

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

November 07, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014**

or

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

American National Insurance Company

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

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

One Moody Plaza

Galveston, Texas 77550-7999

(Address of principal executive offices) (Zip Code)

(409) 763-4661

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of October 31, 2014, there were 26,871,942 shares of the registrant's voting common stock, \$1.00 par value per share, outstanding.

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

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

	September 30, 2014	December 31, 2013
ASSETS		
Fixed maturity, bonds held-to-maturity, at amortized cost (Fair Value \$8,826,253 and \$8,823,068)	\$ 8,364,731	\$ 8,491,347
Fixed maturity, bonds available-for-sale, at fair value (Amortized cost \$4,700,235 and \$4,456,391)	4,926,218	4,599,673
Equity securities, at fair value (Cost \$745,733 and \$741,080)	1,494,471	1,410,608
Mortgage loans on real estate, net of allowance	3,318,552	3,299,242
Policy loans	404,705	397,407
Investment real estate, net of accumulated depreciation of \$181,125 and \$211,575	458,116	507,142
Short-term investments	346,343	495,386
Other invested assets	202,131	201,442
Total investments	19,515,267	19,402,247
Cash and cash equivalents	136,142	117,946
Investments in unconsolidated affiliates	335,419	341,012
Accrued investment income	198,559	194,830
Reinsurance recoverables	410,525	414,743
Prepaid reinsurance premiums	55,681	57,869
Premiums due and other receivables	294,678	279,929
Deferred policy acquisition costs	1,249,704	1,277,733
Property and equipment, net	119,259	107,070
Current tax receivable	4,403	18,507
Other assets	148,448	142,043
Separate account assets	992,615	970,954
Total assets	\$ 23,460,700	\$ 23,324,883
LIABILITIES		
Future policy benefits		
Life	\$ 2,736,156	\$ 2,677,213

Annuity	982,720	903,437
Accident and health	70,699	71,941
Policyholders' account balances	10,893,918	11,181,650
Policy and contract claims	1,289,997	1,297,646
Unearned premium reserve	779,934	739,878
Other policyholder funds	332,411	326,885
Liability for retirement benefits	143,400	160,853
Notes payable	109,349	113,849
Deferred tax liabilities, net	286,545	220,428
Other liabilities	433,855	456,818
Separate account liabilities	992,615	970,954
Total liabilities	19,051,599	19,121,552
STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par value, Authorized 50,000,000 Issued 30,832,449 and 30,832,449, Outstanding 26,871,942 and 26,895,188 shares	30,832	30,832
Additional paid-in capital	8,862	4,650
Accumulated other comprehensive income	504,338	413,712
Retained earnings	3,954,731	3,838,821
Treasury stock, at cost	(101,941)	(97,441)
Total American National stockholders' equity	4,396,822	4,190,574
Noncontrolling interest	12,279	12,757
Total stockholders' equity	4,409,101	4,203,331
Total liabilities and stockholders' equity	\$ 23,460,700	\$ 23,324,883

See accompanying notes to the consolidated financial statements.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
PREMIUMS AND OTHER REVENUE				
Premiums				
Life	\$ 79,492	\$ 75,278	\$ 224,165	\$ 215,479
Annuity	34,661	23,412	148,250	89,733
Accident and health	53,454	52,839	164,169	159,100
Property and casualty	279,429	271,270	820,953	801,106
Other policy revenues	55,255	52,975	167,041	152,910
Net investment income	236,489	254,336	697,604	752,488
Realized investment gains (losses)	(649)	43,795	27,548	107,473
Other-than-temporary impairments	(1,608)	(312)	(3,045)	(3,503)
Other income	9,647	11,911	26,707	29,423
Total premiums and other revenues	746,170	785,504	2,273,392	2,304,209
BENEFITS, LOSSES AND EXPENSES				
Policyholder benefits				
Life	83,740	83,821	257,505	246,896
Annuity	43,893	34,860	180,372	118,155
Claims incurred				
Accident and health	33,193	34,404	109,859	106,378
Property and casualty	180,413	182,809	563,650	581,042
Interest credited to policyholders' account balances	83,746	98,862	258,952	309,738
Commissions for acquiring and servicing policies	97,608	94,504	299,992	273,360
Other operating expenses	118,002	128,115	357,043	381,850
Change in deferred policy acquisition costs	10,800	7,265	10,854	19,568
Total benefits, losses and expenses	651,395	664,640	2,038,227	2,036,987
Income (loss) before federal income tax and equity in earnings/losses of unconsolidated affiliates	94,775	120,864	235,165	267,222
Less: Provision (benefit) for federal income taxes				
Current	23,639	36,541	55,690	63,920
Deferred	3,110	(782)	9,974	7,959

Total provision (benefit) for federal income taxes	26,749	35,759	65,664	71,879
Equity in earnings (losses) of unconsolidated affiliates, net of tax	2,735	121	10,405	9,774
Net income (loss)	70,761	85,226	179,906	205,117
Less: Net income (loss) attributable to noncontrolling interest, net of tax	2,877	2,613	1,883	4,364
Net income (loss) attributable to American National	\$ 67,884	\$ 82,613	\$ 178,023	\$ 200,753

Amounts available to American National common stockholders

Earnings per share				
Basic	\$ 2.53	\$ 3.08	\$ 6.64	\$ 7.49
Diluted	2.52	3.07	6.61	7.46
Cash dividends to common stockholders	0.77	0.77	2.31	2.31
Weighted average common shares outstanding	26,805,535	26,780,313	26,800,835	26,789,564
Weighted average common shares outstanding and dilutive potential common shares	26,911,507	26,905,093	26,919,414	26,910,017

See accompanying notes to the consolidated financial statements.

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

(Unaudited and in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$ 70,761	\$ 85,226	\$ 179,906	\$ 205,117
Other comprehensive income (loss), net of tax				
Change in net unrealized gain (loss) on securities	(17,708)	26,747	89,051	31,569
Foreign currency transaction and translation adjustments	(476)	(625)	(577)	(211)
Defined pension benefit plan adjustment	718	2,876	2,152	8,627
Other comprehensive income (loss), net of tax	(17,466)	28,998	90,626	39,985
Total comprehensive income (loss)	53,295	114,224	270,532	245,102
Less: Comprehensive income (loss) attributable to noncontrolling interest	2,877	2,613	1,883	4,364
Total comprehensive income (loss) attributable to American National	\$ 50,418	\$ 111,611	\$ 268,649	\$ 240,738

AMERICAN NATIONAL INSURANCE COMPANY**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

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

	Nine months ended September 30,	
	2014	2013
Common Stock		
Balance at beginning and end of the period	\$ 30,832	\$ 30,832
Additional Paid-In Capital		
Balance as of January 1,	4,650	
Reissuance of treasury shares	1,635	3,012
Income tax effect from restricted stock arrangement		80
Amortization of restricted stock	2,577	1,028
Balance at end of period	8,862	4,120

Accumulated Other Comprehensive Income (Loss)		
Balance as of January 1,	413,712	242,010
Other comprehensive income (loss)	90,626	39,985
Balance at end of the period	504,338	281,995
Retained Earnings		
Balance as of January 1,	3,838,821	3,653,280
Net income (loss) attributable to American National	178,023	200,753
Cash dividends to common stockholders	(62,113)	(62,122)
Balance at end of the period	3,954,731	3,791,911
Treasury Stock		
Balance as of January 1,	(97,441)	(98,286)
Reissuance (purchases) of treasury shares	(4,500)	844
Balance at end of the period	(101,941)	(97,442)
Noncontrolling Interest		
Balance as of January 1,	12,757	11,491
Contributions	478	456
Distributions	(2,839)	(2,675)
Gain (loss) attributable to noncontrolling interest	1,883	4,364
Balance at end of the period	12,279	13,636
Total Stockholders Equity	\$ 4,409,101	\$ 4,025,052

See accompanying notes to the consolidated financial statements.

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AMERICAN NATIONAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Nine months ended September 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income (loss)	\$ 179,906	\$ 205,117
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Realized investment (gains) losses	(27,548)	(107,473)
Other-than-temporary impairments	3,045	3,503
Accretion (amortization) of discounts, premiums and loan origination fees	6,316	4,460
Net capitalized interest on policy loans and mortgage loans	(23,988)	(20,156)
Depreciation	26,421	24,873
Interest credited to policyholders' account balances	258,952	309,738
Charges to policyholders' account balances	(167,041)	(152,910)
Deferred federal income tax (benefit) expense	9,974	7,959
Equity in (earnings) losses of unconsolidated affiliates	(10,405)	(9,774)
Distributions from equity method investments	679	18,925
Changes in		
Policyholder liabilities	166,392	48,816
Deferred policy acquisition costs	10,854	19,568
Reinsurance recoverables	4,218	17,883
Premiums due and other receivables	(15,189)	(26,248)
Prepaid reinsurance premiums	2,188	4,945
Accrued investment income	(3,729)	3,630
Current tax receivable/payable	14,104	30,975
Liability for retirement benefits	(17,453)	8,093
Other, net	(44,626)	(38,730)
Net cash provided by (used in) operating activities	373,070	353,194
INVESTING ACTIVITIES		
Proceeds from sale/maturity/prepayment of		
Held-to-maturity securities	442,748	1,209,058
Available-for-sale securities	705,681	702,625
Investment real estate	45,843	84,371
Mortgage loans	421,023	446,480
Policy loans	41,331	43,911
Other invested assets	34,537	11,021
Disposals of property and equipment	2,571	674
Distributions from unconsolidated affiliates	49,403	22,834
Payment for the purchase/origination of		

Held-to-maturity securities	(356,452)	(856,086)
Available-for-sale securities	(883,346)	(737,342)
Investment real estate	(28,865)	(35,240)
Mortgage loans	(444,140)	(638,690)
Policy loans	(21,721)	(19,564)
Other invested assets	(14,376)	(13,690)
Additions to property and equipment	(13,038)	(17,958)
Contributions to unconsolidated affiliates	(40,333)	(94,078)
Change in short-term investments	149,043	(26,393)
Other, net	3,834	8,561
Net cash provided by (used in) investing activities	93,743	90,494
FINANCING ACTIVITIES		
Policyholders' account deposits	783,255	654,346
Policyholders' account withdrawals	(1,162,898)	(1,164,806)
Change in notes payable	(4,500)	(49,258)
Dividends to stockholders	(62,113)	(62,122)
Proceeds from (payments to) noncontrolling interest	(2,361)	(2,219)
Net cash provided by (used in) financing activities	(448,617)	(624,059)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,196	(180,371)
Beginning of the period	117,946	303,008
End of period	\$ 136,142	\$ 122,637

See accompanying notes to the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

American National Insurance Company and its consolidated subsidiaries (collectively American National) offer a broad spectrum of insurance products, including individual and group life insurance, annuities, health insurance, and property and casualty insurance. Business is conducted in 50 states, the District of Columbia, Puerto Rico, Guam and American Samoa.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

The consolidated financial statements and notes thereto have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are reported in U.S. currency. American National consolidates entities that are wholly-owned and those in which American National owns less than 100% but controls, as well as variable interest entities in which American National is the primary beneficiary. Intercompany balances and transactions with consolidated entities have been eliminated. Investments in unconsolidated affiliates are accounted for using the equity method of accounting. Certain amounts in prior years have been reclassified to conform to current year presentation.

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

The interim consolidated financial statements and notes should be read in conjunction with the annual consolidated financial statements and notes thereto included in American National s Annual Report on Form 10-K as of and for the year ended December 31, 2013. The consolidated results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

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

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards The Financial Accounting Standards Board (FASB) issued the following accounting guidance relevant to American National, including technical amendments and corrections to make the accounting standards easier to understand and fair value measurement easier to apply. Each became effective for American National on January 1, 2014 and, unless stated otherwise, did not have a material effect on the consolidated financial statements.

Amended guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date. The amended guidance requires the entity to measure obligations resulting from joint and several liability arrangements as the sum of the amount the reporting entity agreed with co-obligors to pay and any additional amounts it expects to pay on behalf of one or more co-obligors.

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Future Adoption of New Accounting Standards The FASB issued the following accounting standards relevant to American National:

Guidance that allows investors to elect the use of proportional amortization method to account for investments in qualified affordable housing projects, if certain conditions are met. The new guidance replaces the effective yield method and allows an investor to amortize the cost of its investment, in proportion to the tax credits and other tax benefits it receives, to income tax expense. The guidance requires new disclosure for all investors for all investments in qualified affordable housing projects, regardless of the accounting method used for those investments.

Guidance that will supersede most existing revenue recognition requirements in U.S. Generally Accepted Accounting Principles. The Standard will become effective for American National on January 1, 2017 and allows for both retrospective and prospective methods of adoption. American National is in the process of determining the adoption method and is currently assessing the impact of this standard.

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

	Cost or Amortized Cost	September 30, 2014 Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 327,022	\$ 25,144	\$ (67)	\$ 352,099
Foreign governments	29,122	1,641		30,763
Corporate debt securities	7,636,327	453,220	(40,292)	8,049,255
Residential mortgage-backed securities	353,444	22,178	(1,921)	373,701
Collateralized debt securities	2,236	223		2,459
Other debt securities	16,580	1,396		17,976
Total bonds held-to-maturity	8,364,731	503,802	(42,280)	8,826,253
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	24,073	783		24,856
U.S. states and political subdivisions	746,801	33,661	(2,940)	777,522
Foreign governments	5,000	1,900		6,900
Corporate debt securities	3,866,518	206,396	(16,342)	4,056,572
Residential mortgage-backed securities	45,644	2,112	(754)	47,002
Collateralized debt securities	12,199	1,175	(8)	13,366
Total bonds available-for-sale	4,700,235	246,027	(20,044)	4,926,218
Equity securities				
Common stock	722,015	734,419	(3,791)	1,452,643
Preferred stock	23,718	18,123	(13)	41,828
Total equity securities	745,733	752,542	(3,804)	1,494,471
Total investments in securities	\$ 13,810,699	\$ 1,502,371	\$ (66,128)	\$ 15,246,942

	Cost or Amortized Cost	December 31, 2013 Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				

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U.S. treasury and government	\$ 1,738	\$ 6	\$	\$ 1,744
U.S. states and political subdivisions	346,240	16,945	(529)	362,656
Foreign governments	29,099	2,505		31,604
Corporate debt securities	7,700,559	410,232	(116,900)	7,993,891
Residential mortgage-backed securities	400,619	20,711	(2,647)	418,683
Collateralized debt securities	2,366	225		2,591
Other debt securities	10,726	1,173		11,899
Total bonds held-to-maturity	8,491,347	451,797	(120,076)	8,823,068
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	21,751	725		22,476
U.S. states and political subdivisions	630,199	22,118	(13,756)	638,561
Foreign governments	5,000	1,649		6,649
Corporate debt securities	3,689,349	171,717	(54,033)	3,807,033
Residential mortgage-backed securities	61,135	2,940	(1,068)	63,007
Commercial mortgage-backed securities	18,223	11,037		29,260
Collateralized debt securities	13,884	1,320	(18)	15,186
Other debt securities	16,850	679	(28)	17,501
Total bonds available-for-sale	4,456,391	212,185	(68,903)	4,599,673
Equity securities				
Common stock	717,390	653,967	(2,362)	1,368,995
Preferred stock	23,690	18,301	(378)	41,613
Total equity securities	741,080	672,268	(2,740)	1,410,608
Total investments in securities	\$ 13,688,818	\$ 1,336,250	\$ (191,719)	\$ 14,833,349

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The amortized costs and fair values, by contractual maturity, of fixed maturity securities are shown below (in thousands):

	September 30, 2014			
	Bonds Held-to-Maturity		Bonds Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 902,160	\$ 921,894	\$ 345,538	\$ 351,549
Due after one year through five years	2,046,277	2,257,421	855,878	932,247
Due after five years through ten years	4,988,483	5,196,155	3,029,503	3,154,290
Due after ten years	421,961	445,711	464,316	483,132
Without single maturity date	5,850	5,072	5,000	5,000
Total	\$ 8,364,731	\$ 8,826,253	\$ 4,700,235	\$ 4,926,218

Actual maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Residential and commercial mortgage-backed securities, which are not due at a single maturity, have been allocated to their respective categories based on the year of final contractual maturity.

Proceeds from sales of available-for-sale securities, with the related gross realized gains and losses, are shown below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Proceeds from sales of available-for-sale securities	\$ 2,671	\$ 33,390	\$ 139,137	\$ 189,438
Gross realized gains	228	10,349	24,994	33,699
Gross realized losses		(97)	(2,123)	(623)

All gains and losses for securities sold throughout the periods presented were determined using specific identification of the securities sold. During the nine months ended September 30, 2014 and 2013, bonds with a carrying value of \$44,781,000 and \$13,492,000, respectively, were transferred from held-to-maturity to available-for-sale after a significant deterioration in the issuers' creditworthiness became evident. An unrealized gain of \$1,301,000 and unrealized loss of \$263,000 were established in 2014 and 2013, respectively following the transfers at fair value.

Change in net unrealized gains (losses) on securities

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

	Nine months ended September 30,	
	2014	2013
Bonds available-for-sale	\$ 82,701	\$ (163,493)
Equity securities	79,211	165,613

Change in net unrealized gains (losses) on securities during the year	161,912	2,120
Adjustments for		
Deferred policy acquisition costs	(17,175)	46,643
Participating policyholders' interest	(8,526)	1,018
Deferred federal income tax benefit (expense)	(47,160)	(18,212)
Change in net unrealized gains (losses) on securities, net of tax	\$ 89,051	\$ 31,569

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

	Less than 12 months		September 30, 2014 12 Months or more		Total	
	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity						
U.S. states and political subdivisions	\$ (2)	\$ 588	\$ (65)	\$ 2,455	\$ (67)	\$ 3,043
Corporate debt securities	(7,727)	511,249	(32,565)	799,719	(40,292)	1,310,968
Residential mortgage-backed securities	(225)	18,589	(1,696)	31,203	(1,921)	49,792
Total bonds held-to-maturity	(7,954)	530,426	(34,326)	833,377	(42,280)	1,363,803
Fixed maturity securities, bonds available-for-sale						
U.S. Treasury & other U.S. Gov corporations and agencies		476				476
U.S. states and political subdivisions	(449)	37,887	(2,491)	79,485	(2,940)	117,372
Corporate debt securities	(5,167)	372,578	(11,175)	338,870	(16,342)	711,448
Residential mortgage-backed securities	(147)	10,908	(607)	13,835	(754)	24,743
Collateralized debt securities	(1)	117	(7)	361	(8)	478
Other Debt Securities						
Total bonds available-for-sale	(5,764)	421,966	(14,280)	432,551	(20,044)	854,517
Equity securities						
Common stock	(3,791)	37,132			(3,791)	37,132
Preferred stock	(13)	1,874			(13)	1,874
Total equity securities	(3,804)	39,006			(3,804)	39,006
Total	\$ (17,522)	\$ 991,398	\$ (48,606)	\$ 1,265,928	\$ (66,128)	\$ 2,257,326

	Less than 12 months		December 31, 2013 12 Months or more		Total	
	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity						

U.S. states and political subdivisions	\$ (529)	\$ 22,430	\$	\$	\$ (529)	\$ 22,430
Corporate debt securities	(104,308)	1,916,758	(12,592)	109,603	(116,900)	2,026,361
Residential mortgage-backed securities	(1,718)	31,715	(929)	13,514	(2,647)	45,229
Total bonds held-to-maturity	(106,555)	1,970,903	(13,521)	123,117	(120,076)	2,094,020
Fixed maturity securities, bonds available-for-sale						
U.S. Treasury & other U.S. Gov corporations and agencies		725				725
U.S. states and political subdivisions	(13,271)	168,093	(485)	2,905	(13,756)	170,998
Corporate debt securities	(49,198)	1,083,677	(4,835)	92,004	(54,033)	1,175,681
Residential mortgage-backed securities	(978)	16,835	(90)	1,872	(1,068)	18,707
Collateralized debt securities	(3)	205	(15)	587	(18)	792
Other debt securities	(28)	10,027			(28)	10,027
Total bonds available-for-sale	(63,478)	1,279,562	(5,425)	97,368	(68,903)	1,376,930
Equity securities						
Common stock	(2,362)	29,978			(2,362)	29,978
Preferred stock	(378)	6,123			(378)	6,123
Total equity securities	(2,740)	36,101			(2,740)	36,101
Total	\$ (172,773)	\$ 3,286,566	\$ (18,946)	\$ 220,485	\$ (191,719)	\$ 3,507,051

As of September 30, 2014, the securities with unrealized losses were not deemed to be other-than-temporarily impaired, including those with the duration of the unrealized losses exceeding one year. American National has the ability and intent to hold those securities until a market price recovery or maturity. Further, it is not more-likely-than-not that American National will be required to sell them prior to recovery, and recovery is expected in a reasonable period of time. It is possible an issuer's financial circumstances may be different in the future, which may lead to a different impairment conclusion in future periods.

Table of Contents**Credit Risk Management**

Bonds distributed by credit quality rating, using both S&P and Moody's ratings, are shown below:

	September 30, 2014	December 31, 2013
AAA	4.9%	4.9%
AA	12.5	11.3
A	40.1	40.7
BBB	39.0	39.2
BB and below	3.5	3.9
Total	100.0%	100.0%

Equity securities by market sector distribution are shown below:

	September 30, 2014	December 31, 2013
Consumer goods	19.2%	19.8%
Energy and utilities	14.7	15.0
Financials	18.8	19.3
Healthcare	13.8	12.7
Industrials	8.4	9.0
Information technology	16.3	15.7
Other	8.8	8.5
Total	100.0%	100.0%

5. MORTGAGE LOANS

Generally, commercial mortgage loans are secured by first liens on income-producing real estate. American National attempts to maintain a diversified portfolio by considering the property-type and location of the underlying collateral. Mortgage loans by property-type and geographic distribution are as follows:

	September 30, 2014	December 31, 2013
Hotel and motel	11.3%	10.0%
Industrial	21.2	24.9
Office	35.6	34.0
Retail	18.2	19.6
Other	13.7	11.5
Total	100.0%	100.0%

	September 30, 2014	December 31, 2013
East North Central	19.5%	19.3%
East South Central	5.0	6.8
Mountain	10.3	10.0
Pacific	12.3	12.3
South Atlantic	21.0	19.6
West South Central	25.1	26.4
Other	6.8	5.6
Total	100.0%	100.0%

As of September 30, 2014, American National was in the process of foreclosure on two loans with a recorded investment of \$15,945,000; there was one loan foreclosed in the same period in 2013 with a recorded investment of \$5,600,000. No loans were sold in the nine months ended September 30, 2014 and 2013.

Table of Contents**Credit Quality**

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

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

	60-89 Days			Total Past		Current	Total
	30-59 Days Past Due	Past Due	Greater Than 90 Days	Due			Mortgage Loans
September 30, 2014							
Industrial	\$	\$	\$	\$	\$ 705,801	\$	705,801
Office					1,191,525		1,191,525
Retail					610,335		610,335
Other					828,496		828,496
Total	\$	\$	\$	\$	\$ 3,336,157		3,336,157
Allowance for loan losses							17,605
Mortgage loans on real estate, net of allowance							\$ 3,318,552
December 31, 2013							
Industrial	\$	\$	\$ 2,739	\$ 2,739	\$ 821,741	\$	824,480
Office					1,124,818		1,124,818
Retail					651,236		651,236
Other					710,889		710,889
Total	\$	\$	\$ 2,739	\$ 2,739	\$ 3,308,684		3,311,423
Allowance for loan losses							12,181
Mortgage loans on real estate, net of allowance							\$ 3,299,242

Commercial mortgage loans placed on nonaccrual status are shown below (in thousands):

	September 30, 2014	December 31, 2013
Industrial	\$	\$ 2,739

Total mortgage loans are net of unamortized discounts of \$708,000 and \$852,000 and unamortized origination fees of \$16,378,000 and \$15,709,000 at September 30, 2014 and December 31, 2013, respectively. No unearned income is included in these amounts.

Allowance for Credit Losses

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

The change in allowance for credit losses in commercial mortgage loans is shown below (in thousands):

	Nine months ended September 30, 2014	
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment
Beginning balance, 2014	\$ 11,688	\$ 493
Change Due to Factor Development	(441)	
Change in allowance	775	5,090
Ending balance, 2014	\$ 12,022	\$ 5,583

At September 30, 2014 and December 31, 2013, the recorded investment for loans collectively evaluated for impairment was \$3,279,133,000 and \$3,294,235,000, respectively, and the recorded investment for loans individually evaluated for impairment was \$57,024,000 and \$17,188,000, respectively.

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Loans individually evaluated for impairment with and without an allowance are shown below (in thousands):

	September 30, 2014		September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Three months ended				
With an allowance recorded				
Office	\$ 27,564	\$ 547	\$ 23,159	\$ 393
Retail			493	
Total	\$ 27,564	\$ 547	\$ 23,652	\$ 393
Without an allowance recorded				
Office	\$ 26,941	\$ 431	\$ 6,432	\$ 110
Industrial	2,702	36		
Retail	851	11		
Total	\$ 30,494	\$ 478	\$ 6,432	\$ 110
Nine months ended				
With an allowance recorded				
Office	\$ 29,421	\$ 1,663	\$ 23,234	\$ 1,192
Retail			493	
Total	\$ 29,421	\$ 1,663	\$ 23,727	\$ 1,192
Without an allowance recorded				
Office	\$ 27,019	\$ 1,298	\$ 6,439	\$ 331
Industrial	2,721	110		
Retail	1,149	16		
Total	\$ 30,889	\$ 1,424	\$ 6,439	\$ 331
September 30, 2014				
	Recorded Investment	Unpaid Principal Balance	December 31, 2013	Unpaid Principal Balance
With an allowance recorded				
Office	\$ 26,662	\$ 27,947	\$	\$
Retail			493	493
Total	\$ 26,662	\$ 27,947	\$ 493	\$ 493
Without an allowance recorded				

Office	\$ 26,941	\$ 26,941	\$ 12,377	\$ 12,377
Industrial	2,702	2,702	2,739	2,739
Retail	719	719	1,579	1,579
Total	\$ 30,362	\$ 30,362	\$ 16,695	\$ 16,695

Troubled Debt Restructurings

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

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The number of mortgage loans and recorded investments in troubled debt restructuring are as follows (in thousands except for number of contracts):

	Number of contracts	Nine months ended September 30,				
		2014 Recorded investment pre-modification	Recorded investment post-modification	2013 Recorded investment pre-modification	Recorded investment post-modification	
Office	3	\$ 34,400	\$ 30,996	1	\$ 6,432	\$ 6,432

There were no commitments to lend additional funds to debtors whose loans have been modified in troubled debt restructuring. One restructured loan is in the process of foreclosure.

6. INVESTMENT REAL ESTATE

Investment real estate by property-type and geographic distribution are as follows:

	September 30, 2014	December 31, 2013
Industrial	13.8%	12.3%
Office	20.7	23.1
Retail	46.4	43.4
Other	19.1	21.2
Total	100.0%	100.0%

	September 30, 2014	December 31, 2013
East North Central	4.8%	7.8%
East South Central	4.8	5.4
Mountain	6.5	6.0
Pacific	7.4	5.5
South Atlantic	12.7	13.4
West South Central	57.1	59.0
Other	6.7	2.9
Total	100.0%	100.0%

American National regularly invests in real estate partnerships and joint ventures. American National frequently participates in the design of these entities with the sponsor, but in most cases, its involvement is limited to financing. Through analysis performed by American National, some of these partnerships and joint ventures have been determined to be variable interest entities (VIEs). In certain instances, in addition to an economic interest in the entity, American National holds the power to direct the most significant activities of the entity and is deemed the primary beneficiary or consolidator of the entity. The assets of the consolidated VIEs are restricted and must first be used to settle their liabilities. Creditors or beneficial interest holders of these VIEs have no recourse to the general credit of American National, as American National's obligation is limited to the amount of its committed investment. American

National has not provided financial or other support to the VIEs in the form of liquidity arrangements, guarantees, or other commitments to third parties that may affect the fair value or risk of its variable interest in the VIEs in 2014 or 2013.

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The assets and liabilities relating to the VIEs included in the consolidated financial statements are as follows (in thousands):

	September 30, 2014	December 31, 2013
Investment real estate	\$ 138,994	\$ 123,624
Cash and cash equivalents	1,761	2,154
Accrued investment income	412	2,197
Other receivables	7,986	8,488
Other assets	5,686	6,016
Total assets of consolidated VIEs	\$ 154,839	\$ 142,479
Notes payable	\$ 109,349	\$ 113,849
Other liabilities	4,595	6,680
Total liabilities of consolidated VIEs	\$ 113,944	\$ 120,529

The notes payable in the consolidated statements of financial position pertain to the borrowings of the consolidated VIEs. The liability of American National Insurance Company relating to notes payable of the consolidated VIEs is limited to the amount of its direct or indirect investment in the respective ventures, which totaled \$14,948,000 and \$12,782,000 at September 30, 2014 and December 31, 2013, respectively. The current portion of notes payable was \$543,000 and \$3,199,000 at September 30, 2014 and December 31, 2013, respectively. The average interest rate on the current portion of the notes payable was 4.25% during 2014. The total long-term portion of notes payable consists of three notes with the following interest rates: 4.0 %, and adjusted LIBOR plus 1.0%. Of the long-term notes payable, \$9,375,000 will mature in 2016, with the remainder maturing beyond 5 years.

For other VIEs in which American National invests, it is not the primary beneficiary and these entities were not consolidated, as the major decisions that most significantly impact the economic activities of the VIE require unanimous consent of all owners. The following table presents the carrying amount and maximum exposure to loss relating to unconsolidated VIEs (in thousands):

	September 30, 2014		December 31, 2013	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Investment in unconsolidated affiliates	\$ 195,794	\$ 195,794	\$ 195,794	\$ 195,794
Mortgage loans	153,626	153,626	101,648	101,648
Accrued investment income	617	617	454	454

Table of Contents**7. DERIVATIVE INSTRUMENTS**

American National purchases over-the-counter equity-indexed options as economic hedges against fluctuations in the equity markets to which equity-indexed policies are exposed. Equity-indexed policies include a fixed host universal-life insurance or annuity policy and an equity-indexed embedded derivative. The detail of derivative instruments is shown below (in thousands, except the number of instruments):

Derivatives Not Designated as Hedging Instruments	Location in the Consolidated Statements of Financial Position	September 30, 2014			December 31, 2013		
		Number of Instruments	Notional Amounts	Estimated Fair Value	Number of Instruments	Notional Amounts	Estimated Fair Value
Equity-indexed options	Other invested assets	416	\$ 1,034,600	\$ 170,343	394	\$ 951,400	\$ 166,000
Equity-indexed embedded derivative	Policyholders account balances	39,723	957,600	191,760	33,579	819,200	148,000

Derivatives Not Designated as Hedging Instruments	Location in the Consolidated Statements of Operations	Gains (Losses) Recognized in Income on Derivatives			
		Three months ended September 30, 2014		Three months ended September 30, 2013	
Equity-indexed options	Net investment income	\$ 6,562	\$ 13,260	\$ 29,011	\$ 48,019
Equity-indexed embedded derivative	Interest credited to policyholders account balances	(1,762)	(11,056)	(16,484)	(39,750)

8. NET INVESTMENT INCOME AND REALIZED INVESTMENT GAINS (LOSSES)

Net investment income is shown below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Bonds	\$ 148,715	\$ 157,888	\$ 450,110	\$ 479,296
Equity securities	8,146	7,417	26,488	22,653
Mortgage loans	51,652	55,629	159,010	163,497
Real estate	14,245	11,297	11,347	10,228
Options	6,562	13,260	29,011	48,019
Other invested assets	7,169	8,845	21,638	28,795
Total	\$ 236,489	\$ 254,336	\$ 697,604	\$ 752,488

Realized investment gains (losses) are shown below (in thousands):

Three months ended September 30, 2014 Nine months ended September 30, 2014

	2014	2013	2014	2013
Bonds	\$ 1,925	\$ 9,907	\$ 21,837	\$ 16,826
Equity securities	229	10,149	10,293	30,668
Mortgage loans	(1,551)	(1,561)	(5,424)	(1,172)
Real estate	(1,242)	25,311	1,787	61,257
Other invested assets	(10)	(11)	(945)	(106)
Total	\$ (649)	\$ 43,795	\$ 27,548	\$ 107,473

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The other-than-temporary-impairment losses are shown below (in thousands):

	Three months ended September 30, 2014		Nine months ended September 30, 2013	
	2014	2013	2014	2013
Bonds	\$		\$	(41)
Equity securities		(1,608)		(3,503)
Total	\$	(1,608)	\$	(3,045)

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Fixed maturity securities, bonds held-to-maturity	\$ 8,364,731	\$ 8,826,253	\$ 8,491,347	\$ 8,823,068
Fixed maturity securities, bonds available-for-sale	4,926,218	4,926,218	4,599,673	4,599,673
Equity securities	1,494,471	1,494,471	1,410,608	1,410,608
Equity-indexed options	170,343	170,343	164,753	164,753
Mortgage loans on real estate, net of allowance	3,318,552	3,515,463	3,299,242	3,470,663
Policy loans	404,705	404,705	397,407	397,407
Short-term investments	346,343	346,343	495,386	495,386
Separate account assets	992,615	992,615	970,954	970,954
Total financial assets	\$ 20,017,978	\$ 20,676,411	\$ 19,829,370	\$ 20,332,512
Financial liabilities				
Investment contracts	\$ 9,039,356	\$ 9,039,356	\$ 9,423,122	\$ 9,423,122
Embedded derivative liability for equity-indexed contracts	191,760	191,760	148,435	148,435
Notes payable	109,349	109,349	113,849	113,849
Separate account liabilities	992,615	992,615	970,954	970,954
Total financial liabilities	\$ 10,333,080	\$ 10,333,080	\$ 10,656,360	\$ 10,656,360

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. American National has evaluated the types of securities in its investment portfolio to determine an appropriate hierarchy level based upon trading activity and the observability of market inputs. The classification of assets or liabilities 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.
- 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.

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Fixed Maturity Securities and Equity Options American National utilizes a pricing service to estimate fair value measurements. The estimates of fair value for most fixed maturity securities, including municipal bonds, provided by the pricing service are disclosed as Level 2 measurements as the estimates are based on observable market information rather than market quotes.

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

The pricing service evaluates each asset class based on relevant market information, 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 and the techniques applied by the pricing service to produce quotes that represent the fair value of a specific security. The review confirms that the pricing service is utilizing information from observable transactions or a technique that represents a market participant's assumptions. American National does not adjust quotes received from the pricing service. The pricing service utilized by American National has indicated that they will produce an estimate of fair value only if there is objectively verifiable information available.

American National holds a small amount of private placement debt and fixed maturity securities that have characteristics that make them unsuitable for matrix pricing. For these securities, a quote from an independent broker (typically a market maker) is obtained. Due to the disclaimers on the quotes that indicate that the price is indicative only, American National includes these fair value estimates in Level 3.

For securities priced using a quote from an independent broker, such as the equity options and certain fixed maturity securities, American National uses a market-based fair value analysis to validate the reasonableness of prices received from an independent broker. Price variances above a certain threshold are analyzed further to determine if any pricing issue exists. This analysis is performed quarterly.

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

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

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

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The significant unobservable input used to calculate the fair value of the embedded derivatives is equity option implied volatility. An increase in implied volatility will result in an increase in the value of the equity-indexed embedded derivatives, all other things being equal. At September 30, 2014 and December 31, 2013, the one year implied volatility used to estimate embedded derivative value was 16.0% and 15.0%, respectively.

Other Financial Instruments Other financial instruments classified as Level 3 measurements, as there is little or no market activity, are as follows:

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

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

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

Table of Contents**Quantitative Disclosures**

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

	Fair Value Measurement as of September 30, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Financial assets				
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 352,099	\$	\$ 352,099	\$
Foreign governments	30,763		30,763	
Corporate debt securities	8,049,255		7,998,901	50,354
Residential mortgage-backed securities	373,701		372,724	977
Collateralized debt securities	2,459			2,459
Other debt securities	17,976		13,113	4,863
Total bonds held-to-maturity	8,826,253		8,767,600	58,653
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	24,856		24,856	
U.S. states and political subdivisions	777,522		775,012	2,510
Foreign governments	6,900		6,900	
Corporate debt securities	4,056,572		4,021,030	35,542
Residential mortgage-backed securities	47,002		45,076	1,926
Collateralized debt securities	13,366		11,200	2,166
Total bonds available-for-sale	4,926,218		4,884,074	42,144
Equity securities				
Common stock	1,452,643	1,452,643		
Preferred stock	41,828	41,828		
Total equity securities	1,494,471	1,494,471		
Options	170,343			170,343
Mortgage loans on real estate	3,515,463		3,515,463	
Policy loans	404,705			404,705
Short-term investments	346,343		346,343	
Separate account assets	992,615		992,615	
Total financial assets	\$ 20,676,411	\$ 1,494,471	\$ 18,506,095	\$ 675,845
Financial liabilities				
Investment contracts	\$ 9,039,356	\$	\$	\$ 9,039,356

Embedded derivative liability for equity-indexed contracts	191,760		191,760
Notes payable	109,349		109,349
Separate account liabilities	992,615		992,615
Total financial liabilities	\$ 10,333,080	\$	\$ 992,615 \$ 9,340,465

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	Fair Value Measurement as of December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Financial assets				
Fixed maturity securities, bonds held-to-maturity				
U.S. treasury and government	\$ 1,744	\$	\$ 1,744	\$
U.S. states and political subdivisions	362,656		362,656	
Foreign governments	31,604		31,604	
Corporate debt securities	7,993,891		7,950,418	43,473
Residential mortgage-backed securities	418,683		417,688	995
Collateralized debt securities	2,591			2,591
Other debt securities	11,899		11,899	
Total bonds held-to-maturity	8,823,068		8,776,009	47,059
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	22,476		22,476	
U.S. states and political subdivisions	638,561		636,041	2,520
Foreign governments	6,649		6,649	
Corporate debt securities	3,807,033		3,794,809	12,224
Residential mortgage-backed securities	63,007		60,841	2,166
Commercial mortgage-backed securities	29,260			29,260
Collateralized debt securities	15,186		13,052	2,134
Other debt securities	17,501		17,501	
Total bonds available-for-sale	4,599,673		4,551,369	48,304
Equity securities				
Common stock	1,368,995	1,368,995		
Preferred stock	41,613	41,613		
Total equity securities	1,410,608	1,410,608		
Options	164,753			164,753
Mortgage loans on real estate	3,470,663		3,470,663	
Policy loans	397,407			397,407
Short-term investments	495,386		495,386	
Separate account assets	970,954		970,954	
Total financial assets	\$ 20,332,512	\$ 1,410,608	\$ 18,264,381	\$ 657,523
Financial liabilities				
Investment contracts	\$ 9,423,122	\$	\$	\$ 9,423,122
Embedded derivative liability for equity-indexed contracts	148,435			148,435
Notes payable	113,849			113,849

Separate account liabilities	970,954		970,954	
Total financial liabilities	\$ 10,656,360	\$	\$ 970,954	\$ 9,685,406

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

	Level 3					
	Three months ended September 30,			Nine months ended September 30,		
	Assets	Liability		Assets	Liability	
	Equity- Investment Securities	Indexed Options	Embedded Derivative	Investment Securities	Equity- Indexed Options	Embedded Derivative
Beginning balance, 2014	\$ 11,932	\$ 163,861	\$ 186,261	\$ 48,304	\$ 164,753	\$ 148,435
Total realized and unrealized investment gains/losses included in other comprehensive income	138			(11,735)		
Net fair value change included in realized gains/losses				13,056		
Net gain (loss) for derivatives included in net investment income		4,998			23,788	
Net change included in interest credited			1,762			16,484
Purchases, sales and settlements or maturities						
Purchases		3,655			12,345	
Sales	(120)			(37,670)		
Settlements or maturities	(5)	(2,171)		(10)	(30,543)	
Premiums less benefits			3,737			26,841
Gross transfers into Level 3	30,199			30,199		
Gross transfers out of Level 3						
Ending balance September 30, 2014	\$ 42,144	\$ 170,343	\$ 191,760	\$ 42,144	\$ 170,343	\$ 191,760
Beginning balance, 2013	\$ 55,558	\$ 115,558	\$ 100,963	\$ 107,036	\$ 82,625	\$ 75,032
Total realized and unrealized investment gains/losses included in other comprehensive income	(633)			10,496		
Net fair value change included in realized gains/losses	(1)			218		
Net gain (loss) for derivatives included in net investment income		11,775			42,941	
Net change included in interest credited			11,056			39,750
Purchases, sales and settlements or maturities						
Purchases	45	4,470		2,115	12,178	
Sales	(138)			(14,272)		
Settlements or maturities		(2,054)			(7,995)	

Premiums less benefits		(730)		(3,493)
Gross transfers into Level 3	157		157	
Gross transfers out of Level 3	(2,840)		(53,602)	

Ending balance September 30, 2013 \$ 52,148 \$ 129,749 \$ 111,289 \$ 52,148 \$ 129,749 \$ 111,289

Within the net gain (loss) for derivatives included in net investment income were unrealized gain/(loss) of \$7,395,000 and \$39,652,000 relating to assets still held at September 30, 2014 and 2013, respectively.

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

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

	Life	Annuity	Accident & Health	Property & Casualty	Total
Beginning balance 2014	\$ 684,084	\$ 424,158	\$ 47,220	\$ 122,271	\$ 1,277,733
Additions	77,261	36,413	14,949	161,978	290,601
Amortization	(61,488)	(58,469)	(14,084)	(167,414)	(301,455)
Effect of change in unrealized gains on available-for-sale securities	(4,147)	(13,028)			(17,175)
Net change	11,626	(35,084)	865	(5,436)	(28,029)
Ending balance at September 30, 2014	\$ 695,710	\$ 389,074	\$ 48,085	\$ 116,835	\$ 1,249,704

11. LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

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

Information regarding the liability for unpaid claims is shown below (in thousands):

	Nine months ended September 30,	
	2014	2013
Unpaid claims balance, beginning	\$ 1,096,299	\$ 1,168,047
Less reinsurance recoverables	215,161	256,885
Net beginning balance	881,138	911,162
Incurred related to		
Current	706,824	743,194
Prior years	(29,044)	(50,553)
Total incurred claims	677,780	692,641
Paid claims related to		

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Current	410,077	442,100
Prior years	252,082	266,472
Total paid claims	662,159	708,572
Net balance	896,759	895,231
Plus reinsurance recoverables	235,485	226,822
Unpaid claims balance, ending	\$ 1,132,244	\$ 1,122,053

The net and gross reserve calculations have shown favorable development for the last several years as a result of favorable loss emergence compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred claims attributable to insured events of prior years decreased by approximately \$29,044,000 during the first nine months of 2014 and \$50,553,000 during the same period in 2013.

Table of Contents**12. FEDERAL INCOME TAXES**

A reconciliation of the effective tax rate to the statutory federal tax rate is shown below (in thousands, except percentages):

	Three months ended September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Income tax (benefit) on pre-tax income	\$ 33,171	35.0%	\$ 42,302	35.0%	\$ 82,308	35.0%	\$ 93,527	35.0%
Tax-exempt investment income	(1,742)	(1.8)	(1,502)	(1.2)	(4,897)	(2.1)	(4,700)	(1.8)
Dividend exclusion	(1,700)	(1.8)	(1,710)	(1.4)	(5,253)	(2.2)	(4,802)	(1.8)
Miscellaneous tax credits, net	(2,658)	(2.8)	(1,930)	(1.6)	(5,873)	(2.5)	(5,820)	(2.2)
Other items, net	(322)	(0.3)	(1,401)	(1.2)	(621)	(0.3)	(6,326)	(2.3)
	\$ 26,749	28.3%	\$ 35,759	29.6%	\$ 65,664	27.9%	\$ 71,879	26.9%

American National made federal tax payments of \$41,121,000 during the nine months ended September 30, 2014 and \$37,784,000 during the nine months ended September 30, 2013.

Management believes a sufficient level of taxable income will be achieved over time to utilize the deferred tax assets in the consolidated federal tax return; therefore, no valuation allowance was recorded as of September 30, 2014 and December 31, 2013. However, if not utilized beforehand, approximately \$2,260,000 of ordinary loss tax carryforwards will expire on December 31, 2034.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2006 to 2009 has been extended. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld. No provision for penalties was established, and no interest expense was incurred for 2014 or 2013, relating to uncertain tax positions. Management does not believe there are any uncertain tax benefits that could be recognized within the next twelve months that would decrease American National's effective tax rate.

Table of Contents**13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The components of and changes in the accumulated other comprehensive income (loss) (AOCI), and the related tax effects, are shown below (in thousands):

	Net Unrealized Gains/(Losses) on Securities	Defined Benefit Pension Plan Adjustments	Foreign Currency Adjustments	AOCI
Beginning balance 2014	\$ 457,937	\$ (43,884)	\$ (341)	\$ 413,712
Amounts reclassified from AOCI (net of tax benefit \$8,906 and expense \$1,159)	(16,539)	2,152		(14,387)
Unrealized holding gains (losses) arising during the period (net of tax expense \$65,575)	121,782			121,782
Unrealized adjustment to DAC (net of tax benefit \$6,525)	(10,650)			(10,650)
Unrealized (gains) losses on investments attributable to participating policyholders' interest (net of tax benefit \$2,984)	(5,542)			(5,542)
Foreign currency adjustment (net of tax benefit \$311)			(577)	(577)
Ending balance at September 30, 2014	\$ 546,988	\$ (41,732)	\$ (918)	\$ 504,338

	Net Unrealized Gains/(Losses) on Securities	Defined Benefit Pension Plan Adjustments	Foreign Currency Adjustments	AOCI
Beginning balance 2013	\$ 370,842	\$ (129,003)	\$ 171	\$ 242,010
Amounts reclassified from AOCI (net of tax benefit \$12,720 and expense \$4,645)	(23,095)	8,627		(14,468)
Unrealized holding gains (losses) arising during the period (net of tax expense \$13,277)	24,658			24,658
Unrealized adjustment to DAC (net of tax expense \$17,299)	29,344			29,344
Unrealized (gains) losses on investments attributable to participating policyholders' interest	662			662

(net of tax expense \$356)				
Foreign currency adjustment (net of tax benefit \$114)			(211)	(211)
Ending balance at September 30, 2013	\$ 402,411	\$ (120,376)	\$ (40)	\$ 281,995

14. STOCKHOLDERS EQUITY AND NONCONTROLLING INTERESTS

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

	September 30, 2014	December 31, 2013
Common stock		
Shares issued	30,832,449	30,832,449
Treasury shares	(3,960,507)	(3,937,261)
Outstanding shares	26,871,942	26,895,188
Restricted shares	(142,667)	(190,667)
Unrestricted outstanding shares	26,729,275	26,704,521

Stock-based compensation

American National has one stock-based compensation plan, which allows for grants of Non-Qualified Stock Options, Stock Appreciation Rights (SAR), Restricted Stock (RS) Awards, Restricted Stock Units (RSU), Performance Awards, Incentive Awards or any combination thereof. This plan is administered by the American National Board Compensation Committee. The Board Compensation Committee makes incentive awards under this plan to our executives after meeting established performance objectives. All awards are subject to review by the Board of Directors, both when setting applicable performance objectives and at the payment of the awards. The number of shares available for grants under the plan cannot exceed 2,900,000, and no more than 200,000 shares may be granted to any one individual in any calendar year. Grants are made to certain officers and directors as compensation and to align their interests with those of other shareholders.

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

	SAR		RS Shares		RS Units	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value	Units	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2013	74,435	\$ 114.08	190,667	\$ 107.54	121,369	\$ 76.23
Granted					66,383	113.49
Exercised	(2,817)	95.58	(48,000)	108.00	(59,438)	76.53
Forfeited					(100)	113.49
Expired	(15,279)	115.23				
Outstanding at September 30, 2014	56,339	\$ 114.69	142,667	\$ 107.39	128,214	\$ 95.82

	SAR	RS Shares	RS Units
Weighted-average contractual remaining life (in years)	2.0	4.1	2.0
Exercisable shares			
Weighted-average exercise price	\$ 114.69	\$ 107.39	\$ 95.82
Weighted-average exercise price exercisable shares	114.78	N/A	N/A
Compensation expense (credits)			
Three months ended September 30, 2014	\$ (19,000)	\$ 496,000	\$ 522,000
Three months ended September 30, 2013	87,000	674,000	409,000
Nine months ended September 30, 2014	(33,000)	2,577,000	6,447,000
Nine months ended September 30, 2013	160,000	1,703,000	8,692,000
Fair value of liability award			
September 30, 2014	\$ 157,000	N/A	\$ 15,039,000
December 31, 2013	376,000	N/A	15,018,000