight D. Judy
Vice President, Financial Marketing

HEALTH INSURANCE DIVISION

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Senior Vice President
Health Insurance Operations

William H. Watson III
Vice President, Chief Health Actuary

Joseph F. Grant, Jr.
Vice President, Group Actuary

Charles J. Jones
Vice President
Health Underwriting/New Business

Michael C. Paetz
Vice President
Group and MGU Operations

James P. Stelling
Vice President
Group/Health Compliance

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Vice President and Assistant Actuary

William J. Hogan
Assistant Vice President
Health and HIPAA Compliance

Tracy L. Milina
Assistant Vice President
Health Business Vision Coordinator

Ronald J. Ostermayer
Assistant Vice President, Director
Health Systems Administration
HIPAA Security Officer

American National Life Insurance Company of Texas

Galveston, Texas

(Subsidiary of American National Insurance Company)

DIRECTORS

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William L. Moody IV
James E. Pozzi
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Stephen E. Pavlicek

ADVISORY DIRECTOR

Allan W. Matthews

(As of March 31, 2010)

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Illustration Actuary

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A Texas Corporation

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Edward J. Walsh, Jr.
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League City, Texas
(Subsidiary of American National Insurance Company)

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R. Eugene Lucas
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(As of March 31, 2010)

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Michele S. Lord
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A New York Company *(Subsidiary of American National Insurance Company)*

DIRECTORS

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A. Ingrid Moody
Ross R. Moody
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Gregory V. Ostergren
James E. Pozzi
Victoria M. Stanton
Timothy A. Walsh
Ronald J. Welch

(As of March 31, 2010)

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Vice Chairman of the Board

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Pasquale P. Marotta
Assistant Vice President, Internal Audit

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A New York Company *(Subsidiary of American National Insurance Company)*

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A. Ingrid Moody
Ross R. Moody
Edward J. Muhl
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James E. Pozzi
Victoria M. Stanton
Timothy A. Walsh
Ronald J. Welch

(As of March 31, 2010)

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Kathryn Lentivech
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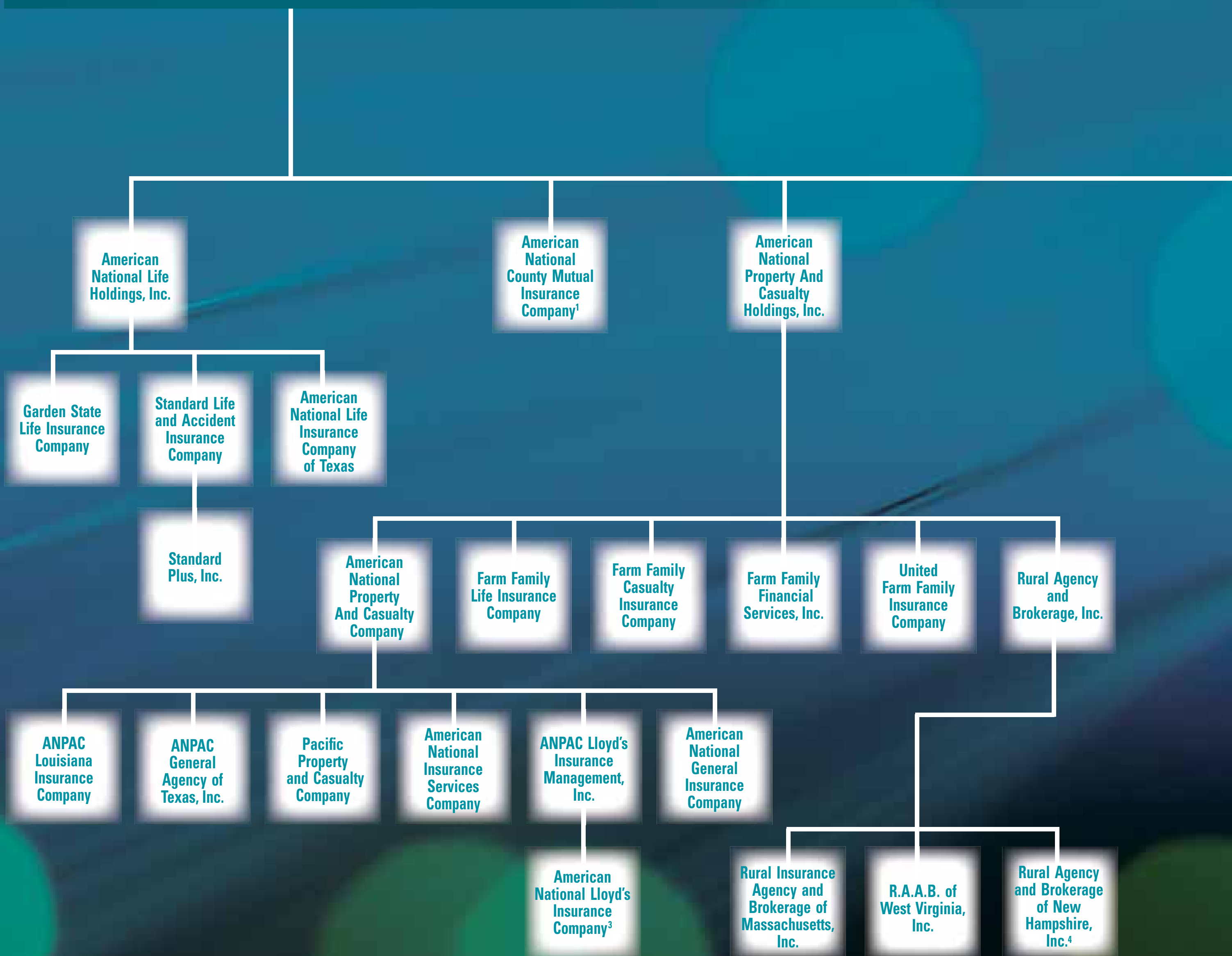
Michael W. McCroskey
Vice President, Investments

Melissa G. McGrath
Vice President, Legal

Pasquale P. Marotta
Assistant Vice President, Internal Audit

American National Insurance Company



All subsidiaries are 100% owned by indicated parent except as otherwise noted.

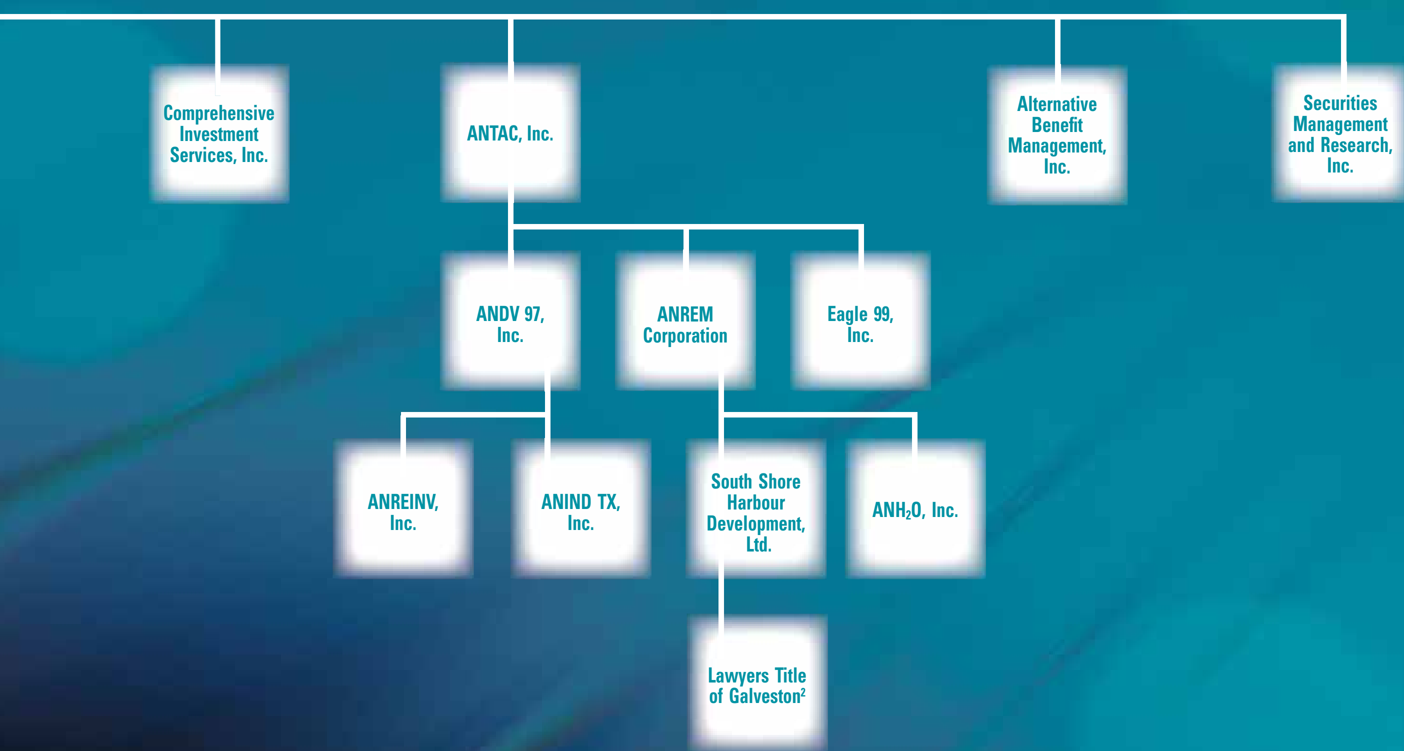
1 – Not a subsidiary company, but managed by American National Insurance Company

2 – 50% owned by South Shore Harbour Development Ltd. and 50% owned by Lawyers Title Company

3 – Not a subsidiary company, but managed by ANPAC Lloyd's Insurance Management, Inc.

4 – 75% owned by New Hampshire Farm Bureau, and 25% owned by Rural Agency and Brokerage, Inc.

FAMILY OF COMPANIES



American National Insurance Company
A stock life insurance company that offers a broad range of insurance coverages, including individual and group life, health and annuities and credit insurance

American National Life Insurance Company of Texas
An insurer that markets life and health insurance products through alternative distribution systems

Standard Life and Accident Insurance Company
A life insurer specializing in the marketing of Medicare Supplement and other products for the senior market

Garden State Life Insurance Company
A direct response company with sales of life insurance generated through broadcast and print media, as well as through sponsoring organizations

The American National Property And Casualty Companies
Property and casualty insurers that write primarily auto and homeowners insurance

The Farm Family Companies
Property and casualty and life insurers concentrating on the New York and Northeast U.S. market

Securities Management and Research, Inc.
A broker-dealer, member FINRA, SIPC, investment advisor

AMERICAN NATIONAL
FAMILY OF COMPANIES

AMERICAN NATIONAL INSURANCE COMPANY

2009 FINANCIAL INFORMATION

STEPHEN E. PAVLICEK
Senior Vice President and Chief Financial Officer

American National Insurance Company

Management's Discussion and Analysis

and

Financial Statements and Corresponding Footnotes

As filed with the Securities and Exchange Commission, March 12, 2010

ITEM 7. 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 our financial condition. This narrative analysis should be read in conjunction with the forward-looking statement information below, and the audited consolidated financial statements and related notes included in Item 8.

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Overview

We are a diversified insurance and financial services company. Chartered in 1905, we are headquartered in Galveston, Texas. We offer a broad spectrum of life, annuity, health, and property and casualty insurance products. We also offer mutual fund investments through our broker dealer subsidiary. We operate in all 50 states, the District of Columbia, Guam, American Samoa and Puerto Rico.

Segments

We manage our business through five business segments, which are comprised of four insurance segments: Life, Annuity, Health and Property and Casualty, and our Corporate and Other segment. The life, annuity, and health insurance segments are primarily operated through five domestic insurance companies. The property and casualty insurance segment is operated through eight domestic property and casualty insurance companies.

Insurance Segments

The insurance segments have revenues, which consist primarily of the following:

- net premiums earned on individual term and whole life insurance, property and casualty insurance, credit insurance, health insurance and single premium immediate annuity products;
- net investment income; and
- insurance and investment product fees and other income, including surrender charges, mortality and expense risk charges, primarily from variable life and annuity, deferred annuities, and universal life insurance policies, management fees and commissions from other investment products, and other administrative charges.

The insurance segment expenses primarily consist of the following:

- benefits provided to policyholders and contract holders and changes in reserves held for future benefits;
- interest credited on account balances;
- acquisition and operating expenses, including commissions, marketing expenses, policy and contract servicing costs, overhead and other general expenses that are not capitalized (shown net of deferrals);
- amortization of deferred policy acquisition costs and other intangible assets; and
- income taxes.

The insurance segments have liabilities for all of the insurance products sold through the segment. Each insurance segment also has an amount of surplus allocated to it sufficient to support the segment's business activities. The insurance segments do not directly own any assets, but assets are allocated to the segments to support the liabilities and surplus of each segment. The mix of assets allocated to each of the insurance segments is modified as necessary to provide the right match of cash flows and earnings to properly support the characteristics of the insurance liabilities. We have utilized this methodology consistently over all periods presented.

Corporate & Other

The Corporate and Other segment directly owns all of the invested assets of the Company. As noted above, assets and surplus from the Corporate and Other segment are allocated to the insurance segments as necessary to support the liabilities of those segments. The investment income from the invested assets is also allocated to the insurance segments from the Corporate and Other segment in accordance with the amount of assets allocated to each segment. Earnings of the Corporate and Other segment are derived from our non-insurance businesses as well as earnings from those invested assets that do not support the insurance segments. All realized investment gains and losses are recorded in this segment.

Outlook

"The Outlook" sections contain many forward-looking statements, particularly relating to our future financial performance. These forward-looking statements are estimates based on information currently available to us, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and are subject to the precautionary statements set forth in the introduction to MD&A above. Actual results are likely to differ materially from those forecast by us, depending on the outcome of various factors.

In recent years, our business has been and likely will continue to be, influenced by a number of industry-wide and segment or product specific trends and conditions. In our discussion below, we first outline the broad macro-economic or industry trends (General Trends) that we expect will have an impact on our overall business. Second, we discuss certain segment specific trends that we believe may impact either individual segments of our business or specific products within these segments.

General Trends

Challenging Financial and Economic Environment: The current financial crisis that began in mid-2007 is having adverse economic and financial market consequences around the world. In spite of government efforts, economic indicators remain mixed. During 2009, these market conditions contributed to an other-than temporary impairment loss of $98.9 million in our $16.6 billion investment portfolio. While we expect to experience continued volatility in the valuation of our investments, we believe that the current credit environment also provides us with opportunities to invest in select asset classes and sectors that may enhance our investment performance over time because of our intent and ability to hold these securities to maturity. Our ability to do so is supported by our strong liquidity position, which cushions us from the need to liquidate securities with significant unrealized losses to meet cash obligations. Due to acquisitions and consolidations principally among financial institutions, we have experienced credit concentrations beyond our normal guidelines. However, we believe those concentrations are manageable as we work to rebalance our investment portfolio to manage risk and investment returns.

We believe that as expectations for global economic growth are lowered, factors such as consumer spending, business investment, the volatility and condition of the capital markets and inflation, will affect the business and economic environment and, in turn, impact the demand for the type of financial and insurance products we offer. Adverse changes in the economy could affect earnings negatively and have a material adverse effect on our business, results of operations and financial condition. However, we believe those risks are somewhat mitigated by our financial strength, active risk management and disciplined underwriting for all of our products. Our diverse product mix across multiple lines of business (life, annuity, health, property and casualty) is a key strength that will help us adapt to current economic times and give us the ability to serve the changing needs of our customer base. For example, recent fluctuations in the stock market have led investors to search for financial products that are insulated from the volatility of the markets. We are well positioned to serve the demand in this marketplace given our success with fixed annuity products. Also, through our conservative business approach, we believe we remain financially strong and we are committed to providing a steady and reliable source of financial protection for policyholders and investors alike.

Low Interest Rates: Low interest rate environments are typically challenging for life and annuity companies as the spreads on deposit-type funds and contracts narrow and policies approach their minimum crediting rates. Low market interest rates may reduce the spreads between the amounts we credit to fixed annuity and individual life policyholders and the yield we earn on the investments that support these obligations. We have an established Asset/Liability Management Committee that actively manages the profitability of our in force block of insurance policies. In response to the unusually low interest rates in recent years, we have reduced the guaranteed minimum crediting rates on newly issued fixed annuity contracts and reduced crediting rates on in-force contracts, where permitted to do so. These actions have helped mitigate the adverse impact of low interest rates on our spreads and on the profitability of these products, although sales volume and persistency could diminish as a result. Additionally, the committee maintains assets with various maturities to support product liabilities and ensure liquidity. A gradual increase in longer-term interest rates relative to short-term rates generally will have a favorable effect on the profitability of these products. Although rapidly rising interest rates could result in reduced persistency in our spread-based retail products, as contract holders shift assets into higher yielding investments, we believe that our ability to react quickly to the changing marketplace will allow us to manage this risk.

Focus on Operating Efficiencies: The challenging economic environment and the recent investment related losses across the industry have created a renewed focus on operating cost reductions and efficiencies. We continue to aggressively manage our cost base while maintaining our commitment to provide superior customer service to agents and policyholders. Investments in technology are aligned with activities and are coordinated through a disciplined project management process. In 2009, we consolidated our data centers and Information Technology ("IT") operations to realize some of the synergies with our subsidiaries. We also anticipate using technology to enhance our web experience for policyholders and agents.

Changing Regulatory Environment: The insurance industry is regulated at the state level with some life and annuity products and services also subject to federal regulation. The debate over the federal regulatory role in the insurance industry continues to be a divisive issue within the industry. We proactively monitor this debate to determine its impact on our business. The SEC is attempting to enact new registration requirements for equity-indexed products. American National is prepared to support these products, even with additional registration requirements and regulation.

Life and Annuity

Due to the recent market and economic turmoil, life insurance companies experienced declining demand for certain products in 2008 and 2009. In response, we developed and began offering in September, 2009 a new Indexed Universal Life product, which we anticipate will be desirable in the current market. Life insurance continues to be a mainstay product for us today, as it has during our long history. We believe that the combination of predictable and decreasing mortality rates, positive cash flow generation for many years after policy issue and favorable persistency characteristics, suggest a viable and profitable future for this line of business. We continue to use a wide variety of marketing channels and plan to expand our traditional distribution models with additional independent agents.

While the annuity segment had insignificant sales volume historically, this segment now represents a major and growing contributor to our operations. Although we experienced a slowdown in variable annuity sales in 2009, our fixed annuity sales continued to increase as investors sought less volatile investment vehicles. In light of the current market, we are committed to maintaining our fixed annuity product lines. We have a conservation program to retain policyholders through proactive communication and education when a policyholder is considering surrendering his or her policy. This has resulted in our retaining approximately 10% of policyholders that have submitted surrender requests.

Effective management of billions of dollars of invested assets and associated liabilities involving credited rates and, where applicable, financial hedging instruments (which are utilized as hedges of equity-indexed annuity sales), is crucial to our success in the annuity segment. Asset "disintermediation", the risk of large outflows of cash at times when it is disadvantageous to us to dispose of invested assets, is a major risk associated with this segment. This risk is monitored and managed in the Asset Liability Management ("ALM") Committee. The ALM Committee monitors asset disintermediation risk through the use of statistical measures such as duration and projected future cash flows based on large numbers of possible future interest environments and the use of modeling to identify potential risk areas. These techniques are designed to manage asset/liability cash flow and minimize potential losses.

Demographics: We believe that a key driver shaping the actions of the life insurance industry is the rising income protection, wealth accumulation, and insurance needs of the retiring Baby Boomers (those born between 1946 and 1964). According to the U.S. Census published in 2008, about 19.6 percent of the total population will be over 65 by 2030, compared to about 12.4 percent now. Also, the most rapidly growing age group is expected to be the 85 and older population. As a result of increasing longevity and uncertainty regarding the Social Security system, retirees will need to accumulate sufficient savings to support retirement income requirements.

We are well positioned to address the Baby Boomers' rapidly increasing need for savings tools and income protection. We believe that our overall financial strength and broad distribution channels will position us to respond with a variety of products needed by Baby Boomers for retirement planning and income requirements. We are ready to respond to individuals approaching retirement age who seek information to plan for and manage their retirement needs. Our products that offer guaranteed income flows for life, including single premium immediate annuities, are well positioned to serve this market.

Competitive Pressures: The life insurance industry remains highly competitive. Product development and product life cycles have shortened in many products, leading to more intense competition with respect to product features. In addition, several of the industry's products can be quite homogeneous and subject to intense price competition. We believe that we possess sufficient scale, financial strength and flexibility to effectively compete in this market.

The annuity market is also highly competitive. In addition to aggressive annuity rates and new product features such as guaranteed living benefit riders, within the industry there is growing competition from other financial service firms. Insurers continue to evaluate their distribution channels and the way they deliver products to consumers. At this time, we have elected not to provide guaranteed living benefits as a part of our variable annuity products. While this may have impeded our ability to sell variable annuities in the short run, this strategy has given us an advantage in terms of profitability in the long run. We believe that these products were not adequately priced historically, and many of our competitors are facing the consequences of mispricing the product.

We believe that we will continue to be competitive in the life and annuity markets through our broad line of products, our distinct distribution channels, and our consistent high level of customer service. We continue to modify our products to meet customer needs and to expand our reach where we believe we can obtain profitable growth. Some of the steps we have taken to improve our competitive position in the market include:

- Established in 2009, we have a project under way to establish a New York life insurance subsidiary. We anticipate that sales will begin through this new company in the first half of 2010. A variety of annuity products will be available for sale once the subsidiary is established, followed in subsequent years by our life products. Initial sales are anticipated through independent and multiple-line agents. Based on competitors' market experience, we expect annuity deposits from this subsidiary to represent five to ten percent of total deposits received once the market is established.
- Sales of traditional life insurance products through our Career Sales and Services Division increased in 2009. This coupled with our focus on policy persistency and expense management allowed us to continue to maintain a stable and profitable block of in force business.
- We have repositioned the competitiveness of life products sold through our Independent Marketing Group, particularly at older ages. While this repositioning resulted in a slowing of sales in the last quarter of 2008 and 2009, it has and will help improve the future profitability of these products.
- We believe there will be a continuing shift in sales emphasis to utilizing the Internet, endorsed direct mail and innovative product/distribution combinations. Although our direct sales of life insurance products were lower in 2009, we remain committed to traditional life insurance products (term life and whole life) through our Internet and third-party marketing distribution channels.

Health

We experienced a slight reduction in Medicare Supplement policies in-force in 2009 as the industry continued to move toward Medicare Advantage plans and Part D plans, which redirected much of our agents' focus. We chose to remain committed to the traditional Medicare Supplement plans, which we consider to be viable for the long term. Sales of traditional products decreased during 2009; however, the trend of decreased sales reversed in 2007 and in 2008.

The number of hospital surgical health insurance policies in-force decreased in 2009. The decrease was mainly a result of rate increases. Profitability for our products is dependent on diligent management of policy premiums, relative to benefits paid, and rigid attention to underwriting the health risks of each policyholder. Maintaining adequate scale is a significant contributor to profitability as it allows us to negotiate better arrangements with healthcare providers, thus decreasing unit costs. We consider both new and existing health products on a case-by-case basis, in light of current market and regulatory environments, as well as management expectations.

We anticipate government involvement in healthcare to increase in the coming years, as it attempts to provide minimum coverage to all individuals. We believe that our focus on hospital surgical products may provide additional opportunities as individuals attempt to supplement that basic coverage.

We anticipate employers will continue to increase offerings of consumer-driven health plans as a way to temper healthcare costs. Our Health/Senior Age marketing division will continue to support independent producers and maintain products that meet their sales needs, while moving toward direct consumer products that will position us for the next generation.

Property and Casualty

Since 2007, the property and casualty insurance industry has been experiencing a soft market, characterized by declining premium growth for three consecutive years. "U.S. Property/Casualty – Review and Preview" published by A.M. Best on February 8, 2010 noted that the expected decrease in Net Premiums Written in 2009 has resulted in the first three consecutive year decline in A.M. Best's recorded history. Following the industry's historical decreases the last three years to Net Written Premiums, industry-wide operating results are expected to have improved in 2009. This improvement was due to the decline in catastrophe activity from an estimated $23 billion industry-wide in 2008 to an estimated $14 billion in 2009, offset by the prolonged period of competitive market conditions, excess capacity, leakage of premium to non-U.S. companies, alternative forms of risk transfer and the weak economy. A.M. Best expects this competitive pressure will continue in 2010, with an average forecast decline in industry net premiums written of 1.6%. We expect to experience continued pressure on pricing early in 2010, but easing from the levels experienced since 2007, and increasing by the end of 2010. To compete in this tough pricing environment, our long-term plans include developing tiered pricing for our agricultural and commercial lines. Tiered pricing will create a broader range of premiums and is designed to continue to improve our competitive position in the marketplace and our profitability.

With less consumer credit being offered in the market, we anticipate that fewer credit-related insurance products will be purchased. The tightening of credit is more heavily impacting the products written through the auto dealer market. However, the collateral protection production tends to increase in this type of economic environment. We continue to update credit insurance product offerings and pricing to meet these changing market needs, as well as adding new agents to expand our exposure to the credit-related insurance market. We are reviewing and implementing improved procedures to enhance customer service and, at the same time, looking for efficiencies to reduce administrative costs.

Competition: Property and casualty insurers are facing a continued competitive pricing environment. The condition of the economy in 2009 prevented the rate hardening most industry leaders were expecting following the declines in previous years. The competitive environment is expected to continue into 2010 as forecasts for an active hurricane season, the low interest rate environment, and an anticipated sluggish economic recovery all undermine any significant improvement in the market.

Despite the challenging pricing environment, we expect to identify profitable opportunities through our strong distribution channels, expanding geographic coverage, target marketing effects and new product development. Through our multiple-line exclusive agents, we will continue to focus on increasing the percentage of clients that buy their home, auto, business, and life insurance from us. Introduction of new products, such as one targeted toward the young family market in 2007, has been a main driver for increased policy counts in homeowners and auto insurance. The integration of the Farm Family companies over the last nine years has allowed us to expand our geographic coverage into the Northeast and our product portfolio to include agribusiness and commercial insurance. Similarly, Farm Family has expanded its product portfolio to include additional personal line property and casualty products. We expect that our agribusiness product will continue to be a leading seller in the Northeast United States. Agribusiness sales in other states are expected to show steady growth.

Critical Accounting Estimates

The consolidated financial statements have been prepared in conformity with GAAP. The preparation of financial statements requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and their accompanying notes. Actual results could differ from results reported using those estimates.

We have identified the following estimates as critical in that they involve a high degree of judgment and are subject to a significant degree of variability:

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

Our accounting estimates inherently require the use of judgments relating to a variety of assumptions, in particular, expectations of current and future mortality, morbidity, persistency, losses and loss adjustment expenses, recoverability of receivables, investment returns and interest rates. In developing these estimates, we make subjective and complex judgments that are inherently uncertain and subject to material changes as facts and circumstances develop. Although variability is inherent in these estimates, we believe that the amounts provided are appropriate, based upon the facts available upon compilation of the consolidated financial statements.

Due to the inherent uncertainty when using 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. We believe that the estimates used in our deferred acquisition cost calculations provide a representative example of how variations in assumptions and estimates would affect our business. Please see the sensitivity table in the *Deferred Acquisition Costs* section below for further information on how changes in assumptions and estimates would affect our business.

A discussion of these critical accounting estimates is presented below.

Deferred Acquisition Costs

We incur significant costs in connection with acquiring insurance business, including commissions and certain other expenses. Such costs are generally deferred and amortized. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs (“DAC”). The DAC asset balance is subsequently charged to income (i.e., amortized) over the lives of the underlying contracts in relation to the anticipated emergence of premiums, gross margins, or gross profits, depending on the type of product.

For traditional life insurance and payout annuities, deferred costs consist of certain underwriting fees, commissions (in excess of ultimate renewal commissions) and certain agent fringe benefit costs, other policy set-up costs, and the cost of insurance in-force gained through acquisitions. The DAC on traditional life and annuity products is amortized with interest over the anticipated premium-paying period of the related policies, in proportion to annual premium revenue to be received over the life of the policies. The present value of expected premium revenue is estimated by using the same mortality, morbidity, persistency and withdrawal assumptions (with provisions for adverse deviation) used in computing liabilities for future policy benefits. These assumptions are not revised after policy issuance or acquisition (i.e., they are “locked in”) unless the DAC balance is deemed to be unrecoverable. We periodically perform loss recognition analysis utilizing best estimate assumptions to determine whether or not the DAC balance is recoverable. See the discussion of *Life and Annuity Reserves* below for additional details.

Costs deferred on universal life, variable universal life, limited pay life and investment-type deferred annuity contracts are amortized as a level percentage of the present value of estimated gross profits. These gross profits are dependent principally upon revenues in excess of the amounts credited to policyholders, death benefits, surrender benefits and expenses to administer the business. Our estimates of future gross profits are influenced by our assumptions including mortality, investment return, expenses and persistency. These assumptions are developed based on our experience. We review and update our assumptions at least annually. Changes to these assumptions result in adjustments which increase or decrease DAC amortization (i.e., they are not "locked in"). Actual gross profits in a given reporting period can vary from our initial estimates resulting in an increase or decrease in the rate of amortization. We regularly evaluate the gross profits to determine if actual experience or other evidence suggests that earlier estimates should be revised. See the *Life and Annuity Reserves* discussion below for additional details.

DAC associated with acquisitions of certain blocks of in-force business is referred to as the present value of profits asset. Such DAC consists of the unamortized portion of the present value of profits asset as of the statement date. The initial present value of profits assets were determined based on the present value of projected earnings from the block(s) of business acquired as of the acquisition date. Subsequent to the acquisition date, the present value of profits asset is then amortized in proportion to premiums, gross profits, or gross margins from the acquired block of business.

DAC on health products is amortized with interest over the anticipated premium-paying period of the related policies. Expected premium revenue is estimated using the same actuarial assumptions used in computing reserves for future policy benefits. Health insurance products that require DAC consideration are those with contractual obligations, which includes all of our products.

DAC associated with property and casualty insurance business consist of commissions, underwriting and issue costs. These costs are amortized over the coverage period of the related policies in relation to premium revenue recognized.

We had a total DAC asset of approximately $1.33 billion and $1.48 billion at December 31, 2009 and 2008, respectively.

The following table displays the sensitivity of reasonably likely changes in assumptions included in the amortization of the DAC balance of our long-tail business as of December 31, 2009 (in thousands):

	Increase/(Reduction) in DAC	
Increase in future investment margins of 25 basis points	$	26,666
Decrease in future investment margins of 25 basis points	$	(31,810)
Decrease in future life mortality by 1%	$	1,988
Increase in future life mortality by 1%	$	(2,045)

Reserves

Life and Annuity Reserves:

Liability for Future Policy Benefits and Policy Account Balances – for traditional life products, liabilities for future policy benefits have been calculated based on a net level premium method using estimated investment yields, withdrawals, mortality and other assumptions that were appropriate at the time that the policies were issued. Estimates used are based on our experience, adjusted with a provision for adverse deviation. Investment yields used for traditional life products range from 3.0% to 8.0% and vary by issue year. We review experience assumptions at least annually and compare them with our actual experience. When we determine that future expected experience differs such that the DAC asset is not recoverable and/or reserves are not sufficient to provide for policy benefits (after any applicable DAC has been written off), a loss event is recognized, as discussed below.

Future policy benefits for universal life and investment-type deferred annuity contracts reflect the current account value before applicable surrender charges.

Future policy benefits for group life policies have been calculated using a level interest rate ranging from 3.0% to 5.5%. Mortality and withdrawal assumptions are based on our experience.

Fixed payout annuities included in future policy benefits are calculated using a level interest rate of 5.0%. Mortality assumptions are based on standard industry mortality tables. Liabilities for payout annuities classified as investment contracts (payout annuities without life contingencies) are determined as the present value of future benefits at the "breakeven" interest rate determined at inception.

Interest assumptions used for future policy benefits on health policies are calculated using graded interest rates ranging from 3.5% to 8.0%. Morbidity and termination assumptions are based on our experience.

At least annually, we test the net benefit reserves (policy benefit reserves less DAC) established for life insurance products, including consideration of future expected premium payments, to determine whether they are adequate to provide for future policyholder benefit obligations. The testing process is referred to as "Loss Recognition" for traditional products or "Unlocking" for non-traditional products. The assumptions used to perform the tests are our current best-estimate assumptions as to policyholder mortality, persistency, company maintenance expenses and invested asset returns.

For traditional business, a "lock-in" principle applies, whereby the assumptions used to calculate the benefit reserves and DAC are set when a policy is issued and do not change with changes in actual experience. These assumptions include margins for adverse deviation in the event that actual experience differs from the original assumptions.

For non-traditional business, best-estimate assumptions are updated to reflect the observed changes based on experience studies and current economic conditions. We reflect the effect of such assumption changes in DAC and reserve balances accordingly. Due to the long-term nature of many of the liabilities, small changes in certain assumptions may cause large changes in the degree of reserve adequacy or DAC recoverability. In particular, changes in estimates of the future invested asset return assumption have a large effect on the degree of reserve adequacy.

Life Reserving Methodology – We establish liabilities for amounts payable under life insurance policies, including participating and non-participating traditional life insurance and interest sensitive and variable universal life insurance. In general, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected premiums (for traditional life insurance), or as the account value established for the policyholder (for universal and variable universal life insurance). Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, policy lapse, investment return, inflation, expenses and other contingent events as appropriate to the respective product type.

For non-participating traditional life insurance policies, future policy benefits are calculated consistent with Accounting Standards Codification ("ASC") 944-40 (formerly "FAS 60"), *Accounting and Reporting by Insurance Enterprises,* and are equal to the aggregate of the present value of expected future benefit payments and related expenses, less the present value of expected future net premiums. Assumptions as to mortality and persistency are based upon our experience, with provisions for adverse deviation, when the basis of the liability is established. Interest rates for the aggregate future policy benefit liabilities range from 3.0% to 8.0% and vary by issue year.

Future policy benefit liabilities for participating traditional life insurance policies are calculated consistent with, ASC 944-40 (formerly "FAS 97"), *Accounting and Reporting by Insurance Enterprise for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments,* and are equal to the aggregate of (i) net level premium reserves for death and endowment policy benefits (calculated based upon the non-forfeiture interest rate, ranging from 2.5% to 6.0%, and mortality rates assumed in calculating the cash surrender values described in such contracts); and (ii) the liability for terminal dividends.

Future policy benefits for interest sensitive and variable universal life insurance policies are calculated consistent with ASC 944-40 (formerly "FAS 97"), *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, for universal life type products and are equal to the current account value established for the policyholder. Some of our universal life policies contain secondary guarantees, for which an additional liability is established consistent with ASC 944-40 (formerly ("SOP 03-01"), *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and Separate Accounts.* Liabilities for universal life secondary guarantees and paid-up guarantees are determined by estimating the expected value of death benefits payable when the account balance is projected to be zero and recognizing those benefits over the accumulation period based on total expected assessments.

We regularly evaluate estimates used and adjust the additional liability balances, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used in estimating the secondary and paid-up guarantee liabilities are consistent with those used for amortizing DAC and are thus subject to the same variability and risk. The benefits used in calculating the liabilities are based on the average benefits payable over a range of scenarios.

<u>Annuity Reserving Methodology</u> – We establish liabilities for amounts payable under annuity contracts including fixed payout annuities and deferred annuities. An immediate or payout annuity is an annuity contract in the benefit or "payout" phase. In a fixed payout annuity contract, the insurance company agrees, for a cash consideration, to make specified benefit payments for a fixed period, or for the duration of a designated life or lives. The cash consideration can be funded with a single payment, as is the case with single premium immediate annuities, or with a schedule of payments, as is the case with "limited pay" products.

Payout annuities with more than an insignificant amount of mortality risk are calculated consistent with guidance under ASC 940-40 for limited pay insurance contracts. Benefit and maintenance expense reserves are established by using assumptions reflecting our expectations, including an appropriate margin for adverse deviation. Payout annuities are reserved using standard industry mortality tables specified for statutory reporting and an interest rate of 5% for life annuities and 3% for shorter duration contracts, such as term certain payouts. If the resulting reserve would otherwise cause profits to be recognized at the issue date, additional reserves are established. The resulting recognition of profits would be gradual over the expected life of the contract.

A deferred annuity is an annuity contract that has not reached the starting date of its periodic benefit payout. The Company establishes liabilities for deferred annuities based on methods and underlying assumptions in accordance with ASC 944-40 for investment contracts. Under ASC 944-40 for investment contracts, reserves for Policyholder Account Balances are established as the account value held on behalf of the policyholder. The possible need for additional reserves for guaranteed minimum death benefits are determined per guidance under SOP 03-01. Currently, no additional reserves are recorded for guaranteed minimum death benefits due to the immaterial amount of this reserve. Our exposure to this risk is minimal. The profit recognition on deferred annuity contracts is gradual over the expected life of the contract. No immediate profit is recognized on the sale of the contract.

Health Reserves:

<u>Overview</u> – We establish policy reserves and claims reserves for known policy-specific liabilities. Further, we establish liabilities for the payment of medical expenses, which have been incurred during the reporting period but have not yet been paid. Additionally, Incurred But Not Reported ("IBNR") amounts are determined using actuarial standards of practice which look at the time elapsed between when a claim is first incurred and when the final payment has been made (a completion factor analysis).

As of year-end 2009 the Health total claim reserve and liability was $115.9 million, versus $112.8 million at year-end 2008.

Reserving Methodology – Several methods are employed to establish claim reserves and liabilities for Health lines of business.

Completion Factor Approach –The claim reserves for most health care coverage can be suitably calculated using a Completion Factor Method. This method assumes that the historical lag pattern will be an accurate representation for the payment of claims that have been incurred but not yet completely paid. An estimate of the unpaid claim reserves is calculated by subtracting period-to-date paid claims from an estimate of the ultimate aggregate payment for all incurred claims in the time period. The method is based on the pattern of claims incurred within a given month and paid out in future months until such a point that no more payments are expected. Completion factors are calculated which "complete" the current period-to-date payment totals for each incurred month to estimate the ultimate expected payout. The method is best used when the incurred date and subsequent paid date is known for each claim and if fairly consistent patterns can be determined from the progression date of incurral until the date paid in full. The completion factor approach is also best used when the time between date of incurral and final payment is short (i.e., less than 24 month) in duration.

For the individual and association medical block (including Medicare Supplement), we use a completion factor approach to generate claim liability and reserves. Group and managing general underwriter claim reserves are also calculated by these methods. Outstanding claim inventories are monitored by management monthly to determine if any adjustment to the completion factor approach is needed.

Some of the larger managing general underwriters that we use engage external actuarial firms to provide an estimate of the claim reserves for their respective blocks. We independently evaluate the external claim reserve estimates provided for reasonableness as well as for consistency with other completion-factor based reserves. These estimates are incorporated into our reserve analysis to determine the booked reserves for the segment.

Tabular Reserves –Disability Income and Long Term Care blocks of business utilize a tabular calculation to generate the Present Value of Expected Future Payments. These reserves are called tabular because they rely on the published valuation tables for disability termination as maintained by the Society of Actuaries and validated by the National Association of Insurance Commissions ("NAIC"). Tabular reserves are determined by applying termination assumptions related to mortality or recovery, or for Long Term Care, shifts in the mode of care, to the stream of contractual benefit payments. The present value of these expected benefit payments at the required rate of return establishes the tabular reserve.

Credit Health claim reserves and liabilities are also based on a tabular calculation, using actuarial tables published by the Society of Actuaries and accepted by the NAIC. The reserve for this business is calculated as a function of open claims using the same actuarial tables discussed above. Periodically we test the total claim reserve using a completion factor calculation.

Case Reserves –Case reserves are also required for certain lines of business. Case reserves reflect known claims where an estimate of the exposure is readily available and quantifiable based on historical experience or other similar basis. We establish Long Term Care and Nursing Home reserves, on a case-by-case basis, by reviewing the open claims and estimating the remaining liability and applying probabilities derived from continuance tables based on company and industry experience.

Liability for Future Policy Benefits – Liabilities for future policy benefits have been calculated based on a net level premium method. Future policy benefits are calculated consistent with ASC 944-40 (formerly "FAS 60") and are equal to the aggregate of the present value of expected future benefit payments, less the present value of expected future premiums. Morbidity and termination assumptions are based on our experience or published valuation tables when available and appropriate. Interest rates for the aggregate future policy benefit liabilities range from 3.5% to 8.0% and vary by issue year.

Premium Deficiency Reserves – Deficiency reserves are established when the expected benefit payments for a classification of policies having homogenous characteristics are in excess of the expected premiums for these policies. The determination of a deficiency reserve takes into consideration the likelihood of premium rate increases, the timing of these increases, and the expected benefit utilization patterns. We have a premium deficiency reserve for the Major Medical block of business. This line of business is in run-off and continues to under-perform relative to the original pricing. The assumptions and methods used to determine the deficiency reserves are reviewed periodically for reasonableness and the reserve amount is monitored against emerging losses.

Property and Casualty Reserves:

Reserves for Loss and Loss Adjustment Expense ("LAE") – Property and casualty reserves are established to provide for the estimated costs of paying claims under insurance policies written. These reserves include estimates for both:

- Case reserves – cost of claims that were reported to us but not yet paid, and
- Reserves for IBNR – anticipated cost of claims incurred but not reported. IBNR reserves include a provision for potential development on case reserves, losses on claims currently closed which may reopen in the future and claims, which have been incurred but not yet, reported.

These reserves include an estimate of the expense associated with settling claims, including legal and other fees, and the general expenses of administering the claims adjustment process. The two major categories of loss adjustment expense are defense and cost containment expense and adjusting and other expense. Net loss and LAE reserves for case reserves and IBNR as of December 31, 2009 and 2008 are shown in the following table (in thousands):

	December 31, 2009			December 31, 2008		
	Gross	Ceded	Net	Gross	Ceded	Net
Case	$ 491,163	$ 11,639	$ 479,524	$ 475,738	$ 47,888	$ 427,850
IBNR	$ 425,827	$ 48,693	$ 377,134	$ 437,275	$ 17,265	$ 420,010
Total	**$ 916,990**	**$ 60,332**	**$ 856,658**	**$ 913,013**	**$ 65,153**	**$ 847,860**

Case Reserves –Reserves for reported losses are established on either a judgment or formula basis, depending on the type of the loss. Formula reserves are used for losses such as credit property, automobile, property damage liability and automobile physical damage. They are based on historical paid loss data for similar claims with provisions for trend changes, such as those caused by inflation. The formula reserve is a fixed amount for each claim of a given type.

Judgment reserve amounts are set on a per case basis based on facts and circumstances of each case, the type of claim and the expectation of damages. We regularly monitor the adequacy of judgment reserves and formula reserves on a case-by-case basis and change the amount of such reserves as necessary.

IBNR – IBNR reserves are estimated based on many variables, including historical statistical information, inflation, legal developments, economic conditions, and general trends in claim severity, frequency and other factors that could affect the adequacy of loss reserves.

Loss and premium data is aggregated by exposure class and by accident year (i.e., the year in which losses were incurred). IBNR reserves are calculated by projecting ultimate losses on each class of business and subtracting paid losses and case reserves. Unlike case reserves, IBNR is generally calculated at an aggregate level and cannot usually be directly identified as reserves for a particular loss or contract. Our overall reserve practice provides for ongoing claims evaluation and adjustment (if necessary) based on the development of related data and other relevant information pertaining to such claims. Adjustments in aggregate reserves, if any, are reflected in the operating results of the period during which such adjustments are made.

Our actuaries reflect the potential uncertainty generated by volatility in our loss development profiles when selecting loss development factor patterns for each line of insurance. Therefore, net and gross reserve calculations have shown redundancies for the last several year-ends as a result of losses emerging favorably compared to what is implied by the selected loss development patterns. See *Results of Operations and Related Information by Segment – Property and Casualty, Prior Period Reserve Development* discussion for additional information.

The evaluation process to determine recorded loss and loss adjustment expense reserves involves the collaboration of underwriting, claims and internal actuarial departments. The process also includes consultation with independent actuarial firms on an annual basis. Work performed by independent actuarial firms is an important part of our process of gaining reassurance that loss and loss adjustment expense reserves determined by our internal actuarial department sufficiently meet all present and future obligations arising out of all claims incurred as of year-end, both reported and unreported. Additionally, the independent actuarial firms complete the Statements of Actuarial Opinion at each year-end, required by state insurance regulators certifying that the recorded loss and loss adjustment expenses reserves appear reasonable.

Reserving Methodology – The following actuarial methods are utilized in our reserving process during both annual and interim reporting periods:

- Initial Expected Loss Ratio method: This method calculates an estimate of ultimate losses by applying an estimated loss ratio to an estimate of ultimate earned premium for each accident year. This method is appropriate for classes of business where the actual paid or reported loss experience is not yet mature enough to override initial expectations of the ultimate loss ratios.
- Bornhuetter Ferguson: This method uses as a starting point an assumed initial expected loss ratio method and blends in the loss ratio implied by the claims experience to date by using loss development patterns based on our own historical experience. This method is generally appropriate where there are few reported claims and a relatively less stable pattern of reported losses.
- Loss or Expense Development (Chain Ladder): This method uses actual loss or defense and cost containment expense data and the historical development profiles on older accident periods to project more recent, less developed periods to their ultimate position. This method is appropriate when there is a relatively stable pattern of loss and expense emergence and a relatively large number of reported claims.
- Ratio of Paid Defense and Cost Containment Expense to Paid Loss Development: This method uses the ratio of paid defense and cost containment expense to paid loss data historical development profiles on older accident periods to project more recent, less developed periods to their ultimate position. In this method, an ultimate ratio of paid defense and cost containment expense to paid loss is selected for each accident period. The selected paid defense and cost containment expense to paid loss ratio is then applied to the selected ultimate loss for each accident period to estimate the ultimate defense and cost containment expense. Paid defense and cost containment expense is then subtracted from the ultimate defense and cost containment expense to calculate the unpaid defense and cost containment expense for that accident period.
- Calendar Year Paid Adjusting and Other Expense to Paid Loss: This method uses the ratio of prior calendar years' paid expense to paid loss to project ultimate loss adjustment expenses for adjusting and other expense. The key to this method is the selection of the paid expense to paid loss ratio based on prior calendar years' activity. A percentage of the selected ratio is applied to the case reserves (depending on the line of insurance) and 100% to the indicated IBNR reserves. These ratios assume a percentage of the expense is incurred when a claim is opened and the remaining percentage is paid throughout the claim's life.

The basis of our selected single point best estimate on a particular line of business is often a blend of results from two or more methods (e.g. weighted averages). Our estimate is highly dependent on actuarial and management judgment as to which method(s) is most appropriate for a particular accident year and class of business. Our liability for unpaid claims and claim adjustment expense does not materially differ from the amount determined by our independent actuaries. Our methodology changes over time, as new information emerges regarding underlying loss activity and other factors.

Key Assumptions –

Implicit in the actuarial methodologies utilized above are the following critical reserving assumptions:

- The selected loss ratio used in the initial expected loss ratio method and Bornhuetter Ferguson method for each accident year;
- The expected loss development profiles;
- A consistent claims handling process;
- A consistent payout pattern;
- No unusual growth patterns;
- No major shift in liability limits distribution on liability policies; and
- No significant prospective changes in workers' compensation laws that would significantly affect future payouts.

The loss ratio selections and loss development profiles are primarily developed using our own historical claims and loss experience. These assumptions have not been modified from the preceding periods and are consistent with historical loss reserve development patterns.

Management believes that our loss reserves at December 31, 2009 are adequate. However, new information, legislation, events or circumstances, unknown at the original valuation date, may result in future development to our ultimate losses significantly greater or less than the reserves provided for at December 31, 2009. As noted in our "Key Assumptions" above, there are many factors that may impact our reserves, specifically those related to loss ratios for the credit insurance lines of business and those related to a consistent claims handling process for all other lines of business.

For non credit lines of business, our claims handling process is the most likely of those assumptions noted above to vary from the consistency we expect. This assumption was determined to most likely impact our reported results, financial position and liquidity, and we chose to measure the sensitivity to this assumption. The following table presents the range of likely scenarios related to a speed-up or slow-down of five days in the claims handling process and its subsequent impact on our estimate of gross loss reserves. Without certainty of future reporting patterns, we do not consider any change within the range displayed as more reasonably likely than any other.

The table below for the lines of business indicated quantifies the estimated impact on our gross loss reserves of possible scenarios of the speeding-up or slowing-down of claims being processed at December 31, 2009. The results of our analysis below show the cumulative increase (decrease) in gross loss reserves of the lines of business indicated across all accident years combined (in thousands):

	Change in Reporting Pattern	
	5 Day Speed Up	5 Day Slow Down
Personal Auto	$ (2,499)	$ 1,171
Homeowner	$ (913)	$ 822
Agribusiness	$ (616)	$ 2,749
Commercial auto	$ (1,476)	$ 4,857
Other	$ (2,219)	$ 5,990

The analysis of our Credit Insurance lines of business quantifies the estimated impact on gross loss reserves of a reasonably likely scenario of varying the ratio applied to the unearned premium to determine the IBNR reserves at December 31, 2009. IBNR reserving methodology for this line of business focuses primarily on the use of a ratio applied to the unearned premium for each Credit Insurance product. The selected ratios are based on historical loss and claim data. In our analysis, we varied this ratio by +/- 5% across all Credit Insurance products combined. The results of our analysis show an increase or decrease, respectively, in gross reserves across all accident years combined of approximately $6.7 million.

It is not appropriate to add together the total impact shown in the table above, as our lines of business are not directly correlated. It is important to note that the variations set forth in the table above are not meant to be a "best-case" or "worst-case" scenario, and therefore, it is possible that future variations may be more or less than the amounts set forth above. While we believe these are possible scenarios based on the information available to us at this time, we do not believe the reader should consider the above sensitivity analysis an actual reserve range.

Reserving by class of business –

The weight given to a particular actuarial method is dependent upon the characteristics specific to each class of business, including the types of coverage and the expected claim-tail.

Short-tail business – Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. For these lines, emergence of paid losses and case reserves is credible and likely indicative of ultimate losses; therefore, more reliance is placed on the Loss or Expense Development methods.

Large catastrophe and weather events are analyzed separately using information from our claims staff and loss development profiles from similar events and from our own historical experience.

Long-tail business – For long-tail lines of business, emergence of paid losses and case reserves is less credible in early periods and, accordingly, may not be indicative of ultimate losses. For these lines of business, more reliance is placed on the Bornhuetter Ferguson and Initial Expected Loss Ratio methods.

Credit business – For credit lines of business, the IBNR is estimated either by applying a selected ratio to the unearned premium reserve or by using the loss development methods described above.

Loss adjustment expenses – We estimate adjusting and other expense separately from loss reserves using the Calendar Year Paid-to-Paid method. Reserves for defense and cost containment expense are estimated separately from loss reserves, using either the Loss or Expense Development method or Ratio of Paid Defense and Cost Containment Expense to Paid Loss method.

Reinsurance Recoverable

Reinsurance recoverable balances include amounts owed to us in respect of paid and unpaid ceded losses and loss expenses and are presented net of a reserve for non-recoverability. At December 31, 2009 and 2008, reinsurance recoverable balances were $371.7 million and $482.8 million, respectively.

Recoveries on our gross ultimate losses are determined using distributions of gross ultimate loss by layer of loss retention to estimate ceded IBNR as well as through the review of individual large claims. The most significant assumption we use is the average size of the individual losses for those claims that have occurred but have not yet been recorded by us. The reinsurance recoverable is based on what we believe are reasonable estimates and is disclosed separately in the consolidated financial statements. However, the ultimate amount of the reinsurance recoverable is not known until all losses are settled.

We manage counterparty risk by entering into agreements with reinsurers we generally consider to be highly rated. However, we do not require a specified minimum rating. We monitor the concentrations of the reinsurers and reduce the participation percentage of lower-rated companies when appropriate. We believe we currently have no reinsurance amounts with any significant risk of becoming unrecoverable due to reinsurer insolvency.

Our reinsurance contracts contain clauses that allow us to terminate the participation with reinsurers who are downgraded. Our risk assessment is comprised of industry ratings, recent news and reports, and a limited review of financials, for any new reinsurer under consideration. We also may require letters of credit, trust agreements, or cash advances from unauthorized reinsurers (reinsurers not licensed in our state of domicile) to fund their share of outstanding losses and LAE. Final assessment is based on the judgment of senior management.

Pension and Postretirement Benefit Plans

We maintain one open qualified defined benefit pension plan and one qualified defined benefit pension plan that is closed to new participants. In addition, we also sponsor three non-qualified defined benefit pension plans that restore benefits that would otherwise be curtailed by statutory limits on qualified plan benefits for certain key executives. We also provide certain health and life insurance benefits to qualified current and former employees.

The pension benefit and postretirement benefit obligations and related costs for all plans are calculated using actuarial concepts in accordance with the relevant GAAP pronouncements. Two key assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these key assumptions annually. Other assumptions involve demographic factors such as retirement age, mortality, turnover and rate of compensation increases.

As described in Note 2 to the Consolidated Financial Statements, effective December 31, 2006, the Company adopted ASC 715-30 (formerly “FAS 158”), *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plan.* In accordance with ASC 715-30, we recognize the funded status of defined benefit pension and other postretirement plans, on our consolidated balance sheet.

We use a discount rate to determine the present value of future benefits on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A higher discount rate decreases the present value of benefit obligations and decreases pension expense. To determine the expected long-term rate of return on plan assets, a building-block method is used. The expected rate of return on each asset is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e. the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e. the expected return in excess of the risk-free rate). Using this approach, the precise expected return derived will fluctuate somewhat from year to year; however, it is our policy to hold this long-term assumption relatively constant.

The assumptions used in the measurement of our pension benefit obligations for 2009 and 2008 are as follows:

	Years Ended December 31,			
	2009		2008	
	Used for Net Benefit Cost in Fiscal Year 1/1/2009 to 12/31/2009	Used for Benefit Obligations as of 12/31/2009	Used for Net Benefit Cost in Fiscal Year 1/1/2008 to 12/31/2008	Used for Benefit Obligations as of 12/31/2008
Discount rate	6.17%	5.73%	6.10%	6.17%
Rate of compensation increase	4.20%	4.20%	4.20%	4.20%
Long-term rate return	7.65%	7.65%	7.65%	7.65%

For additional information regarding our pension plan obligations, see Note 15 to the Consolidated Financial Statements.

Other-Than-Temporary Impairment

Our accounting policy requires that a decline in the fair value of investment securities below their amortized cost basis be evaluated to determine if the decline is other-than-temporary. There are a number of assumptions and estimates inherent in evaluating impairments to determine if they are other-than-temporary including 1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the expected recoverability of principal and interest; 3) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities or less than cost for equity securities; 4) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry conditions and trends and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions, which could affect liquidity.

Realized gains are attributable to the sale of our invested assets, while realized losses are due to both the sale of investment assets and the write-down of investments from other-than-temporary impairments. In 2009, the consolidated pretax net realized loss on invested assets was $75.7 million, with pre-tax realized loss of $379.7 million and pre-tax realized gain of $41.0 million reported for 2008 and 2007, respectively. Included in these amounts are other-than-temporary impairment write-downs of $98.9 million, $367.0 million and $7.2 million for the years ended 2009, 2008 and 2007, respectively.

Litigation Contingencies

We review existing litigation matters and potential litigation items with counsel quarterly to determine if any adjustments to reserves for possible losses are necessary. Reserves for losses are established whenever they are probable and estimable. We establish reserves based on our best estimate of the probable loss. If no one number within the range of possible losses is more probable than any other, we record a reserve at the low end of the estimated range.

Based on information currently available, we believe that amounts ultimately paid, if any, arising from existing and currently potential litigation would not have a material effect on our results of operations and financial position. However, it should be noted that the frequency of large damage awards, which bear little or no relation to the economic damages incurred by plaintiffs 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 we anticipate, the resulting liability could have a material impact on the consolidated financial results.

Federal Income Taxes

Our effective tax rate is based on income, non-taxable and non-deductible items, statutory tax rates and tax planning opportunities available. Inherent in determining our annual tax rate are judgments regarding business plans, planning opportunities and expectations about future outcomes.

Tax regulations require items to be included in the tax return at different times from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements is different than the actual rate applied on the tax return. Some of these differences are permanent such as expenses that are not deductible in our tax return, and some differences are temporary, reversing over time, such as valuation of insurance reserves. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which we have already recorded the tax benefit in our income statement. Deferred tax liabilities generally represent tax expense recognized in our consolidated financial statements for which tax payment has been deferred, or expenditures for which we have already taken a deduction in our tax return but have not yet recognized in our consolidated financial statements.

The application of U.S. GAAP requires us to evaluate the recoverability of our deferred tax assets and establish a valuation allowance if necessary to reduce our deferred tax asset to an amount that is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance we consider many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (4) the length of time that carryovers can be utilized; (5) any unique tax rules that would impact the utilization of the deferred tax assets; and (6) any tax planning strategies that we would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that, the deferred tax assets, net of valuation allowances, will be realized.

Our accounting represents management's best estimate of future events that can be appropriately reflected in the accounting estimates. Certain changes or future events, such as changes in tax legislation, geographic mix of earnings and completion of tax audits could have an impact on our estimates and effective tax rate. For example, the dividends received deduction or DRD, reduces the amount of dividend income subject to tax and is a significant component of the difference between our actual tax expense and the expected amount determined using the federal statutory tax rate of 35%. The U.S. Treasury Department and the Internal Revenue Service, or IRS, intend to address through regulations the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through regulations or legislation, could increase our actual tax expense and reduce our consolidated net income.

Our liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties, which relate to tax years, still subject to review by the IRS or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years, which produce net operating losses, capital losses or tax credit carryforwards, or tax attributes, the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to our liability for income taxes. The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2005 to 2008 has either been extended or has not expired. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld.

Consolidated Results of Operations

Comparison of Years Ended December 31, 2009, 2008 and 2007

The following is a discussion of our consolidated results of operations for the years ended December 31, 2009, 2008 and 2007 and should be read in conjunction with the *Outlook* section. For a discussion of our segment results, see *Results of Operations and Related Information by Segment*. The following table sets forth the consolidated results of operations (in thousands):

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Premiums and other revenues:							
Premiums	$ 1,974,024	$ 1,888,495	$ 1,999,623	$ 85,529	4.5	$ (111,128)	(5.6)
Other policy revenues	179,504	174,899	155,230	4,605	2.6	19,669	12.7
Net investment income	840,105	796,177	812,969	43,928	5.5	(16,792)	(2.1)
Realized investments gains (losses), net	(75,697)	(379,709)	41,027	304,012	(80.1)	(420,736)	(1,025.5)
Other income	31,843	38,779	47,224	(6,936)	(17.9)	(8,445)	(17.9)
Total revenues	**2,949,779**	**2,518,641**	**3,056,073**	**431,138**	**17.1**	**(537,432)**	**(17.6)**
Benefits, losses and expenses:							
Policy benefits	1,709,899	1,601,854	1,551,698	108,045	6.7	50,156	3.2
Interest credited to policy account balances	370,563	299,833	295,894	70,730	23.6	3,939	1.3
Commissions	459,943	475,345	456,537	(15,402)	(3.2)	18,808	4.1
Other operating costs and expenses	485,409	508,800	465,140	(23,391)	(4.6)	43,660	9.4
Change in deferred policy acquisition costs	(63,611)	(67,439)	(60,442)	3,828	(5.7)	(6,997)	11.6
Total benefits and expenses	**2,962,203**	**2,818,393**	**2,708,827**	**143,810**	**5.1**	**109,566**	**4.0**
Income (loss) before other items and federal income taxes	**$ (12,424)**	**$ (299,752)**	**$ 347,246**	**$ 287,328**	**(95.9)**	**$ (646,998)**	**(186.3)**

Summary

Consolidated revenues increased during 2009 compared to those in 2008 primarily due to:

- Decreased realized investment losses and increased investment income; and
- Increase in immediate annuity premiums.

Consolidated revenues declined in 2008 compared to those in 2007 primarily due to:

- Investment losses realized during 2008, including $367.0 million in other-than-temporary impairment write-downs;
- Lower sales of our single premium immediate annuity products, caused by the drop in interest rates, which made the product less desirable; and
- The declines were partially offset by other policy revenues arising primarily from mortality charges and fees on the in-force block of universal life policies 2008 witnessed a continuation of increased sales of universal life products experienced in 2007.

Consolidated benefits and expenses increased for the year ended December 31, 2009, compared to the same period in 2008 primarily due to:

- Increased policy benefits in annuities due to strong single premium immediate annuity sales resulting in an increase of the related reserve balance;
- Increased interest credited to policy account balances due to an 18.2% increase in average account balances; and
- These increases were partially offset by the decrease in other operating costs due to non-recurring litigation costs and costs for preparing for compliance with SEC and Sarbanes-Oxley requirements in 2008.

Consolidated benefits and expenses increased for the year ended December 31, 2008, compared to the same period in 2007, primarily due to:

- The impact of increased catastrophe losses in our Property and Casualty business; and
- Additional operating expenses incurred due to non-recurring litigation costs and costs for preparing for compliance with SEC and Sarbanes-Oxley requirements.
- An increase in benefits paid on the growing block of annuity business

Results of Operations and Related Information by Segment

Life

Comparison of Years Ended December 31, 2009, 2008 and 2007

The Life segment markets traditional life insurance products such as whole life and term life, and interest sensitive life insurance products such as universal life, variable universal life and as well as indexed universal life. These products are marketed on a nationwide basis through employee agents, multiple line agents, independent agents and brokers and direct marketing channels.

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

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Revenues:							
Premiums	$ 284,530	$ 299,338	$ 315,893	$ (14,808)	(4.9)	$ (16,555)	(5.2)
Other policy revenues	164,748	154,984	130,744	9,764	6.3	24,240	18.5
Net investment income	222,611	226,643	229,092	(4,032)	(1.8)	(2,449)	(1.1)
Other income	2,720	3,767	3,967	(1,047)	(27.8)	(200)	(5.0)
Total revenues	**674,609**	**684,732**	**679,696**	**(10,123)**	**(1.5)**	**5,036**	**0.7**
Benefits, losses and expenses:							
Policy benefits	297,719	296,078	273,750	1,641	0.6	22,328	8.2
Interest credited to policy account balances	58,983	62,221	63,289	(3,238)	(5.2)	(1,068)	(1.7)
Commissions	91,968	126,813	141,517	(34,845)	(27.5)	(14,704)	(10.4)
Other operating costs and expenses	185,048	222,908	200,361	(37,860)	(17.0)	22,547	11.3
Change in deferred policy acquisition costs	1,536	(42,103)	(57,666)	43,639	(103.6)	15,563	(27.0)
Total benefits, losses and expenses	**635,254**	**665,917**	**621,251**	**(30,663)**	**(4.6)**	**44,666**	**7.2**
Income (loss) before other items and federal income taxes	**$ 39,355**	**$ 18,815**	**$ 58,445**	**$ 20,540**	**109.2**	**$ (39,630)**	**(67.8)**

For the year ended December 31, 2009, earnings increased compared to 2008. The overall increase we experienced in 2009 can be primarily attributed to the cost of two lawsuit settlements in 2008 and the corresponding impact on other operating costs and expenses. In addition, costs related to our initial SEC registration and expenses related to the implementation of Sarbanes-Oxley compliance decreased compared to 2008. Our benefit to revenue ratio was 52.9% for 2009 compared to 52.3% in 2008. These results are discussed in further detail below.

During the second quarter of 2009, we paid premium refunds as the result of a class action settlement made by us in May 2007. The refunds on the credit life product resulted in issuing $12.9 million in settlement payments in 2009 comprised of credit life premium refunds and other related damages and fees, to certain previously insured persons. The Life segment was fully reserved for this settlement and did not incur any related impact to its gain from operations for the year ended December 31, 2009. However, during the second quarter of 2009, several categories of the statement of income were impacted by the recording of the settlement as follows: premiums were decreased by $4.5 million, other income was decreased by $0.8 million, commissions were decreased by $0.9 million, and other operating costs and expenses were decreased by $4.5 million. For additional information on this settlement, refer to the discussion of the *Perkins* litigation in Note 16 to the Consolidated Financial Statements in our amended Form 10 Registration Statement, filed with the SEC on July 1, 2009.

Overall, 2008 earnings decreased compared to 2007. The decrease in earnings primarily resulted from certain non-recurring expenses, an increase in the benefit to revenue ratio, a decrease in net investment income, and the declining credit market. The non-recurring expenses related to lawsuit settlements and initial SEC registration expenses and implementation costs related to Sarbanes-Oxley compliance. The life benefits to revenue ratio increased from 49.6% for 2007 to 52.3% for 2008. An unexpected sales increase of higher issue age policies in 2007 resulted from one plan that was very competitively price at those higher ages. During 2008, we implemented a re-pricing of lifetime guarantee universal life plans to include increases in premiums at the higher issue ages to be more conservatively priced. Also, the declining credit market indirectly caused the loss of funding for a sizable number of life policies that were using a low-interest bank loan program to reduce the net insurance cost of the policies. The source of funding for a portion of the bank loans was discontinued, resulting in the withdrawal of cash values and the subsequent loss of gross margins of the related policies. In addition to the above, net investment income decreased due to a continued decline in overall portfolio rates on investments of the Life segment.

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 for the policyholder 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 years ended December 31, 2009 compared to 2008 and during 2008 compared to 2007. Related to the previously noted settlement payments, we recorded a reversal of $4.5 million. Excluding the effect of the settlement payments, premiums decreased $10.3 million for the year ended December 31, 2009. The decrease in premiums can be attributable to an increase in ordinary life ceded reinsurance premiums, which is the result of increasing YRT (“Yearly Renewable Term”) renewal premiums on the higher face amounts issued in 2007 and 2008. We do not expect to see this trend towards higher utilization of reinsurance on large face amounts to continue for new business issued in 2010. Also adding to the decrease was a drop in credit insurance premiums, which was a result of lower credit sales in the declining auto industry.

Other Policy Revenues

Other policy revenues include mortality charges, earned policy service fees, and surrender charges on interest sensitive life insurance policies. These charges increased for the year ended December 31, 2009 compared to 2008. Other policy revenues had also increased in 2008 compared to 2007. The increases were primarily due to higher mortality charges and fees, which are a result of the large volume of sales of lifetime secondary guarantee universal life products in 2007 and 2008.

Net Investment Income

Net investment income decreased for the year ended December 31, 2009 compared to 2008. The decrease reflects the increased amount of cash we held during the year and the lower yields on the cash. We will continue to hold onto our cash position until appropriate long-term investment opportunities arise. The significant cash position we hold in excess of normal liquidity needs are generally of short duration.

Net investment income in the Life segment decreased slightly for the year ended December 31, 2008 compared to 2007. This decrease was due to a small decline in the investment yield earned on the block of invested assets supporting the Life segment. We continuously manage the crediting rates on interest sensitive products to reflect the lower yields and maintain a suitable interest spread.

Non-interest sensitive life products, such as whole life and term life policies cannot be adjusted to reflect a change in earned investment rates. In a low interest rate environment, the effect of this lower yield earned directly impacts earnings.

Policy Benefits

Policy benefits include death claims, surrenders and other benefits paid to traditional whole life and term life policyholders (net of reserves released on terminated policies), reserve increases on existing traditional life policies (reflecting the passage of time on persisting policies in anticipation of future claims), claim benefits in excess of account balances returned to interest sensitive life policyholders, and interest credited on account balances.

Benefits increased slightly for the year ended December 31, 2009 compared to 2008. The increase was primarily the result of higher claim dollar values. Benefits increased for the 2008 compared to 2007. This increase was due to the claims and reserve costs associated with the $24.2 million increase in other policy revenues that occurred from the sales of universal life lifetime secondary guarantee policies, including an $11.0 million increase in reserve accrual expense.

Commissions

Commissions decreased for the year ended December 31, 2009 compared to 2008. Related to the previously noted settlement payments, we recorded a reversal of $0.9 million. Excluding the effect of the settlement payments, commissions decreased $33.9 million for the year ended December 31, 2009. The decrease was primarily attributable to lower first year universal life premiums. Partially offsetting the decrease in commissions was the increase in renewal commissions at a lower rate on a large volume of business sold in 2008. In addition, credit life business experienced a decrease in sales for 2009 as a result of the downturn in the economy and the constraints of the credit markets. Commissions also decreased in 2008 compared to 2007. During 2008, we implemented a re-pricing of lifetime guarantee universal life plans to include increases in premiums at higher issue. As a result, we experienced a decrease in sales of interest sensitive products from the level of sales established in 2007.

Other Operating Costs and Expenses

Other operating costs and expenses decreased for the year ended December 31, 2009 compared to 2008. Related to the previously noted settlement payments, we recorded a reversal of $4.5 million in previously accrued expenses. Excluding the effect of the settlement payments, other operating costs and expenses decreased $33.4 million for the year ended December 31, 2009. The decrease was primarily due to a decrease in production bonuses, which is directly a result of lower sales in 2009. Additionally, there was a reduction in marketing expenses for our Direct Marketing channel. Other operating costs and expenses increased for the year ended December 31, 2008, compared to 2007. Much of this increase resulted from the non-recurring legal costs related to the two lawsuits, the *Farm Bureau* litigation in our multiple line marketing division and the *Perkins* litigation in the credit life marketing line. See Note 16 to the Consolidated Financial Statements in our amended Form 10 Registration Statement, filed with the SEC on July 1, 2009 for a discussion on these cases.

Change in Deferred Policy Acquisition Costs

The following table presents the components of the change in DAC for the years ended December 31, 2009, 2008 and 2007 (in thousands, except percentages):

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Acquisition cost capitalized	$ 77,162	$ 129,031	$ 144,936	$ (51,869)	(40.2)	$ (15,905)	(11.0)
Amortization of DAC	(78,698)	(86,928)	(87,270)	8,230	9.5	342	0.4
Change in deferred policy acquisition costs	**$ (1,536)**	**$ 42,103**	**$ 57,666**	**$ (43,639)**	**(103.6)**	**$ (15,563)**	**(27.0)**

We regularly review the underlying DAC assumptions, including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Relatively minor adjustments to these assumptions can significantly impact changes in DAC. We monitor the amortization of DAC as a percentage of gross profits before DAC amortization, as a deterioration of this ratio could indicate an emergence of adverse experience affecting the future profitability of a particular block of business and, in turn, affect the recoverability of DAC from such future profits.

Acquisition costs capitalized decreased for the year ended December 31, 2009 compared to 2008. We also experienced a decrease in 2008 compared to 2007. These decreases resulted from the decline in production related compensation in first year commissions in our Independent Marketing Group. The amortization of DAC as a percentage of gross profits for the years ended December 31, 2009, 2008 and 2007 was 43.3%, 44.5 % and 41.1%, respectively. The change in the ratio for 2009 was primarily attributable to the premium refund lawsuit as previously discussed. The deterioration of the ratio in 2008 was a result of reduced gross profits from overall reduced profitability of the life business. Profitability was down due to decreased investment yields, increased surrenders and higher expenses due to our initial SEC registration and implementation costs related to Sarbanes-Oxley compliance.

An increase in the lapse rate would cause acceleration in DAC amortization; therefore, the lapse rate is an important measure of company performance. The average lapse/surrender rates in the Life segment were 10.7%, 10.5% and 10.1% for the years ended December 31, 2009, 2008 and 2007, respectively. These combined rates reflected both first year and renewal business. First year lapse rates are typically much higher on traditional life business than in later years. In general, stable or lower lapse rates are important toward maintaining profitability of the Life segment, as higher lapse rates will reduce the average life expectancy of the in-force block of business and could result in acceleration in the amortization of DAC. Over the course of 2007 through 2009, we experienced normal fluctuations in lapse rates.

Reinsurance

The table below summarizes reinsurance reserve and premium amounts assumed and ceded for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	Reserves Years Ended December 31,			Premiums Years Ended December 31,		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**
Reinsurance assumed	$ 19,514	$ 25,553	$ 28,413	$ 4,512	$ 8,460	$ 10,355
Reinsurance ceded	(160,934)	(147,523)	(124,316)	(74,577)	(80,826)	(66,068)
Total	**$ (141,420)**	**$ (121,970)**	**$ (95,903)**	**$ (70,065)**	**$ (72,366)**	**$ (55,713)**

We use reinsurance to mitigate excessive risk to the Company. Our current retention limit is $700,000 for traditional and universal life. Accidental death benefits and premium waiver benefits are fully retained on new business issued beginning in 2008. Increases in reserves and premium amounts ceded primarily reflect increased use of reinsurance in conjunction with treaties related to universal life products.

We periodically adjust our reinsurance program and retention limits as market conditions warrant, consistent with our corporate risk management strategy. While we have, in the past, reinsured up to 90% of new business, we are currently reinsuring newly developed permanent products on a modified excess retention basis, in which we reinsure mortality risk on a yearly renewable term basis, ceding a 75% quota share of policies with a face value of at least $500,000 up to our retention and then a 100% quota share in excess of retention. Term products are coinsured between 90% and 100% on a first-dollar quota share basis. The current term portfolio is also coinsured with a 90% quota share up to our retention and then a 100% quota share in excess of retention.

In the case of credit life business, we use reinsurance primarily as a means to provide producers of credit-related insurance products the opportunity to participate in the underwriting risk through offshore producer-owned reinsurance companies. The reinsurance treaties entered into by the Credit Insurance Division are normally written on a 100% coinsurance basis with benefit limits of $100,000 on credit life.

Our individual life reinsurance is primarily placed with highly rated companies, and we monitor the financial condition of those companies on a routine basis. For 2009, the companies where we have placed material amounts of reinsurance for the Life segment are shown in the table below (in thousands, except percentages):

Reinsurer	A.M. Best Rating	Ceded Premiums		Percentage of Total Gross Premium
Swiss Re Life and Health of America	A	$	22,476	6.3%
Transamerica Life Insurance Company	A		10,728	3.0%
Munich	A+		10,782	3.0%
General Re Life Corporation	A++		8,175	2.3%
Revios/SCOR	A-		6,560	1.9%
Canada Life Reinsurance	A+		5,000	1.4%
Other Reinsurers with no single company greater than 1% of the total			7,323	2.1%
Total life reinsurance ceded		**$**	**71,044**	**20.0%**

Policy in-force information

The following tables summarize changes in the Life segments in-force amounts and policy counts (in thousands, except percentages):

	Years Ended December 31,						Change Over Prior Years					
	2009		2008		2007		2009			2008		
							amount		percentage	amount		percentage
Life insurance in-force:												
Traditional life	$	45,229,407	$	45,007,657	$	44,538,506	$	221,750	0.5	$	469,151	1.1
Interest sensitive life		24,218,843		24,863,199		24,144,561		(644,356)	(2.6)		718,638	3.0
Total life insurance in-force	**$**	**69,448,250**	**$**	**69,870,856**	**$**	**68,683,067**	**$**	**(422,606)**	**(0.6)**	**$**	**1,187,789**	**1.7**

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Number of policies:							
Traditional life	2,347,423	2,451,748	2,606,012	(104,325)	(4.3)	(154,264)	(5.9)
Interest sensitive life	174,738	175,553	176,628	(815)	(0.5)	(1,075)	(0.6)
Total number of policies	**2,522,161**	**2,627,301**	**2,782,640**	**(105,140)**	**(4.0)**	**(155,339)**	**(5.6)**

The decreasing trend in our policy count is attributable to new business activity being comprised of fewer, but larger face-value policies. However, we experienced higher levels of traditional life in-force, due to the larger face values on those policies. The changes in the Life segment are relatively normal to our business.

Annuity

Comparison of Years Ended December 31, 2009, 2008 and 2007

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

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Revenues:							
Premiums	$ 220,284	$ 116,248	$ 222,748	$ 104,036	89.5	$ (106,500)	(47.8)
Other policy revenues	14,756	19,915	24,486	(5,159)	(25.9)	(4,571)	(18.7)
Net investment income	449,035	374,023	364,607	75,012	20.1	9,416	2.6
Other income	(3,870)	(5,718)	345	1,848	(32.3)	(6,063)	(1,757.4)
Total revenues	**680,205**	**504,468**	**612,186**	**175,737**	**34.8**	**(107,718)**	**(17.6)**
Benefits, losses and expenses:							
Policy benefits	249,709	142,867	249,878	106,842	74.8	(107,011)	(42.8)
Interest credited to policy account balances	311,580	237,612	232,605	73,968	31.1	5,007	2.2
Commissions	107,053	79,213	58,635	27,840	35.1	20,578	35.1
Other operating costs and expenses	59,254	45,491	35,030	13,763	30.3	10,461	29.9
Change in deferred policy acquisition costs	(62,013)	(20,690)	(911)	(41,323)	199.7	(19,779)	2,171.1
Total benefits, losses and expenses	**665,583**	**484,493**	**575,237**	**181,090**	**37.4**	**(90,744)**	**(15.8)**
Income (loss) before other items and federal income taxes	**$ 14,622**	**$ 19,975**	**$ 36,949**	**$ (5,353)**	**(26.8)**	**$ (16,974)**	**(45.9)**

Income from continuing operations decreased for the year ended December 31, 2009 compared to 2008 and during 2008 compared to 2007. A number of factors contributed to pressure on earnings, including compressed earned investment spreads, decreased annuity surrender charge revenue and certain non-recurring expenses. The expense increases are primarily due to consultant fees related to our initial SEC registration and implementation costs associated with Sarbanes-Oxley compliance. In addition, 2008 expenses increased due to lawsuit settlements. Interest spreads in 2009 were decreased from 2008 levels as a result of yields decreasing on a relatively large cash position, which slightly increased from 2008. We experienced similar events with our interest spread during 2008 compared to 2007, as our cash position had built up, as a result of the very large inflow of funds into fixed deferred annuities just as rates on short-term invested assets were starting to fall. The decreases in cash yield continues a trend first observed in 2008, but the decrease in 2009 was much more substantial than in 2008.

Surrender charge revenue decreased in 2009 compared to 2008 as a result of lower surrender volume. Also, our products with defined market value adjustment formulas, applicable to surrenders in the first ten years, had larger reductions to 2009 surrender charges due to positive market value adjustments. Surrender charge revenue also decreased in 2008 compared to 2007, despite the fact that total withdrawals increased from 2007 to 2008. This was a result of a shift in the proportion of surrenders that incurred surrender charges versus surrenders that did not incur charges. There was a larger number of policyholders who took advantage of an option provided under certain contracts that permits a withdrawal without penalty during a thirty-day window following the end of a guaranteed interest period. We expect to continue to see policyholders reaching their guarantee period surrender window and electing to surrender without penalty. As a result of the higher level of surrender activity on fixed deferred annuities in 2008 compared to 2007, DAC amortization expense increased, further contributing to the decrease in earnings.

Premiums

Annuity premium and deposit amounts received during the last three years are shown in the table below (in thousands, except percentages):

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Fixed deferred annuity	$ 1,715,871	$ 1,573,237	$ 789,012	$ 142,634	9.1	$ 784,225	99.4
Equity indexed deferred annuity	239,664	85,334	90,327	154,330	180.9	(4,993)	(5.5)
Single premium immediate annuity	227,937	121,952	227,617	105,985	86.9	(105,665)	(46.4)
Variable deferred annuity	99,429	103,233	119,507	(3,804)	(3.7)	(16,274)	(13.6)
Total	**2,282,901**	**1,883,756**	**1,226,463**	**399,145**	**21.2**	**657,293**	**53.6**
Less: policy deposits	(2,062,617)	(1,767,508)	(1,003,715)	(295,109)	16.7	(763,793)	76.1
Total earned premiums	**$ 220,284**	**$ 116,248**	**$ 222,748**	**$ 104,036**	**89.5**	**$ (106,500)**	**(47.8)**

Amounts received on single premium immediate annuities are classified as premiums and are taken immediately into income. Amounts received from deferred annuity policyholders and equity-indexed annuity policyholders are classified as deposits and are not immediately taken into income. Interest earned on the policyholder's deposits is classified as income. Fees assessed against variable annuity policyholder funds are reported as income.

Fixed deferred annuity receipts for the year ended December 31, 2009 increased compared to 2008. The increase in sales of our fixed annuity products is a result of lower rates on competing products such as CD's and money market funds. We can also attribute a portion of the increase to the economic environment. Equity-indexed deferred annuity sales also increased for the year ended December 31, 2009 compared to 2008. The increase in those sales was a result of investors accepting some risk in the pursuit of potentially higher returns. Equity-indexed annuities allow policyholders with greater risk tolerance to participate in equity returns while also having downside protection resulting from the guaranteed minimum returns defined in the product.

Fixed deferred annuity receipts increased in 2008 compared to 2007. The increase in premiums was the result of the economic circumstances leading investors to seek safer, less volatile investment avenues. Equity-indexed annuity premiums for the year ended December 31, 2008 compared to 2007 were relatively flat.

Single premium immediate annuities increased in 2009 compared to 2008. The increase in sales is a direct result of consumers' search for a more stable retirement income. We believe this upward trend will continue as more investors nearing retirement will change asset distribution strategies. Premiums from single premium immediate annuities decreased for the year ended December 31, 2008 compared to 2007. In 2007, premium income had increased by $49.8 million from a small group of very large policies sold.

The competitiveness of rates on all our annuity products can change very quickly and premium income will reflect changes in our position relative to the financial marketplace. Cash flows from these products, therefore, can be somewhat volatile from period to period.

Variable annuity products are a relatively small portion of our annuity portfolio. Variable deferred annuity premiums and deposits decreased for the year ended December 31, 2009 compared to 2008 and during 2008 compared to 2007. These decreases are primarily attributable to our decision to not offer income guarantees on our variable annuity business.

Other Policy Revenues

Other policy revenues include surrender charges, variable annuity management and expense fees, other expense charges, and charges for riders on deferred annuities. Other policy revenues decreased for the year ended December 31, 2009 compared to 2008. We also experienced a decrease during 2008 compared to 2007. The decreases in other policy revenues are primarily a result of the decline in total collected surrender charges. The decrease in surrender charges in 2009 compared to 2008 resulted from lower surrenders. Also, in 2009 we had larger surrender charge reductions resulting from positive market value adjustments on contracts with defined market value adjustment formulas. In 2008, we had lower surrender charges compared to 2007, despite the fact that surrender volumes increased from 2007 to 2008. This was due to a change in the mix of surrenders between policyholders who incurred surrender charges and those where policyholders utilized their optional penalty-free withdrawal provisions. The annualized surrender rates on deferred annuities, which represent all withdrawals both full and partial, were 11.5%, 14.6% and 12.3% of account balances for 2009, 2008 and 2007, respectively.

Net Investment Income

Net investment income, which is a key component of the profitability of the Annuity segment increased for the year ended December 31, 2009 compared to 2008 and during 2008 compared to 2007. The increases were largely due to an increase in the asset base, brought about by an increase in the volume of in-force fixed deferred annuity account balances. In 2009, our fixed deferred annuity account values rose by $1.2 billion to $8.2 billion compared to an increase of $707.9 million in 2008 and $89.0 million in 2007. Also contributing to the increases in net investment income was the positive change in realized and unrealized gains on call option derivative. Call option derivative gains increased $29.8 million to $5.4 million during 2009. The increase in investment income in 2008 was partially offset by the $24.3 million negative market value adjustment on these call option derivatives. Note that the call option gains and losses are largely offset by related reserve adjustments on the embedded derivative in the associated equity-indexed annuity contracts. These embedded derivatives are reported as liabilities on the consolidated statement of financial position and are recorded and measured at fair value.

Realized and unrealized gains or losses on the derivative hedge portfolio are recognized in earnings as investment income. Equity-indexed annuities include a fixed host annuity contract and an embedded equity derivative. The gain or loss on the embedded option is recognized in earnings as interest credited to policyholders.

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

	Years Ended December 31,			Change Over Prior Years	
	2009	2008	2007	2009	2008
Derivative gain/(loss) included in net investment income	$ 5,380	$ (24,400)	$ (141)	$ 29,780	$ (24,259)
Embedded derivative gain/(loss) included in interest credited	$ (8,138)	$ 23,184	$ 434	$ (31,322)	$ 22,750

For a number of years, earnings in the Annuity segment have been pressured by a long-term trend of 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. All contracts also have minimum floor interest rate guarantees, and we have reconfigured the product portfolio to lower those guarantees in response to the current low interest rate environment.

Interest Spread and Account Values

We evaluate the performance of our Annuity segment primarily based on interest spreads earned compared to the required spreads in our pricing. Interest spread is the difference between investment income on assets supporting the product lines less benefits credited to policyholders, including interest credited to deferred annuities and reserve change on immediate annuities. In determining interest spread, deferred sales inducements, such as first-year interest bonuses, are excluded from the interest-credited measurement. The variable annuity spread is equal to the mortality and expense charge assessed against policyholder funds. The table below shows the interest spreads for the annuity products (in thousands, except percentages):

	Years Ended December 31,		
	2009	2008	2007
Fixed deferred annuity			
Interest spread (excluding first year sales inducements):			
Dollar amount	$ 113,461	$ 111,545	$ 108,668
Annualized rate	1.51%	1.70%	1.76%
Variable deferred annuity			
Mortality and expense charge:			
Dollar amount	$ 4,096	$ 4,581	$ 4,498
Annualized rate	1.15%	1.24%	1.18%
Single premium immediate annuity (SPIA)			
Gross interest and mortality margins:			
Dollar amount	$ 5,377	$ 2,981	$ 5,454
Annualized rate	0.71%	0.43%	0.87%
Total annuity:			
Gross interest margins including SPIA mortality:			
Dollar amount	$ 122,934	$ 119,107	$ 118,620
Annualized rate	1.46%	1.65%	1.70%

The profits on fixed deferred annuity contracts and single premium immediate annuities are driven by the difference of interest spreads earned versus the required spread in our pricing and, to a lesser extent, other policy fees. When determining crediting rates for fixed deferred annuities, we consider current investment yields in setting new money crediting rates and look at average portfolio yields when setting renewal rates. Similarly, in pricing immediate annuity premium rates, we also evaluate expected long-term investment yields. In setting rates, we take into account target spreads established by pricing models while also factoring in price levels needed to maintain a competitive position. Target interest spreads vary by product depending on attributes such as interest bonus, interest guarantee term, and length of surrender charge period.

Interest spread income can vary from period to period due to factors such as yields on short-term (cash) investments, the portion of the portfolio invested in cash, commercial mortgage loan prepayments, bond make-whole premiums, product mix, and competition in the annuity market. Also, SPIA spreads are affected by differences in mortality experience from one period to the next, where mortality experience is the net result of actual reserves released due to death less the reserves expected to be released according to the underlying valuation mortality table.

Interest spread on fixed deferred annuities decreased 2008 to 2009 primarily as a result of a decreasing yield on our cash position, a decreasing yield on our bond positions, and our cash position being above target in proportion to the total asset portfolio. We will continue to hold our cash position until long-term investment opportunities arise.

The gross margin on single premium immediate annuities, which includes the effect of mortality, were 0.71%, 0.43% and 0.87% for 2009, 2008 and 2007, respectively.

A portion of the variable deferred annuity policies in the table above include guaranteed minimum death benefits. The total account value related to variable deferred annuity policies with guaranteed minimum death benefit features was $66.8 million, $60.4 million, and $99.3 million as of December 31, 2009, December 31, 2008, and December 31, 2007 respectively.

We are subject to equity market volatility related to these guaranteed minimum death benefits. We use reinsurance to mitigate the mortality exposure associated with such benefits. Our maximum guaranteed minimum death benefit exposure, before reinsurance, which represents the total exposure in the event that all annuitants die, was $6.6 million, $17.9 million, and $1.4 million as of December 31, 2009, December 31, 2008, and December 31, 2007 respectively.

The decrease in the guaranteed minimum death benefit amount at risk in 2009 compared to 2008 was due to the partial recovery in the equity market from the 2008 market downturn. The increase in the guaranteed minimum death benefit amount at risk in 2008 since December 31, 2007 reflects increased risk resulting from the poor equity market conditions experienced in 2008. See the *Reinsurance* discussion below for additional information on our risk management techniques utilizing reinsurance.

Account Values –In addition to interest margins, we monitor account values and changes in account values as a key indicator of the performance of our Annuity segment. The table below shows the account values and the changes in these values as a result of net inflows, fees, interest credited and market value changes for 2009, 2008 and 2007 (in thousands):

	Years Ended December 31,		
	2009	**2008**	**2007**
Fixed deferred annuity:			
Account value, beginning of period	$ 6,918,365	$ 6,210,456	$ 6,121,475
Net inflows/(outflows)	930,417	487,410	(123,195)
Fees	(10,592)	(15,363)	(19,899)
Interest credited	313,175	235,862	232,075
Account value, end of period	**$ 8,151,365**	**$ 6,918,365**	**$ 6,210,456**
Variable deferred annuity:			
Account value, beginning of period	$ 309,011	$ 429,505	$ 331,971
Net inflows	20,452	24,364	66,571
Fees	(4,096)	(4,582)	(4,498)
Change in market value and other	75,257	(140,276)	35,461
Account value, end of period	**$ 400,624**	**$ 309,011**	**$ 429,505**
Single premium immediate annuity:			
Reserve, beginning of period	$ 701,141	$ 693,137	$ 557,866
Net inflows/(outflows)	84,785	(26,330)	107,861
Interest and mortality	34,369	34,334	27,410
Reserve, end of period	**$ 820,295**	**$ 701,141**	**$ 693,137**

Fixed Deferred Annuity – ccount values associated with fixed deferred annuities increased for the year ended December 31, 2009 compared to 2008. We experienced an increase in account values during 2008 compared to 2007. The changes in account values were a result of an increase in sales of fixed deferred annuity products.

Net inflows for the year ended December 31, 2009 were $930.4 million compared to net inflows of $487.4 million for the year ended December 31, 2008. The increase is a result of higher sales, as previously noted above, and a decrease in outflows as a result of lower surrenders. Net inflows for 2008 were $487.4 million compared to net outflows of $123.2 million for 2007. The net inflows in 2008 rose as investors elected the safety of fixed deferred annuities over the volatility of other investment vehicles.

Fees charged against account values decreased for the year ended December 31, 2009 compared to 2008 and during 2008 compared to 2007. These fees include withdrawal charges levied against policies being partially withdrawn or fully surrendered. The decrease in fees reflects our continuing decline in income from surrender charges. Refer to the *Other Policy Revenues* discussion noted above, for further analysis on the decrease in surrender charges.

Variable Deferred Annuity: Variable deferred annuity account values increased for the year ended December 31, 2009 compared to 2008. The increase in account value was primarily due to market appreciation. Variable deferred annuity account values decreased during 2008 compared to 2007. The decrease was attributable to market decline, offset by net inflows.

Net inflows for the year ended December 31, 2009 were $20.5 million compared to net inflows of $24.4 million for the year ended December 31, 2008. Net inflows for 2007 were $66.6 million. Account values in 2008 were significantly affected by decreased equity values due to the significant declines in the financial markets that occurred during the fourth quarter. The average aggregate account values in-force in 2008 were, however, comparable to the average aggregate account values in-force in 2007.

Single Premium Immediate Annuity: Single premium immediate annuity reserves increased for the years ended December 31, 2009 compared to 2008 and during 2008 compared to 2007. The increases were primarily due to reserves established on inflows from new sales and accretion of reserves on existing policies due to interest and survivorship. Premium inflows from new sales were greater than payment outflows on existing business.

Net inflows were $84.8 million compared to net outflows of $26.3 million, reflecting a higher amount of sales in 2009. Net outflows for the year ended December 31, 2008 were $26.3 million, compared to net inflows of $107.9 million for 2007. This decrease is consistent with the decrease in new premiums received during 2008 compared with 2007, resulting in a net outflow in which benefits paid exceed premiums received.

Policy Benefits

Benefits consist of annuity payments and reserve increases on single premium immediate annuity contracts. Benefits increased for the year ended December 31, 2009 compared to the year ended December 31, 2008. The increase was due to higher single premium immediate annuity in-force volume resulting from increased single premium immediate annuity sales. These benefits decreased for the year ended December 31, 2008 compared to 2007. This decrease was primarily due to lower sales resulting in less reserve increase.

Interest Credited to Policy Account Balances

The increase in interest credited for the year ended December 31, 2009 compared to 2008 was primarily a result of increases in in-force fixed deferred annuity account balances due to new premiums and the change in embedded derivative gain/ (loss).

Interested credited increased in 2008 compared to 2007. This increase was primarily the result of the increased volume of in-force fixed deferred annuity account values due to issued business. The increase in interest credited resulting from in-force growth was offset by decreases in embedded derivative gain/ (loss).

Commissions

Commissions increased for the year ended December 31, 2009 compared to the year ended December 31, 2008. The increase was primarily due to increased sales. Commissions increased in 2008 compared to 2007, which was in line with the increase in premiums.

Other Operating Costs and Expenses

Other operating costs and expenses increased during 2009 compared to 2008. These expenses also increased for the year ended December 31, 2008 compared to 2007. These were primarily the result of increases to our defined benefit pension costs and fees due to our initial SEC registration and expenses associated with Sarbanes-Oxley compliance. Also, there were expense increases that were attributable to agent production bonus payments resulting from the increased level of new business written.

Change in Deferred Policy Acquisition Costs

DAC on deferred annuities is amortized in proportion to gross profits. The change in DAC represents acquisition costs capitalized, net of changes in the amortization of existing DAC. The following table presents the components of change in DAC for the years ended December 31, 2009, 2008 and 2007 (in thousands, except percentages):

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Acquisition cost capitalized	$ 126,768	$ 96,544	$ 71,723	$ 30,224	31.3	$ 24,821	34.6
Amortization of DAC	(64,755)	(75,854)	(70,812)	11,099	(14.6)	(5,042)	7.1
Change in deferred policy acquisition costs	**$ 62,013**	**$ 20,690**	**$ 911**	**$ 41,323**	**199.7**	**$ 19,779**	**2,171.1**

A performance measure of the Annuity segment is amortization of DAC as a percentage of gross profits. The amortization of DAC as a percentage of gross profits for the years ended December 31, 2009, 2008 and 2007 were 63.7%, 68.9% and 61.6%, respectively. The change in the ratio was primarily due to a lower lapse rate. The increase in the ratio during 2008 compared to 2007 was primarily due to higher lapses. A more complete discussion of policyholder persistency is given in the *Policy Benefits* and *Interest Credited to Policy Account Balances* sections above.

Acquisition costs capitalized increased in 2009 compared to 2008 and during 2008 compared to 2007. The increases were primarily attributable to higher sales of fixed deferred annuities, which resulted in increases to commissions and other operating costs and expenses.

Reinsurance

We employ reinsurance for guaranteed minimum death benefit risks on certain variable annuity contracts. Our maximum guaranteed minimum death benefit exposure, before reinsurance, which represents the total exposure in the event that all annuity policyholders die, was $6.6 million, $17.9 million and $1.4 million as of December 31, 2009, 2008, and 2007, respectively. After reinsurance, the net amounts at risk were $3.3 million, $9.9 million and $0.4 million respectively. All such guaranteed minimum death benefit reinsurance is with reinsurers rated “A” or higher by A.M. Best.

Health

Comparison of Years Ended December 31, 2009, 2008 and 2007

The Health segment has been primarily focused on supplemental and limited benefit coverage products including Medicare Supplement insurance for the aged population as well as hospital surgical and cancer policies for the general population. In 2009, premium volume for health insurance-related products was concentrated in our Medicare Supplement (39.7%) and hospital surgical (16.5%) lines. Our other health products include major medical insurance, credit accident and health policies, employer-based stop loss, and dental coverage. We distribute our health insurance products through our network of independent agents and managing general underwriters ("MGU's"). Segment results for the periods indicated were as follows (in thousands, except percentages):

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Revenues:							
Premiums	$ 309,701	$ 290,883	$ 283,765	$ 18,818	6.5	$ 7,118	2.5
Net investment income	15,992	16,566	16,710	(574)	(3.5)	(144)	(0.9)
Other income	10,382	13,252	13,048	(2,870)	(21.7)	204	1.6
Total premiums and other revenues	**336,075**	**320,701**	**313,523**	**15,374**	**4.8**	**7,178**	**2.3**
Benefits and expenses:							
Policy benefits	239,407	223,055	209,840	16,352	7.3	13,215	6.3
Commissions	51,717	43,219	39,342	8,498	19.7	3,877	9.9
Other operating costs and expenses	62,134	69,961	57,975	(7,827)	(11.2)	11,986	20.7
Change in deferred policy acquisition costs	5,017	5,023	5,774	(6)	(0.1)	(751)	(13.0)
Total benefits and expenses	**358,275**	**341,258**	**312,931**	**17,017**	**5.0**	**28,327**	**9.1**
Income (loss) before other items and federal income taxes	**$ (22,200)**	**$ (20,557)**	**$ 592**	**$ (1,643)**	**8.0**	**$ (21,149)**	**(3,572.5)**

Earnings for the Health lines of business experienced a slight decline in 2009 relative to 2008. During 2009, earnings were negatively impacted by one-time charges of $5.9 million which included a $2.8 million marketing expense (refer to the "*other operating costs and expenses*" section below) as well as several large claims incurred on our major medical product. Earnings for 2008 decreased from the relatively break-even earnings of 2007. The one-time charges during 2008 included legal settlements and reinsurance write offs that negatively impacted earnings by $19.8 million. Excluding one-time charges, earnings for 2008 would have approximated a break-even point.

During the second quarter of 2009, we paid premium refunds as a result of a class action settlement made by us in May, 2007. The refunds on the credit accident and health product resulted in issuing $12.4 million of settlement payments comprised of credit accident and health premium refunds and other related damages and fees, to certain previously insured persons. The Health segment was fully reserved for this settlement and did not incur any related impact to its loss from operations during the year ended December 31, 2009. However, during the second quarter of 2009, several categories of the consolidated statements of income were impacted by the recording of the settlement as follows: premiums decreased by $4.3 million, other income decreased by $0.8 million, commissions decreased by $0.9 million, and other operating costs and expenses decreased by $4.3 million. For additional information on this settlement, refer to the discussion of the *Perkins* litigation within Note 16 to the Consolidated Financial Statements in our amended Form 10 Registration Statement, filed with the SEC on July 1, 2009.

During 2009, as a matter of standard practice, our Health segment's management requested an outside firm to review the records of one of our MGU's. This review resulted in the following adjustments, which were recorded in the year ended December 31, 2009 (the "review adjustments"): $23.6 million increase in premiums, $12.9 million increase in policy benefits and $10.7 million increase in commissions. These review adjustments had no material net impact to the Consolidated Statements of operations for 2009.

Premiums

The Health segment's earned premiums increased for the year ended December 31, 2009 when compared to the same period in 2008. Related to the previously noted settlement payments, we recorded premium reversals of $4.3 million. Excluding the effect of the settlement payments, premiums increased approximately 7.9% during 2009. The increase was primarily driven by premium rate increases on our Medicare Supplement and hospital surgical products as well as the review adjustments described above. The aforementioned increase was partially offset by a decline in premiums earned on our major medical product. Our in-force product mix has continued to change by shifting away from our comprehensive, higher-priced major medical product to our less comprehensive lower-priced hospital surgical product; we expect this trend to continue in 2010 and beyond.

The increase in earned premium for the year ended December 31, 2008 as compared to the same period in 2007 was driven in large part by new business generated from our Medicare Supplement and hospital surgical products, which was partially offset by the decline in new policies being written on our major medical product.

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

	Year Ended December 31, 2009		Year Ended December 31, 2008		Year Ended December 31, 2007	
	Premiums		Premiums		Premiums	
	dollars	percentage	dollars	percentage	dollars	percentage
Medicare Supplement	$ 123,102	39.7%	$ 120,757	41.5%	$ 114,283	40.3%
Managing general underwriter	34,015	11.0%	13,160	4.5%	15,054	5.3%
Group	33,484	10.8%	33,758	11.7%	33,492	11.8%
Major medical	29,580	9.6%	38,951	13.4%	49,313	17.4%
Hospital surgical	51,136	16.5%	39,340	13.5%	24,228	8.5%
Long-term care	1,970	0.6%	2,719	0.9%	3,437	1.2%
Supplemental insurance	8,146	2.6%	8,213	2.8%	8,574	3.0%
Credit accident and health	19,627	6.3%	24,676	8.5%	25,471	9.0%
All other	8,641	2.9%	9,309	3.2%	9,913	3.5%
Total	**$ 309,701**	**100.0%**	**$ 290,883**	**100.0%**	**$ 283,765**	**100.0%**

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

	As of December 31, 2009		As of December 31, 2008		As of December 31, 2007	
	Certificates/Policies		Certificates/Policies		Certificates/Policies	
	number	percentage	number	percentage	number	percentage
Medicare Supplement	58,627	8.9%	60,264	8.2%	57,162	7.5%
Managing general underwriter	81,571	12.4%	124,829	17.0%	139,683	18.4%
Group	23,890	3.6%	21,409	2.9%	20,882	2.8%
Major medical	3,453	0.5%	4,884	0.7%	7,509	1.0%
Hospital surgical	14,915	2.3%	15,468	2.1%	10,526	1.4%
Long-term care	1,919	0.3%	2,055	0.3%	2,229	0.3%
Supplemental insurance	44,138	6.7%	47,133	6.4%	51,409	6.8%
Credit accident and health	309,695	47.2%	323,158	44.0%	319,285	42.2%
All other	118,061	18.1%	135,921	18.4%	148,780	19.6%
Total	**656,269**	**100.0%**	**735,121**	**100.0%**	**757,465**	**100.0%**

Net Investment Income

Net investment income remained relatively consistent for 2009, 2008 and 2007. Refer to the *Investments* discussion below for further analysis.

Policy Benefits

The benefit ratio, measured as the ratio of claims and other benefits to premiums, increased slightly to 77.3% for 2009 from 76.7% for 2008. The hospital surgical and major medical lines were the largest drivers of the increase in benefit ratio. The MGU line had a decrease in benefit ratio, which helped offset the increase from the hospital surgical and major medical lines. The increase in benefit ratio on the hospital surgical line is primarily attributable to aggressive rates and underwriting practices in prior periods. Rate increases to this line were made over the last two years, and we anticipate that these rate increases will positively impact the benefit ratio on this line in 2010. The increase in benefit ratio on the major medical product line is primarily the result of several large claims incurred in early 2009. Corrective rate actions to this line continue to be made and we anticipate that these rate increases will positively impact the benefit ratio on this line in 2010 as well.

In 2009, the benefit ratio was positively impacted by the review adjustments described above. The 2008 benefit ratio was negatively impacted by expenses associated with litigation involving one MGU that resulted in $8.9 million of reinsurance write offs in the first quarter of 2008. We have terminated our relationship with this particular MGU.

The benefit ratio, increased to 76.7% for the year ended December 31, 2008 from 73.9% for the same period in 2007. Much of the $13.2 million increase from 2007 to 2008 was attributable to the $8.9 million of reinsurance write offs in 2008 (discussed in the above paragraph). Excluding the impact of these reinsurance write offs, the benefit ratio was flat year over year.

As of December 31, 2009, the Health claim reserve had increased $3.1 million to $115.9 million from $112.8 million as of December 31, 2008. The increase was primarily due to an increase in the benefit ratio in 2009.

The Health claim reserve decreased $0.6 million to $112.8 million for 2008 as compared to $113.3 million for 2007. This decrease in Health claim reserves was due to the decline of the major medical business.

Commissions

Commissions increased for the year ended December 31, 2009 as compared to the same period in 2008. The majority of the increase was attributed to the review adjustments described above. The increase was partially offset by lower commissions incurred on our credit accident and health product, which resulted from a decline in related earned premiums.

Commissions increased approximately 9.9% in 2008 when compared to 2007. This increase was primarily generated by an increase in earned premiums and the resulting higher first year commissions. Initial year policies pay at higher commission rates than renewal policies.

Other Operating Costs and Expenses

For the year ended December 31, 2009, other operating costs and expenses decreased 11.2% when compared to the same period in 2008. We recorded a reversal of $4.3 million related to the settlement payments noted above. Excluding the effect of the settlement payments, other operating costs and expenses decreased 5.0% in 2009 when compared to 2008. The decrease was primarily attributed to the absence of a $10.9 million legal reserve for the previously noted settlement payments, which was established in September 2008. The foregoing decrease was partially offset by increases in an excise tax on reinsured foreign premiums, employee benefits, information technology consulting fees and a one-time marketing expense of $2.8 million for the write-off for agents' balances as part of reconciliations performed during 2009.

Other operating costs and expenses increased 20.7% for the year ended December 31, 2008 as compared to the same period in 2007. The biggest driver for this increase was the establishment of a $10.9 million legal reserve for the previously noted settlement payments during 2008. Expenses unrelated to this litigation increased by $1.0 million over the prior year or 1.7%, consistent with increases in premiums.

Change in Deferred Policy Acquisition Costs

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

The following table presents the components of change in DAC for the years ended December 31, 2009, 2008 and 2007 (in thousands, except percentages):

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Acquisition cost capitalized	$ 16,729	$ 22,762	$ 18,735	$ (6,033)	(26.5)	$ 4,027	21.5
Amortization of DAC	(21,746)	(27,785)	(24,509)	6,039	(21.7)	(3,276)	13.4
Total change in DAC	**$ (5,017)**	**$ (5,023)**	**$ (5,774)**	**$ 6**	**(0.1)**	**$ 751**	**(13.0)**

The change in DAC expense remained flat in 2009 and had minimally decreased in 2008 from 2007.

From 2008 to 2009, the change in DAC was primarily driven by a reversal of acquisition costs previously capitalized and related amortization expense associated with the previously noted settlement payments.

The decrease in DAC from 2007 to 2008 was primarily attributed to an increase in acquisition costs capitalized which resulted from increased sales of our Medicare Supplement product. This was offset by an increase in amortization of DAC, which was mainly attributed to the aforementioned increase in acquisition costs capitalized.

As of December 31, 2009, the Health related DAC balances were $69.9 million compared to $74.9 million as of December 31, 2008. The $5.0 million decrease in DAC reflects a reversal of acquisition costs previously capitalized and related amortization expense associated with the previously noted settlement payments as well as a reduction in the acquisition costs capitalized due to the decline in new production of our Medicare Supplement and credit accident and health products.

Reinsurance

For the major medical business, we use reinsurance on an excess of loss basis. Our retention limit is $500,000 per claim on these types of policies. Certain amounts of stop-loss and other types of catastrophe health reinsurance programs are also reinsured. We manage these risks by reinsuring over 90% of the risk to highly rated reinsurance companies. We also maintain some reinsurance on a quota share basis for our long-term care and disability income business.

Reinsurance is also used in the credit accident and health business. In certain cases, and especially in the auto retail market, we may also reinsure the policy written with a dealer-owned (producer-owned) captive reinsurer. This arrangement allows the dealerships to also participate in the performance of these credit accident and health contracts.

At December 31, 2009, the companies where we have placed material amounts of reinsurance for the Health segment are shown in the table below (in thousands, except percentages):

Reinsurer	A.M. Best Rating	Ceded Premiums	Percentage of Total Gross Premium
Motors Insurance Corp.	A-	$ 45,574	10.4%
Munich American Reinsurance Company	A+	15,437	3.5%
Transatlantic Re	A	14,458	3.3%
United States Fire Insurance Company	A	10,336	2.4%
Maiden Re	A-	6,764	1.6%
Other reinsurers with no single company greater than 1% of the total		34,416	7.9%
Total health reinsurance ceded		**$ 126,985**	**29.1%**

Property and Casualty

Comparison of Years Ended December 31, 2009, 2008 and 2007

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

- Loss and loss adjustment expense ratio ("loss ratio"), which is calculated by dividing policy benefits by net premiums earned;
- Underwriting expense ratio ("expense ratio"), which is calculated by dividing all expenses related to the issuance of new and renewal policies by net premiums earned; and
- Combined ratio, which is the sum of the loss ratio and the expense ratio.

A combined ratio under 100% generally indicates an underwriting profit, while a ratio greater than 100% indicates an underwriting loss. The combined ratio does not include net investment income, other income or federal income taxes.

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

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Revenues:							
Net premiums written	$ 1,307,762	$ 1,184,686	$ 1,191,113	$ 123,076	10.4	$ (6,427)	(0.5)
Net premiums earned	$ 1,159,509	$ 1,182,026	$ 1,177,217	$ (22,517)	(1.9)	$ 4,809	0.4
Net investment income	66,175	69,348	75,041	(3,173)	(4.6)	(5,693)	(7.6)
Other income	7,064	8,973	8,623	(1,909)	(21.3)	350	4.1
Total premiums and other revenues	**1,232,748**	**1,260,347**	**1,260,881**	**(27,599)**	**(2.2)**	**(534)**	**(0.0)**
Benefits and expenses:							
Policy benefits	923,064	939,854	818,230	(16,790)	(1.8)	121,624	14.9
Commissions	209,203	226,100	217,043	(16,897)	(7.5)	9,057	4.2
Other operating costs and expenses	124,266	132,601	110,705	(8,335)	(6.3)	21,896	19.8
Change in deferred policy acquisition costs	(8,151)	(9,669)	(7,639)	1,518	(15.7)	(2,030)	26.6
Total benefits and expenses	**1,248,382**	**1,288,886**	**1,138,339**	**(40,504)**	**(3.1)**	**150,547**	**13.2**
Income before other items and federal income taxes	**$ (15,634)**	**$ (28,539)**	**$ 122,542**	**$ 12,905**	**(45.2)**	**$ (151,081)**	**(123.3)**
Loss ratio	79.6%	79.5%	69.5%	0.1		10.0	
Underwriting expense ratio	28.1%	29.5%	27.2%	(1.4)		2.3	
Combined ratio	107.7%	109.0%	96.7%	**(1.3)**		**12.3**	
Effect of net catastrophe losses on combined ratio	7.8%	11.1%	2.7%	(3.3)		8.4	

The Property and Casualty net loss improved in 2009 compared to 2008 due to a $40.5 million decrease in net catastrophe losses from those we experienced in 2008, partially offset by a $17.1 million increase in non-catastrophe related policy benefits and by a decrease in net premiums earned.

The near record level of catastrophe losses experienced in 2008 negatively impacted earnings compared to those in 2007. Hurricanes Gustav and Ike, along with the increased frequency of tornadoes and hailstorms in the Midwestern and Southeastern states, resulted in a $99.1 million increase in catastrophe losses, net of reinsurance, during 2008. Net loss for 2008 was also negatively impacted by a $21.9 million increase in other operating costs and expenses, largely due to litigation related costs.

Net Premiums Written and Earned

Net premiums written is a measure of the premiums charged for policies issued during a fiscal period. Property and casualty premiums are recognized as earned premiums proportionately over the contract period. The majority of our automobile policies have terms of six months to one year while our credit related property policies have terms of six months to five years, depending on the related loan period. All other policies, such as homeowners' policies and the agribusiness product policies, have terms of twelve months. The portion of the premiums written applicable to the unexpired terms of the policies are recorded as unearned premiums on our consolidated balance sheet.

Net premiums written increased in 2009 compared to 2008 due to increases in our homeowner and credit related property insurance products. These increases were offset by decreases in our personal auto and workers' compensation insurance products. These are discussed in further detail in the "*Products*" discussions below.

Net premiums written decreased in 2008 compared to 2007, reflecting a $27.0 million decrease in personal and commercial auto net premiums written. The decrease was due to high levels of competition in these lines, combined with a $5.6 million reinsurance reinstatement premium and higher overall reinsurance costs. The decreases in net premiums written were partially offset by a $17.4 million increase in credit insurance for 2008 compared to 2007.

We continue to take a disciplined approach to evaluating and pricing risks. Disciplined underwriting, which seeks to accept suitable risks only at a fair price, will result in underwriting profitability in the long-term. We expect total property and casualty net premiums written to remain stable or slightly decrease in 2010, as a result of targeted rate activity in personal and commercial auto and homeowners, offset by a resulting slight decrease in policy counts. We expect increased or flat growth of our credit-related insurance products as the recession-driven decline in new car sales and other consumer goods, and the continued tight credit environment to begin to ease and some stabilization to return during 2010.

Reinsurance costs increased slightly, 0.9%, for 2009 renewals as the cost of additional catastrophe reinsurance coverage purchased was offset by lower costs due to an increase in catastrophe reinsurance market capacity and the Company's management of its catastrophe exposure. Refer to the discussion of our reinsurance program and the effect on the consolidated financial statements, under Part I, Item 1*, Business.*

Net premiums earned decreased in 2009 compared to 2008 as a result of a $16.7 million and a $5.3 million decrease in our personal auto and workers' compensation insurance products, respectively. These are discussed in further detail in the "*Products*" discussions below.

Net premiums earned increased in 2008 compared to 2007 as a result of a 2007 reduction of $11.2 million relating to the increase in our estimate of retrospective premium adjustments payable on auto and homeowner policies with no reported losses for three years. Excluding the effect of this adjustment, earned premium decreased $6.4 million, primarily due to decreases in personal and commercial auto net premiums written for the year ended December 31, 2008 and a $5.6 million reinsurance reinstatement premium due to catastrophe activity in 2008.

Net Investment Income

Net investment income continued to decrease in 2009 as compared to 2008, as it did in 2008 as compared to 2007. This decrease is due to the increasing amount of cash in our portfolio each year due to a lack of appropriate long-term investment opportunities.

Policy Benefits

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

The loss ratio for 2009 remained relatively unchanged from 2008, due to increases in claims in personal auto, workers' compensation and credit insurance products, offset by the decrease in net catastrophe experience. These are discussed in further detail in the "*Products*" discussion below. The increase in loss ratio for 2008 as compared to 2007 was due to the significant level of net catastrophe losses during 2008, particularly compared to the low level of losses in 2007. 2008 was a busy year for natural catastrophes in the United States compared to 2007, which was relatively mild.

For the year ended December 31, 2009, gross catastrophe losses decreased to $80.9 million, compared to $191.6 million and $32.4 million for the years ended December 31, 2008 and 2007, respectively. Estimated reinsurance recoveries on all catastrophe losses were ($9.4) million for the year-end December 31, 2009 and $60.8 million for the year ended December 31, 2008. There were no material reinsurance recoveries on catastrophe losses for the year ended December 31, 2007.

The negative amount of estimated reinsurance recoverables for 2009 arise mainly from a decrease in the ultimate gross loss estimates for Hurricanes Ike and Gustav at December 31, 2009 compared to December 31, 2008. These 2008 hurricanes produced losses, which are recoverable under our reinsurance program, and a decrease in the ultimate gross loss estimates resulted in a decrease in estimated reinsurance recoverables as well.

Net catastrophe losses contributed to a 7.8% increase and an 11.1% increase in the combined ratio during 2009 and 2008, respectively, compared to only a 2.7% increase in 2007. The property losses as a result of catastrophes are a part of the normal variability in this segment and are the result of differences in both the frequency and severity of catastrophic events. We continue to evaluate and manage our aggregate catastrophe risk exposures, and manage our risk with targeted rate activity and purchasing additional reinsurance coverage where we believe it is cost efficient to do so.

Over the last five years, we have suffered our worst three catastrophe years in our history. These years include hurricanes Katrina and Rita in 2005, Ike and Gustav in 2008 along with record Midwest storms in 2008 and an abnormally high number of Midwest storms in 2009 particularly impacting Colorado and Oklahoma, which are some of our larger states. A number of actions have been taken to reduce our exposure to catastrophic losses such as reducing coastal exposure, increased spread of risk and lower reinsurance retentions for our 2010 program. Implementation of these actions are expected to result in substantially improved results even if the high catastrophe losses of 2005, 2008, or 2009 were to repeat.

Commissions and Change in Deferred Policy Acquisition Costs

Commissions decreased in 2009 compared to 2008 as the result of a $9.6 million decrease in credit related insurance commissions due to a shift in our credit insurance products towards those with lower commission structures. Commissions on personal and commercial auto policies also decreased compared to the same period in 2008 due to reductions in net premiums earned in these lines as well as an overall decrease in bonuses.

Commissions increased in 2008 compared to 2007 as the result of a $9.5 million increase in credit related insurance commissions due to an increase in net premiums earned, attributable to the growth of our credit-related property products, which generally have a higher commission rate than our other products. This increase was partially offset by lower commissions on personal and commercial auto policies, which reported lower net premiums earned in 2008 compared to 2007.

The decrease in deferred policy acquisition costs was less in 2009 compared to 2008 due to the decrease in commissions noted above during the period, and was larger in 2008 compared to 2007 due to the increase in commissions during 2008. A positive change in DAC represents a reduction to DAC and a decrease in expenses being deferred for the period, while a negative change represents an increase to DAC as a result of an increase in expenses for the period.

Other Operating Costs and Expenses

Other operating costs and expenses decreased for the year ended December 31, 2009 compared to the same period in 2008. The decrease was due to the *Farm Bureau* lawsuit resulting in a one-time accrual of $7.4 million in expenses during the third quarter of 2008. For additional information on this lawsuit, refer to our Commitments and Contingencies footnote within the Notes to the Consolidated Financial Statements in Item 8 “Financial Statements and Supplementary Data.”

The increase at year end December 31, 2008 compared to the same period in 2007 was also a result of litigation related costs primarily in connection to the lawsuit noted above, as well as increased salary costs of $4.3 million, allocated pension costs of $2.5 million, and increased professional services fees of $2.2 million related to preparing for compliance with SEC and Sarbanes-Oxley requirements.

Products

Our Property and Casualty segment consists of three product lines: (i) Personal Lines products, which we market primarily to individuals representing 54.6% of net premiums written, (ii) Commercial Lines products, which focus primarily on businesses engaged in agricultural and other targeted markets representing 24.2% of net premiums written, and (iii) Credit related property insurance products which are marketed to financial institutions and retailers and representing 21.2% of net premiums written. Segment results by product for the periods indicated (in thousands, except percentages) were as follows:

Product Discussion – Personal Products

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Net premiums written							
Auto	$ 456,960	$ 462,545	$ 484,310	$ (5,585)	(1.2)	$ (21,765)	(4.5)
Homeowner	217,963	203,516	207,093	14,447	7.1	(3,577)	(1.7)
Other Personal	38,815	34,610	30,452	4,205	12.1	4,158	13.7
Total net premiums written	**713,738**	**700,671**	**721,855**	**13,067**	**1.9**	**(21,184)**	**(2.9)**
Net premiums earned							
Auto	452,754	469,425	479,722	(16,671)	(3.6)	(10,297)	(2.1)
Homeowner	208,558	205,764	199,126	2,794	1.4	6,638	3.3
Other Personal	37,283	31,990	30,241	5,293	16.5	1,749	5.8
Total net premiums earned	**$ 698,595**	**$ 707,179**	**$ 709,089**	**$ (8,584)**	**(1.2)**	**$ (1,910)**	**(0.3)**
Loss ratio							
Auto	83.9%	78.0%	76.0%	5.9		2.0	
Homeowner	100.6%	111.0%	68.4%	(10.4)		42.6	
Other Personal	44.9%	87.7%	84.4%	(42.8)		3.3	
Personal line loss ratio	86.8%	88.1%	74..2%	(1.3)		13.9	
Combined Ratio							
Auto	104.9%	101.6%	97.3%	3.3		4.3	
Homeowner	122.8%	138.0%	94.2%	(15.2)		43.8	
Other Personal	51.3%	110.1%	90.5%	(58.8)		19.6	
Personal line combined ratio	107.4%	112.6%	96.1%	(5.2)		16.5	

Personal Automobile: We continued to see reductions in our personal automobile premium rates due to a highly competitive marketplace during the first half of 2009. Net premiums earned decreased in 2009 compared to 2008, and during 2008 compared to 2007 despite flat policy counts during these periods. We implemented premium rate increases during the second half of 2009, and expect to see downward pricing pressures continue to ease as 2010 progresses. We will continue to concentrate on our strategy of improving profitability through disciplined underwriting and targeted rate activity.

A portion of the decrease in net premiums earned during 2009 was due to an internal review of our methodology for establishing reserves for our “Cashback” program, which refunds a portion of premiums paid on homeowners and auto policies within certain product lines and certain states. This resulted in a $4.6 million decrease during the second quarter of 2009.

The loss ratio has steadily increased since 2007 primarily due to an increase in the severity of claims each year coupled with the continued decline of net premiums earned. In recent years, we have experienced a decrease in loss frequency offset by a significant increase in loss severity. The increase in loss severity is due to increased bodily injury claims, increased litigation costs and increased property damage liabilities.

The combined ratios for 2009 (projected), 2008 and 2007 are comparable to the industry average for the same periods of 99.3%, 100.3%, and 98.3%, respectively, per A.M. Best’s is “U.S. Property/Casualty-Review and Preview”. Our 2009-combined ratio was slightly above average due to our decline in net premiums earned outpacing the industry average.

Homeowners: Net premiums earned have continued to increase slightly since 2007 due to rate increases across the entirety of this product line, as well as increases in policyholder-insured values as replacement and repair costs continue to increase even amidst declining home values. During the same period, this increase in premiums was offset by policy count decreasing by approximately 2.0% each year.

Policy benefits and the loss ratio decreased in 2009 compared to 2008 due to the $40.5 million decrease in catastrophe experience from the prior year and a decline in loss reserves of $17.8 million, offset by a decrease in reinsurance ceded losses from $35.8 million in 2008 to $0.2 million in 2009.

The significant increase in policy benefits and the loss ratio for 2008 compared to 2007 was due to the record level of catastrophe losses. Gross catastrophe losses for 2008 were $191.6 million, of which $132.9 million was attributable to homeowners' claims from 2008 catastrophe occurrences, compared to $63.4 million for 2009 and $22.5 million for 2007. Estimated reinsurance recoveries on all catastrophe losses were $60.8 million for 2008, with no material recoveries for 2009 or 2007.

Prudent actions to generate profitable premium growth and reduce earnings volatility will continue. Evaluation and managing our risk with targeted rate activity will continue along with purchasing additional reinsurance coverage where we believe it is cost efficient to do so. We will continue to replace lost in-force policies with new business and increase insured values for our in-force book as necessary. However, we also expect the continued low level of new home sales and the economic recession to negatively impact premium growth, as consumers increase deductibles and reduce coverages to lower insurance costs.

The expense ratio decreased in 2009 due to the litigation expense noted in the "*Other Operating Costs and Expenses*" discussion above, combined with a greater amount of expenses being deferred through our updated deferral estimates. The increase in 2008 from 2007 was primarily a result of the litigation expense and modest increases in staffing levels.

The combined ratios for 2009 (projected), 2008 and 2007 are comparable to the industry-combined ratios per A.M. Best of 105.5% (projected), 117.0%, and 95.7%, respectively. Our combined ratio was negatively impacted in 2009 and 2008 due to our concentration of business in the Midwest, which experienced increased catastrophe losses, resulting in a combined ratio 17.3% and 21.0% above the industry average, respectively. Conversely, our combined ratio benefited from our geographic concentration and the unusually low level of catastrophe losses in 2007, resulting in a combined ratio below the industry average.

Other Personal: The other personal product line is comprised primarily of watercraft, rental-owner and umbrella coverages for individuals seeking to protect their personal property. While historically this was not a significant piece of our personal insurance business, we continue to see promising growth in premium counts and operating results as our agents continue to increase our business with our current customers.

Net premiums earned increased significantly in 2009 after a slight increase in 2008 due to increasing numbers of policy counts each year in addition to increases in policy premiums. The loss ratio decreased significantly during 2009 as a result of the increasing net premiums as well as a decrease in claim frequency.

The combined ratio fell in 2009 due to the increase in premiums and decrease in catastrophe experience from 2008. The increase in 2008 compared to 2007 was also due to the significant catastrophe experience in 2008. Segment results by product for the periods indicated (in thousands, except percentages) were as follows:

Product Discussion – Commercial Products

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Net premiums written							
Agribusiness	$ 101,074	$ 101,243	$ 93,664	$ (169)	(0.2)	$ 7,579	8.1
Auto	88,642	95,155	100,397	(6,513)	(6.8)	(5,242)	(5.2)
Other Commercial	127,291	139,266	144,281	(11,975)	(8.6)	(5,015)	(3.5)
Total net premiums written	**317,007**	**335,664**	**338,342**	**(18,657)**	(5.6)	**(2,678)**	(0.8)
Net premiums earned							
Agribusiness	105,921	105,230	95,402	691	0.7	9,828	10.3
Auto	91,074	96,574	96,232	(5,500)	(5.7)	342	0.4
Other Commercial	125,855	137,971	139,051	(12,116)	(8.8)	(1,080)	(0.8)
Total net premiums earned	**$ 322,850**	**$ 339,775**	**$ 330,685**	**$ (16,925)**	(5.0)	**$ 9,090**	2.7
Loss ratio							
Agribusiness	90.1%	87.5%	71.9%	2.6		15.6	
Auto	74.3%	76.3%	75.6%	(2.0)		0.7	
Other Commercial	76.9%	71.2%	61.0%	5.7		10.2	
Commercial line loss ratio	**80.5%**	**77.7%**	**68.4%**	2.8		9.3	
Combined ratio							
Agribusiness	126.8%	117.7%	105.1%	9.1		12.6	
Auto	96.9%	99.3%	99.8%	(2.4)		(0.5)	
Other Commercial	106.4%	95.8%	86.3%	10.6		9.5	
Commercial line combined ratio	**110.4%**	**103.6%**	**95.6%**	6.8		8.0	

Agribusiness Product: Our agribusiness product allows policyholders to customize and combine their coverage for residential and household contents, buildings and building contents, farm personal property and liability. Net premiums earned remained flat in 2009 compared to 2008, while 2008 increased over 2007. The increase in 2008 was primarily the result of rate increases initiated during 2007 that were fully earned in 2008 and remained in effect in 2009.

The loss ratio has been steadily increasing since 2007, as a result of storm and weather related losses. We expect variability in this line, which is sensitive to the frequency and severity of storm and weather related losses, and expect the loss ratio to normalize in 2010.

The combined ratio has been steadily increasing as premiums in this product have not decreased as it has in some of the other products and it is becoming a larger portion of our business, which results in more costs being allocated to it.

Commercial Automobile: While we continue to focus on strengthening underwriting and improving pricing, renewal prices continued to decrease in 2009 compared to 2008 and 2007, resulting in downward pressure on net premiums written and earned. Net premium earned decreased slightly in 2009 as rate decreases initiated in 2008 continue to be realized. We expect this downward trend to level off during 2010, and begin to reverse in the second half of 2010 as newly implemented rate increases begin to take effect.

The decrease in the loss ratio during 2009 reflects our disciplined underwriting and focus on appropriate risks at a fair price, offset by the decrease in net premiums earned. The minimal increase in 2008 was the result of a slight increase in storm and weather related claims in 2008, compared to the relatively low number in 2007.

The combined ratios for 2009 (projected), 2008 and 2007 are comparable to the industry average for the same periods of 97.0%, 96.8% and 94.2%, respectively, per A.M. Best.

Other Commercial: Net earned premiums have been decreasing since 2007, as a result of our workers' compensation product and small business coverages continuing to decline in the current economic environment. Premiums for our workers' compensation product are tied to company payrolls, which have been steadily decreasing since the middle of 2007 as unemployment continued to rise. Our small business coverages continue to lose policies as customers go out of business, as well as a lowering premium per policy as businesses reduce coverages and increase deductibles in an effort to cut costs.

The loss ratio has been steadily increasing during this period due to the change in premiums noted above in addition to the resultant higher claims as payrolls continued to contract. We expect some stabilization to return to the economy in 2010. The combined ratio has continued to increase due to the decline in premiums.

Product Discussion – Credit Products

Credit related property insurance products are offered on automobiles, furniture, and appliances in connection with the financing of those items. The policies pay an amount if the insured property is lost or damaged and is not directly related to an event affecting the consumer's ability to pay the debt. The primary distribution channel for credit related property insurance is general agents who market to auto dealers, furniture stores and financial institutions.

Net premiums earned increased to $138.1 million in 2009 after falling slightly in 2008 to $135.1 million due to increasing furniture and appliance business, while automobile products sales continue to remain low due to lower auto sales, a trend which began at the end of 2007 when net premiums earned was $137.4 million. However, as credit standards remain tight, we expect to write higher quality business and to add new business partners as the economy shows signs of recovery. In the current economic environment, we expect our collateral protection product to continue to grow until the economy begins to recover, at which time we expect the sales of our Guaranteed Auto Protection ("GAP") products to increase as credit begins to normalize and new vehicle sales rebound.

The increase in the loss ratio in 2009 is attributable to an increase in frequency and severity of GAP claims during 2009 as compared to the same period in 2008 from 39.3% to 41.1%, due to policy benefits in this line increasing 61.7% to $14.0 million. Slowing auto sales have driven down the replacement values of most vehicles, thus creating a larger difference between a vehicle's value and its indebtedness.

The decrease in the loss ratio from 47.9% in 2007 to 2008 was the result of a large amount of claims in a discontinued product during 2007, resulting in a 63.4% decrease in premiums during the same year driving up the loss ratio.

The decrease in the combined ratio of 102.7% in 2009 mainly reflects a legal accrual in 2008 when the combined ratio was 104.2% and a decrease in commission expense relative to earned premium. This is attributable to a shift in product mix during 2009 out of the higher commission structured products. The increase in the combined ratio in 2008 from 102.2% during 2007 was primarily the result of the aforementioned legal accrual.

Property and Casualty Reinsurance

We reinsure a portion of the risks that we underwrite to manage our loss exposure and protect capital resources. In return for a premium, reinsurers assume a portion of the losses and loss adjustment expense incurred. Amounts not reinsured are known as retention. We primarily use three types of reinsurance to manage our loss exposures:

- Treaty reinsurance, in which certain types of policies are automatically reinsured without the need for approval by the reinsurer of the individual risks;
- Facultative reinsurance, in which individual insurance policy or a specific risk is reinsured with the prior approval of the reinsurer. Facultative reinsurance is purchased for risks which fall outside the treaty reinsurance; and
- Excess of loss treaty reinsurance, where the reinsurer indemnifies us against all, or a specified portion, of losses and loss adjustment expense incurred in excess of a specified retention or attachment point, and up to the contract limit.

In addition to treaty and facultative reinsurance, we are partially protected by the Terrorism Risk Insurance Act of 2002, which was modified and extended through December 31, 2014 via the Terrorism Risk Insurance Program Reauthorization Act of 2007.

Our surplus has allowed us to increase retentions in recent years. Our retention for each loss increased to $1.0 million in 2006 where it remained to 2009. Our catastrophe reinsurance retention has also increased, from $25.0 million in 2006 and 2007 to $40.0 million in 2008 and 2009. However, in order to manage our risk exposure, we purchased additional catastrophe reinsurance coverage for Louisiana, Texas, and the Northeast, effectively lowering our retention in these states.

The property catastrophe reinsurance limit has increased substantially, to $500.0 million in 2008 where it remained for 2009. The most significant increases in catastrophe reinsurance limit occurred after Hurricane Katrina.

A “top and drop” cover was purchased in 2008 and 2009 to provide an additional $20.0 million of coverage above the corporate catastrophe program for a total of $520.0 million per event, or it can be used to address frequency of events by providing protection for $20.0 million of losses above a $20.0 million retention after a $20.0 million annual aggregate deductible has been met. The top and drop cover in combination with the corporate catastrophe reinsurance program results in a $40.0 million retention for the first event and a $20.0 million retention for the second event in 2008 and 2009.

The Company also purchased an additional $125.0 million of protection for earthquake losses in the territorial limits of the United States, excluding California, thereby increasing our earthquake coverage to $645.0 million in 2008 and 2009.

Our reinsurance programs use multiple reinsurers in a pool arrangement with each reinsurer absorbing part of the overall risk ceded. The primary reinsurers in the pools and the amount of coverage each provides is shown in the following table:

		Percent of Risk Covered	
Reinsurer	**AM Best Rating**	**Non-catastrophe**	**Catastrophe Coverage**
Lloyd's Syndicates	A	20.6%	50.1%
Hannover Re	A	38.5%	1.6%
Munich Re America	A+	17.7%	2.2%
Platinum Re	A	12.1%	0.2%
Catlin Insurance Co	A	4.5%	4.7%
Transatlantic QBE Reinsurance	A	2.4%	0.4%
Swiss Re America	A	2.2%	0.0%
Amlin Bermuda Ltd	A	2.0%	3.7%
Tokio Millenium Re Ltd	A+	0.0%	6.2%
Sompco Japan Insurance, Inc	A+	0.0%	3.7%
Scor Re	A-	0.0%	3.4%
Flagstone Reassurance Suisse SA	A-	0.0%	2.6%
Munchener Ruckversicherungs-Gesellschaft	A+	0.0%	2.9%
Partner Re, Bermuda	A+	0.0%	2.0%
Other reinsurers with no single company greater than 2% of the total		0.0%	16.3%
Total reinsurance coverage		**100.0%**	**100.0%**

Our credit related property insurance products do not employ reinsurance to manage catastrophe loss exposure, and we do not consider their reinsurers for risks other than catastrophes significant to our business.

Prior Period Reserve Development

The table below shows the development of our loss and loss adjustment expense reserves. The table does not present individual accident or policy year development data.

The top line shows our original reserves, net of reinsurance recoverable, for each of the indicated years. The table then shows the cumulative net paid loss and loss adjustment expense as of successive years. The table also shows the re-estimated amount of previously recorded reserves based on experience as of the end of each succeeding year. The cumulative deficiency or redundancy represents the aggregate change in the estimates over all prior years. Conditions and trends that affected development of liabilities in the past may not necessarily occur in the future. Accordingly, it may be inappropriate to anticipate future redundancies or deficiencies based on historical experience.

While we believe that our loss reserves at December 31, 2009 are adequate, new information, events or circumstances, unknown at the original valuation date, may lead to future developments in our ultimate losses significantly greater or less than the reserves currently provided. The actual final cost of settling both claims outstanding at December 31, 2009 and claims expected to arise from unexpired period of risk is uncertain. There are many other factors that would cause our reserves to increase or decrease, which include but are not limited to: changes in claim severity; changes in the expected level of reported claims; judicial action changing the scope and/or liability of coverage; changes in the regulatory, social and economic environment; and unexpected changes in loss inflation. The deficiency/(redundancy) for different balance sheet dates is cumulative and should not be added together.

Loss Development Table
Property and Casualty Loss and Loss Adjustment Expense Liability Development-Net of Reinsurance
For the Years Ended December 31,

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Liability for unpaid losses and loss adjustment expenses, net of reinsurance (includes loss reserves, IBNR, allocated and unalloc expense)	331,431	384,191	425,129	490,215	590,365	678,379	796,267	801,953	809,500	847,860	856,658
Cumulative paid losses and loss expenses											
One year later	161,942	192,167	228,699	233,074	256,386	274,810	366,007	296,620	318,944	345,346	
Two years later	236,136	280,667	322,112	338,459	377,139	405,748	506,463	453,042	477,958		
Three years later	280,004	323,685	370,179	399,651	445,702	479,410	590,643	544,100			
Four years later	297,942	345,507	396,758	429,408	479,524	518,972	640,003				
Five years later	306,853	356,119	407,212	443,161	498,349	541,627					
Six years later	311,746	362,307	412,004	452,256	509,521						
Seven years later	314,097	365,331	416,207	457,972							
Eight years later	315,750	367,326	420,045								
Nine years later	317,270	369,963									
Ten years later	318,474										
Liabilites re-estimated											
One year later	330,858	368,951	432,028	488,595	564,287	638,910	770,238	711,880	766,882	798,583	
Two years later	323,422	372,991	435,574	488,455	564,485	617,374	737,341	713,339	733,361		
Three years later	324,838	376,776	441,564	490,717	553,163	596,242	739,825	680,900			
Four years later	323,853	379,498	441,309	482,799	538,459	596,754	714,995				
Five years later	324,878	379,318	435,796	476,615	542,429	585,370					
Six years later	326,786	380,050	432,953	478,201	534,287						
Seven years later	326,798	379,270	433,990	472,502							
Eight years later	326,345	380,082	430,722								
Nine years later	327,685	378,611									
Ten years later	326,128										
Deficiency(redundancy), net of reinsurance	(5,303)	(5,580)	5,593	(17,713)	(56,078)	(93,009)	(81,272)	(121,053)	(76,139)	(49,277)	

Property and Casualty Loss and Loss Adjustment Expense Liability Development-Gross
For the Years Ended December 31,

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net reserve, as initially estimated	331,431	384,191	425,129	490,215	590,365	678,379	796,267	801,953	809,500	847,860	856,658
Reinsurance and other recoverables as initially estimated	35,677	47,162	65,327	61,077	61,600	80,526	86,186	86,898	79,071	109,518	70,837
Gross reserve as initially estimated	**366,943**	**431,075**	**490,103**	**550,022**	**646,397**	**750,454**	**869,781**	**875,436**	**875,963**	**945,810**	**916,990**
Net re-estimated reserve	**326,128**	**378,611**	**430,722**	**472,502**	**534,287**	**585,370**	**714,995**	**680,900**	**733,361**	**798,583**	
Re-estimated and other reinsurance recoverables	67,765	82,797	80,232	83,520	86,245	84,763	494,020	93,619	71,972	102,963	
Gross re-estimated reserve	**393,893**	**461,408**	**510,954**	**556,022**	**620,532**	**670,133**	**1,209,015**	**774,519**	**805,333**	**901,546**	
Deficiency(redundancy), gross of reinsurance	**26,950**	**30,333**	**20,851**	**6,000**	**(25,865)**	**(80,321)**	**339,234**	**(100,917)**	**(70,630)**	**(44,264)**	

For 2009, the net favorable prior year loss and loss adjustment expense development was $49.2 million, compared to approximately $42.6 million of net favorable prior year loss and loss adjustment expense development for 2008, as a result of better than expected paid and incurred loss emergence across several lines of business.

The current year loss ratio is a blend of the current accident year loss ratio and the impact of favorable or adverse development on prior accident years during the current calendar year. Excluding the 4.2% impact of favorable prior year loss development for accident years 2008 and prior, the 2009 loss ratio would have been 83.8%. Excluding the 3.6% impact of favorable prior year loss development for accident years 2007 and prior, the 2008 loss ratio would have been 83.1%.

Net favorable reserve development in each of the last two years was primarily generated from the personal auto, commercial auto and commercial multi-peril lines. The favorable development reflects the recognition of better than expected loss emergence rather than explicit changes to our actuarial assumptions. The homeowners' line experienced moderate reserve deterioration related to the continuing settlement of Hurricane Katrina claims.

For additional information regarding losses and loss expenses, refer to Item 8, Note 8 to the Annual Consolidated Financial Statements and Financial Condition and Results of Operations section.

For year-end 2005, the $339.2 million deficiency gross of reinsurance was primarily the result of our participation in the National Flood Insurance Program as administered by the Federal Emergency Management Agency. As these losses are 100% reimbursed by the federal government, they do not impact our net reserve calculations or our net loss development patterns. The National Flood Insurance Program had paid losses of $390.0 million for the year ended December 31, 2005 because of the 2005 hurricanes, specifically Hurricane Katrina. Since reserves are not set up for the National Flood Insurance Program, any payments made subsequent to year-end will appear as adverse development on a gross basis. If the flood losses were removed from the gross data, the $339.2 million deficiency would have been a $50.8 million redundancy, gross of reinsurance.

Corporate and Other

Comparison of Years Ended December 31, 2009, 2008 and 2007

Corporate and Other primarily includes the capital not allocated to support our insurance business segments. Our excess capital and surplus is invested and managed by internal investment staff. Investments include publicly traded equities, real estate, mortgage loans, high-yield bonds, venture capital partnerships, mineral interests and tax-advantaged instruments. See the *Investment*s section of the MD&A for a more detailed discussion of our investments.

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

	Years Ended December 31,			Change Over Prior Years			
	2009	2008	2007	2009		2008	
				amount	percentage	amount	percentage
Revenues:							
Net investment income	$ 86,292	$ 109,597	$ 127,519	$ (23,305)	(21.3)	$ (17,922)	(14.1)
Gain/(loss) from investments, net	(75,697)	(379,709)	41,027	304,012	(80.1)	(420,736)	(1,025.5)
Other Income	15,547	18,505	21,241	(2,958)	(16.0)	(2,736)	(12.9)
Total revenues	**26,142**	**(251,607)**	**189,787**	**277,749**	**(110.4)**	**(441,394)**	**(232.6)**
Benefits and expenses:							
Other operating costs and expenses	54,709	37,839	61,069	16,870	44.6	(23,230)	(38.0)
Total benefits and expenses	**54,709**	**37,839**	**61,069**	**16,870**	**44.6**	**(23,230)**	**(38.0)**
Income (loss) before other items and federal income taxes	**$ (28,567)**	**$ (289,446)**	**$ 128,718**	**$ 260,879**	**(90.1)**	**$ (418,164)**	**(324.9)**

Income (loss) before other items and federal income taxes increased $260.9 million, from a loss of $289.4 million for 2008 to a loss of $28.6 million for 2009. We recorded $98.9 million of other-than-temporary impairments in 2009, $367.0 million and $7.2 million in 2008 and 2007, respectively. The other-than-temporary impairments are recorded in the "Gain (Loss) from investments, net" line.

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

Discontinued Operations

On December 4, 2008, we sold our life insurance business in Mexico, American National de Mexico, Compania de Seguros de Vida, S.A. de C.V., along with non-insurance affiliates Servicios de Administracion American National S.A. de C.V. and American National Promotora de Ventas S.A. de C.V. to a third party for approximately $2.4 million. These operations were established in 1999 and reported losses in all years since inception. Management chose to sell these operations to prevent a continued negative impact on consolidated results of operations. See further detail regarding the discontinued operations disclosed in Note 17 to the Consolidated Financial Statements.

Liquidity

Liquidity is a measure of our ability to generate sufficient cash flows to meet the short-term and long-term cash requirements of our business operations. We meet our liquidity requirements primarily through positive cash flows from our insurance operations and investments. Premium deposits and annuity considerations, other policy revenue, investment income and investment maturities and prepayments are the primary sources of funds. Primary uses of funds are investment purchases, dividends, claims and payments to policyholders and contract holders in connection with surrenders, withdrawals and loans, as well as operating expenses (in thousands).

	Years Ended December 31,		
	2009	2008	2007
Net cash provided by (used in):			
Operating activities	$ 491,390	$ 171,681	$ 462,913
Investing activities	(1,352,613)	(690,441)	(436,670)
Financing activities	956,610	450,787	(107,051)
Net increase (decrease) in cash	$ 95,387	$ (67,973)	$ (80,808)

Comparison of Years Ended December 31, 2009, 2008 and 2007

Our cash and short-term investment position at December 31, 2009 was $798.3 million, an increase from $361.3 million for 2008. The $437.0 million increase in cash and short-term investments relates primarily to increases in commercial paper and other short-term investments in the current interest rate environment to ensure liquidity. This was partially offset by the increase in claim payments in 2009 compared to 2008.

Cash flows from operating activities increased $319.7 million from 2008 to 2009. This was primarily due to the increase in net income from the net loss we recorded in 2008, in addition to the decrease in receivables during the year. This increase was partially offset by the related change in our tax position. The increased deposits from annuity sales are recorded as part of the cash flows from financing activities in accordance with U.S. GAAP rules. As such, they are not reflected in the cash flows from operating activities. Cash flows from operating activities decreased $291.2 million from 2007 to 2008 due to lower cash flows from premiums, coupled with increased claim experience due to catastrophe activity.

Cash flows used in investing activities increased $662.2 million from 2008 to 2009 and increased $253.8 million from 2007 to 2008. The change in net cash used in 2009 and 2008 was primarily due to increased investments in fixed income securities, real estate, and mortgage loans than each previous year. Total sales of all asset classes rebounded in 2009 from their significantly lower levels in 2008 due to markets improving from the depressed market prices from 2008. In 2007, more available-for-sale bond maturities occurred than in 2008, resulting in decreased cash received from maturities year over year.

Cash flows from financing activities increased $505.8 million from 2008 to 2009, and $557.8 million from 2007 to 2008 resulting from net increases in annuity sales and a decrease in policyholders' withdrawals during both years compared to the previous one. Refer to the *Results of Operations – Annuity* for further discussion.

We were committed at December 31, 2009 to purchase, expand or improve real estate, to fund mortgage loans and to purchase other invested assets in the amount of $240.4 million, compared to $203.7 million for 2008. The expansion of real estate investments and mortgage loans in 2009 has been robust compared to 2008 due to improvement in available yields and growing opportunities.

In the normal course of business, we guarantee bank loans for customers of a third-party marketing operation. The customers, through the use of a trust, use the bank loans to fund premium payments of life insurance policies. These bank loans enable individuals with substantial illiquid wealth to finance their life insurance premiums using the cash value of the policies as security for the loans. In the case of a default on the bank loan, we would be obligated to pay off the loan. The total amounts of guarantees outstanding for 2009 and 2008 was approximately $206.5 million, while the total cash values of the related life insurance policies were $211.8 million for 2009 and $212.0 million for 2008.

We expect that our future liquidity needs will be adequately met from all of the above sources. Given our historical cash flows and current financial results, we believe that the cash flow from our operating activities over the next year will provide sufficient liquidity for our operations and will provide sufficient funds to enable us to make dividend and other payments as needed to support our operations.

Capital Resources

Our capital resources at December 31, 2009, 2008 and 2007 consisted of American National stockholders' equity summarized as follows (in thousands):

	Years Ended December 31,		
	2009	2008	2007
American National stockholders' equity, excluding accumulated other comprehensive income (loss), net of tax ("AOCI")	$ 3,342,805	$ 3,355,004	$ 3,590,812
AOCI	117,649	(221,148)	145,972
Total American National stockholders' equity	**$ 3,460,454**	**$ 3,133,856**	**$ 3,736,784**

Comparison of Years Ended December 31, 2009, 2008 and 2007

We have notes payable on our consolidated statements of financial position that are not part of our capital resources. These notes payable represent amounts borrowed by real estate joint ventures that we are required to consolidate into our results in accordance with accounting rules. The lenders for the notes payable have no recourse to us in the event of default by the joint ventures. Therefore, the only amount of liability we have for these notes payable is limited to our investment in the respective affiliate, which totaled $33.3 million at December 31, 2009.

Total stockholders' equity in 2009 increased $326.6 million primarily due to the $383.1 million change in net unrealized gains on marketable securities as a result of improving financial markets, combined with $15.6 million in net income, offset by $82.5 million in dividends paid to stockholders. The decrease in stockholders' equity from 2007 to 2008 is comprised of the total net loss of $154.0 million, $331.8 million in net unrealized losses related to marketable securities and $82.7 million in dividends paid to stockholders.

Statutory Surplus and Risk-based Capital

Statutory surplus represents the capital of our insurance companies reported in accordance with accounting practices prescribed or permitted by the applicable state insurance departments. State laws specify regulatory actions if an insurer's risk-based capital ("RBC"), a measure of an insurer's solvency, falls below certain levels. The NAIC has a standard formula for annually assessing RBC. The formulas identify companies that are undercapitalized.

The RBC formula for life companies establishes capital requirements relating to insurance, business, asset and interest rate risks, and effective for 2005 it addresses the equity, interest rate and expense recovery risks associated with variable annuities and group annuities that contain death benefits or certain living benefits.

RBC is calculated for property and casualty companies after adjusting capital for certain underwriting, asset, credit and off-balance sheet risks. The achievement of long-term growth will require growth in the statutory capital of our insurance subsidiaries to roll up into the consolidated entity. Our subsidiaries may secure additional statutory capital through various sources, such as retained statutory earnings or equity contributions from us. As of December 31, 2009, the levels of our and our insurance subsidiaries' surplus and risk-based capital exceeded the NAIC's minimum RBC requirements.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2009 (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Life insurance obligations[1]	$ 5,527,844	$ 45,495	$ 139,286	$ 298,513	$ 5,044,550
Annuity obligations[1]	10,969,319	1,341,183	3,945,324	2,528,519	3,154,293
Property and casualty insurance obligations[2]	1,003,143	454,763	379,362	111,537	57,481
Accident and health insurance obligations[3]	159,789	92,449	25,360	10,274	31,706
Purchase obligations:					
Commitments to purchase and fund investments[4]	50,520	28,281	16,491	2,767	2,981
Mortgage loan commitments[5]	192,294	192,294	-	-	-
Operating leases[6]	4,124	562	1,824	1,360	378
Defined benefit pension plans[7]	147,050	10,183	17,965	18,482	100,420
Total	$ 18,054,083	$ 2,165,210	$ 4,525,612	$ 2,971,452	$ 8,391,809

(1) Life and annuity obligations include estimated claim, benefit, surrender and commission obligations offset by expected future premiums and deposits on in-force insurance policies and contracts. All amounts are gross of reinsurance. Estimated claim, benefit and surrender obligations are based on mortality and lapse assumptions that are comparable with historical experience. Estimated payments on interest-sensitive life and annuity obligations include interest credited to those products. The interest crediting rates are derived by deducting current product spreads from a constant investment yield. The obligations shown in the table have not been discounted at present value. As a result, the estimated obligations for insurance liabilities included in the table exceed the liabilities recorded in reserves for future policy benefits and the liability for policy and contract claims. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. Separate account obligations have not been included since those obligations are not part of the general account obligations and will be funded by cash flows from separate account assets. The general account obligations for insurance liabilities will be funded by cash flows from general account assets and future premiums and deposits. Participating policyholder dividends payable consists of liabilities related to dividends payable in the following calendar year on participating policies. As such, the contractual obligation related to participating policyholder dividends payable is presented in the table above in the less than one-year category at the amount of the liability presented in the consolidated balance sheet. All estimated cash payments represented in the table above are undiscounted as to interest, net of estimated future premiums on policies currently in-force and gross of any reinsurance recoverable. Estimated future premiums on participating policies currently in-force are net of future policyholder dividends payable. Future policyholder dividends, the participating policyholder share obligation on the consolidated balance sheet, represents the accumulated net income from participating policies and a pro-rata portion of unrealized investment gains (losses), net of tax, reserved for payment to such policyholders as policyholder dividends. Because of the nature of the participating policyholder obligation, the exact timing and amount of the ultimate participating policyholder obligation is subject to significant uncertainty and the amount of the participating policyholder obligation is based upon a long-term projection of the performance of the participating policy block.

(2) Expected future gross loss and loss adjustment expense payments from property and casualty policies. This includes case reserves for reported claims and reserves for claims IBNR. Timing of future payments is estimated based on the Company's historical payment patterns. The timing of these payments may vary significantly from the amounts shown above. The ultimate losses may vary materially from the recorded amounts, which are our best estimates.

(3) Accident and health insurance obligations reflect estimated future claim payment amounts net of reinsurance for claims incurred prior to January 1, 2009. The estimate does not include claim payments for claims incurred after December 31, 2008. Estimated claim payment amounts are based on mortality and morbidity assumptions that are consistent with historical experience and are not discounted with interest so will exceed the liabilities recorded in reserves for future claim payments. Due to the significance of the assumptions used, actual results could vary greatly from the estimates shown here.

(4) Expected payments to fund investments based on capital commitments and other related contractual obligations.

(5) Expected future payments to fund investments based on mortgage loan commitments and other related contractual obligations.

(6) Represents estimated obligations due to contracts and agreements entered into within the ordinary course of business for items classified by ASC 840-20 (formerly "FAS 13"), *Accounting for Operating Leases*. The Company rents office space, which qualifies as operating leases under ASC 840-20 (formerly "FAS 13").

(7) Represents estimated payments for pension benefit obligations for the non-qualified defined benefit pension plan. As such, these payments are funded through continuing operations. A liability has been established for the full amount of benefits accrued as per ASC 715-40 (formerly "FAS 158"), *Compensation-Retirement Benefits*, including a provision for the effects of future salary inflation on the accrued benefits.

Off-Balance Sheet Arrangements

Our only off-balance sheet transactions relate to third-party marketing operation bank loans, which were discussed previously under the Liquidity section of the MD&A. In 2010, the third-party marketing operation plans to renegotiate the bank loans. If these renegotiations are unsuccessful, we would have to pay the bank loans using the cash value of the underlying insurance contracts. As of December 31, 2009, the cash value of the policies totaled $211.8 million. With regard to the impact on our results of operations, the payment of the cash value of the policies would require a write-off of deferred acquisition costs through the income statement, which totaled $9.4 million at December 31, 2009.

Related Party Transactions

We have various agency, consulting and investment arrangements with individuals and corporations that are considered to be related parties. Each of these arrangements has been reviewed and approved by our Audit Committee. The total amount involved in these arrangements, both individually and in the aggregate, is not considered to be material to any segment or to our overall operations.

Investments

General

We manage our investment portfolio to optimize the rate of return that is commensurate with sound and prudent underwriting practices and maintain a well-diversified portfolio. Our investment operations are governed by various regulatory authorities, including but not limited to, the Texas Department of Insurance. Investment activity, including the setting of investment policies and defining acceptable risk levels, is subject to review and approval of our Finance Committee, a committee made up of two members of the Board of Directors and senior investment professionals.

Pursuant to our Corporate Bylaws, the Finance Committee is also charged with the duty of supervising all of the Company's investments and loans. The Finance Committee meets weekly to review and approve investment activity. The committee operates pursuant to an established, formal Investment Plan and Guidelines adopted by our Board of Directors. Collectively, these documents provide issuer and geographic concentration limits, investment size limits and other applicable parameters such as loan to value guidelines. No material changes were made to these documents during 2009.

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

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

Our historically strong capitalization has enabled us to invest in equity securities and investment real estate where there are opportunities for enhanced returns. We invest in real estate and equity securities based on a risk/reward analysis.

Composition of Invested Assets

The following summarizes the carrying values of our invested assets by asset class as of December 31, 2009 and December 31, 2008 (other than investments in unconsolidated affiliates), (in thousands, except percentages):

	As of:			
	December 31, 2009		December 31, 2008	
	amount	percent	amount	percent
Bonds held-to-maturity, at amortized cost	$ 7,461,711	44.9%	$ 6,681,837	45.9%
Bonds available-for-sale, at fair value	4,213,550	25.4%	3,820,837	26.3%
Preferred stock, at fair value	35,717	0.2%	48,822	0.3%
Common stock, at fair value	934,754	5.6%	853,530	5.9%
Mortgage loans at amortized cost	2,229,659	13.4%	1,877,053	13.0%
Policy loans, at outstanding balance	364,354	2.2%	354,398	2.4%
Investment real estate, net of depreciation	635,110	3.8%	528,905	3.6%
Short-term investments	636,823	3.9%	295,170	2.0%
Other invested assets	94,442	0.6%	85,151	0.6%
Total Invested Assets	**$ 16,606,120**	**100%**	**$ 14,545,703**	**100%**

The increase in our total invested assets was a combined result of net sales and value recovery attributable to stock market gains and spread narrowing in fixed income securities.

The increase in our short-term investments was the result of an increase in fixed deferred annuity account values and mortgage loan commitments pending at year-end. We also held in cash the proceeds of sales of common stock during the fourth quarter.

Fair Value Disclosures

The fair value of individual invested assets is determined by the use of third party pricing services, independent broker quotes and internal valuation methodologies. See Note 5 to the Consolidated Financial Statements for further discussion of the calculation of fair value for our investments. Below is a summary of the valuation techniques we utilize to measure fair value of the major investment types. There have been no material changes to our fair value methodologies during the year ending December 31, 2009.

As of December 31, 2009, 100% of our common stock investments are considered Level 1 securities with fair values determinable from observable market prices.

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

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

The discount rate for the fair value of mortgage loans is determined by the weighted average adjustment of the "spread factor" against U.S. treasury rates. The spread factor includes an adjustment for quality rating, property type, geographic distribution and payment status (current, delinquent, in process of foreclosure) of each loan. Management performs periodic reviews and weighs each adjustment to calculate the spread factor based on the current economic environment and lending practices.

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

Other-Than-Temporary Impairments

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

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

In the first quarter of 2009, we recorded $68.1 million in other-than-temporary impairments. With the change in the rules from new accounting guidance, we recorded $6.0 million in the second quarter, $4.2 million in the third quarter and $20.6 million for the three months ended December 31, 2009, making a total of $98.9 million for year ended December 31, 2009. No other-than-temporary impairment was recorded in 2009 as a result of the change in our intent and ability to hold to recovery. The following summarizes our other-than-temporary impairments by investment type (in thousands):

	Years Ended December 31,		
	2009	2008	2007
Corporate bonds	$ (10,046)	$ (165,802)	$ (1,089)
Equities:			
Financial services	(22,295)	(125,518)	-
Other	(46,762)	(74,231)	(6,077)
Mortgage loans	(1,647)	(740)	-
Real estate	(10,550)	(745)	-
Other invested assets	(7,643)	-	-
Total other-than-temporary impairment charges	**$ (98,943)**	**$ (367,036)**	**$ (7,166)**

Of the bond and equity impairments, a total of $30.0 million relates to the financial services industry. For the year ended December 31, 2009, we have received the principal and interest in accordance with the contractual terms with the exception of one bond, which represents 6.5% of our total bond impairments and less than 0.77% of our total other-than-temporary impairments.

The real estate impairment for 2009 was primarily taken against five foreclosed properties. The impairments recognized both changes in the real estate market in general and issues specific to those properties impaired.

New accounting regulations should result in significantly fewer bond impairments, however, stock impairments will continue to be impacted by the volatility in the stock markets. We will continue to analyze our investments and record any necessary impairment. A material (±10%) change in the fair value of securities might require additional impairments. These further impairments would have little or no effect on our liquidity. We do not rely on the sale of securities to meet our cash flow needs.

Bonds

During the second quarter of 2009, we adopted new accounting guidance, which significantly modified the rules regarding other-than-temporary impairments on bonds (see Note 2 to the Consolidated Financial Statements for further information on our adoption of new accounting guidance).

All bonds below cost were subjected to impairment review, additionally bonds were subjected to further review if any of the following situations were observed: a) fair value was more than 50% below our cost, b) fair value was 35% or more below our cost at the reporting date and had been below cost by some amount continuously for nine months, c) the issue had been downgraded by a national rating agency, or d) the issuer had widely publicized financial problems. Once a bond was determined as needing further review, it was subjected to a three-part test:

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

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

Equity

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

Real Estate, Mortgage Loans, and other Long-Lived Investment Assets

Mortgage Loans

We provide valuation allowances for mortgage loans on real estate based on a review by portfolio managers. Mortgage loans on real estate are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We closely monitor our 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 at least 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 balance sheet 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.

Real Estate

We periodically review our properties held-for-investment for impairment and test properties for recoverability whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable and the carrying value of the property exceeds its estimated fair value. Properties whose carrying values are greater than their discounted cash flows are written down to their estimated fair value, with the impairment loss included in net realized investment gains (losses). Impairment losses are based upon the estimated fair value of real estate, which is generally computed using the present value of expected future cash flows from the real estate discounted at a rate commensurate with the underlying risks. Real estate acquired upon foreclosure of commercial mortgage loans is recorded at the lower of estimated fair value or the carrying value of the mortgage loan at the date of foreclosure.

Investments to Support Our Insurance Business

Bonds

The following table identifies the bonds by type as of December 31, 2009 and December 31, 2008 (in thousands, except percentages):

	As of December 31, 2009				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Fair Value
Corporate bonds	$ 8,613,275	$ 403,487	$ (139,823)	$ 8,876,939	74.5%
Mortgage-backed securities	1,094,943	32,991	(54,491)	1,073,443	9.0%
States and political subdivisions	779,425	27,472	(2,188)	804,709	6.8%
Public utilities	978,337	56,393	(3,945)	1,030,785	8.6%
U.S. Treasury and government agencies	98,326	2,591	(593)	100,324	0.8%
Foreign governments	5,498	559	-	6,057	0.1%
Other	27,951	156	(338)	27,769	0.2%
Total Bonds	**$ 11,597,755**	**$ 523,649**	**$ (201,378)**	**$ 11,920,026**	**100.0%**

	As of December 31, 2008				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Fair Value
Corporate bonds	$ 8,197,057	$ 71,968	$ (943,424)	$ 7,325,601	73.5%
Mortgage-backed securities	1,205,379	17,974	(82,118)	1,141,235	11.5%
States and political subdivisions	742,175	10,940	(19,922)	733,193	7.4%
Public utilities	587,265	8,440	(35,668)	560,037	5.5%
U.S. Treasury and government agencies	174,037	3,355	(3)	177,389	1.8%
Foreign governments	5,254	1,618	(87)	6,785	0.1%
Other	30,230	2	(4,932)	25,300	0.2%
Total Bonds	**$ 10,941,397**	**$ 114,297**	**$ (1,086,154)**	**$ 9,969,540**	**100.0%**

The increase in bonds for the year ended December 31, 2009, was the result of purchases, net of maturities, made to support net annuity sales plus the increase in fair value of available-for-sale bonds.

The following tables summarize the portfolio's contractual maturities, for the periods indicated (in thousands, except percentages):

	As of December 31, 2009			
	Amortized Cost	Percentage	Estimated Fair Value	Percentage
Bonds held-to-maturity				
Due in one year or less	$ 147,317	1.9%	$ 147,303	1.9%
Due after one year through five years	3,445,659	46.2%	3,609,070	46.8%
Due after five years through ten years	3,130,532	42.0%	3,208,615	41.6%
Due after ten years	732,353	9.8%	736,915	9.6%
Without single maturity date	5,850	0.1%	4,573	0.1%
Total bonds held-to-maturity	**$ 7,461,711**	**100.0%**	**$ 7,706,476**	**100.0%**
Bonds available-for-sale				
Due in one year or less	$ 207,074	5.0%	$ 211,138	5.0%
Due after one year through five years	1,948,476	47.1%	1,990,220	47.2%
Due after five years through ten years	1,426,738	34.5%	1,453,903	34.5%
Due after ten years	543,479	13.2%	549,006	13.1%
Without single maturity date	10,277	0.2%	9,283	0.2%
Total bonds available-for-sale	**$ 4,136,044**	**100.0%**	**$ 4,213,550**	**100.0%**
Total bonds	**$ 11,597,755**		**$ 11,920,026**	

	As of December 31, 2008			
	Amortized Cost	Percentage	Estimated Fair Value	Percentage
Bonds held-to-maturity				
Due in one year or less	$ 335,885	5.0%	$ 334,044	5.4%
Due after one year through five years	2,880,344	43.1%	2,674,238	43.5%
Due after five years through ten years	2,722,138	40.8%	2,436,099	39.6%
Due after ten years	737,619	11.0%	700,052	11.4%
Without single maturity date	5,851	0.1%	4,270	0.1%
Total bonds held-to-maturity	**$ 6,681,837**	**100.0%**	**$ 6,148,703**	**100.0%**
Bonds available-for-sale				
Due in one year or less	$ 154,877	3.6%	$ 153,727	4.0%
Due after one year through five years	1,359,792	31.9%	1,237,037	32.4%
Due after five years through ten years	2,012,462	47.2%	1,733,270	45.3%
Due after ten years	722,153	17.0%	689,786	18.1%
Without single maturity date	10,276	0.3%	7,017	0.2%
Total bonds available-for-sale	**$ 4,259,560**	**100.0%**	**$ 3,820,837**	**100.0%**
Total bonds	**$ 10,941,397**		**$ 9,969,540**	

The following table identifies the total bonds by credit quality as of December 31, 2009 and 2008 (in thousands, except percentages):

	As of December 31, 2009			As of December 31, 2008		
	Amortized Cost	Estimated Fair Value	% of Fair Value	Amortized Cost	Estimated Fair Value	% of Fair Value
AAA	$ 1,357,021	$ 1,387,783	11.6%	$ 1,671,644	$ 1,644,482	16.5%
AA	927,081	967,274	8.1%	1,044,896	984,250	9.9%
A	4,080,455	4,251,937	35.7%	4,278,795	3,983,117	40.0%
BBB	4,287,623	4,428,359	37.2%	3,266,507	2,801,027	28.1%
BB	356,272	336,393	2.8%	282,298	222,591	2.2%
Below BB	589,303	548,280	4.6%	397,257	334,073	3.3%
Total	**$ 11,597,755**	**$ 11,920,026**	**100.0%**	**$ 10,941,397**	**$ 9,969,540**	**100.0%**

Our exposure to below investment grade securities increased during the year ended December 31, 2009 as a result of downgrades including some multiple step downgrades. At 7.4% of our portfolio, the exposure is acceptable to management, particularly since it contains securities purchased below investment grade as part of a high yield portfolio. We have reached our portfolio target allocation for securities rated BBB and plan on maintaining that target allocation. Corporate bonds represent $8.9 billion or 74.5 % of our total bonds at fair value, as of December 31, 2009.

Mortgage Loans

We invest primarily in commercial mortgage loans that are diversified by property type and geography. We do not make residential mortgage loans; therefore, we have no direct exposure to sub-prime or Alt A mortgage loans. Generally, mortgage loans are secured by first liens on income-producing real estate with a loan-to-value ratio of up to 75%. Mortgage loans are used as a component of fixed income investments that support our insurance liabilities. Mortgage loans held-for-investment are carried at outstanding principal balances, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances. Our mortgage loan portfolio was $2.2 billion and $1.9 billion at December 31, 2009 and 2008, respectively. Mortgage loans comprised 13.4% of total invested assets at December 31, 2009. At December 31, 2009, 19.8%, 8.9% and 6.0% of the value of our mortgage loans were located in Texas, California, and New York, respectively.

As shown in the table below, mortgage loans at December 31, 2009 and 2008 had diversity across geographic regions and property types:

	December 31,	
	2009	2008
West South Central	22%	22%
South Atlantic	20%	17%
East North Central	20%	22%
Pacific	10%	13%
Middle Atlantic	8%	10%
Mountain	6%	5%
East South Central	6%	4%
New England	4%	5%
West North Central	4%	2%
Total	100%	100%

	December 31,	
	2009	2008
Office buildings	31%	30%
Industrial	28%	25%
Shopping centers	19%	21%
Hotels and motels	15%	17%
Other	4%	4%
Commercial	3%	3%
Total	**100%**	**100%**

We increased our investment in mortgage loans on real estate by $352.6 million in 2009 as the combination of yield and collateral made them relatively attractive compared to other fixed income alternatives. The combination of new loans, normal amortization of existing loans, payoffs, and prepayments resulted in minor shifts in distribution of our portfolio by both geography and property type. There was no change in our investment guidelines.

As of December 31, 2009 and 2008, our valuation allowance for mortgage loan credit losses was $23.5 million and $19.4 million, respectively. The valuation allowance has two components. The first component, largely responsible for the year-over-year increase, is a portfolio default risk related to current loans. The second component of the allowance is calculated through analysis of specific loans that are believed to be at a higher risk of becoming impaired in the near future.

As of December 31, 2009 and 2008, our mortgage loans classified as delinquent, in foreclosure and restructured were immaterial as a percentage of the total mortgage loan portfolio. A total of $24.6 million and $2.8 million mortgage loans were foreclosed upon and transferred to real estate investments during 2009 and 2008, respectively. Also, there were two delinquent mortgage loans at December 31, 2009 and there were five delinquent mortgage loans at December 31, 2008.

The average coupon yield on the principal funded for mortgage loans was 7.5% in 2009 and 6.6% in 2008.

Investments Other Than Those Used to Support Our Insurance Business

Equity Securities

As of December 31, 2009, we invested $970.5 million, or 5.8% of our invested assets, in a well-diversified equity investment portfolio. Of these equity securities, 96.3% are invested in publicly traded (on a national U.S. stock exchange) common stock. The remaining 3.7% of the equity portfolio is invested in publicly traded preferred stock. As of December 31, 2008, we had $902.4 million, or 6.2% of our invested assets, in our equity investment portfolio. Of these equity securities, 94.6% were invested in publicly traded common stock, and the remaining 5.4% were invested in publicly traded preferred stock. The increase in the fair value of our equity securities during the year ended December 31, 2009 is primarily the result of improved market conditions.

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

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

	December 31, 2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common stock	$ 820,908	$ 115,692	$ (83,070)	$ 853,530
Preferred stock	60,718	3,609	(15,505)	48,822
Total	**$ 881,626**	**$ 119,301**	**$ (98,575)**	**$ 902,352**

We maintain a well-diversified equity portfolio. Our equity portfolio is summarized below by market sector distribution:

	December 31,	
	2009	2008
Consumer goods	19%	20%
Financials	17%	16%
Information technology	16%	13%
Energy and utilities	13%	13%
Health care	12%	13%
Industrials	9%	8%
Mutual funds	7%	10%
Communication	4%	5%
Materials	3%	2%
Total	100%	100%

The relative changes in sector weighting between the years ended December 31, 2009 and December 31. 2008 are the result of normal purchase and sale activity in concert with market movement. There has been no change in investment philosophy or diversification goals. Refer to the *Other-Than-Temporary Impairments* discussion above.

Investment in Real Estate

We invest in commercial real estate with positive cash flows or where appreciation in value is expected. Real estate is owned directly by our insurance companies, through non-insurance affiliates, or through joint ventures. The carrying value of real estate is stated at cost, less allowance for depreciation and valuation impairments. Depreciation is provided over the estimated useful lives of the properties. We have recorded valuation impairments on investments in real estate in the year ended December 31, 2009 (see the *Other-Than-Temporary Impairments* section above). Several real estate investment properties were completed and placed into service in 2009. The partial-year operations of those properties negatively affected the portfolio yield. We expect some of those properties to be affected by the national real estate market, primarily by the length of time necessary to achieve pro-forma objectives.

The following tables present the distribution across geographic regions and property types for real estate as of the periods indicated:

	December 31, 2009	December 31, 2008
West South Central	58%	64%
South Atlantic	13%	16%
Middle Atlantic	10%	0%
East North Central	8%	6%
East South Central	7%	10%
Pacific	2%	2%
West North Central	1%	1%
Mountain	1%	1%
Total	**100%**	**100%**

	December 31, 2009	December 31, 2008
Industrial	37%	45%
Shopping centers	19%	23%
Other	16%	11%
Office buildings	15%	18%
Commercial	11%	1%
Hotels and motels	2%	2%
Total	**100%**	**100%**

Policy Loans

Certain life insurance products we offer permit policyholders to borrow funds from us using their policy as collateral. The maximum amount of the policy loan depends upon the policy's surrender value and the number of years since policy origination. As of December 31, 2009, we had $364.4 million in policy loans with a loan to surrender value of 58.1%. Interest rates on policy loans primarily range from 4.5 % to 8.0% per annum. As of December 31, 2009 the average policy loan interest rate was 7.11%

Policy loans may be repaid at any time by the policyholder and have priority to any claims on the policy. If the policyholder fails to repay the policy loan, funds are withdrawn from the policy's death benefits.

Short-Term Investments

Short-term investments are composed primarily of Commercial Paper rated A2/P2 or better by Standard & Poor's and Moody's, respectively. The amount fluctuates depending on our liquidity needs, including investment-funding commitments.

In the ordinary course of operations, we had commitments outstanding at December 31, 2009, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating $240.4 million, of which $218.6 million is expected to be funded during 2010. The remaining balance of $21.8 million will be funded in 2011 and beyond. As of December 31, 2009, all of the mortgage loan commitments have interest rates that are fixed.

Net Investment Income and Realized Gains/(Losses):

Net investment income and realized investments gains/(losses), before federal income taxes, for the years ended December 31, 2009, 2008 and 2007 are summarized as follows (in thousands):

	Net Investment Income			Gains (Losses) on Investments		
	Years Ended December 31,			Years Ended December 31,		
	2009	2008	2007	2009	2008	2007
Bonds	$ 627,236	$ 623,356	$ 620,035	$ (20,000)	$ (157,272)	$ 366
Preferred stocks	3,419	5,687	4,561	(1,590)	(49,172)	-
Common stocks	23,324	28,977	27,002	(32,265)	(164,407)	23,913
Mortgage loans	141,124	118,067	103,627	(1,647)	-	-
Real estate	122,603	114,198	126,926	(9,027)	1,005	18,563
Other invested assets	46,545	12,123	40,994	(7,374)	(5,977)	(40)
	964,251	902,408	923,145	(71,903)	(375,823)	42,802
Investment expense	(124,146)	(106,231)	(110,176)	-	-	-
Increase in valuation allowances	-	-	-	(3,794)	(3,886)	(1,775)
Total	**$ 840,105**	**$ 796,177**	**$ 812,969**	**$ (75,697)**	**$ (379,709)**	**$ 41,027**

Net investment income from those assets used to support our insurance products (bonds and mortgage loans) increased consistently over the period as assets increased as a result of net annuity sales each year. Net investment income in other asset classes (equities and real estate) fluctuated in response to investment decisions based on market movement. Real estate property sales due to favorable market conditions in 2007 led to decreased real estate investment income in 2008. In 2008 and 2009, the proceeds of those sales were reinvested, coming into service during 2009.

The dramatic swing in income from other invested assets over the period is normal during times of high stock market volatility. The derivative contracts (indexed options) used to back our equity-linked products are carried in this category, representing the majority of the assets in the category. These options are designed to mirror corresponding changes in our liability to policyholders. Refer to the *Results of Operations – Annuity* section for further discussion.

Mortgage loan interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income. Interest income earned on impaired loans is accrued on the principal amount of the loan based on the loan's contractual interest rate. However, interest ceases to be accrued for loans on which interest is generally more than 90 days past due and/or when the collection of interest is not considered probable. Loans in foreclosure are placed on non-accrual status. Interest received on non-accrual status mortgage loans on real estate is included in net investment income in the period received. We had $1.4 million and had $740,000 of realized losses related to valuation allowances on mortgage loans for the year ended December 31, 2009 and 2008, respectively.

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

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

Unrealized Gains and Losses:

The net change in unrealized gains/(losses) on marketable securities, as presented in the stockholders' equity section of the consolidated statements of financial position, equaled a gain of $383.1 million in 2009, and a loss of $331.8 million and a gain of $0.3 million in 2008 and 2007, respectively.

See *Part II – Item 8- Financial Statements and Supplementary Data – Note 3 – Investments* of this report for further discussion of the changes in unrealized gains and losses.

ITEM 7A. QUANTIVATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We hold a diversified portfolio of investments that includes cash, bonds, preferred stocks, common stocks, mortgage loans, policy loans, and real estate. Our investments are subject to various market risks including interest rate risk, credit risk and risk of changes in equity prices. Adverse changes to these rates and prices may occur due to changes in the liquidity of a market or market segment, or to changes in market perceptions of credit worthiness and/or risk tolerance.

Our management and culture is generally risk averse and emphasizes risk management throughout all our operations. The active management of market risk is integral to our results of operations. A key component of our risk management program is our ALM (asset/liability management) Committee. The ALM committee, under the direction of the Chief Corporate Risk Management Officer, monitors the level of risk to which we are exposed in managing our assets and liabilities in order to attain the desired risk-return profile. A significant aspect of this risk management involves our managing the link between the characteristics of our investments and the anticipated policy obligations and liabilities; a process commonly referred to as asset/liability management. Among other things, this includes maintaining adequate reserves, monitoring claims experience, managing interest rate spreads and protecting against disintermediation risk for life insurance and annuity products. As part of our risk management procedures, we also manage exposure concentrations, deductibles and reinsurance for property and casualty products.

As a part of the ALM process, we establish target asset portfolios for each major insurance product, which represent the investment strategies used to profitably fund our liabilities within acceptable levels of risk. We monitor these strategies through regular review of portfolio metrics, such as effective duration, yield curve sensitivity, convexity, liquidity, asset sector concentration and credit quality. In executing these asset/liability management strategies, we regularly reevaluate the estimates used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities. Many of these estimates are inherently subjective and could impact our ability to achieve our asset/liability management goals and objectives.

In addition to our ALM Committee, in recent years, we have expanded enterprise risk management to help identify, prioritize and manage various risks including market risk. Under the leadership of our Chief Corporate Risk Management Officer and with the support of our Board of Directors, we have developed an approach and focused our efforts on the principles of enterprise risk management, including:

- Designing an approach to identify potential risks and events that may affect the entity;
- Managing risks within our risk profile; and
- Providing reasonable assurance regarding the achievement of our strategic objectives.

We expect these ongoing enterprise risk management efforts will expand the management tools used to ensure the efficient allocation of capital and will enhance the measurement of possible diversification benefits across business segments and risk classes.

Interest Rate Risk

The primary market risk to the investment portfolio is the interest rate risk associated with investments in fixed income securities. Interest rate risk is the risk that the value of our interest-sensitive assets or liabilities will change with changes in market interest rates. Fixed income securities represent a significant portion (70.1% as of December 31, 2009) of our investment portfolio. Our exposure to interest rate risk relates to the market price and/or cash flow variability associated with the changes in market interest rates. Our exposure to cash flow changes are discussed fully in the Liquidity and Capital Resources section of the MD&A. The fair market value of these fixed income securities are inversely related to changes in market interest rates. As interest rates, fall, the coupon and dividend streams of existing fixed rate investments become more valuable as market values rise and vice versa. We utilize our ALM Committee as the primary tool to monitor interest rate risk. The carrying value of our investment portfolio as of December 31, 2009 and 2008 was $16.6 billion and $14.5 billion, respectively; of which 44.9% at year-end 2009 was invested in held-to-maturity bonds, 25.4% was invested in available for-sale bonds, and the remaining amounts primarily were invested in equity securities, mortgage loans, policy loans, real estate and short term investments. Detailed information regarding the carrying values of our investment portfolio can be found in the *Investments* section of the MD&A.

The interest rate exposure for our investments in mortgage loans is relatively insignificant compared to other risk exposures. These loans are expected to be repaid from the cash flows or proceeds from the sale of real estate. As of December 31, 2009 these mortgage loans have fixed rates from 5.0% to 12.0%. Most of the mortgage loan contracts require periodic payments of both principal, interest, and have amortization periods of three years to thirty years.

Market interest rate fluctuation has a direct impact on the value of our fixed income securities. At December 31, 2009, we had a recorded net unrealized investment gain of $77.5 million on our available-for-sale bond portfolio, compared to a net unrealized loss of $438.8 million at December 31, 2008. These changes were primarily the result of significant improvement in the credit markets during 2009. Information regarding our unrealized gains or losses can be found in the *Part II – Item 8 – Financial Statements and Supplementary Data – Note 3 – Investments* of this report.

Interest Rate sensitivity analysis: The table below shows the sensitivity of our fixed maturity investments to increases and decreases in interest rates and the pre-tax change in market value resulting from such changes.

	Increase/(Decrease) in Market Value Given an Interest rate Increase/(Decrease) of X Basis Points			
	(100)	(50)	50	100
As of December 31, 2009				
Investment portfolio	$ 489,843	$ 245,091	$ (245,773)	$ (489,148)
As of December 31, 2008				
Investment portfolio	$ 391,701	$ 198,650	$ (203,759)	$ (406,628)

Actual results could differ materially from the amounts noted above due to the assumptions and estimates used in calculating the analysis above. Our interest rate sensitivity analysis was calculated assuming instantaneous, one time parallel shifts in the corresponding year-end Treasury yield curves of +/-100bps, and +/-50bps. All other variables were assumed to remain constant. Therefore, these calculations may not fully reflect any prepayment to the portfolio, changes in corporate spreads or non-parallel changes in interest rates.

In addition to our fixed income securities being subject to interest-rate risk, we also have liabilities that are sensitive to interest-rate risk. These liabilities include annuities and interest sensitive insurance contracts, which have the same type of interest rate exposure as our fixed income securities.

We employ a combination of product design, pricing and ALM strategies to reduce the adverse effects of interest rate movements on these liabilities. Product design and pricing strategies include the use of surrender charges or restrictions on withdrawals in some products. ALM strategies include the use of derivatives to hedge equity-indexed annuity values, the purchase of securities structured to protect against prepayments, prepayment restrictions related fees on mortgage loans, and consistent monitoring of the pricing of our products in order to better match the duration of the assets and liabilities they support.

In addition to interest rate fluctuations impacting our assets and liabilities, we are also exposed to disintermediation risk. Disintermediation risk refers to the risk that interest rates will rise and policy loans and surrenders will increase; or that maturing policies will not renew at anticipated rates of renewal. This risk manifests itself when due to rapid changes in interest rates; policyholders move their assets into new products offering higher rates. We then may have to sell assets earlier than anticipated to pay for these withdrawals. Our life insurance and annuity product designs, underwriting standards and risk management techniques are utilized to protect against disintermediation risk and greater than expected mortality and morbidity risks. We strive to mitigate disintermediation risk through the use of surrender charges, certain provisions prohibiting the surrender of a policy, and market value adjustment features. Investment guidelines, including duration targets, asset allocation tolerances and return objectives, help to ensure that disintermediation risk is managed within the constraints of profitability criteria. Prudent underwriting is applied to select and price insurance risks, and we regularly monitor claims experience relative to our product pricing assumptions. Implementation of disciplined claims management serves to further protect against fraudulent and unjustified claims activity.

Credit Risk

For the year ended December 31, 2009, we are exposed to credit risk. Credit risk is the level of certainty that an issuer will honor its obligation under the terms of a security. Our insurance and annuity products are primarily supported by investments in fixed income securities, which primarily include investment grade bonds and collateralized mortgage obligations. Information regarding the credit quality of our fixed income portfolio can be found in the Bonds discussion in the *Investments* section of the MD&A.

To manage credit risk, we have an established, formal Investment Plan and Guidelines approved by our Board of Directors. Collectively, these documents provide issuer and geographic concentration limits, investment size limits and other applicable parameters such as loan to value guidelines. Investment activity, including the setting of investment policies and defining acceptable risk levels, is subject to review and approval of our Finance Committee, a committee of two members of the Board of Directors and senior investment professionals.

We are also exposed to credit risk because of our reinsurance program. We manage our underwriting risk exposures by following the industry practice of reinsuring portions of our insurance risks. We purchase reinsurance from several providers and are not dependent on any single reinsurer. While we believe these reinsurance providers are reputable and financially secure carriers, our reinsurance program does result in us being subject to credit risk of default of the reinsurer. Reinsurance does not eliminate our liability to pay our policyholders, and we remain primarily liable to our policyholders for the risks we insure.

Equity Risk

Equity risk is the risk that we will incur losses due to adverse changes in the general levels of the equity markets or in the levels of specific investments within the investment portfolio. At December 31, 2009, we held approximately $970.5 million of common and preferred stock securities, which had equity risk. Our exposure to the equity markets is managed by sector and mimics the Standard & Poor's 500 Index ("S&P 500") with minor variations. We continue to mitigate our equity risk by diversification of the overall investment portfolio and through prudent investing activities in the equity markets.

Changes in Accounting Principles

Refer to Item 8, Note 2 to the Consolidated Financial Statements for a discussion on recently issued accounting pronouncements not yet adopted.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Annual Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
American National Insurance Company:

We have audited the accompanying consolidated statements of financial position of American National Insurance Company and subsidiaries ("the Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American National Insurance Company and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, the Company changed its method of accounting for other-than-temporary impairments of debt securities as of April 1, 2009 due to the adoption of new FASB guidance.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), American National Insurance Company's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2010, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Houston, Texas
March 11, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
American National Insurance Company:

We have audited American National Insurance Company's ("the Company") internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, American National Insurance Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of American National Insurance Company and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated March 11, 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Houston, Texas
March 11, 2010

AMERICAN NATIONAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for per share data)	Twelve Months Ended December 31, 2009	2008	2007
PREMIUMS AND OTHER REVENUE			
Premiums			
Life	$ 284,530	$ 299,338	$ 315,893
Annuity	220,284	116,248	222,748
Accident and health	309,701	290,883	283,765
Property and casualty	1,159,509	1,182,026	1,177,217
Other policy revenues	179,504	174,899	155,230
Net investment income	840,105	796,177	812,969
Realized investments gains (losses)	23,246	(12,673)	48,193
Other-than-temporary impairments	(98,943)	(367,036)	(7,166)
Other income	31,843	38,779	47,224
Total revenues	2,949,779	2,518,641	3,056,073
BENEFITS, LOSSES AND EXPENSES			
Policy Benefits			
Life	297,719	296,078	273,750
Annuity	249,709	142,867	249,878
Accident and health	239,407	223,055	209,840
Property and casualty	923,064	939,854	818,230
Interest credited to policy account balances	370,563	299,833	295,894
Commissions for acquiring and servicing policies	459,943	475,345	456,537
Other operating costs and expenses	485,409	508,800	465,140
Increase in deferred policy acquisition costs	(63,611)	(67,439)	(60,442)
Total benefits, losses and expenses	2,962,203	2,818,393	2,708,827
Income (loss) from continuing operations before federal income tax, and equity in earnings of unconsolidated affiliates	(12,424)	(299,752)	347,246
Provision (benefit) for federal income taxes			
Current	(14,224)	(34,642)	80,324
Deferred	(17,583)	(87,388)	25,539
Total provision (benefit) for federal income taxes	(31,807)	(122,030)	105,863
Equity in earnings (losses) of unconsolidated affiliates, net of tax	(4,216)	4,965	3,866
Income (loss) from continuing operations	15,167	(172,757)	245,249
Income (loss) from discontinued operations	-	18,728	(4,958)
Net income (loss)	15,167	(154,029)	240,291
Less: Net income (loss) attributable to noncontrolling interest	(458)	(31)	(482)
Net income (loss) attributable to American National Insurance Company and Subsidiaries	$ 15,625	$ (153,998)	$ 240,773
Amounts attributable to American National Insurance Company common stockholders			
Earnings (loss) per share:			
Basic	$ 0.59	$ (5.82)	$ 9.09
Diluted	$ 0.59	$ (5.82)	$ 9.04
Unrestricted common shares outstanding	26,528,832	26,479,832	26,479,832
Unrestricted common shares outstanding and dilutive potential common shares	26,597,476	26,479,832	26,638,219

See accompanying notes to consolidated financial statements.

AMERICAN NATIONAL INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands, except for share and per share data)

	December 31, 2009	December 31, 2008
ASSETS		
Investments, other than investments in unconsolidated affiliates		
Fixed Securities:		
Bonds held-to-maturity	$ 7,461,711	$ 6,681,837
Bonds available-for-sale	4,213,550	3,820,837
Equity securities:		
Preferred stocks	35,717	48,822
Common stocks	934,754	853,530
Mortgage loans on real estate, net of allowance	2,229,659	1,877,053
Policy loans	364,354	354,398
Investment real estate, net of accumulated depreciation of $209,115 and $191,435	635,110	528,905
Short-term investments	636,823	295,170
Other invested assets	94,442	85,151
Total investments	16,606,120	14,545,703
Cash	161,483	66,096
Investments in unconsolidated affiliates	156,809	154,309
Accrued investment income	191,737	184,801
Reinsurance ceded receivables	371,654	482,846
Prepaid reinsurance premiums	53,545	61,433
Premiums due and other receivables	282,865	325,019
Deferred policy acquisition costs	1,330,981	1,482,664
Property and equipment, net	88,705	92,458
Current federal income taxes	29,474	68,327
Deferred federal income taxes	5,034	195,508
Other assets	152,722	159,254
Separate account assets	718,378	561,021
Total assets	$ 20,149,507	$ 18,379,439
LIABILITIES		
Policyholder funds		
Future policy benefits:		
Life	$ 2,485,886	$ 2,436,001
Annuity	783,065	664,136
Accident and health	97,407	96,548
Policy account balances	9,567,860	8,295,527
Policy and contract claims	1,293,791	1,401,960
Participating policyholder share	162,794	149,970
Other policyholder funds	919,864	959,134
Total policyholder liabilities	15,310,667	14,003,276
Liability for retirement benefits	180,909	184,124
Notes payable	73,842	111,922
Other liabilities	393,302	376,863
Separate account liabilities	718,378	561,021
Total liabilities	16,677,098	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	11,986	7,552
Accumulated other comprehensive income (loss)	117,649	(221,148)
Retained earnings	3,398,492	3,414,946
Treasury stock, at cost	(98,505)	(98,326)
Total American National stockholders' equity	3,460,454	3,133,856
Noncontrolling interest	11,955	8,377
Total stockholders' equity	3,472,409	3,142,233
Total liabilities and stockholders' equity	$ 20,149,507	$ 18,379,439

See accompanying notes to consolidated financial statements.

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

		Twelve Months Ended December 31, 2009	2008	2007
Common Stock	Balance at beginning and end of the year	$ 30,832	$ 30,832	$ 30,832
Additional Paid-In Capital	Balance at beginning of the year	7,552	6,080	4,160
	Issuance of treasury shares as restricted stock	179	(1,139)	(79)
	Tax benefit on excess restricted stock	439	–	–
	Amortization of restricted stock	3,816	2,611	1,999
	Balance as of December 31,	$ 11,986	$ 7,552	$ 6,080
Accumulated Other Comprehensive Income	Balance at beginning of the year	(221,148)	145,972	141,869
	Change in unrealized gains on marketable securities, net	383,098	(331,828)	268
	Cumulative adjustment for accounting change on Other-than-temporary impairments on debt securities	(50,411)	–	–
	Foreign exchange adjustments	664	(247)	(17)
	Minimum pension liability adjustment	5,446	(35,045)	3,852
	Balance as of December 31,	$ 117,649	$ (221,148)	$ 145,972
Retained Earnings	Balance at beginning of the year	3,414,946	3,653,365	3,498,306
	Net income (loss) attributed to American National Insurance Company and Subsidiaries	15,625	(153,998)	240,773
	Cash dividends to common stockholders ($3.08, $3.08 and $3.05 per share)	(82,490)	(82,651)	(81,531)
	ASC 740 implementation	–	–	(4,183)
	Effect of ASC 715 change in measurement date	–	(1,770)	–
	Cumulative adjustment for accounting change on Other-than-temporary impairments on debt securities	50,411	–	–
	Balance as of December 31,	$ 3,398,492	$ 3,414,946	$ 3,653,365
Treasury	Balance at beginning of the year	(98,326)	(99,465)	(99,544)
	Net issuance of restricted stock	(179)	1,139	79
	Balance as of December 31,	$ (98,505)	$ (98,326)	$ (99,465)
Noncontrolling Interest	Balance at beginning of the year	8,377	4,539	1,273
	Contributions	4,392	4,279	4,284
	Distributions	(109)	(427)	(5,575)
	Gain (loss) attributable to noncontrolling interest	(705)	(14)	4,557
	Balance as of December 31,	$ 11,955	$ 8,377	$ 4,539
Total Equity	Balance as of December 31,	$ 3,472,409	$ 3,142,233	$ 3,741,323

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited and in thousands)

	2009	2008	2007
Net income (loss) attributable to American National Insurance Company common stockholders	$ 15,625	$ (153,998)	$ 240,773
Other comprehensive income (loss), net of tax			
Change in unrealized gains on marketable securities, net	383,098	(331,828)	268
Foreign exchange adjustments	664	(247)	(17)
Defined benefit plans adjustment	5,446	(35,045)	3,852
Total other comprehensive income (loss)	$ 389,208	$ (367,120)	$ 4,103
Total comprehensive income (loss) attributable to American National Insurance Company and Subsidiaries	$ 404,833	$ (521,118)	$ 244,876

See accompanying notes to consolidated financial statements.

AMERICAN NATIONAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31, 2009	2008	2007
OPERATING ACTIVITIES			
Net income (loss) attributable to American National Insurance Company and Subsidi	$ 15,625	$ (153,998)	$ 240,773
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized (gains) losses on investments	(23,246)	12,673	(46,499)
Other-than-temporary impairments	98,943	367,036	-
Amortization of discounts and premiums on bonds	16,215	16,654	15,619
Net capitalized interest on policy loans and mortgage loans	(27,881)	3,511	-
Depreciation	44,744	26,496	35,327
Interest credited to policy account balances	370,563	299,833	295,894
Charges to policy account balances	(173,360)	(191,238)	(146,555)
Deferred federal income tax (benefit) expense	(17,583)	(87,388)	25,539
Deferral of policy acquisition costs	(477,419)	(491,342)	(465,362)
Amortization of deferred policy acquisition costs	413,808	424,005	405,024
Equity in (earnings) losses of unconsolidated affiliates	6,488	(7,639)	(5,947)
Changes in:			
Policyholder funds liabilities	32,629	88,908	72,663
Reinsurance ceded receivables	111,192	(44,780)	30,549
Premiums due and other receivables	42,154	(38,419)	9,552
Accrued investment income	(6,936)	(1,952)	(8,562)
Current federal income tax liability (recoverable)	38,853	(65,182)	-
Liability for retirement benefits	(3,215)	6,018	5,963
Prepaid reinsurance premiums	7,888	5,339	9,298
Other, net	21,928	3,146	(10,363)
Net cash provided by operating activities	**491,390**	**171,681**	**462,913**
INVESTING ACTIVITIES			
Proceeds from sales of:			
Bonds available-for-sale	82,861	6,353	68,004
Common stocks	182,871	129,270	277,429
Real estate	4,837	4,500	84,744
Mortgage loans	-	2,294	-
Other invested assets	1,806	9,896	104,743
Disposals of property and equipment	1,608	1,380	23,021
Distributions from unconsolidated affiliates	11,310	12,332	17,414
Proceeds from maturities of:			
Bonds available-for-sale	273,819	269,566	287,559
Bonds held-to-maturity	561,903	580,515	547,416
Principal payments received on:			
Mortgage loans	116,365	144,497	223,956
Policy loans	45,591	9,459	5,472
Purchases of investments:			
Bonds available-for-sale	(166,194)	(626,623)	(658,731)
Bonds held-to-maturity	(1,372,246)	(644,151)	(483,722)
Common stocks	(53,758)	(290,979)	(364,352)
Real estate	(127,281)	(78,119)	(46,295)
Mortgage loans	(477,275)	(520,426)	(386,137)
Policy loans	(32,129)	(20,447)	(10,237)
Other invested assets	(31,572)	(21,795)	(50,115)
Additions to property and equipment	(13,178)	(25,024)	(18,076)
Contributions to unconsolidated affiliates	(20,042)	(38,514)	(64,592)
Net decrease (increase) in short-term investments	(341,653)	403,092	19,881
Other, net	(256)	2,483	(14,052)
Net cash used in investing activities	**(1,352,613)**	**(690,441)**	**(436,670)**
FINANCING ACTIVITIES			
Policyholders' deposits to policy account balances	2,268,201	1,996,836	1,220,022
Policyholders' withdrawals from policy account balances	(1,191,021)	(1,446,521)	(1,250,266)
Increase (decrease) in notes payable	(38,080)	(16,877)	4,724
Dividends to stockholders	(82,490)	(82,651)	(81,531)
Net cash provided by (used in) financing activities	**956,610**	**450,787**	**(107,051)**
NET INCREASE (DECREASE) IN CASH	95,387	(67,973)	(80,808)
Cash:			
Beginning of the year	66,096	134,069	214,877
End of year	**$ 161,483**	**$ 66,096**	**$ 134,069**

See accompanying notes to consolidated financial statements.

Notes To Consolidated Financial Statements

1. NATURE OF OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

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

BASIS FOR CONSOLIDATION

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

We consolidate all entities that are wholly owned and those in which we own less than 100% but control, as well as any variable interest entities in which we are the primary beneficiary. We evaluate our ability to control an entity and whether the entity is a variable interest entity and we are the primary beneficiary through the consideration of the following factors:

- (i) the form of our ownership interest and legal structure;
- (ii) our representation on the entity’s governing body;
- (iii) the size of our investment (including loans);
- (iv) estimates of future cash flows;
- (v) our ability to participate in policy making decisions, including but not limited to, the acquisition or disposition of investment properties and the incurrence or refinancing of debt;
- (vi) the rights of other investors to participate in the decision making process; and
- (vii) the ability for other partners or owners to replace us as manager and/or liquidate the venture, if applicable.

Investments in unconsolidated affiliates are shown at cost plus equity in undistributed earnings since the dates of acquisition.

The preparation of 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 (“OTTI”);
- Deferred acquisition costs;
- Reserves;
- Reinsurance recoverable;
- Pension and postretirement benefit plans;
- Litigation contingencies; and
- Federal income taxes.

Accounting estimates inherently require the use of judgments relating to a variety of assumptions; in particular, expectations of current and future mortality, morbidity, persistency, losses and loss adjustment expenses, recoverability of receivables, investment returns and interest rates. In developing these estimates, we make subjective and complex judgments that are inherently uncertain and subject to material changes as facts and circumstances develop. Although variability is inherent in these estimates, management believes that the amounts provided are appropriate, based upon the facts available upon compilation of the financial statements. Due to the inherent uncertainty when using assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be different from those reported in the financial statements.

INVESTMENTS

Debt securities

Bonds that are classified as held-to-maturity are carried at amortized cost. The carrying value of these debt securities is expected to be realized, due to American National's ability and intent to hold these securities until maturity or market recovery. Bonds classified as available-for-sale are carried at fair value.

Preferred stocks

All preferred stocks are classified as available-for-sale and are carried at fair value.

Common stocks

All common stocks are classified as available-for-sale and are carried at fair value.

Unrealized gains and losses

For all investments carried at fair value (excluding derivative instruments), the unrealized gains or losses (differences between amortized cost and fair value), net of applicable federal income taxes, are reflected in stockholders' equity as a component of accumulated other comprehensive income (loss).

Mortgage loans

Mortgage loans on real estate are recorded at carrying value, which is comprised of the original cost, net of repayments, amortization of premiums, accretion of discounts, unamortized deferred revenue and valuation allowances. The mortgage loan portfolio is closely monitored through the review of payment history, loan and property information, such as debt service coverage, annual operating statements and property inspection reports. This information is evaluated in light of current economic conditions and other factors, such as geographic location and property type. As a result of this review, impaired loans are identified and valuation allowances are established. The change in valuation allowances is reported in current period income as a realized loss. Impaired loans are those which, 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.

Real estate acquired through foreclosure proceedings is recorded at the lesser of loan basis or fair value at the foreclosure date.

Policy loans

Policy loans are carried at cost, which approximates fair value.

Investment real estate

Investment real estate is carried at cost, less allowance for depreciation. Real estate classified as held-for-sale is stated at the lower of depreciated cost or fair value less expected disposition costs at the time classified as held-for-sale. Real estate is not depreciated while it is classified as held-for-sale.

Depreciation is provided over the estimated useful lives of the properties (15 to 50 years) using straight-line and accelerated methods allowable under GAAP. American National's real estate portfolio is closely monitored through the review of operating information and periodic inspections. This information is evaluated in light of current economic conditions and other factors, such as geographic location and property type. As a result of this review, if there is any indication of an adverse change in the economic condition of a property, a complete cash flow analysis is performed to determine whether or not the property is impaired. If a possible impairment is indicated, the fair value of the property is estimated using a variety of techniques, including cash flow analysis, appraisals and comparison to the values of similar properties. If the book value is greater than the estimated fair value, an impairment is recorded.

Real estate acquired through foreclosure proceedings is recorded at fair value at the settlement date.

Short-term investments

Short-term investments, comprised of commercial paper, are carried at amortized cost, which approximates fair value.

Other invested assets

Other invested assets, comprised primarily of derivative contracts (equity-indexed options), construction loans, CAPCO investments and mineral rights, are carried at cost, less allowance for valuation, where applicable. Impairments for other invested assets are considered on an individual basis.

Impairments

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

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

All equity securities, real estate and other invested assets are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds fair value, the duration of the market decline, and the financial health of and specific prospects for the issuer, borrower, or tenants. Losses that are determined to be other than temporary are recognized in current period income as a realized loss.

Derivative instruments and hedging activities

American National purchases derivative instruments as hedges of a recognized asset or liability, which are recorded on the consolidated statements of financial position at fair value. The change in fair value of derivative assets is reported as net investment income. The change in fair value of embedded derivative liabilities is reported through policy benefits-annuity. Derivative instruments held at December 31, 2009 and 2008 had an immaterial impact on the consolidated statements of operations and consolidated statements of cash flows.

American National does not apply hedge accounting treatment to its hedging activities.

Investments in unconsolidated affiliates

These assets are primarily investments in real estate and equity fund joint ventures, and are accounted for under the equity method of accounting.

CASH

American National considers cash on-hand and in banks plus amounts invested in money market funds as cash for purposes of the consolidated statements of financial position and consolidated statements of cash flows.

PROPERTY AND EQUIPMENT

These assets consist of buildings occupied by the Company, electronic data processing equipment, and furniture and equipment. These assets are carried at cost, less accumulated depreciation. Depreciation is provided using straight-line and accelerated methods that are allowed under GAAP over the estimated useful lives of the assets (3 to 50 years).

FOREIGN CURRENCIES

Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the statement of financial position date. Revenues and expenses are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are charged or credited to other accumulated comprehensive income (loss).

INSURANCE SPECIFIC ASSETS AND LIABILITIES

Deferred policy acquisition costs

Certain costs of acquiring new insurance business have been deferred. For life, annuity and accident and health business, such costs consist of inspection report and medical examination fees, commissions, related fringe benefit costs and the present value of future profits resulting from the acquisition of life insurance portfolios. The amount of commissions deferred includes first-year commissions and certain subsequent year commissions that are in excess of ultimate level commission rates.

The deferred policy acquisition costs on traditional life and health products are amortized with interest over the anticipated premium-paying period of the related policies, in proportion to the ratio of annual premium revenue to be received over the life of the policies. Expected premium revenue is estimated by using the same mortality and withdrawal assumptions used in computing liabilities for future policy benefits. The amount of deferred policy acquisition costs is reduced by a provision for possible inflation of maintenance and settlement expenses in the determination of such amounts by means of grading interest rates.

Costs deferred on universal life, limited pay and investment type contracts are amortized as a level percentage of the present value of anticipated gross profits from investment yields, mortality, and surrender charges. The effect on the deferred policy acquisition costs that would result from realization of unrealized gains (losses) is recognized with an offset to accumulated other comprehensive income (loss) in the consolidated statement of changes in stockholders' equity as of the statement of financial position date. It is possible that a change in interest rates could have a significant impact on the deferred policy acquisition costs calculated for these contracts.

Deferred policy acquisition costs associated with property and casualty insurance business consist principally of commissions, underwriting and issue costs. These costs are amortized over the coverage period of the related policies, in relation to premium revenue recognized.

Future policy benefits

For traditional products, liabilities for future policy benefits have been provided on a net level premium method based on estimated investment yields, withdrawals, mortality, and other assumptions that were appropriate at the time that the policies were issued. Estimates used are based on the Company's experience, as adjusted to provide for possible adverse deviation. These estimates are periodically reviewed and compared with actual experience. When it is determined, that future expected experience differs significantly from existing assumptions; the estimates are revised for current and future issues.

Future policy benefits for universal life and investment-type contracts reflect the current account value before applicable surrender charges.

Reserves for losses and loss expenses

American National establishes property and casualty reserves to provide for the estimated costs of paying claims. These reserves include estimates for both case reserves and reserves for incurred but not reported ("IBNR") claims. Case reserves include the liability for claims that were reported to American National, but not yet paid. IBNR reserves include a provision for potential development on case reserves, losses on claims currently closed which may reopen in the future as well as claims which have been incurred but not yet reported to American National. These reserves also include an estimate of the expense associated with settling claims, including legal and other fees and the general expenses of administering the claims adjustment process.

PREMIUM REVENUE AND POLICY BENEFITS

Traditional ordinary life and health

Life and accident and health premiums are recognized as revenue when due. Benefits and expenses are associated with earned premiums to result in recognition of profits over the life of the policy contracts. This association is accomplished by means of the provision for liabilities for future policy benefits and the amortization of deferred policy acquisition costs.

Annuities

Revenues from annuity contracts represent amounts assessed against contract holders. Such assessments are principally surrender charges and, in the case of variable annuities, administrative fees. Policy account balances for annuities represent the deposits received plus accumulated interest less applicable accumulated administrative fees.

Universal life and single premium whole life

Revenues from universal life policies and single premium whole life policies represent amounts assessed against policyholders. Included in such assessments are mortality charges, surrender charges actually paid and earned policy service fees. Policyholder account balances consist of the premiums received and credited interest, less accumulated policyholder assessments. Amounts included in expense represent benefits in excess of account balances returned to policyholders.

Property and casualty

Property and casualty premiums are recognized as revenue proportionately over the contract period. Policy benefits consist of actual claims and the change in reserves for losses and loss adjustment expenses.

PARTICIPATING INSURANCE POLICIES

A portion of the life insurance portfolio is written on a participating basis. Participating business comprised approximately 9.0% of the life insurance in force at December 31, 2009 and 13.2% of life premiums in 2009. Of the total participating business, 74.6% was written by Farm Family Life Insurance Company (Farm Family Life). For the participating business excluding Farm Family Life, the allocation of dividends to participating policyowners is based upon a comparison of experienced rates of mortality, interest and expenses, as determined periodically for representative plans of insurance, issue ages and policy durations, with the corresponding rates assumed in the calculation of premiums.

For the Farm Family Life participating business, profits earned on participating business are reserved for the payment of dividends to policyholders, except for the stockholders' share of profits on participating policies, which is limited to the greater of 10% of the profit on participating business, or 50 cents per thousand dollars of the face amount of participating life insurance in force. Participating policyholders' interest includes the accumulated net income from participating policies reserved for payment to such policyholders in the form of dividends (less net income allocated to stockholders as indicated above) as well as a pro rata portion of unrealized investment gains (losses), net of tax.

FEDERAL INCOME TAXES

American National and its eligible subsidiaries will file a consolidated life/non-life federal income tax return for 2009. Certain subsidiaries that are consolidated for financial reporting are not eligible to be included in the consolidated federal income tax return. Separate provisions for income taxes have been determined for these entities.

Deferred federal income tax assets and liabilities have been recognized to reflect the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

American National recognizes tax benefits on uncertain tax positions only if it is "more likely than not" that the tax position will be sustained by taxing authorities, based on the technical merits of the position. Tax benefits recognized in the financial statements are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Tax benefits not meeting the "more likely than not" threshold, if applicable, are included with "Other liabilities" in the consolidated statements of financial position.

Interest expense and penalties, if applicable, are classified as "Other operating costs and expenses" in the consolidated statements of operations.

STOCK-BASED COMPENSATION

American National uses the fair value method in accordance with Accounting Standards Codification ("ASC") 718, Compensation – Stock Compensation, to account for stock-based compensation.

SEPARATE ACCOUNT ASSETS AND LIABILITIES

Separate account assets and liabilities represent funds maintained to meet the investment objectives of contract holders who bear the investment risk. Investment income and investment gains and losses from these separate funds accrue directly to the contract holders of the policies supported by the separate accounts. Separate accounts are established in conformity with insurance laws and are not chargeable with liabilities that arise from any other business of American National. American National reports separately, as assets and liabilities, investments held in separate accounts and liabilities of the separate accounts if (i) such separate accounts are legally recognized; (ii) assets supporting the contract liabilities are legally insulated from American National's general account liabilities; (iii) investments are directed by the contract holder; and (iv) all investment performance, net of contract fees and assessments, is passed through to the contract holder. The assets of these accounts are carried at fair value. Deposits, net investment income and realized investment gains and losses for these accounts are excluded from revenues, and related liability increases are excluded from benefits and expenses in the consolidated financial statements.

ADOPTION OF NEW ACCOUNTING STANDARDS

On January 1, 2009, American National adopted accounting guidance contained within ASC 810, "Consolitation-Noncontrolling Interests" (formerly Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51"), ("ASC 810"). This guidance within ASC 810 was issued by the Financial Accounting Standards Board ("FASB") in December 2007. This guidance requires changes to the reporting of noncontrolling interests in subsidiaries to improve the relevance, comparability, and transparency of financial information provided in financial statements. It was effective for fiscal years beginning on or after December 15, 2008. The adoption of this guidance did not have a material effect on American National's financial statements.

On January 1, 2009, American National adopted accounting guidance contained within ASC 805, "Business Combinations" (formerly FAS No. 141(R), "Business Combinations"), and ("ASC 805"). This guidance within ASC 805 was issued by the FASB in December 2007. This guidance addressed the accounting for business acquisitions, was effective for fiscal years beginning on or after December 15, 2008, and generally applies to business acquisitions completed after December 31, 2008. Among other things, the new guidance required that all acquisition-related costs be expensed as incurred, and that all restructuring costs related to acquire operations be expensed as incurred. This new guidance also addressed the current and subsequent accounting for assets and liabilities arising from contingencies acquired or assumed and, for acquisitions both prior and subsequent to December 31, 2008, required the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. The adoption of ASC 805 did not have a material effect on American National's consolidated financial statements.

On January 1, 2009, American National adopted accounting guidance contained within ASC 815, "Derivatives and Hedging" (formerly FAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FAS No. 133"), ("ASC 815"). This guidance within ASC 815 was issued by the FASB in March 2008. This guidance which amended and expanded disclosures about an entity's derivative and hedging activities with the intent of providing users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are to be accounted for, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. ASC 815 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. ASC 815 encourages, but does not require, comparative disclosures. The adoption of ASC 815 resulted in expanded disclosures related to derivative instruments and hedging activities. See related disclosures in Note 4 of the Notes to the Consolidated Financial Statements.

On January 1, 2009, American National adopted accounting guidance contained within ASC 350, "Intangibles" (formerly FASB Staff Position ("FSP") Financial Accounting Standard ("FAS") No. 142-3, "Determination of the Useful Life of Intangible Assets"), ("ASC 350"). This guidance within ASC 350 was issued by the FASB in April 2008. This guidance amended the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This change was intended to improve the consistency between the useful life of a recognized intangible asset under ASC 350, the period of expected cash flows used to measure the fair value of the asset under ASC 805 and other GAAP. ASC 350 was effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. American National has applied ASC 350 prospectively to intangible assets acquired as of, and subsequent to, January 1, 2009**.** The adoption of ASC 350 did not have a material effect on American National's consolidated financial statements.

On January 1, 2009, American National adopted accounting guidance contained within ASC 323, "Investments – Equity Method and Joint Ventures" (formerly Emerging Issues Task Force ("EITF") No. 08-6, "Equity Method Investment Accounting Considerations"), ("ASC 323"). This guidance within ASC 323 was issued by the FASB in November 2008. This guidance addressed the effects of the issuances of guidance contained within ASC 805 and ASC 810 on the application of the equity method of accounting for investments in common stock. ASC 323 required that: (a) an entity determine the initial carrying value of an equity method investment by applying the cost accumulation model; (b) an entity shall use the OTTI model within ASC 323; however, investors should adjust any impairments' recorded by an investee for existing differences between the investor's basis and the underlying investees' basis in such impaired assets; (c) share issuances by an investee should be accounted for as if the equity method investor had sold a proportionate share of its investment; and (d) when an investment is no longer within the scope of equity method accounting and instead is within the scope of cost method accounting or ASC 320, "Investments – Debt and Equity Securities", the investor should prospectively apply the provisions of ASC 320 or ASC 323 and use the current carrying amount of the investment as its initial cost. This guidance was effective on a prospective basis in fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. The adoption of ASC 323 did not have a material effect on American National's consolidated financial statements.

On January 1, 2009, American National adopted accounting guidance contained within ASC 715, "Compensation – Retirement Benefits" (formerly FSP FAS No.132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets"), ("ASC 715"). This guidance within ASC 715 was issued by the FASB in December 2008. This guidance enhanced the transparency surrounding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan. It required an employer to disclose information about the valuation of plan assets similar to that required under ASC 820, "Fair Value Measurements and Disclosures". ASC 715 was effective for fiscal years ending after December 15, 2009. American National has provided the required disclosure in accordance with the effective date. See related disclosures in Note 5 of the Notes to the Consolidated Financial Statements.

On April 1, 2009, American National adopted accounting guidance contained within ASC 825, “Financial Instruments” (formerly FSP FAS No.107-1 and Accounting Principles Board Opinion No. 28-1, “Interim Disclosures about Fair Value of Financial Instruments”), and (“ASC 825”). ASC 825 was issued by the FASB in April 2009. This guidance required disclosures about fair value of financial instruments. ASC 825 was effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this guidance did not have a material effect on American National’s consolidated financial statements.

On April 1, 2009, American National adopted accounting guidance contained within ASC 855, “Subsequent Events” (formerly FAS No. 165, “Subsequent Events”), (“ASC 855”). This guidance within ASC 855 was issued by the FASB in May 2009. This guidance established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It required that an entity evaluate its subsequent events up through the date of issuance of its financial statements. ASC 855 was effective for interim and annual periods ending after June 15, 2009. Accordingly, American National adopted ASC 855 prospectively. The adoption of this guidance did not have a material effect on American National’s consolidated financial statements. (Refer below to ASU No. 2010-09 for related amendment of ASC 855).

On April 1, 2009, American National adopted accounting guidance contained within ASC 320, “Investments – Debt and Equity Securities” (formerly FSP FAS No.115-2/124-2, “Recognition and Presentation of Other-Than-Temporary Impairments”), (“ASC 320”). This guidance required 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 OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors (the “non-credit loss”) is recorded in other comprehensive income (loss). ASC 320 was effective for interim and annual periods ending after June 15, 2009. As of the beginning of the interim period of adoption, ASC 320 required a cumulative-effect adjustment to reclassify the non-credit component of previously recognized OTTI losses from retained earnings to other comprehensive loss. Upon adoption of ASC 320, a cumulative-effect adjustment of $50,411,000, net of taxes, was recorded as an adjustment to retained earnings with a corresponding adjustment to accumulated other comprehensive income.

On April 1, 2009, American National adopted accounting guidance contained within ASC 820, “Fair Value Measurements and Disclosures” (formerly FSP FAS No.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”), (“ASC 820”). Under this guidance, if an entity determines that there has been a significant decrease in the volume and level of activity for an asset or liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), and 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. ASC 820 was effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this guidance did not have a material effect on American National’s consolidated financial statements.

On September 30, 2009, American National adopted accounting guidance contained within ASC 105, “GAAP” (formerly FAS No.168, “The FASB ASC and the Hierarchy of GAAP — a replacement of FASB Statement No. 162”), (“ASC 105”). This guidance within ASC 105 established the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States, superseding existing FASB, American Institute of Certified Public Accountants, EITF, and related accounting literature. This guidance was effective for financial statements issued for interim and annual periods ending after September 15, 2009. Adoption of this guidance did not have an impact on American National’s consolidated financial statements, other than changes in references from former accounting standards to ASC references.

In September 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-12, “Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)”, (“ASU 2009-12”) which amended ASC 820. ASU 2009-12 provided additional guidance on using the net asset value per share, as provided by an investee, when estimating the fair value of an alternate investment that does not have a readily determinable fair value as well as enhanced the disclosures concerning these investments. Examples of alternate investments, within the scope of ASU 2009-12, included investments in hedge funds and private equity, real estate, and venture capital partnerships. ASU 2009-12 was effective for interim and annual periods ending after December 15, 2009. Accordingly, American National adopted ASU 2009-12 on December 31, 2009. The adoption of ASU 2009-12 did not have a material effect on American National’s consolidated financial statements.

In August 2009, the FASB issued ASU No. 2009-05, “Measuring Liabilities at Fair Value”, (“ASU 2009-05”) which amends ASC 820. ASU 2009-05 provided clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of ASC 820 (e.g. an income approach or market approach). ASU 2009-05 also clarified that when estimating the fair value of a liability, a reporting entity is not required to adjust for the inclusion of inputs relating to the existence of transfer restrictions on that liability. ASU 2009-05 was effective for interim and annual periods beginning after September 30, 2009. Accordingly, American National adopted ASU 2009- 05 on October 1, 2009. The adoption of ASU 2009-05 did not have a material effect on American National’s consolidated financial statements.

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

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

FUTURE ADOPTION OF NEW ACCOUNTING STANDARDS

In June 2009, the FASB issued ASU No. 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” (formerly FAS No. 167, “Amendments to FASB Interpretation No. 46R”), (“ASU 2009-17”) which amended ASC 810. ASU 2009-17 pertains to the consolidation of variable interest entities and requires an analysis to be performed to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This standard requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This guidance is effective for interim and annual reporting periods beginning after November 15, 2009. Accordingly, American National will adopt this guidance effective January 1, 2010 and is currently evaluating the impact of its adoption on its consolidated financial statements.

In June 2009, the FASB issued ASU No. 2009-16, “Accounting for Transfers of Financial Assets” (formerly FAS No. 166, “Accounting for Transfers of Financial Assets”), and (“ASU 2009-16”) which amends ASC 860. ASU 2009-16 requires enhanced disclosure about transfers of financial assets when companies have continuing exposure to the risk related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity and changes the requirements for derecognizing financial assets. This guidance is effective for interim and annual reporting periods beginning after November 15, 2009. Accordingly, American National will adopt this guidance effective January 1, 2010 and is currently evaluating the impact of its adoption on its consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, “Improving Disclosures about Fair Value Measurements”, (“ASU 2010-06”) which amends ASC 820. ASU 2010-06 was issued to improve and expand fair value disclosures. Newly required disclosures are as follows: 1) provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy established by ASC 820; 2) provide a reconciliation of purchases, sales, issuance, and settlements of anything valued with a Level 3 method; and 3) provide fair value disclosures for each class of assets and liabilities. This guidance is effective for interim and annual reporting periods that begin after December 15, 2010. Accordingly, American National will adopt this guidance on January 1, 2010 and is currently evaluating the impact of its adoption on its consolidated financial statements.

3. 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
December 31, 2009				
Debt securities				
Bonds held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	$ 21,222	$ 183	$ (58)	$ 21,347
States of the U.S. and political subdivisions of the states	240,403	8,619	(1,144)	247,878
Foreign governments	28,997	3,606	-	32,603
Corporate debt securities	6,390,377	327,535	(73,856)	6,644,056
Residential mortgage backed securities	693,178	24,650	(21,856)	695,972
Commercial mortgage backed securities	33,128	-	(23,941)	9,187
Collateralized debt securities	9,627	85	(1,036)	8,676
Other debt securities	44,779	2,009	(31)	46,757
Total bonds held-to-maturity	**$ 7,461,711**	**$ 366,687**	**$ (121,922)**	**$ 7,706,476**
Bonds available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	3,438	448	-	3,886
States of the U.S. and political subdivisions of the states	540,210	18,869	(1,044)	558,035
Foreign governments	5,000	1,188	-	6,188
Corporate debt securities	3,196,202	126,742	(69,932)	3,253,012
Residential mortgage backed securities	353,729	8,507	(6,671)	355,565
Collateralized debt securities	23,064	983	(1,553)	22,494
Other debt securities	14,401	225	(256)	14,370
Total bonds available-for-sale	**$ 4,136,044**	**$ 156,962**	**$ (79,456)**	**$ 4,213,550**
Total debt securities	**$ 11,597,755**	**$ 523,649**	**$ (201,378)**	**$ 11,920,026**
Marketable equity securities				
Common stock:				
Consumer goods	129,363	47,093	(2,336)	174,120
Energy and utilities	83,284	42,939	(1,453)	124,770
Finance	118,622	40,296	(2,174)	156,744
Healthcare	81,454	29,767	(1,100)	110,121
Industrials	58,900	28,887	(357)	87,430
Information technology	102,171	48,413	(422)	150,162
Materials	17,875	7,317	(22)	25,170
Telecommunication services	32,272	8,118	(355)	40,035
Mutual funds	59,853	6,426	(77)	66,202
Total common stock	**$ 683,794**	**$ 259,256**	**$ (8,296)**	**$ 934,754**
Preferred stock	35,359	5,269	(4,911)	35,717
Total marketable equity securities	**$ 719,153**	**$ 264,525**	**$ (13,207)**	**$ 970,471**
Total investments in securities	**$ 12,316,908**	**$ 788,174**	**$ (214,585)**	**$ 12,890,497**

	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 and utilities	97,103	25,105	(8,889)	113,319
Finance	128,866	17,824	(13,048)	133,642
Healthcare	94,807	21,076	(6,380)	109,503
Industrials	72,360	10,786	(9,618)	73,528
Information technology	111,976	7,910	(15,207)	104,679
Materials	30,725	1,685	(6,886)	25,524
Telecommunication services	39,171	5,359	(3,840)	40,690
Mutual funds	86,832	2,389	(4,109)	85,112
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**

Debt securities

The amortized costs and estimated fair value, by contractual maturity, of debt securities at December 31, 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	$ 147,317	$ 147,303	$ 207,074	$ 211,138
Due after one year through five years	3,445,659	3,609,070	1,948,476	1,990,220
Due after five years through ten years	3,130,532	3,208,615	1,426,738	1,453,903
Due after ten years	732,353	736,915	543,479	549,006
	$ 7,455,861	$ 7,701,903	$ 4,125,767	$ 4,204,267
Without single maturity date	5,850	4,573	10,277	9,283
Total	**$ 7,461,711**	**$ 7,706,476**	**$ 4,136,044**	**$ 4,213,550**

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

	2009	**2008**	**2007**
Proceeds from sales of available-for-sale securities	$ 265,732	$ 135,623	$ 166,493
Gross realized gains	42,101	22,496	34,033
Gross realized losses	(11,351)	(31,304)	(2,069)

In 2009, securities with amortized costs of $4,222,000 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 $407,330 was established at the time of the transfer.

In 2008, securities with amortized costs of $91,418,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness. An unrealized loss of $67,383,000 was established at the time of the transfer.

In 2007, securities with amortized costs of $27,239,000 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 $98,000 was established at the time of the transfer.

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

In accordance with various government and state regulations, American National and its wholly-owned insurance subsidiaries had bonds with amortized costs of $35,822,000 at December 31, 2009, on deposit with appropriate regulatory authorities.

Derivative Instruments

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

Derivatives Not Designated as Hedging Instruments	Location of Asset (Liability) Reported in the Statements of Financial Position	Estimated Fair Value For the Years Ended December 31, 2009	2008
Equity indexed options	Other invested assets	$ 32,801	$ 6,157
Equity indexed annuity embedded derivative	Future policy benefits - Annuity	$ (22,487)	$ (6,208)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in the Statements of Operations	Amount of Gain (Loss) Recognized in Income on Derivatives For the Years Ended December 31, 2009	2008	2007
Equity indexed options	Investment income	$ 5,380	$ (24,400)	$ (141)
Equity indexed annuity embedded derivative	Policy benefits - Annuity	$ (8,138)	$ 23,184	$ 434

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 (benefit) expense of $101,408,000, $(84,029,000), and $101,244,000 for 2009, 2008, and 2007, respectively.

The change in the net unrealized gains (losses) on investments for the years ended December 31, are summarized as follows (in thousands):

	2009	2008	2007
Bonds available-for-sale	$ 516,229	$ (393,429)	$ (4,443)
Preferred stocks	12,254	(3,359)	(9,544)
Common stocks	218,338	(295,988)	11,161
Amortization of deferred policy acquisition costs	(215,294)	164,937	3,080
	531,527	(527,839)	254
Provision (benefit) for federal income taxes	185,700	(185,273)	130
	$ 345,827	$ (342,566)	$ 124
Change in unrealized gains (losses) of investments attributable to participating policyholders' interest	(13,140)	10,738	144
Impact of adoption of "Recognition and Presentation of Other-Than-Temporary Impairments," FASB ASC Topic 320	50,411		
Total	**$ 383,098**	**$ (331,828)**	**$ 268**

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 December 31, 2008, are summarized as follows (in thousands):

	Less than 12 months		12 Months or more		Total	
December 31, 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	$ 58	$ 6,387	$ -	$ -	$ 58	$ 6,387
States of the U.S. and political subdivisions of the states	666	24,819	478	5,849	1,144	30,668
Corporate debt securities	12,602	543,459	61,254	700,718	73,856	1,244,177
Residential mortgage backed securities	445	23,750	21,411	182,315	21,856	206,065
Commercial mortgage backed securities	-	-	23,941	9,187	23,941	9,187
Collateralized debt securities	53	2,844	983	2,310	1,036	5,154
Other debt securities	31	3,428	-	-	31	3,428
Total bonds held-to-maturity	**$ 13,855**	**$ 604,687**	**$ 108,067**	**$ 900,379**	**$ 121,922**	**$ 1,505,066**
Bonds available-for-sale:						
States of the U.S. and political subdivisions of the states	520	58,622	524	18,941	1,044	77,563
Corporate debt securities	13,340	318,569	56,592	506,881	69,932	825,450
Residential mortgage backed securities	2,273	49,066	4,398	36,649	6,671	85,715
Collateralized debt securities	269	1,313	1,284	9,077	1,553	10,390
Other debt securities	256	9,947	-	-	256	9,947
Total bonds available-for-sale	**$ 16,658**	**$ 437,517**	**$ 62,798**	**$ 571,548**	**$ 79,456**	**$ 1,009,065**
Total debt securities	**$ 30,513**	**$ 1,042,204**	**$ 170,865**	**$ 1,471,927**	**$ 201,378**	**$ 2,514,131**
Marketable equity securities						
Common stock:						
Consumer goods	837	5,838	1,499	14,900	2,336	20,738
Energy and utilities	296	7,949	1,157	7,006	1,453	14,955
Finance	1,712	29,515	462	3,881	2,174	33,396
Healthcare	464	6,124	636	5,316	1,100	11,440
Industrials	163	2,567	194	1,678	357	4,245
Information technology	358	2,583	64	533	422	3,116
Materials	19	453	3	45	22	498
Telecommunications services	232	3,188	123	2,542	355	5,730
Mutual funds	77	4,372	-	-	77	4,372
Total common stock	**$ 4,158**	**$ 62,589**	**$ 4,138**	**$ 35,901**	**$ 8,296**	**$ 98,490**
Preferred stock	21	4,169	4,890	15,210	4,911	19,379
Total marketable equity securities	**$ 4,179**	**$ 66,758**	**$ 9,028**	**$ 51,111**	**$ 13,207**	**$ 117,869**
Total investments in securities	**$ 34,692**	**$ 1,108,962**	**$ 179,893**	**$ 1,523,038**	**$ 214,585**	**$ 2,632,000**

December 31, 2008	Less than 12 months Unrealized Losses	Fair Value	12 Months or more Unrealized Losses	Fair Value	Total Unrealized Losses	Fair Value
Debt securities						
Bonds held-to-maturity:						
States of the U.S. and political subdivisions of the states	$ 1,571	$ 21,104	$ 40	$ 383	$ 1,611	$ 21,487
Corporate debt securities	280,110	2,685,787	252,434	928,186	532,544	3,613,973
Residential mortgage backed securities	31,471	186,404	7,817	50,425	39,288	236,829
Commercial mortgage backed securities	24,368	7,742	-	-	24,368	7,742
Collateralized debt securities	613	4,785	4,661	23,844	5,274	28,629
Other debt securities	1,292	9,566	-	-	1,292	9,566
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 and utilities	8,203	24,909	686	2,818	8,889	27,727
Finance	12,729	49,150	319	1,190	13,048	50,340
Healthcare	5,177	29,429	1,203	5,826	6,380	35,255
Industrials	9,496	23,880	122	593	9,618	24,473
Information technology	13,859	57,237	1,348	2,583	15,207	59,820
Materials	6,665	15,164	221	456	6,886	15,620
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 a quarterly analysis to determine if an other-than-temporary impairment loss should be recorded for any securities. As of December 31, 2009, the securities above did not meet the criteria for other-than-temporary impairment. Even though the duration of the unrealized losses on the securities exceeds one year, American National maintains the intent and ability to hold the security until its value recovers.

Bonds

American National evaluates all bonds that have unrealized losses on a quarterly basis to determine if the creditworthiness of any of the bonds have deteriorated to a point that would prevent American National from realizing the full amount at maturity. For those bonds where management believes that the full amount will not be realized, an other-than-temporary impairment is recorded. At December 31, the unrealized losses on securities that were not impaired were the result of credit spread widening and significant liquidity discounts in an illiquid market. There were no delinquent coupon payments attributed to the bond portfolio at December 31, 2009*.* American National has the ability and intent to hold these bonds until a market price recovery or maturity and, therefore, these bonds are not considered to be other-than-temporarily impaired. However, it is possible that the investee's ability to meet future contractual obligations may be different from what American National determined during its analysis, which may lead to a different impairment conclusion in future periods.

Marketable equity securities

American National evaluates all marketable equity securities on a quarterly basis and recognizes an other-than-temporary impairment on all of those where a market price recovery is not expected in the near term. All securities, which have an unrealized loss, are also evaluated for credit quality, and impairments are recognized for any securities, regardless of the length of time that they have had an unrealized loss, where management believes the carrying value will not be realized. For the remaining securities with unrealized losses, management believes the losses are temporary, and American National has the ability and intent to hold these securities until a market price recovery. However, it is possible that the investee's ability to perform in the future may be different from what American National determined during its analysis, which may lead to a different impairment conclusion in future periods.

Mortgage loans

In general, mortgage loans are secured by first liens on income-producing real estate. The loans are expected to be repaid from the cash flows or proceeds from the sale of real estate. American National generally allows a maximum loan-to-collateral-value ratio of up to 75% on newly funded mortgage loans. As of December 31, 2009, mortgage loans have fixed rates from 5.15% to 12.00%. The majority of the mortgage loan contracts require periodic payments of both principal and interest, and have amortization periods of 6 months to 30 years.

American National has investments in first lien mortgage loans on real estate with carrying values of $2,229,659,000 and $1,877,053,000 at December 31, 2009 and 2008, respectively. Non-performing loans, on which valuation allowances were established, totaled $13,691,000 and $13,824,000 at December 31, 2009 and 2008, respectively. The valuation allowances on those loans totaled $1,793,000 at December 31, 2009 and 2008.

Policy loans

All of American National's policy loans carried interest rates ranging from 4.5% to 8.0% at December 31, 2009.

Net investment income and realized investments gains (losses)

Net investment income and realized investments gains (losses), before federal income taxes, for the years ended December 31 are summarized as follows (in thousands):

	Net Investment Income			Realized Investments Gains/(Losses)		
	2009	2008	2007	2009	2008	2007
Bonds	$ 627,236	$ 623,356	$ 620,035	$ (9,954)	$ 8,531	$ 1,455
Preferred stocks	3,419	5,687	4,561	(1,590)	(5,307)	-
Common stocks	23,324	28,977	27,002	36,792	(8,524)	29,990
Mortgage loans	141,124	118,067	103,627	-	-	-
Real estate	122,603	114,198	126,926	1,523	1,750	18,563
Options	5,380					
Other invested assets	41,165	12,123	40,994	269	(5,977)	(40)
	964,251	902,408	923,145	27,040	(9,527)	49,968
Investment expenses	(124,146)	(106,231)	(110,176)	-	-	-
Increase in valuation allowances	-	-	-	(3,794)	(3,146)	(1,775)
Total	**$ 840,105**	**$ 796,177**	**$ 812,969**	**$ 23,246**	**$ (12,673)**	**$ 48,193**

Other-than-temporary impairments

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

	Year Ended December 31,		
	2009	2008	2007
Bonds	$ (10,046)	$ (165,803)	$ (1,089)
Stocks	(69,057)	(199,748)	(6,077)
Mortgage loans	(1,647)	(740)	-
Real estate	(10,550)	(745)	-
Other invested ass	(7,643)	-	-
Total	**$ (98,943)**	**$ (367,036)**	**$ (7,166)**

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

All other-than-temporary impairments recognized on bonds were entirely comprised of credit losses; therefore, during the twelve months ended December 31, 2009, no non-credit loss was recognized in other comprehensive income.

4. CREDIT RISK MANAGEMENT

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

Bonds

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

	2009	2008
AAA	12%	17%
AA+	2%	1%
AA	2%	6%
AA-	5%	4%
A+	8%	11%
A	14%	16%
A-	14%	13%
BBB+	13%	11%
BBB	16%	12%
BBB-	8%	4%
BB+ and below	6%	5%
Total	**100%**	**100%**

Common stock

American National's common stock portfolio by market sector distribution at December 31 is summarized as follows:

	2009	2008
Consumer goods	19%	20%
Financials	17%	16%
Information technology	16%	13%
Energy and utilities	13%	13%
Healthcare	12%	13%
Industrials	9%	8%
Mutual funds	7%	10%
Communications	4%	5%
Materials	3%	2%
Total	**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 December 31 are summarized as follows:

	Mortgage Loans		Investment Real Estate	
	2009	2008	2009	2008
Office buildings	31%	30%	15%	18%
Industrial	28%	25%	37%	45%
Shopping centers	19%	21%	19%	23%
Hotels and motels	15%	17%	2%	2%
Other	4%	4%	16%	11%
Commercial	3%	3%	11%	1%
Total	**100%**	**100%**	**100%**	**100%**

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

	Mortgage Loans		Investment Real Estate	
	2009	2008	2009	2008
West South Central	22%	22%	58%	64%
East North Central	20%	22%	8%	6%
South Atlantic	20%	17%	13%	16%
Pacific	10%	13%	2%	2%
Middle Atlantic	8%	10%	10%	0%
Mountain	6%	5%	1%	1%
East South Central	6%	4%	7%	10%
New England	4%	5%	0%	0%
West North Central	4%	2%	1%	1%
Total	**100%**	**100%**	**100%**	**100%**

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 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	$ 21,222	$ 21,347	$ 11,484	$ 11,830
States of the U.S. and political subdivisions of the states	240,403	247,878	155,420	158,294
Foreign governments	28,997	32,603	28,975	32,456
Corporate debt securities	6,390,377	6,644,056	5,602,250	5,118,669
Residential mortgage backed securities	693,178	695,972	735,025	709,294
Commercial mortgage backed securities	33,128	9,187	32,110	7,742
Collateralized debt securities	9,627	8,676	39,768	34,824
Other debt securities	44,779	46,757	76,805	75,594
Total fixed maturities, held-to-maturity	**$ 7,461,711**	**$ 7,706,476**	**$ 6,681,837**	**$ 6,148,703**
Available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	3,886	3,886	4,362	4,362
States of the U.S. and political subdivisions of the states	558,035	558,035	578,209	578,209
Foreign governments	6,188	6,188	7,332	7,332
Corporate debt securities	3,253,012	3,253,012	2,783,008	2,783,008
Residential mortgage backed securities	355,565	355,565	417,197	417,197
Collateralized debt securities	22,494	22,494	21,072	21,072
Other debt securities	14,370	14,370	9,657	9,657
Total fixed maturities, available-for-sale	**$ 4,213,550**	**$ 4,213,550**	**$ 3,820,837**	**$ 3,820,837**
Total fixed maturities	**$ 11,675,261**	**$ 11,920,026**	**$ 10,502,674**	**$ 9,969,540**
Marketable equity securities				
Common stock:				
Consumer goods	174,120	174,120	167,533	167,533
Energy and utilities	124,770	124,770	113,319	113,319
Finance	156,744	156,744	133,642	133,642
Healthcare	110,121	110,121	109,503	109,503
Industrials	87,430	87,430	73,528	73,528
Information technology	150,162	150,162	104,679	104,679
Materials	25,170	25,170	25,524	25,524
Mutual funds	66,202	66,202	85,112	85,112
Telecommunication services	40,035	40,035	40,690	40,690
Preferred stock	35,717	35,717	48,822	48,822
Total marketable equity securities	**$ 970,471**	**$ 970,471**	**$ 902,352**	**$ 902,352**
Options	32,801	32,801	6,157	6,157
Mortgage loans on real estate, net of allowance	2,229,659	2,267,157	1,877,053	1,891,895
Policy loans	364,354	364,354	354,398	354,398
Short-term investments	636,823	636,823	295,170	295,170
Total financial assets	**$ 15,909,369**	**$ 16,191,632**	**$ 13,937,804**	**$ 13,419,512**
Financial liabilities:				
Investment contracts	7,828,243	7,828,243	6,626,561	6,626,561
Liability for embedded derivatives of equity indexed annuities	22,487	22,487	6,208	6,208
Notes payable	73,842	73,842	111,922	111,922
Total financial liabilities	**$ 7,924,572**	**$ 7,924,572**	**$ 6,744,691**	**$ 6,744,691**

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 analyzed the third-party pricing services valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Based on the results of this evaluation and investment class analysis, each price was classified into Level 1, 2, or 3.

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

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

American National has reviewed the inputs and methodology used by the pricing service and the techniques applied by the pricing service to produce quotes that represent the fair value of a specific security. The review of the pricing 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.

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

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

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

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

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

		Fair Value Measurement at December 31, 2009 Using:		
	Fair Value at December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Fixed maturities				
Held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	$ 21,347	$ -	$ 21,347	$ -
States of the U.S. and political subdivisions of the states	247,878	-	247,878	-
Foreign governments	32,603	-	32,603	-
Corporate debt securities	6,644,056	-	6,635,387	8,669
Residential mortgage backed securities	695,972	-	692,702	3,270
Commercial mortgage backed securities	9,187	-	9,187	-
Collateralized debt securities	8,676	-	624	8,052
Other debt securities	46,757	-	46,757	-
Total fixed maturities, held-to-maturity	**$ 7,706,476**	**$ -**	**$ 7,686,485**	**$ 19,991**
Available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	3,886	-	3,886	-
States of the U.S. and political subdivisions of the states	558,035	-	558,035	-
Foreign governments	6,188	-	6,188	-
Corporate debt securities	3,253,012	-	3,238,004	15,008
Residential mortgage backed securities	355,565	-	355,548	17
Collateralized debt securities	22,494	-	21,138	1,356
Other debt securities	14,370	-	14,370	-
Total fixed maturities, available-for-sale	**$ 4,213,550**	**$ -**	**$ 4,197,169**	**$ 16,381**
Total fixed maturities	**$ 11,920,026**	**$ -**	**$ 11,883,654**	**$ 36,372**
Marketable equity securities				
Common stock:				
Consumer goods	174,120	174,120	-	-
Energy and utilities	124,770	124,770	-	-
Finance	156,744	156,744	-	-
Healthcare	110,121	110,121	-	-
Industrials	87,430	87,430	-	-
Information technology	150,162	150,162	-	-
Materials	25,170	25,170	-	-
Mutual funds	66,202	66,202	-	-
Telecommunication services	40,035	40,035	-	-
Preferred stock	35,717	35,123	-	594
Total marketable equity securities	**$ 970,471**	**$ 969,877**	**$ -**	**$ 594**
Options	32,801	-	-	32,801
Mortgage loans on real estate, net of allowance	2,267,157	-	2,267,157	-
Short-term investments	636,823	-	636,823	-
Total financial assets	**$ 15,827,278**	**$ 969,877**	**$ 14,787,634**	**$ 69,767**
Financial liabilities:				
Liability for embedded derivatives of equity indexed annuities	22,487	-	-	22,487
Total financial liabilities	**$ 22,487**	**$ -**	**$ -**	**$ 22,487**

	Fair Value at December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Fair Value Measurement at December 31, 2009 Using:		
Financial assets:				
Fixed maturities				
Held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	$ 11,830	$ -	$ 11,830	$ -
States of the U.S. and political subdivisions of the states	158,294	-	158,294	-
Foreign governments	32,456	-	32,456	-
Corporate debt securities	5,118,669	-	5,111,068	7,601
Residential mortgage backed securities	709,294	-	705,491	3,803
Commercial mortgage backed securities	7,742	-	7,742	-
Collateralized debt securities	34,824	-	26,117	8,707
Other debt securities	75,594	-	75,584	10
Total fixed maturities, held-to-maturity	**$ 6,148,703**	**$ -**	**$ 6,128,582**	**$ 20,121**
Available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	4,362	-	4,362	-
States of the U.S. and political subdivisions of the states	578,209	-	578,209	-
Foreign governments	7,332	-	7,332	-
Corporate debt securities	2,783,008	-	2,752,640	30,368
Residential mortgage backed securities	417,197	-	407,753	9,444
Commercial mortgage backed securities	-	-	-	-
Collateralized debt securities	21,072	-	18,062	3,010
Other debt securities	9,657	-	9,657	-
Total fixed maturities, available-for-sale	**$ 3,820,837**	**$ -**	**$ 3,778,015**	**$ 42,822**
Total fixed maturities	**$ 9,969,540**	**$ -**	**$ 9,906,597**	**$ 62,943**
Marketable equity securities				
Common stock:				
Consumer goods	167,533	167,533	-	-
Energy and utilities	113,319	113,319	-	-
Finance	133,642	133,642	-	-
Healthcare	109,503	109,503	-	-
Industrials	73,528	73,528	-	-
Information technology	104,679	104,679	-	-
Materials	25,524	25,524	-	-
Mutual funds	85,112	85,112	-	-
Telecommunication services	40,690	40,690	-	-
Preferred stock	48,822	27,566	-	21,256
Total marketable equity securities	**$ 902,352**	**$ 881,096**	$ -	**$ 21,256**
Options	6,157	-	-	6,157
Mortgage loans on real estate, net of allowance	1,891,895	-	1,891,895	-
Short-term investments	295,170	-	295,170	-
Total financial assets	**$ 13,065,114**	**$ 881,096**	**$ 12,093,662**	**$ 90,356**
Financial liabilities:				
Liability for embedded derivatives of equity indexed annuities	6,208	-	-	6,208
Total financial liabilities	**$ 6,208**	**$ -**	**$ -**	**$ 6,208**

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

	Fair Value Measurements Using Significant Unobservable Inputs Level 3 Totals
Beginning balance - January 1, 2009	**$ 84,148**
Net gains included in other comprehensive income	9,022
Net gain (loss) for derivatives included in net investment income	(18,267)
Purchases, sales, and settlements of derivatives (net)	21,413
Transfers into Level 3	175
Transfers out of Level 3	(49,211)
Ending balance - December 31, 2009	**$ 47,280**

There were no unrealized losses for the twelve months ended December 31, 2009 of Level 3 assets. The unrealized gains in Level 3 assets at December 31, 2009 were $9,022,000.

The transfers into Level 3 were the result of securities no longer being priced by the third-party pricing service. As the securities were priced by a third-party service, inputs were used that are observable or derived from market data, which resulted in classification of these assets as Level 2. In accordance with American National's pricing methodology, these securities are being valued with similar techniques as the pricing service; however, the Company developed data is used in the process, which results in unobservable inputs, and a corresponding transfer into Level 3. The transfers out of level 3 were comprised of $24.4 million of sales, $13.6 million of maturities, and $11.2 million of transfers into Level 2.

6. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs and premiums for the years ended December 31, 2009, 2008, and 2007 are summarized as follows (in thousands):

	Life & Annuity	Accident & Health	Property & Casualty	Total
Balance at December 31, 2006	**$ 981,035**	**$ 85,666**	**$ 121,178**	**$ 1,187,879**
Additions	216,660	18,735	232,138	467,533
Amortization	(156,017)	(24,508)	(224,499)	(405,024)
Effect of change in unrealized gains on available-for-sale securities	3,080	-	-	3,080
Net changes	63,723	(5,773)	7,639	65,589
Acquisitions	(2,170)	-		(2,170)
Foreign exchange effect	(13)	-		(13)
Balance at December 31, 2007	**$ 1,042,575**	**$ 79,893**	**$ 128,817**	**$ 1,251,285**
Additions	225,575	22,762	243,005	491,342
Amortization	(162,884)	(27,785)	(233,336)	(424,005)
Effect of change in unrealized gains on available-for-sale securities	164,937	-	-	164,937
Net changes	227,628	(5,023)	9,669	232,274
Acquisitions	(729)	-	-	(729)
Foreign exchange effect	(166)	-	-	(166)
Balance at December 31, 2008	**$ 1,269,308**	**$ 74,870**	**$ 138,486**	**$ 1,482,664**
Additions	203,930	16,729	256,758	477,417
Amortization	(143,453)	(21,746)	(248,607)	(413,806)
Effect of change in unrealized losses on available-for-sale securities	(215,294)	-	-	(215,294)
Net changes	(154,817)	(5,017)	8,151	(151,683)
Balance at December 31, 2009	**$ 1,114,491**	**$ 69,853**	**$ 146,637**	**$ 1,330,981**
2009 Premiums	$ 504,814	$ 309,701	$ 1,159,509	$ 1,974,024
2008 Premiums	$ 415,586	$ 290,883	$ 1,182,026	$ 1,888,495
2007 Premiums	$ 538,641	$ 283,765	$ 1,177,217	$ 1,999,623

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

Acquisitions relate to the purchase of various insurance portfolios under assumption reinsurance agreements.

The amounts for the present value of future profits resulting from the acquisition of life insurance portfolios have been accounted for in accordance with ASC 944-20-99-2 and are immaterial in all periods presented.

Prior to its sale (see Note 17), acquisition costs for American National's Mexican subsidiary were maintained in their functional currency of Mexican pesos, and translated into U.S. dollars for reporting purposes. Part of the change in deferred acquisition cost balance was due to differences in the exchange rate applied to the balance from period to period. The entire amount of this difference was reported in the shareholders' equity section of the consolidated statements of financial position.

7. LIABILITY FOR FUTURE POLICY BENEFITS AND POLICYHOLDER ACCOUNT BALANCES

American National establishes liabilities for amounts payable under insurance policies, including traditional life insurance, traditional annuities and non-medical health insurance. Generally, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, policy lapse, renewal, retirement, disability incidence, disability terminations, investment returns, inflation, expenses and other contingent events as appropriate to the respective product type. Utilizing these assumptions, liabilities are established on a block of business basis.

Future policy benefits for non-participating traditional life insurance policies are equal to the aggregate of the present value of expected future benefit payments and related expenses less the present value of expected future net premiums. Assumptions as to mortality and persistency are based upon American National's experience when the basis of the liability is established. Interest rates for the aggregate future policy benefit liabilities range from 3% to 8%.

Future policy benefit liabilities for acquired participating traditional life insurance policies are equal to the aggregate of (i) net level premium reserves for death and endowment policy benefits (calculated based upon the non-forfeiture interest rate, ranging from 2.5% to 5.5%) and mortality rates guaranteed in calculating the cash surrender values described in such contracts); and (ii) the liability for terminal dividends. Participating business represented approximately 9% of American National's life insurance in-force at December 31, 2009.

Future policy benefit liabilities for individual fixed annuities after annuitization are equal to the present value of expected future payments. The interest rate used in establishing such liabilities is 5% for all policies in-force.

Future policy benefit liabilities for non-medical health insurance are calculated using the net level premium method and assumptions as to future morbidity, withdrawals and interest, which provide a margin for adverse deviation. Interest rates used in establishing such liabilities range from 3.5% to 8%.

Future policy benefit liabilities for disabled lives are estimated using the present value of benefits method and experience assumptions as to claim terminations, expenses and interest. Interest rates used in establishing such liabilities range from 3% to 7.5%.

Liabilities for unpaid claims and claim expenses for property and casualty insurance are included in the liability for policy and contract claims and represent the amount estimated for claims that have been reported but not settled and claims incurred but not reported. Liabilities 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 liabilities are included in the results of operations in the period in which the changes occur.

Liabilities for universal life secondary guarantees and paid-up guarantees are determined by estimating the expected value of death benefits payable when the account balance is projected to be zero and recognizing those benefits ratably over the accumulation period based on total expected assessments. American National regularly evaluates estimates used and adjusts the additional liability balances, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used in estimating the secondary and paid-up guarantee liabilities are consistent with those used for amortizing DAC, and are thus subject to the same variability and risk. The assumptions of investment performance and volatility for variable products are consistent with historical Standard & Poor's experience. The benefits used in calculating the liabilities are based on the average benefits payable over a range of scenarios.

American National periodically reviews its estimates of actuarial liabilities for future policy benefits and compares them with its actual experience. Differences between actual experience and the assumptions used in pricing these policies, guarantees and riders and in the establishment of the related liabilities result in variances in profit and could result in losses. The effects of changes in such estimated liabilities are included in the results of operations in the period in which the changes occur.

Policyholder account balances relate to investment-type contracts and universal life-type policies. Investment-type contracts principally include traditional individual fixed annuities in the accumulation phase and non-variable group annuity contracts. Policyholder account balances are equal to (i) policy account values, which consist of an accumulation of gross premium payments; (ii) credited interest, ranging from 2.5% to 5.5% (some annuities also offer a first year bonus ranging from 1% to 8%), less expenses, mortality charges, and withdrawals; and (iii) fair value adjustments relating to business combinations.

8. LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

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

	2009	2008	2007
Balance at January 1	$ 1,310,272	$ 1,256,698	$ 1,308,603
Less reinsurance recoverables	377,692	363,140	421,737
Net beginning balance	**932,580**	**893,558**	**886,866**
Incurred related to:			
Current	1,139,481	1,158,452	1,073,249
Prior years	(30,623)	(43,045)	(93,524)
Total incurred	**1,108,858**	**1,115,407**	**979,725**
Paid related to:			
Current	690,085	709,705	636,234
Prior years	407,129	366,680	336,799
Total paid	**1,097,214**	**1,076,385**	**973,033**
Net balance at December 31	944,224	932,580	893,558
Plus reinsurance recoverables	279,987	377,692	363,140
Balance at December 31	**$ 1,224,211**	**$ 1,310,272**	**$ 1,256,698**

The balances at December 31 are included in policy and contract claims in the consolidated statements of financial position.

The potential uncertainty generated by volatility in loss development profiles is adjusted for through the selection of loss development factor patterns for each line of insurance. The net and gross reserve calculations have shown redundancies for the last several year-ends as a result of losses emerging favorably compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred losses and loss adjustment expenses attributable to insured events of prior years decreased by approximately $31,000,000 in 2009 and $43,000,000 in 2008.

9. REINSURANCE

As is customary in the insurance industry, American National reinsures portions of certain insurance policies written, thereby providing a greater diversification of risk and managing exposure on larger risks. The maximum amount that would be retained by one life insurance company (American National) would be $700,000 individual life, $250,000 individual accidental death, $100,000 group life and $125,000 credit life (total $1,175,000). If individual, group and credit were in force in all companies at the same time, the maximum risk on any one life could be $2,325,000.

For Property and Casualty, American National retains the first $1 million of loss per risk, reinsurance then covers the next $5 million of property and liability losses per risk. Additional excess property per risk coverage is purchased to cover risks up to $15 million, and excess casualty cash coverage is maintained to cover losses up to $50 million. Corporate catastrophe coverage is also in place for up to a $500 million event.

American National remains primarily liable with respect to any reinsurance ceded, and would bear the entire loss if the assuming companies were to be unable to meet their obligations under any reinsurance treaties.

To minimize its exposure to significant losses from reinsurer insolvencies, American National evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers. At December 31, 2009, amounts recoverable from reinsurers with a carrying value of $25,119,000 were associated with various auto dealer credit insurance program reinsurers domiciled in the Caribbean islands of Nevis or the Turks and Caicos Islands. American National holds collateral related to these reinsurers totaling $23,319,000. This collateral is in the form of custodial accounts controlled by the Company, which can be drawn on for amounts that remain unpaid for more than 90 days. American National believes that the failure of any single reinsurer to meet its obligations would not have a significant effect on its financial position or results of operations.

American National had amounts receivable from reinsurers totaling $371,654,000 at December 31, 2009. Of this amount, $3,527,000 represents amounts that are the subject of litigation or are in dispute with the reinsurers involved. Management believes that any dispute that may arise would not have a material impact on American National’s consolidated financial position.

Premiums, premium-related reinsurance amounts and reinsurance recoveries for the years ended December 31 are summarized as follows (in thousands):

	2009	2008	2007
Direct premiums	$ 2,113,109	$ 2,117,400	$ 2,134,669
Reinsurance premiums assumed from other companies	182,848	215,189	176,357
Reinsurance premiums ceded to other companies	(321,933)	(444,094)	(302,650)
Net premiums	**$ 1,974,024**	**$ 1,888,495**	**$ 2,008,376**
Reinsurance recoveries	**$ 193,529**	**$ 301,397**	**$ 198,553**

Life insurance in force and related reinsurance amounts at December 31 are summarized as follows (in thousands):

	2009	2008	2007
Direct life insurance in-force	$ 68,584,383	$ 68,820,212	$ 67,604,695
Reinsurance risks assumed from other companies	863,867	1,050,645	1,078,371
Total life insurance in-force	**69,448,250**	**69,870,857**	**68,683,066**
Reinsurance risks ceded to other companies	(31,347,876)	(31,241,255)	(29,635,648)
Net life insurance in-force	**$ 38,100,374**	**$ 38,629,602**	**$ 39,047,418**

10. NOTES PAYABLE

At December 31, 2009, American National’s real estate holding companies were partners in affiliates that had notes payable to third-party lenders totaling $73,842,000, $34,297,000 of this amount is due in 2010. These notes have interest rates ranging from 5.95% to 8.07% and maturities from 2010 to 2020. Each of these notes are secured by the real estate owned through the respective affiliated entity, and American National's liability for these notes are limited to the amount of its investment in the respective affiliate, which totaled $33,265,000 at December 31, 2009.

11. 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 for American National to the statutory federal income tax rate is as follows (in thousands, except percentages):

	For the Years Ended December 31,					
	2009		2008		2007	
	Amount	Rate	Amount	Rate	Amount	Rate
Income tax (benefit) on pre-tax income	$ (4,348)	35.0 %	$ (105,021)	35.0 %	$ 121,536	35.0 %
Tax-exempt investment income	(9,351)	75.3	(8,791)	2.9	(6,360)	(1.8)
Dividend exclusion	(8,432)	67.9	(12,028)	4.0	(6,589)	(1.9)
Miscellaneous tax credits, net	(6,963)	56.0	(5,835)	1.9	(3,862)	(1.1)
Foreign operations	-	-	-	-	1,735	0.5
Other items, net	(2,713)	21.8	9,645	(3.1)	(597)	(0.2)
Total	**$ (31,807)**	**256.0 %**	**$ (122,030)**	**40.7 %**	**$ 105,863**	**30.5 %**

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

	For the Years Ended December 31,	
	2009	2008
DEFERRED TAX ASSETS:		
Marketable securities, principally due to impairment losses	$ 109,650	$ 138,487
Marketable securities, principally due to net unrealized losses	-	146,191
Investment in real estate and other invested assets principally due to investment valuation allowances	18,315	1,279
Policyholder funds, principally due to policy reserve discount	211,547	187,277
Policyholder funds, principally due to unearned premium reserve	31,312	30,716
Non-qualified pension	29,109	27,630
Participating policyholders' surplus	28,505	28,615
Pension	35,228	36,968
Commissions and other expenses	16,209	24,395
Tax carryforwards	8,666	623
Other assets	5,952	8,895
Gross deferred tax assets	**494,493**	**631,076**
Valuation allowance	(400)	(1,000)
Net deferred tax assets	**$ 494,093**	**$ 630,076**
DEFERRED TAX LIABILITIES:		
Marketable securities, principally due to net unrealized gains	(114,861)	-
Investment in bonds, principally due to accrual of discount on bonds	(13,426)	(18,221)
Deferred policy acquisition costs, due to difference between GAAP and tax amortization methods	(356,014)	(410,970)
Property, plant and equipment, principally due to difference between GAAP and tax depreciation methods	(4,758)	(5,377)
Gross deferred tax liabilities	**(489,059)**	**(434,568)**
Total net deferred tax - asset	**$ 5,034**	**$ 195,508**

Management believes that a sufficient level of taxable income will be achieved to utilize the net deferred tax assets of the companies in the consolidated federal tax return. However, a valuation allowance has been established for one company that files a stand-alone federal tax return. The valuation allowance is not material to the Consolidated Statements of Financial Position. Also, if not utilized beforehand, American National has approximately $1,548,000 in capital loss tax carryforwards that will expire at the end of tax year 2014 and approximately $7,118,000 in ordinary loss tax carryforwards that will expire at the end of tax year 2029.

In accordance with ASC 740-10, "*Accounting for Uncertainty in Income Taxes*", American National maintained a reserve for unrecognized tax benefits in 2008 and 2007. The reserve was removed during 2009 because the tax was fully settled. The reserve was included in the "Other Liabilities" line in the Consolidated Statements of Financial Position as of December 31, 2008. The change in the reserve is as follows (in thousands):

	2009	2008	2007
Unrecognized tax positions			
Balance at beginning of year	$ 1,054	$ 4,618	$ 5,832
Tax positions related to prior years	-	-	-
Current year tax positions	-	-	-
Settlements during the year	(1,054)	(3,564)	(1,214)
Lapse in statute of limitations	-	-	-
Balance at end of year	**$ -**	**$ 1,054**	**$ 4,618**

American National recognizes interest expense and penalties related to uncertain tax positions. Interest expense and penalties are included in the "Other operating costs and expenses" line in the Consolidated Statements of Operations. However, no interest expense was incurred as of December 31, 2009 while approximately $268,000 was recognized as of December 31, 2008. Also, no provision for penalties was established for uncertain tax positions.

Management does not believe that there are any 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 for years 2005 to 2008 has either been extended or has not expired. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld.

Federal income taxes netting to approximately $46,818,000 were refunded by the IRS in 2009. Federal income taxes totaling approximately $14,572,000, and $101,333,000 were paid to the Internal Revenue Service in 2008 and 2007, respectively.

12. COMPONENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Before Federal Income Tax	Federal Income Tax Expense	Net of Federal Income Tax
December 31, 2009			
Unrealized gains	$ 746,821	$ 332,846	$ 413,975
Less: reclassification adjustment for net losses realized in net loss	(47,503)	(16,626)	(30,877)
Net unrealized gain component of comprehensive income	**$ 699,318**	**$ 316,220**	**$ 383,098**
December 31, 2008			
Unrealized losses	$ (138,311)	$ (48,409)	$ (89,902)
Less: reclassification adjustment for net losses realized in net loss	(372,194)	(130,268)	(241,926)
Net unrealized loss component of comprehensive loss	**$ (510,505)**	**$ (178,677)**	**$ (331,828)**
December 31, 2007			
Unrealized losses	$ (20,082)	$ (7,029)	$ (13,053)
Less: reclassification adjustment for net gains realized in net income	20,494	7,173	13,321
Net unrealized gain component of comprehensive income	**$ 412**	**$ 144**	**$ 268**

13. 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 December 31, 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Common stock			
Shares issued	30,832,449	30,832,449	30,832,449
Treasury shares	4,012,283	4,013,616	4,099,617
Restricted shares	261,334	339,001	253,000
Unrestricted outstanding shares	**26,558,832**	**26,479,832**	**26,479,832**

Stock-based compensation

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

The plan provides for the award of Restricted Stock. Restricted Stock Awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition, and are subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. The restrictions on these awards lapse after 10 years, and feature a graded vesting schedule in the case of the retirement of an award holder. Eight awards of restricted stock have been granted, with a total of 340,334 shares granted at an exercise price of zero. These awards result in compensation expense to American National over the vesting period. The amount of compensation expense recorded was $3,733,000 in 2009, $2,694,000 in 2008, and $2,000,000 in 2007.

The plan provides for the award of Stock Appreciation Rights (SAR). The SAR's give the holder the right to compensation based on the difference between the price of a share of stock on the grant date and the price on the exercise date. The SARs vest at a rate of 20% per year for 5 years and expire 5 years after the vesting period. American National uses the average of the high and low price on the last trading day of the period to calculate the fair value and compensation expense for SARs. The fair value of the SARs was $1,613,000 and $16,000 at December 31, 2009 and 2008, respectively. Compensation expense or (income) was recorded totaling $1,997,000, $(1,777,000), and $1,376,000 for the years ended December 31, 2009, 2008, and 2007, respectively.

SAR and Restricted Stock (RS) information for 2009, 2008 and 2007 follows:

	SAR Shares	SAR Weighted-Average Price per Share	RS Shares	RS Weighted-Average Price per Share
Outstanding at December 31, 2006	**132,699**	**$ 95.05**	**247,000**	**$ 4.51**
Granted	4,500	130.52	6,000	-
Exercised	(34,795)	91.36	-	-
Forfeited	(5,680)	98.20	-	
Outstanding at December 31, 2007	**96,724**	**$ 97.84**	**253,000**	**$ 4.40**
Granted	96,917	115.92	86,001	-
Exercised	(4,109)	81.30	-	-
Forfeited	-	-	-	
Outstanding at December 31, 2008	**189,532**	**$ 107.44**	**339,001**	**$ 3.28**
Granted	2,999	66.76	1,333	-
Exercised	(18,184)	92.50	(79,000)	-
Forfeited	(12,898)	105.46	-	
Outstanding at December 31, 2009	**161,449**	**$ 108.53**	**261,334**	**$ -**

The weighted-average contractual remaining life for the 161,449 SAR shares outstanding as of December 31, 2009, is 7.0 years. The weighted-average exercise price for these shares is $108.53 per share. Of the shares outstanding, 66,650 are exercisable at a weighted-average exercise price of $103.30 per share.

The weighted-average contractual remaining life for the 261,334 Restricted Stock shares outstanding as of December 31, 2009, is 5.6 years. The weighted-average exercise price for these shares is $0 per share. None of the shares outstanding was exercisable.

Earnings (loss) per share

Basic earnings (loss) per share was calculated using a weighted average number of shares outstanding of 26,528,832 at December 31, 2009 and 26,479,832 at December 31, 2008 and 2007. The Restricted Stock resulted in diluted earnings per share as follows for years 2009 and 2007. Due to the net losses incurred in 2008, diluted earnings per share equaled basic earnings per share.

	2009	2008	2007
Weighted average shares outstanding	26,528,832	26,479,832	26,479,832
Incremental shares from restricted stock	68,644	-	158,387
Total shares for diluted calculations	**26,597,476**	**26,479,832**	**26,638,219**
Net income (loss) attributed to American National Insurance Company and Subsidiaries	**15,625,000**	**(153,998,000)**	**240,773,000**
Diluted earnings (losses) per share	**$ 0.59**	**$ (5.82)**	**$ 9.04**

Due to a loss during 2008, zero incremental shares were included because the effect would be antidilutive.

Dividends

American National's payment of dividends to stockholders is restricted by statutory regulations. Generally, the restrictions require life insurance companies to maintain minimum amounts of capital and surplus, and in the absence of special approval, limit the payment of dividends to the greater of statutory net gain from operations on an annual, non-cumulative basis, or 10% of statutory surplus. Additionally, insurance companies are not permitted to distribute the excess of stockholders' equity, as determined on a GAAP basis over that determined on a statutory basis. At December 31, 2009 and 2008 American National's statutory capital and surplus was $1,892,467,000 and 1,804,712,000, respectively.

Generally, the same restrictions on amounts that can transfer in the form of dividends, loans, or advances to the parent company apply to American National's insurance subsidiaries. Dividends received by American National from its non-insurance subsidiaries amounted to $5,000,000 in 2009, while no dividends were received during 2008 and 2007.

At December 31, 2009, approximately $1,406,599,000 of American National's consolidated stockholders' equity represents net assets of its insurance subsidiaries, compared to 1,297,226,000 at December 31, 2008. Any transfer of these net assets to American National would be subject to statutory restrictions and approval.

Noncontrolling interests

American National County Mutual Insurance Company (County Mutual) is a mutual insurance company that is owned by its policyholders. However, 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 interest that the policyholders of County Mutual have in the financial position of County Mutual is reflected as noncontrolling interest totaling $6,750,000 at December 31, 2009 and 2008.

American National's wholly-owned subsidiary, ANTAC, Inc., is a partner in various joint ventures. ANTAC exercises significant control or ownership of these joint ventures, resulting in their consolidation into the American National consolidated financial statements. As a result of the consolidation, the interest of the other partners of the joint ventures is shown as noncontrolling interests. Noncontrolling interests were a net liability of $5,205,000 and $1,627,000 in 2009 and 2008, respectively.

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

14. 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, medical expense, employer medical stop loss, true group, other supplemental health products and credit disability insurance. Health products are typically distributed through independent agents and Managing General Underwriters.

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

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

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

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

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

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

- Realized gains or losses on investments are allocated to Corporate and Other.

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

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

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

The following tables summarizes American National's key financial measures used by the chief operating decision makers, including operating results and allocation of assets as of and for the years ended December 31, 2009, 2008 and 2007 (in thousands):

December 31, 2009

	Life	Annuity	Health	Property & Casualty	Corporate & Other	TOTAL
Premiums and Other Revenues:						
Premiums	$ 284,530	$ 220,284	$ 309,701	$ 1,159,509	$ -	$ 1,974,024
Other policy revenues	164,748	14,756	-	-	-	179,504
Net investment income	222,611	449,035	15,992	66,175	86,292	840,105
Other income	2,720	(3,870)	10,382	7,064	15,547	31,843
Total operating revenues	**674,609**	**680,205**	**336,075**	**1,232,748**	**101,839**	**3,025,476**
Realized gains/(losses) on investments	-	-	-	-	(75,697)	(75,697)
Total revenues	**674,609**	**680,205**	**336,075**	**1,232,748**	**26,142**	**2,949,779**
Benefits, Losses and Expenses:						
Policy benefits	297,719	249,709	239,407	923,064	-	1,709,899
Interest credited to policy account balances	58,983	311,580	-	-	-	370,563
Commissions for acquiring and servicing policies	91,968	107,053	51,717	209,203	2	459,943
Other operating costs and expenses	185,048	59,254	62,134	124,266	54,707	485,409
Decrease (increase) in deferred policy acquisition costs	1,536	(62,013)	5,017	(8,151)	-	(63,611)
Total benefits, losses and expenses	**635,254**	**665,583**	**358,275**	**1,248,382**	**54,709**	**2,962,203**
Income (loss) from continuing operations before federal income taxes, and equity in losses of unconsolidated affiliates	**39,355**	**14,622**	**(22,200)**	**(15,634)**	**(28,567)**	**(12,424)**
Provision (benefit) for federal income taxes	(12,987)	(4,825)	7,326	5,159	37,134	**31,807**
Net loss attributable to noncontrolling interests					(458)	(458)
Equity in losses of unconsolidated affiliates	-	-	-	-	(4,216)	(4,216)
Net Income (loss) attributable to American National Insurance Company and Subsidiaries	**$ 26,368**	**$ 9,797**	**$ (14,874)**	**$ (10,475)**	**$ 4,809**	**$ 15,625**
Selected Data:						
Total Assets	$ 4,875,165	$ 9,683,972	$ 613,539	$ 2,066,477	$ 2,910,354	$ 20,149,507
Return on Equity	3.59%	1.68%	(10.35)%	(2.15)%	29.37%	11.31%

December 31, 2008

	Life	Annuity	Health	Property & Casualty	Corporate & Other	TOTAL
Premiums and Other Revenues:						
Premiums	$ 299,338	$ 116,248	$ 290,883	$ 1,182,026	$ -	$ 1,888,495
Other policy revenues	154,984	19,915	-	-	-	174,899
Net investment income	226,643	374,023	16,566	69,348	109,597	796,177
Other income	3,767	(5,718)	13,252	8,973	18,505	38,779
Total operating revenues	**684,732**	**504,468**	**320,701**	**1,260,347**	**128,102**	**2,898,350**
Realized gains/(losses) on investments	-	-	-	-	(379,709)	(379,709)
Total revenues	**684,732**	**504,468**	**320,701**	**1,260,347**	**(251,607)**	**2,518,641**
Benefits, Losses and Expenses:						
Policy benefits	296,078	142,867	223,055	939,854	-	1,601,854
Interest credited to policy account balances	62,221	237,612	-	-	-	299,833
Commissions for acquiring and servicing policies	126,813	79,213	43,219	226,100	-	475,345
Other operating costs and expenses	222,908	45,491	69,961	132,601	37,839	508,800
Decrease (increase) in deferred policy acquisition costs	(42,103)	(20,690)	5,023	(9,669)	-	(67,439)
Total benefits, losses and expenses	**665,917**	**484,493**	**341,258**	**1,288,886**	**37,839**	**2,818,393**
Income (loss) from continuing operations before federal income taxes, and equity in losses of unconsolidated affiliates	**18,815**	**19,975**	**(20,557)**	**(28,539)**	**(289,446)**	**(299,752)**
Provision (benefit) for federal income taxes	(6,209)	(6,592)	6,784	9,418	118,629	**122,030**
Net loss attributable to noncontrolling interests					(31)	(31)
Equity in losses of unconsolidated affiliates	-	-	-	-	4,965	4,965
Income (loss) from continuing operations	**12,606**	**13,383**	**(13,773)**	**(19,121)**	**(165,821)**	**(172,726)**
Income (loss) from discontinued operations	18,728	-	-	-	-	18,728
Net Income (loss) attributable to American National Insurance Company and Subsidiaries	**$ 31,334**	**$ 13,383**	**$ (13,773)**	**$ (19,121)**	**$ (165,821)**	**$ (153,998)**
Selected Data:						
Total Assets	$ 4,823,465	$ 8,265,270	$ 759,089	$ 2,248,514	$ 2,283,101	$ 18,379,439

December 31, 2007

	Life		Annuity		Health		Property & Casualty		Corporate & Other		TOTAL
Premiums and Other Revenues:											
Premiums	$ 315,893		$ 222,748		$ 283,765		$ 1,177,217		$ -		$ 1,999,623
Other policy revenues	130,744		24,486		-		-		-		155,230
Net investment income	229,092		364,607		16,710		75,041		127,519		812,969
Other income	3,967		345		13,048		8,623		21,241		47,224
Total operating revenues	**679,696**		**612,186**		**313,523**		**1,260,881**		**148,760**		**3,015,046**
Realized gains/(losses) on investments	-		-		-		-		41,027		41,027
Total revenues	**679,696**		**612,186**		**313,523**		**1,260,881**		**189,787**		**3,056,073**
Benefits, Losses and Expenses:											
Policy benefits	273,750		249,878		209,840		818,230		-		1,551,698
Interest credited to policy account balances	63,289		232,605		-		-		-		295,894
Commissions for acquiring and servicing policies	141,517		58,635		39,342		217,043		-		456,537
Other operating costs and expenses	200,361		35,030		57,975		110,705		61,069		465,140
Decrease (increase) in deferred policy acquisition costs	(57,666)		(911)		5,774		(7,639)		-		(60,442)
Total benefits, losses and expenses	**621,251**		**575,237**		**312,931**		**1,138,339**		**61,069**		**2,708,827**
Income (loss) from continuing operations before federal income taxes, and equity in losses of unconsolidated affiliates	**58,445**		**36,949**		**592**		**122,542**		**128,718**		**347,246**
Provision (benefit) for federal income taxes	(19,287)		(12,193)		(195)		(40,439)		(33,749)		(105,863)
Net loss attributable to noncontrolling interests			-		-		-		(482)		(482)
Equity in losses of unconsolidated affiliates	-		-		-		-		3,866		3,866
Income (loss) from continuing operations	**39,158**		**24,756**		**397**		**82,103**		**99,317**		**245,731**
Income (loss) from discontinued operations	(4,958)		-		-		-		-		(4,958)
Net Income (loss) attributable to American National Insurance Company and Subsidiaries	**$ 34,200**		**$ 24,756**		**$ 397**		**$ 82,103**		**$ 99,317**		**$ 240,773**
Selected Data:											
Total Assets	$ 4,836,221		$ 7,464,512		$ 752,863		$ 2,036,372		$ 3,370,920		$ 18,460,888
Return on Equity	6.44%		5.29%		0.28%		16.40%		5.81%		6.85%

15. RETIREMENT BENEFITS

Pension benefits

American National and its subsidiaries have one active, tax-qualified, defined-benefit pension plan and one inactive plan. The active plan has three separate noncontributory programs. One of the programs covers Career Sales & Service Division agents and managers. The other two programs cover salaried and management employees and home office clerical employees subject to a collective bargaining agreement. The program covering salaried and management employees provides pension benefits that are based on years of service and the employee's compensation during the five years before retirement. The programs covering hourly employees and agents generally provide benefits that are based on the employee's career average earnings and years of service.

The inactive tax-qualified defined-benefit pension plan covers employees of the Farm Family companies hired prior to January 1, 1997. Effective January 1, 1997, benefits through this plan were frozen, and no new participants have been added.

American National also sponsors for key executives three non-tax-qualified pension plans that restore benefits that would otherwise be curtailed by statutory limits on qualified plan benefits.

Effective December 31, 2006, American National adopted the recognition and disclosure provisions of ASC 715 (formerly FAS 158). ASC 715 requires companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability on its consolidated statement of financial position. Effective with the consolidated financial statements for 2008, ASC 715 also requires companies to use a measurement date for their defined benefit plans that is the same as their fiscal year end. As a result of this requirement, American National changed its measurement date from September 30 to December 31, using the alternative method specified in ASC 715, for the one qualified plan that was not already using a December 31 date. The effect of this change was an additional periodic benefit cost of $1,770,000 (net of tax) which was charged directly to retained earnings in 2008.

Combined activity in the defined benefit pension plans as of December 31 was as follows (in thousands):

Amounts recognized in the consolidated statements of financial position as of December 31 consist of (in thousands):

	2009	2008	2007
Reconciliation of benefit obligation:			
Obligation at beginning of year	$ 328,783	$ 302,657	$ 283,344
Service cost benefits earned during period	11,163	12,319	9,326
Interest cost on projected benefit obligation	20,319	22,077	16,483
Participant contributions	-	746	730
Actuarial gain	19,141	6,015	8,461
Benefits paid	(19,032)	(15,031)	(15,687)
Obligation at end of year	360,374	328,783	302,657
Reconciliation of fair value of plan assets:			
Fair value of plan assets at beginning of year	149,874	183,018	167,478
Actual return on plan assets	28,729	(38,552)	15,979
Employer contributions	24,929	19,689	14,580
Participant contributions	-	746	731
Benefits paid	(19,032)	(15,027)	(15,750)
Fair value of plan assets at end of year	184,500	149,874	183,018
Funded status at end of year	**$ (175,874)**	**$ (178,909)**	**$ (119,639)**

The components of the combined net periodic benefit cost for the defined benefit pension plans for the years ended December 31 were as follows (in thousands):

	2009	2008	2007
Service cost	$ 11,163	$ 9,974	$ 9,366
Interest cost	20,319	19,003	16,483
Expected return on plan assets	(13,736)	(13,571)	(12,375)
Amortization of prior service cost	3,469	3,469	3,666
Amortization of transition obligation	-	-	117
Amortization of net gain	9,134	4,412	6,197
Net periodic benefit cost	**$ 30,349**	**$ 23,287**	**$ 23,454**

Amounts related to the defined benefit pension plans recognized as a component of other comprehensive income (loss) for the years ended December 31 were as follows (in thousands):

	2009	2008	2007
Prior service cost	$ 3,469	$ 3,469	$ 3,711
Net actuarial gain (loss)	4,909	(57,385)	2,215
Deferred tax benefit (expense)	(2,932)	18,871	(2,074)
Other comprehensive income (loss), net of tax	**$ 5,446**	**$ (35,045)**	**$ 3,852**

Amounts recognized as a component of accumulated other comprehensive income (loss) for the years ended December 31 that have not been recognized as a component of the combined net periodic benefit cost of the defined benefit pension plans, are presented in the following table (in thousands). The estimated net loss and prior service cost for the plan that will be amortized out of accumulated other comprehensive income into the net periodic benefit cost over the next fiscal year are $7,530,000 and $2,324,000 respectively.

	2009	2008
Prior service cost	$ (2,324)	$ (5,793)
Net actuarial loss	(95,851)	(100,759)
Deferred tax benefit	34,361	37,293
Amounts included in accumulated other comprehensive income (loss)	**$ (63,814)**	**$ (69,259)**

The weighted average assumptions used in the measurement of the Company's benefit obligation are shown in the following table:

	Used for Net Benefit Cost in Fiscal Year 1/1/2009 to 12/31/2009	Used for Benefit Obligations as of 12/31/2009
Discount rate	6.17%	5.73%
Rate of compensation increase	4.20%	4.20%
Long-term rate of return	7.65%	7.65%

American National's funding policy for the pension plans is to make annual contributions in accordance with the minimum funding standards of the Employee Retirement Income Security Act of 1974. The unfunded plans will be funded out of general corporate assets when necessary. American National contributed $24,930,000 and $19,700,000 to the qualified pension plan in 2009 and 2008, respectively. American National and its affiliates expect to contribute $16,000,000 to its qualified pension plan in fiscal year 2010.

The following table shows pension benefit payments, which reflect expected future service as appropriate, that are expected to be paid (in thousands) for the years ended December 31:

	Pension Benefit Payments
2010	$ 21,611
2011	18,828
2012	20,890
2013	21,001
2014	25,191
2015-2019	145,070

The fair values of the Company's pension plan assets at December 31, 2009 by asset category are as follows (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Asset Category			
Corporate Debt Securities	$ 64,998	$ -	$ 64,998
Residential Mortgage Backed Securities	473	-	473
Marketable Equity Securities by Sector:			
Consumer Directory	9,759	9,759	-
Consumer Staples	10,377	10,377	-
Energy	8,202	8,202	-
Finance	14,583	14,583	-
Healthcare	11,042	11,042	-
Industrials	8,272	8,272	-
Information Technology	14,432	14,432	-
Materials	1,894	1,894	-
Telecom services	4,075	4,075	-
Utilities	2,839	2,839	-
Other types of investments:			
Commercial Paper	26,418	-	26,418
Money Market	16	16	-
Unallocated Group Annuity Contract	6,643	-	6,643
Contribution receivable	134	134	-
Other	343	343	-
Total	**$ 184,500**	**$ 85,968**	**$ 98,532**

American National utilizes third-party pricing services to estimate fair value measurements of their pension plan assets. Please refer to Note 5 for further information concerning the valuation methodologies and related inputs utilized by the third-party pricing services. The pension plans have no level 3 assets.

The Corporate Debt Securities category, in the above table, represents investment grade bonds of U.S and foreign issuers from diverse industries, with a maturity of 1 to 30 years. Foreign bonds acquired by the Company must be Investment Grade, denominated and payable in U.S. Dollars, and in the aggregate shall not exceed 20% of the bond portfolio without approval of the Company's Finance Committee.

Residential Mortgage Backed Securities represents Asset-Backed Securities with a maturity date 1 to 30 years with a rating of NAIC 1 or 2.

Equity portfolio managers are allowed to choose the degree of concentration in various issues and industry sectors for the Marketable Equity Securities investments. However, the initial purchase of a single company should not exceed 5% of the equity portfolio market value. Permitted securities are those listed on the New York Stock Exchange, the American Stock Exchange, principal regional exchanges and in over-the-counter securities for which there is an active market providing ready marketability of the specific security.

The Commercial Paper category represents investments with a credit rating of A-2 Moody's or P-2 by Standard and Poor's with at least BBB rating on company's outstanding debt, or selected companies with no outstanding debt.

The investment policy for the qualified retirement plan assets is designed to provide the highest return possible commensurate with sound and prudent underwriting practices. The investment diversification goals are to have investments in cash from zero to 15%, debt securities from 40% to 80% and equity securities from 20% to 60% of the total invested plan assets. The amount invested in any particular investment is limited based on credit quality, and no single investment is allowed to be more than 5% of the total invested assets.

The overall expected long-term rate of return on assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). All three components are based primarily on historical data.

While the precise expected return derived using the above approach will fluctuate somewhat from year to year, American National's policy is to hold this long-term assumption constant as long as it remains within a reasonable tolerance from the derived rate.

Postretirement life and health benefits

American National and its subsidiaries provide certain health and/or dental benefits to retirees. Participation in these plans is limited to current retirees and their dependents who met certain age and length of service requirements. No new participants will be added to these plans in the future.

The primary retiree health benefit plan provides major medical benefits for participants under the age of 65 and Medicare Supplemental benefits for those over 65. Prescription drug benefits are provided to both age groups. The plan is contributory, with the Company's contribution limited to $80 per month for retirees and spouses under the age of 65 and $40 per month for retirees and spouses over the age of 65. All additional contributions necessary, over the amount to be contributed by American National, are to be contributed by the retirees.

The accrued postretirement benefit obligation, included in the liability for retirement benefits, was $5,100,000 and $5,200,000 at December 31, 2009 and 2008, respectively. These amounts were approximately equal to the unfunded accumulated postretirement benefit obligation. Since American National's contributions to the cost of the retiree benefit plans are fixed, the health care cost trend rate will have no effect on the future expense or the accumulated postretirement benefit obligation.

Under American National and its subsidiaries' various group benefit plans for active employees, life insurance benefits are provided upon retirement for eligible participants who meet certain age and length of service requirements.

Savings plans

In addition to the defined benefit pension plans, American National sponsors one defined contribution plan for all employees excluding those of the Farm Family companies, and an incentive savings plan for employees of the Farm Family companies. The defined contribution plan (401(k) plan) allows employees to contribute up to the maximum allowable amount as determined by the Internal Revenue Service. American National does not contribute to the defined contribution plan. Company contributions are made under the incentive savings plan for the Farm Family companies, with a discretionary portion based on the profits earned by the Farm Family companies. The expense associated with this plan was $1,400,000 for 2009, $2,800,000 for 2008 and $2,700,000 for 2007.

16. COMMITMENTS AND CONTINGENCIES

Commitments

American National and its subsidiaries lease insurance sales office space in various cities. The remaining long-term lease commitments at December 31, 2009, were approximately $4,124,000.

In the ordinary course of their operations, the companies also had commitments outstanding at December 31, 2009, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating $240,434,000, of which $218,555,000 is expected to be funded in 2010. The remaining balance of $21,879,000 will be funded in 2011 and beyond. As of December 31, 2009, all of the mortgage loan commitments have interest rates that are fixed.

Guarantees

In the normal course of business, American National has guaranteed bank loans for customers of a third-party marketing operation. The bank loans are used to fund premium payments on life insurance policies issued by American National. The loans are secured by the cash values of the life insurance policies. If the customer were to default on the bank loan, American National would be obligated to pay off the loan. However, since the cash value of the life insurance policies always equals or exceeds the balance of the loans, management does not foresee any loss on the guarantees. The total amount of the guarantees outstanding as of December 31, 2009, was approximately $206,513,000, while the total cash values of the related life insurance policies was approximately $211,826,000.

Litigation

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

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 (*Rand v. American National Insurance Company,* United States District Court for the Northern District of California, filed February 12, 2009). Plaintiff alleges that American National violated the California Insurance, Business & Professions, Welfare & Institutions, and Civil Codes through its marketing practices. Plaintiff seeks statutory penalties, restitution, interest, penalties, attorneys' fees, punitive damages and injunctive relief in an unspecified amount. American National believes that it has meritorious defenses; however, no prediction can be made as to the probability or remoteness of any recovery against American National.

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

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

17. DISCONTINUED OPERATIONS

On December 4, 2008, our life insurance business in Mexico, American National de Mexico, Compania de Seguros de Vida, S.A. de C.V., along with non-insurance affiliates Servicios de Administracion American National S.A. de C.V. and American National Promotora de Ventas S.A. de C.V. were sold to a third party for approximately $2,400,000. Accordingly, the business is accounted for as a discontinued operation within the life-operating segment.

Assets sold at the closing date included $8,400,000 of invested assets, $700,000 of deferred policy acquisition costs, and $500,000 of other assets. The liabilities sold at the closing date included $5,900,000 of reserves, $400,000 of policy account balances, and $500,000 of other liabilities.

The Mexico operation reported a $3,330,000 in pretax losses for 2008. The sale resulted in a loss on sale of discontinued operations of $1,890,000 before taxes. As part of the sale, a $22,059,000 income tax benefit was reported in 2008 because the tax basis of the investment in American National de Mexico exceeded the financial statement carrying value.

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, health insurance contracts, legal services, and insurance contracts. The impact on the consolidated financial statements of the significant related party transactions as of December 31, 2009, is shown below (in thousands):

Related Party	Financial Statement Line Impacted	December 31, 2009
Gal-Tex Hotel Corporation	Mortgage loans on real estate	$ 11,875
Gal-Tex Hotel Corporation	Investment income	895
Gal-Tex Hotel Corporation	Other operating costs and expenses	314
Gal-Tex Hotel Corporation	Accident and health premiums	56
Moody Insurance Group, Inc.	Commissions	2,813
Moody Insurance Group, Inc.	Other operating costs and expenses	216
National Western Life Ins. Co.	Accident and health premiums	226
National Western Life Ins. Co.	Other operating costs and expenses	1,300
Moody Foundation	Accident and health premiums	124
Greer, Herz and Adams, LLP	Other operating costs and expenses	10,967

19. SELECTED QUARTERLY FINANCIAL DATA

Supplementary Financial Information

The Unaudited selected quarterly financial data for 2009 and 2008 are summarized in the tables below (in thousands, except per share data):

	Quarters Ended 2009				
	March 31,	June 30,	September 30,	December 31,	Total
Total revenues	$ 651,997	$ 727,790	$ 780,347	$ 789,645	$ 2,949,779
Total benefits, losses and expenses	728,777	740,309	745,280	747,837	2,962,203
Income (loss) from continuing operations before federal income tax and equity in earnings of unconsolidated affiliates	(76,780)	(12,519)	35,067	41,808	(12,424)
Provision (benefit) for federal income taxes	(31,023)	(10,776)	3,229	6,763	(31,807)
Equity in earnings (losses) of unconsolidated affiliates, net of tax	(1,937)	(3,180)	2,110	(1,209)	(4,216)
Income (loss) from continuing operations	(47,694)	(4,923)	33,948	33,836	15,167
Net income (loss)	(47,694)	(4,923)	33,948	33,836	15,167
Net income (loss) attributable to noncontrolling interest	(1)	(568)	1,248	(1,137)	(458)
Net income (loss) attributable to American National Insurance Company and subsidiaries	(47,693)	(4,355)	32,700	34,973	15,625
Net income/(loss) per share attributable to American National Insurance Company and subsidiaries:					
Basic	(1.80)	(0.16)	1.23	1.32	0.59
Diluted	(1.80)	(0.16)	1.23	1.32	0.59

	Quarters Ended 2008				
	March 31,	June 30,	September 30,	December 31,	Total
Total revenues	$ 724,080	$ 731,188	$ 522,493	$ 540,880	$ 2,518,641
Total benefits, losses and expenses	681,137	744,873	707,635	684,748	2,818,393
Income (loss) from continuing operations before federal income tax and equity in earnings of unconsolidated affiliates	42,943	(13,685)	(185,142)	(143,868)	(299,752)
Provision (benefit) for federal income taxes	10,220	(11,237)	(62,526)	(58,487)	(122,030)
Equity in earnings (losses) of unconsolidated affiliates, net of tax	7,648	613	(1,795)	(1,501)	4,965
Income (loss) from continuing operations(a)	40,371	(1,709)	(123,092)	(88,327)	(172,757)
Income (loss) from discontinued operations	(1,346)	(1,100)	(622)	21,796	18,728
Net income (loss)	39,025	(2,809)	(123,714)	(66,531)	(154,029)
Net income (loss) attributable to noncontrolling interest	-	126	1,319	(1,476)	(31)
Net income (loss) attributable to American National Insurance Company and subsidiaries	39,025	(2,935)	(125,033)	(65,055)	(153,998)
Net income/(loss) per share attributable to American National Insurance Company and subsidiaries:					
Basic	1.47	(0.11)	(4.72)	(2.46)	(5.82)
Diluted	1.47	(0.11)	(4.72)	(2.46)	(5.82)

(a) Effect of accounting change ASC 810 Consolidation-Noncontrolling Interest. Refer to Note 2.

Unaudited - see accompanying accountants' report.

20. RECLASSIFICATIONS

Certain reclassifications have been made to the 2008 and 2007 consolidated financial statements to conform them to the 2009 presentation. Cash flow information has been revised to reclassify the “activities” within the investing sections disclosed in the Form 10 registration statement filed July 2, 2009. The “activities” affected are: Proceeds from the sales of, Proceeds from the maturity of, Principal payments received, and Purchases of investments all within the net cash used in investing activities. Management believes that the changes in the presentation of the consolidated statements of cash flows is immaterial relative to the consolidated financial statements taken as a whole. The result of this reclassification on net cash used in investing activities in the 2008 and 2007 consolidated statements of cash flows is as follows (in thousands):

INVESTING ACTIVITIES	12/31/2008 *(As filed)*	12/31/2008 *(Reclassified)*	Change	12/31/2007 *(As filed)*	12/31/2007 *(Reclassified)*	Change
Proceeds from sales of:						
Bonds - available for sale	104,093	6,353	97,740	68,004	68,004	-
Stocks	129,270	129,270	-	277,429	277,429	-
Real estate	-	4,500	(4,500)	84,744	84,744	-
Mortgage loans	6,794	2,294	4,500	-	-	-
Other invested assets	9,896	9,896	-	104,743	104,743	-
Disposals of property and equipment	-	1,380	(1,380)	-	23,021	(23,021)
Distributions from unconsolidated affiliates	-	12,332	(12,332)	-	17,414	(17,414)
Proceeds from maturity of:						
Bonds - available for sale	249,769	269,566	(19,797)	287,559	287,559	-
Bonds - held to maturity	528,781	580,515	(51,734)	547,416	547,416	-
Principal payments received on:						
Mortgage loans	138,035	144,497	(6,462)	223,956	223,956	-
Policy loans	9,459	9,459	-	5,472	5,472	-
Purchases of investments:						
Bonds - available for sale	(640,403)	(626,623)	(13,780)	(658,731)	(658,731)	-
Bonds - held to maturity	(656,580)	(644,151)	(12,429)	(483,722)	(483,722)	-
Stocks	(290,979)	(290,979)	-	(364,352)	(364,352)	-
Real estate	(78,119)	(78,119)	-	(46,295)	(46,295)	-
Mortgage loans	(513,964)	(520,426)	6,462	(386,137)	(386,137)	-
Policy loans	(20,447)	(20,447)	-	(10,237)	(10,237)	-
Other invested assets	(21,795)	(21,795)	-	(50,115)	(50,115)	-
Decrease (increase) in short-term investments, net	403,092	403,092	-	19,881	19,881	-
Decrease (increase) in investment in unconsolidated affiliates, net	(34,453)	-	(34,453)	(44,826)	-	(44,826)
Contributions to unconsolidated affiliates	-	(38,514)	38,514	-	(64,592)	64,592
Increase in property and equipment, net	(12,890)	-	(12,890)	(11,459)	-	(11,459)
Additions to property and equipment	-	(25,024)	25,024	-	(18,076)	18,076
Other, net	-	2,483	(2,483)	-	(14,052)	14,052
Net cash used in investing activities	(690,441)	(690,441)	-	(436,670)	(436,670)	-

Forward-looking Statement

Safe Harbor Statement under The Private Securities Litigation Reform Act of 1995: This Annual Report contains "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on American National management's current knowledge, expectations, estimates, beliefs and assumptions. The forward-looking statements in this Annual Report include, but are not limited to, statements describing the marketing plans of American National. Such forward-looking statements generally include the words "may," "could," "should," "would," "believe," "anticipate," "expect," "intend," "plan," or a similar expression or statement regarding future periods. Readers are hereby cautioned that certain events or circumstances could cause actual results to differ materially from those estimated, projected, or predicted. The forward-looking statements in this Annual Report are not guarantees of future events or performance and are subject to a number of important risks and uncertainties, many of which are outside of American National's control, that could cause actual results to differ materially. These risks and uncertainties include, but are not limited to: (1) adverse decisions from regulatory authorities; (2) changes in regulatory requirements; (3) the potential occurrence of major disasters; (4) adverse litigation results; (5) competition from existing insurance companies; (6) the volatility of the securities markets; and (7) general economic conditions. Forward-looking statements may also be made in American National's press releases, as well as by American National's management in oral statements. American National undertakes no obligation to update or revise any forward-looking statements for events or circumstances after the date on which such statement is made.

integrity

American National Insurance Company has adopted a Code of Business Conduct and Ethics applicable to all directors, officers and employees of the company and its subsidiaries. A copy of the code can be found on the company's Web site, **www.anico.com**.

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STOCK TRANSFER AGENT *and* **REGISTRAR** (*Shareholder information*)

Communications regarding stock transfer, dividends, lost certificates
or changes of address should be directed to:

BNY Mellon Shareowner Services, P.O. Box 358015, Pittsburgh, PA 15252-8015
or 480 Washington Boulevard, Jersey City, NJ 07310-1900, 1-866-258-7757.
Foreign Shareholders: 1-201-680-6578. **TDD for hearing-impaired:** 1-800-231-5469.
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