AMERICAN NATIONAL INSURANCE CO /TX/
Form 10-Q
November 06, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

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

One Moody Plaza

Galveston, Texas 77550-7999

(Address of principal executive offices) (Zip Code)

(409) 763-4661

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically if any, every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Smaller reporting company
Non-accelerated filer	Accelerated filer
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 01, 2018, there were 26,885,449 shares of the registrant s voting common stock, $1.00 par value per share, outstanding.

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	September 30, 2018	December 31, 2017
ASSETS		
Fixed maturity, bonds held-to-maturity, at amortized cost (Fair value $7,941,606 and $7,774,353)	$ 8,010,576	$ 7,552,959
Fixed maturity, bonds available-for-sale, at fair value (Amortized cost $6,119,694 and $5,957,901)	6,074,668	6,145,308
Equity securities, at fair value (Cost $696,474 and $757,583)	1,810,647	1,784,226
Mortgage loans on real estate, net of allowance	5,139,758	4,749,999
Policy loans	374,256	377,103
Investment real estate, net of accumulated depreciation of $268,559 and $260,904	543,440	532,346
Short-term investments	217,221	658,765
Other invested assets	74,956	80,165
Total investments	22,245,522	21,880,871
Cash and cash equivalents	606,775	375,837
Investments in unconsolidated affiliates	535,729	484,207
Accrued investment income	186,421	187,670
Reinsurance recoverables	460,125	418,589
Prepaid reinsurance premiums	56,038	63,625
Premiums due and other receivables	377,618	314,345
Deferred policy acquisition costs	1,458,591	1,373,844
Property and equipment, net of accumulated depreciation of $233,635 and $217,076	111,495	115,818
Current tax receivable	42,717	44,170
Prepaid pension	32,118	
Other assets	147,078	158,024
Separate account assets	1,043,688	969,764
Total assets	**$ 27,303,915**	**$ 26,386,764**
LIABILITIES		
Future policy benefits		
Life	$ 3,023,872	$ 2,997,353
Annuity	1,501,035	1,400,150
Health	54,967	57,104
Policyholders account balances	12,522,225	12,060,045
Policy and contract claims	1,472,040	1,390,561
Unearned premium reserve	941,180	875,294

Other policyholder funds	329,489	334,501
Liability for retirement benefits	78,355	114,538
Notes payable	137,504	137,458
Deferred tax liabilities, net	345,235	316,370
Other liabilities	472,655	477,855
Separate account liabilities	1,043,688	969,764
Total liabilities	**21,922,245**	**21,130,993**
EQUITY		
American National stockholders equity:		
Common stock, $1.00 par value, Authorized 50,000,000, Issued 30,832,449 and 30,832,449 Outstanding 26,885,449 and 26,931,884 shares	30,832	30,832
Additional paid-in capital	20,673	19,193
Accumulated other comprehensive income (loss)	(123,709)	642,216
Retained earnings	5,553,383	4,656,134
Treasury stock, at cost	(108,492)	(101,616)
Total American National stockholders equity	5,372,687	5,246,759
Noncontrolling interest	8,983	9,012
Total equity	**5,381,670**	**5,255,771**
Total liabilities and equity	**$ 27,303,915**	**$ 26,386,764**

See accompanying notes to the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
PREMIUMS AND OTHER REVENUE				
Premiums				
Life	$ 91,176	$ 84,862	$ 257,147	$ 241,623
Annuity	47,296	65,007	185,140	160,205
Health	45,154	41,832	135,039	115,464
Property and casualty	374,842	345,816	1,086,862	1,006,516
Other policy revenues	70,840	54,030	213,317	183,558
Net investment income	285,532	241,205	740,942	704,326
Net realized investment gains (losses)	(8,606)	33,929	9,575	59,338
Other-than-temporary impairments		(3,485)		(11,737)
Net unrealized gains on equity securities	133,825		145,687	
Other income	12,177	9,554	33,973	27,347
Total premiums and other revenues	1,052,236	872,750	2,807,682	2,486,640
BENEFITS, LOSSES AND EXPENSES				
Policyholder benefits				
Life	119,816	106,904	315,320	309,530
Annuity	64,153	79,090	231,002	201,568
Claims incurred				
Health	29,751	28,546	90,201	76,124
Property and casualty	272,885	238,178	795,501	719,888
Interest credited to policyholders account balances	133,418	104,699	309,694	295,255
Commissions for acquiring and servicing policies	138,979	141,645	433,412	408,582
Other operating expenses	118,761	112,969	373,102	365,000
Change in deferred policy acquisition costs	(8,794)	(32,225)	(45,876)	(69,407)
Total benefits, losses and expenses	868,969	779,806	2,502,356	2,306,540
Income before federal income tax and other items	**183,267**	**92,944**	**305,326**	**180,100**
Less: Provision (benefit) for federal income taxes				
Current	(39,937)	22,980	(26,404)	26,924
Deferred	59,156	14,203	68,769	37,518
Total provision for federal income taxes	19,219	37,183	42,365	64,442

Income after federal income tax		164,048		55,761		262,961		115,658
Equity in earnings of unconsolidated affiliates		13,029		22,387		18,905		44,200
Other components of net periodic pension costs, net of tax		(1,236)		(1,545)		(3,705)		(8,365)
Net income		175,841		76,603		278,161		151,493
Less **:** Net income attributable to noncontrolling interest, net of tax		2,377		3,334		1,781		2,425
Net income attributable to American National	**$**	**173,464**	**$**	**73,269**	**$**	**276,380**	**$**	**149,068**
Amounts available to American National common stockholders								
Earnings per share								
Basic	$	6.45	$	2.72	$	10.28	$	5.54
Diluted		6.44		2.72		10.26		5.53
Cash dividends to common stockholders		0.82		0.82		2.46		2.46
Weighted average common shares outstanding		26,886,498		26,894,538		26,886,299		26,895,952
Weighted average common shares outstanding and dilutive potential common shares		26,893,013		26,958,664		26,923,540		26,959,227

See accompanying notes to the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited and in thousands)

	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Net income	$ 175,841	$ 76,603	$ 278,161	$ 151,493
Other comprehensive income (loss), net of tax				
Change in net unrealized gains (losses) on securities	(14,395)	29,774	(142,116)	126,362
Foreign currency transaction and translation adjustments	(181)	411	(681)	694
Defined benefit pension plan adjustment	1,601	1,535	3,991	9,276
Other comprehensive income (loss), net of tax	(12,975)	31,720	(138,806)	136,332
Total comprehensive income	**162,866**	**108,323**	**139,355**	**287,825**
Less: Comprehensive income attributable to noncontrolling interest	2,377	3,334	1,781	2,425
Total comprehensive income attributable to American National	**$ 160,489**	**$ 104,989**	**$ 137,574**	**$ 285,400**

AMERICAN NATIONAL INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited and in thousands)

	Nine months ended September 30, 2018	2017
Common Stock		
Balance at beginning and end of the period	$ 30,832	$ 30,832
Additional Paid-In Capital		
Balance as of January 1,	19,193	16,406
Reissuance of treasury shares	1,172	1,964
Amortization of restricted stock	308	618
Balance at end of the period	20,673	18,988

Accumulated Other Comprehensive Income (Loss)		
Balance as of January 1,	642,216	455,899
Cumulative effect of accounting change	(627,119)	
Other comprehensive income (loss)	(138,806)	136,332
Balance at end of the period	(123,709)	592,231
Retained Earnings		
Balance as of January 1,	4,656,134	4,250,818
Cumulative effect of accounting changes	687,051	
Net income attributable to American National	276,380	149,068
Cash dividends to common stockholders	(66,182)	(66,249)
Balance at end of the period	5,553,383	4,333,637
Treasury Stock		
Balance as of January 1,	(101,616)	(101,777)
Reissuance (purchase) of treasury shares	(6,876)	161
Balance at end of the period	(108,492)	(101,616)
Noncontrolling Interest		
Balance as of January 1,	9,012	9,317
Contributions		224
Distributions	(1,810)	(2,492)
Net income attributable to noncontrolling interest	1,781	2,425
Balance at end of the period	8,983	9,474
Total Equity	**$ 5,381,670**	**$ 4,883,546**

See accompanying notes to the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Nine months ended September 30, 2018	2017
OPERATING ACTIVITIES		
Net income	$ 278,161	$ 151,493
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized investment gains	(9,575)	(59,338)
Other-than-temporary impairments		11,737
Accretion of premiums, discounts and loan origination fees	(4,303)	(4,233)
Net capitalized interest on policy loans and mortgage loans	(29,250)	(25,218)
Depreciation	39,241	41,131
Interest credited to policyholders account balances	309,694	295,255
Charges to policyholders account balances	(213,317)	(183,558)
Deferred federal income tax expense	68,769	37,518
Equity in earnings of unconsolidated affiliates	(18,905)	(44,200)
Distributions from equity method investments	16,375	1,133
Changes in		
Policyholder liabilities	281,596	273,411
Deferred policy acquisition costs	(45,876)	(69,407)
Reinsurance recoverables	(41,536)	(7,063)
Premiums due and other receivables	(63,272)	(38,499)
Prepaid reinsurance premiums	7,587	(2,500)
Accrued investment income	1,249	(3,596)
Current tax receivable/payable	1,454	21,571
Liability for retirement benefits	(63,249)	(7,934)
Fair value of option securities	(58,396)	(56,920)
Fair value of equity securities	(145,687)	
Other, net	53,782	40,578
Net cash provided by operating activities	**364,542**	**371,361**
INVESTING ACTIVITIES		
Proceeds from sale/maturity/prepayment of		
Held-to-maturity securities	492,160	599,202
Available-for-sale securities	348,149	327,424
Equity securities	164,413	106,090
Investment real estate	11,577	46,745
Mortgage loans	467,040	431,702
Policy loans	42,071	39,003
Other invested assets	84,846	62,815

Disposals of property and equipment	93	554
Distributions from unconsolidated affiliates	35,684	12,561
Payment for the purchase/origination of		
Held-to-maturity securities	(1,011,398)	(690,190)
Available-for-sale securities	(436,877)	(438,798)
Equity securities	(40,981)	(96,819)
Investment real estate	(35,583)	(27,527)
Mortgage loans	(834,877)	(848,263)
Policy loans	(18,268)	(18,953)
Other invested assets	(61,407)	(33,062)
Additions to property and equipment	(13,527)	(19,162)
Contributions to unconsolidated affiliates	(100,567)	(23,267)
Change in short-term investments	441,544	(369,547)
Change in collateral held for derivatives	40,243	29,797
Other, net	(5,795)	19,055
Net cash used in investing activities	**(431,460)**	**(890,640)**
FINANCING ACTIVITIES		
Policyholders account deposits	1,378,325	1,607,263
Policyholders account withdrawals	(1,012,522)	(960,161)
Change in notes payable	45	2,084
Dividends to stockholders	(66,182)	(66,249)
Payments to noncontrolling interest	(1,810)	(2,268)
Net cash provided by financing activities	**297,856**	**580,669**
NET INCREASE IN CASH AND CASH EQUIVALENTS	230,938	61,390
Beginning of the period	375,837	289,338
End of the period	**$ 606,775**	**$ 350,728**

See accompanying notes to the unaudited consolidated financial statements.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

American National Insurance Company and its consolidated subsidiaries (collectively American National or the Company) 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 all 50 states, the District of Columbia and Puerto Rico.

Note 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, changes in 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, 2017. 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.

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Note 3 Recently Issued Accounting Pronouncements

Adoption of New Accounting Standards

In May 2014, the FASB issued guidance that superseded most existing revenue recognition requirements in GAAP. Insurance contracts generally are excluded from the scope of the guidance. For those contracts which are impacted, the transaction price is attributed to the underlying performance obligations in the contract and revenue is recognized as the entity satisfies the performance obligations and transfers control of a good or service to the customer. The Company s revenues include premium, other policy revenue, net investment income, realized investment gains, and other income. Other income includes fee income which is recognized when obligations under the terms specified within a contract with a customer are either (1) satisfied at a point in time or (2) the progress of completion is measured over a period of time as the obligation is performed using the input method. The Company adopted the standard on its required effective date of January 1, 2018 using the modified retrospective approach. The majority of our revenue sources are insurance related and not in the scope of the guidance. The adoption of the standard did not have a material impact on the Company s consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the nine months ended September 30, 2018.

In January 2016, the FASB issued guidance that changed certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The new guidance requires that equity investments, other than those accounted for under the equity method or those that result in consolidation of the investee, be measured at fair value and the changes in fair value are recognized through earnings. When the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. The guidance also simplifies the impairment assessment of equity investments and eliminates the disclosure requirements for methods and significant assumptions used to estimate fair value of financial instruments that are measured at amortized cost on the statement of financial position. The Company adopted the standard on its required effective date of January 1, 2018 using a modified retrospective approach. Upon adoption, cumulative unrealized gains and losses on equity securities of $667.7 million, partially offset by $30.4 million participating policyholders interest, net of tax, related to unrealized gains and losses on equity securities, were reclassified from accumulated other comprehensive income to retained earnings. In April 2018, an additional $10.2 million deferred policy acquisition cost adjustment, net of tax, related to net unrealized gains and losses on equity securities, was reclassified from accumulated other comprehensive income to retained earnings. Earnings increased $105.7 million and $115.1 million, net of tax, for the three and nine months ended September 30, 2018, respectively from the change in net unrealized gains and losses on equity securities.

In October of 2016, the FASB issued guidance requiring an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Whereas, prior guidance prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset was sold to an outside party. The Company adopted the standard on its required effective date of January 1, 2018 using a modified retrospective approach. Upon adoption, an other liability was released and retained earnings increased by $59.9 million. The adoption of the standard did not have a material impact on the Company s consolidated financial position, results of operations, equity or cash flows for the nine months ended September 30, 2018.

In March 2017, the FASB issued guidance on the presentation of net periodic pension and postretirement benefit costs. The guidance requires the service cost component to be reported in the same line item as other compensation costs. All other components of net periodic pension cost are required to be presented in the income statement separately from the service cost component and outside of income from operations. The Company adopted the standard on its required effective date of January 1, 2018 using a retrospective approach. Upon adoption, other components of net periodic pension costs of $1.5 million and $8.4 million, net of tax, for the three and nine months ended September 30, 2017, respectively, were reclassified from other operating expenses. The guidance changed presentation only and did not have an impact on the Company s consolidated financial position, results of operations, equity or cash flows. Since the Company s defined benefit pension plans have been frozen, the components of net periodic benefit costs have not materially changed from year-end 2017.

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Note 3 Recently Issued Accounting Pronouncements (Continued)

Future Adoption of New Accounting Standards The FASB issued the following accounting guidance with future effective dates relevant to American National:

In February 2016, the FASB issued guidance that will require significant changes to the statement of financial position of lessees. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases today. Lessor accounting is less affected by the standard, but has been updated to align with certain changes in the lessee model and the new revenue recognition standard. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018 and will be implemented using the effective date method, which requires a cumulative-effect adjustment to the opening balance of retained earnings on the effective date. We have identified and analyzed the majority of the lease contracts and do not expect the adoption of the standard to be material to the Company s results of operations or financial position.

In June 2016, the FASB issued guidance that will significantly change how entities measure credit losses for most financial assets, reinsurance recoverables and certain other instruments that are not measured at fair value through net income. The guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do under the current other-than-temporary impairment model. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. The Company must develop appropriate models to measure expected credit losses to begin determining the impact of adopting the standard on our results of operations or financial position.

In February 2018, the FASB issued guidance that allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company plans to adopt the standard effective January 1, 2019. The guidance changes equity presentation only and will not have an impact on the Company s results of operations or financials position.

In August 2018, the FASB issued guidance that seeks to improve financial reporting for insurance companies that issue long duration contracts. The guidance improves the timeliness of recognizing changes in the liability for future policy benefits and modifies the rate used to discount future cash flows. The guidance will simplify and improve accounting for certain market-based options or guarantees associated with deposit type contracts, simplify the amortization of deferred acquisition costs and provide users of the financial statements with enhanced disclosures. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2020. The Company is in the process of evaluating the impact of the adoption of this standard.

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Note 4 Investment in Securities

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

	September 30, 2018			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	$ 247,206	$ 5,328	$ (487)	$ 252,047
Foreign governments	3,974	392		4,366
Corporate debt securities	7,472,207	60,834	(136,329)	7,396,712
Residential mortgage-backed securities	285,878	5,323	(4,059)	287,142
Collateralized debt securities	594	11		605
Other debt securities	717	17		734
Total bonds held-to-maturity	**8,010,576**	**71,905**	**(140,875)**	**7,941,606**
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	28,306	305	(453)	28,158
U.S. states and political subdivisions	855,782	10,930	(7,683)	859,029
Foreign governments	5,000	1,120		6,120
Corporate debt securities	5,195,655	44,841	(94,229)	5,146,267
Residential mortgage-backed securities	32,080	312	(865)	31,527
Collateralized debt securities	2,871	701	(5)	3,567
Total bonds available-for-sale	**6,119,694**	**58,209**	**(103,235)**	**6,074,668**
Equity securities				
Common stock	678,992	1,119,395	(7,175)	1,791,212
Preferred stock	17,482	1,953		19,435
Total equity securities	**696,474**	**1,121,348**	**(7,175)**	**1,810,647**
Total investments in securities	**$ 14,826,744**	**$ 1,251,462**	**$ (251,285)**	**$ 15,826,921**

	December 31, 2017			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	$ 266,966	$ 12,466	$ (37)	$ 279,395

Foreign governments	4,011	582		4,593
Corporate debt securities	7,032,464	217,883	(18,020)	7,232,327
Residential mortgage-backed securities	246,803	9,702	(1,262)	255,243
Collateralized debt securities	923	31		954
Other debt securities	1,792	49		1,841
Total bonds held-to-maturity	**7,552,959**	**240,713**	**(19,319)**	**7,774,353**
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	27,569	475	(146)	27,898
U.S. states and political subdivisions	866,250	31,621	(824)	897,047
Foreign governments	5,000	1,460		6,460
Corporate debt securities	5,038,908	170,112	(16,093)	5,192,927
Residential mortgage-backed securities	15,009	37	(329)	14,717
Collateralized debt securities	3,171	651	(4)	3,818
Other debt securities	1,994	447		2,441
Total bonds available-for-sale	**5,957,901**	**204,803**	**(17,396)**	**6,145,308**
Equity securities				
Common stock	738,453	1,029,340	(7,166)	1,760,627
Preferred stock	19,130	4,469		23,599
Total equity securities	**757,583**	**1,033,809**	**(7,166)**	**1,784,226**
Total investments in securities	**$ 14,268,443**	**$ 1,479,325**	**$ (43,881)**	**$ 15,703,887**

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Note 4 Investment in Securities (Continued)

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

	September 30, 2018			
	Bonds Held-to-Maturity		Bonds Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 330,810	$ 335,370	$ 78,293	$ 78,999
Due after one year through five years	4,207,211	4,226,509	2,476,253	2,486,617
Due after five years through ten years	2,850,306	2,774,862	3,053,003	3,004,384
Due after ten years	622,249	604,865	512,145	504,668
Total	**$ 8,010,576**	**$ 7,941,606**	**$ 6,119,694**	**$ 6,074,668**

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 fixed maturity 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,	
	2018	2017	2018	2017
Proceeds from sales of fixed maturity available-for-sale securities	$ 18,424	$ 72,910	$ 64,980	$ 117,467
Gross realized gains		31,397	376	46,385
Gross realized losses	(569)	(4,837)	(1,156)	(4,983)

Gains and losses are determined using specific identification of the securities sold. During the nine months ended September 30, 2018 and 2017, bonds with a carrying value of $73,071,000 and $25,266,000, respectively, were transferred from held-to-maturity to available-for-sale after a deterioration in the issuers credit worthiness became evident. A realized loss of $6,000,000 was recorded in 2017 on a bond that was transferred due to an other-than-temporary impairment.

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

	Nine months ended September 30,	
	2018	2017
Bonds available-for-sale	$ (232,433)	$ 85,740
Adjustments for		
Deferred policy acquisition costs	38,871	(11,551)
Participating policyholders interest	13,975	(9,140)
Deferred federal income tax benefit (expense)	37,471	(22,480)
Change in net unrealized gains (losses) on debt securities, net of tax	**$ (142,116)**	**$ 42,569**

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net gains on equity securities	$ 126,495	$ 63,711	$ 150,487	$ 170,850
Less: Net (gains) losses on equity securities sold	7,330	(26,842)	(4,800)	(41,937)
Unrealized gains on equity securities	**$ 133,825**	**$ 36,869**	**$ 145,687**	**$ 128,913**

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Note 4 Investment in Securities (Continued)

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):

	September 30, 2018					
	Less than 12 months		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	$ (487)	$ 25,772	$	$	$ (487)	$ 25,772
Corporate debt securities	(122,326)	3,861,692	(14,003)	254,988	(136,329)	4,116,680
Residential mortgage-backed securities	(2,508)	114,526	(1,551)	25,357	(4,059)	139,883
Total bonds held-to-maturity	**(125,321)**	**4,001,990**	**(15,554)**	**280,345**	**(140,875)**	**4,282,335**
Fixed maturity securities, bonds available-for-sale						
U.S. treasury and government	(275)	16,763	(178)	7,922	(453)	24,685
U.S. states and political subdivisions	(5,783)	323,896	(1,900)	27,720	(7,683)	351,616
Corporate debt securities	(78,920)	2,717,092	(15,309)	178,421	(94,229)	2,895,513
Residential mortgage-backed securities	(316)	16,448	(549)	12,064	(865)	28,512
Collateralized debt securities	(2)	159	(3)	100	(5)	259
Total bonds available-for-sale	**(85,296)**	**3,074,358**	**(17,939)**	**226,227**	**(103,235)**	**3,300,585**
Equity securities						
Common stock	(5,634)	31,117	(1,541)	8,635	(7,175)	39,752
Total equity securities	**(5,634)**	**31,117**	**(1,541)**	**8,635**	**(7,175)**	**39,752**
Total	**$ (216,251)**	**$ 7,107,465**	**$ (35,034)**	**$ 515,207**	**$ (251,285)**	**$ 7,622,672**

	December 31, 2017					
	Less than 12 months		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	$ (37)	$ 1,937	$	$	$ (37)	$ 1,937
Corporate debt securities	(8,444)	951,425	(9,576)	192,737	(18,020)	1,144,162
Residential mortgage-backed securities	(325)	49,283	(937)	18,888	(1,262)	68,171
Total bonds held-to-maturity	**(8,806)**	**1,002,645**	**(10,513)**	**211,625**	**(19,319)**	**1,214,270**
Fixed maturity securities, bonds available-for-sale						
U.S. treasury and government	(141)	20,352	(5)	3,875	(146)	24,227
U.S. states and political subdivisions	(160)	27,669	(664)	28,010	(824)	55,679
Corporate debt securities	(6,657)	559,710	(9,436)	159,532	(16,093)	719,242
Residential mortgage-backed securities	(193)	12,419	(136)	1,428	(329)	13,847
Collateralized debt securities			(4)	123	(4)	123
Total bonds available-for-sale	**(7,151)**	**620,150**	**(10,245)**	**192,968**	**(17,396)**	**813,118**
Equity securities						
Common stock	(7,166)	60,391			(7,166)	60,391
Total equity securities	**(7,166)**	**60,391**			**(7,166)**	**60,391**
Total	**$ (23,123)**	**$ 1,683,186**	**$ (20,758)**	**$ 404,593**	**$ (43,881)**	**$ 2,087,779**

As of September 30, 2018, the securities with unrealized losses including those exceeding one year were not deemed to be other-than-temporarily impaired. American National has the ability and intent to hold those securities until a market price recovery or maturity. It is more-likely-than-not that American National will not 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.

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Note 4 Investment in Securities (Continued)

The following table identifies the total bonds distributed by credit quality rating (in thousands, except percentages):

	September 30, 2018			December 31, 2017		
	Amortized Cost	Estimated Fair Value	% of Fair Value	Amortized Cost	Estimated Fair Value	% of Fair Value
AAA	$ 619,031	$ 625,804	4.5%	$ 638,039	$ 664,396	4.8%
AA	1,258,310	1,260,219	9.0	1,220,544	1,264,282	9.0
A	5,213,022	5,158,582	36.8	4,856,802	4,997,574	35.9
BBB	6,531,238	6,475,759	46.2	6,273,220	6,480,719	46.6
BB and below	508,669	495,910	3.5	522,255	512,690	3.7
Total	**$ 14,130,270**	**$ 14,016,274**	**100.0%**	**$ 13,510,860**	**$ 13,919,661**	**100.0%**

Equity securities by market sector distribution are shown below:

	September 30, 2018	December 31, 2017
Consumer goods	21.6%	20.2%
Energy and utilities	7.9	8.6
Finance	18.1	21.9
Healthcare	12.7	11.8
Industrials	9.5	9.5
Information technology	23.0	20.0
Other	7.2	8.0
Total	**100.0%**	**100.0%**

Note 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 location of the underlying collateral. The distribution based on carrying amount of mortgage loans by location is as follows:

	September 30, 2018	December 31, 2017
East North Central	15.5%	15.4%
East South Central	2.9	3.1
Mountain	17.8	14.0
Pacific	15.7	16.5
South Atlantic	12.2	14.1

West South Central	28.3	29.8
Other	7.6	7.1
Total	**100.0%**	**100.0%**

For the nine months ended September 30, 2018, American National foreclosed on four loans with a total recorded investment of $22,608,000. Seven loans with a total recorded investment of $51,829,000 were in the process of foreclosure. For the year ended December 31, 2017, American National foreclosed on one loan with a recorded investment of $2,285,000, and four loans with a total recorded investment of $17,263,000 were in the process of foreclosure. American National did not sell any loans during the nine months ended September 30, 2018 or during the year ended December 31, 2017.

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Note 5 Mortgage Loans (Continued)

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

	30-59 Days Past Due	60-89 Days Past Due	More Than 90 Days	Total	Current	Total Amount	Percent
September 30, 2018							
Industrial	$	$	$ 28,822	$ 28,822	$ 843,497	$ 872,319	16.9
Office	10,103		5,164	15,267	1,733,759	1,749,026	33.9
Retail					857,602	857,602	16.6
Other					1,680,178	1,680,178	32.6
Total	**$ 10,103**	**$**	**$ 33,986**	**$ 44,089**	**$ 5,115,036**	**$ 5,159,125**	**100.0**
Allowance for loan losses						(19,367)	
Total, net of allowance						**$ 5,139,758**	
December 31, 2017							
Industrial	$ 4,985	$	$	$ 4,985	$ 781,385	$ 786,370	16.5
Office		10,713	8,881	19,594	1,764,151	1,783,745	37.4
Retail					750,979	750,979	15.7
Other					1,447,771	1,447,771	30.4
Total	**$ 4,985**	**$ 10,713**	**$ 8,881**	**$ 24,579**	**$ 4,744,286**	**$ 4,768,865**	**100.0**
Allowance for loan losses						(18,866)	
Total, net of allowance						**$ 4,749,999**	

There were no unamortized purchase discounts for the nine months ended September 30, 2018 or during the year ended December 31, 2017. Total mortgage loans were also net of unamortized origination fees of $30,591,000 and $32,766,000 at September 30, 2018 and December 31, 2017, respectively. No unearned income is included in these amounts.

Allowance for Credit Losses

A loan is considered impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Mortgage loans with temporary difficulties are not considered impaired when the borrower has the financial capacity to fund revenue shortfalls from the properties for the foreseeable future. Individual valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral. Loans not evaluated individually for collectability are segregated by property-type and location, and allowance factors are applied. These factors are developed based on 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 mortgage loans is shown below (in thousands, except number of loans):

	Collectively Evaluated for Impairment			Individually Impaired			Total		
	Number of Loans	Recorded Investment	Valuation Allowance	Number of Loans	Recorded Investment	Valuation Allowance	Number of Loans	Recorded Investment	Valuation Allowance
Beginning balance at January 1, 2018	**451**	**$ 4,762,315**	**$ 16,041**	**3**	**$ 6,550**	**$ 2,825**	**454**	**$ 4,768,865**	**$ 18,866**
Change in allowance			600			(99)			501
Net change in recorded investment	3	379,187		(1)	11,073		2	390,260	
Ending balance at September 30, 2018	**454**	**$ 5,141,502**	**$ 16,641**	**2**	**$ 17,623**	**$ 2,726**	**456**	**$ 5,159,125**	**$ 19,367**

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Note 5 Mortgage Loans (Continued)

Troubled Debt Restructurings

American National has granted concessions which are classified as troubled debt restructurings to certain mortgage loan borrowers. 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 change significantly, or may increase if the expected recovery is higher than the pre-modification recovery assessment.

Troubled debt restructuring mortgage loan information is as follows (in thousands, except number of loans):

	Nine months ended September 30,					
	2018			2017		
	Number of loans	Recorded investment pre-modification	Recorded investment post modification	Number of loans	Recorded investment pre-modification	Recorded investment post modification
Office	1	$ 5,164	$ 5,164	1	$ 10,103	$ 10,103
Other (hotel/motel)				5	24,801	24,801
Total	**1**	**$ 5,164**	**$ 5,164**	**6**	**$ 34,904**	**$ 34,904**

There was one loan determined to be a troubled debt restructuring for the nine months ended September 30, 2018. There are no commitments to lend additional funds to debtors whose loans have been modified in a troubled debt restructuring during the periods presented.

Note 6 Real Estate and Other Investments

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

	September 30, 2018	December 31, 2017
Industrial	6.2%	6.0%
Office	40.7	39.0
Retail	39.3	39.3
Other	13.8	15.7
Total	**100.0%**	**100.0%**

	September 30, 2018	December 31, 2017
East North Central	6.3%	6.1%
East South Central	5.0	3.6
Mountain	12.8	13.2
Pacific	8.0	8.5
South Atlantic	15.0	14.0
West South Central	50.5	52.4
Other	2.4	2.2
Total	**100.0%**	**100.0%**

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Note 6 Real Estate and Other Investments (Continued)

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 2018 or 2017.

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

	September 30, 2018		December 31, 2017	
Investment real estate	$	142,256	$	148,456
Short-term investments		500		501
Cash and cash equivalents		10,464		6,320
Other receivables		3,932		4,461
Other assets		12,208		15,920
Total assets of consolidated VIEs	**$**	**169,360**	**$**	**175,658**
Notes payable	$	137,504	$	137,458
Other liabilities		5,278		5,616
Total liabilities of consolidated VIEs	**$**	**142,782**	**$**	**143,074**

The notes payable in the consolidated statements of financial position pertain to the borrowings of the consolidated VIEs. The liability of American National 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 $27,069,000 and $28,377,000 at September 30, 2018 and December 31, 2017, respectively.

The total long-term notes payable of the consolidated VIE s consists of the following (in thousands):

Interest rate	**Maturity**	**September 30, 2018**		**December 31, 2017**	
LIBOR	2020	$	10,211	$	9,702
90 day LIBOR + 2.5%	2021		41,826		40,124
4% fixed	2022		85,467		87,632

Total	**$**	**137,504**	**$**	**137,458**

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Note 6 Real Estate and Other Investments (Continued)

For other VIEs in which American National is a partner, it is not the primary beneficiary, and these entities are not consolidated, as the major decisions that most significantly impact the economic activities of the VIE require consent of all partners. The carrying amount and maximum exposure to loss relating to unconsolidated VIEs follows (in thousands):

	September 30, 2018		December 31, 2017	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Investment in unconsolidated affiliates	$ 346,166	$ 346,166	$ 314,808	$ 314,808
Mortgage loans	622,603	622,603	493,014	493,014
Accrued investment income	2,528	2,528	1,817	1,817

As of September 30, 2018, no real estate investments were classified as held for sale.

Note 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 products are exposed. These options are not designated as hedging instruments for accounting purposes under U.S. GAAP. Equity-indexed contracts include a fixed host universal-life insurance or annuity contract and an equity-indexed embedded derivative. The detail of derivative instruments is shown below (in thousands, except number of instruments):

		September 30, 2018			December 31, 2017		
erivatives Not Designated s Hedging Instruments	Location in the Consolidated Statements of Financial Position	Number of Instruments	Notional Amounts	Estimated Fair Value	Number of Instruments	Notional Amounts	Estimate Fair Value
quity-indexed options	Other invested assets	473	$ 2,278,800	$ 256,969	468	$ 1,885,600	$ 220,19
quity-indexed embedded erivative	Policyholders account balances	87,342	2,245,380	652,136	76,621	1,819,523	512,52

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, 2018	2017	Nine months ended September 30, 2018	2017
Equity-indexed options	Net investment income	$ 50,943	$ 20,992	$ 58,576	$ 57,555
Equity-indexed embedded derivative	Interest credited to policyholders account balances	(52,797)	(25,637)	(56,960)	(69,741)

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Note 7 Derivative Instruments (Continued)

The Company s use of derivative instruments exposes it to credit risk in the event of non-performance by the counterparties. The Company has a policy of only dealing with counterparties we believe are credit worthy and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults. The non-performance risk is the net counterparty exposure based on the fair value of the open contracts, less collateral held. The Company maintains master netting agreements with its current active trading partners. As such, a right of offset has been applied to collateral that supports credit risk and has been recorded in the consolidated statements of financial position as an offset to Other invested assets with an associated payable to Other liabilities for excess collateral.

Information regarding the Company s exposure to credit loss on the options it holds is presented below (in thousands):

		September 30, 2018				
Counterparty	Moody/S&P Rating	Options Fair Value	Collateral Held	Collateral Amounts used to Offset Exposure	Excess Collateral	Exposure Net of Collateral
Barclays	Baa3/BBB	$ 54,151	$ 54,123	$ 54,123	$	$ 28
Goldman-Sachs	A3/BBB+	1,124	1,030	1,030		94
ING	Baa1/A-	27,994	28,570	27,994	576	
Morgan Stanley	A3/BBB+	23,986	23,696	23,696		290
NATIXIS*	A1/A	52,089	52,550	52,089	461	
SunTrust	Baa1/BBB+	46,573	45,970	45,970		603
Wells Fargo	A2/A-	51,052	51,700	50,770	930	282
Total		**$ 256,969**	**$ 257,639**	**$ 255,672**	**$ 1,967**	**$ 1,297**

		December 31, 2017				
Counterparty	Moody/S&P Rating	Options Fair Value	Collateral Held	Collateral Amounts used to Offset Exposure	Excess Collateral	Exposure Net of Collateral
Barclays	Baa2/BBB	$ 55,215	$ 56,883	$ 55,215	$ 1,668	$
Goldman-Sachs	A3/BBB+	956	780	780		176
ING	Baa1/A-	26,650	27,330	26,650	680	
JP Morgan	A3/A-	189				189
Morgan Stanley	A3/BBB+	17,490	18,776	17,490	1,286	
NATIXIS*	A2/A	37,550	33,860	33,860		3,690
SunTrust	Baa1/BBB+	37,266	36,560	36,560		706
Wells Fargo	A2/A	44,874	47,230	44,874	2,356	

Total	**$ 220,190**	**$ 221,419**	**$ 215,429**	**$ 5,990**	**$ 4,761**

** Includes collateral restrictions.*

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Note 8 Net Investment Income and Realized Investment Gains (Losses)

Net investment income is shown below (in thousands):

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Bonds	$ 141,045	$ 134,990	$ 423,669	$ 404,793
Dividends on equity securities	10,387	9,688	30,725	28,694
Mortgage loans	64,741	54,913	187,608	179,933
Real estate	2,783	8,233	11,278	6,484
Options	50,943	20,992	58,576	57,555
Other invested assets	15,633	12,389	29,086	26,867
Total	**$ 285,532**	**$ 241,205**	**$ 740,942**	**$ 704,326**

Net realized investment gains (losses) are shown below (in thousands):

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Bonds	$ 1,858	$ 6,116	$ 8,595	$ 16,184
Equity securities	(7,330)	26,842	4,800	41,937
Mortgage loans	(2,279)	(664)	(2,833)	(5,369)
Real estate	(886)	(161)	(1,000)	4,838
Other invested assets	31	1,796	13	1,748
Total	**$ (8,606)**	**$ 33,929**	**$ 9,575**	**$ 59,338**

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Bonds	$	$ (47)	$	$ (6,047)
Equity securities		(3,438)		(5,690)
Total	**$**	**$ (3,485)**	**$**	**$ (11,737)**

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Note 9 Fair Value of Financial Instruments

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

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Fixed maturity securities, bonds held-to-maturity	$ 8,010,576	$ 7,941,606	$ 7,552,959	$ 7,774,353
Fixed maturity securities, bonds available-for-sale	6,074,668	6,074,668	6,145,308	6,145,308
Equity securities	1,810,647	1,810,647	1,784,226	1,784,226
Equity-indexed options	256,969	256,969	220,190	220,190
Mortgage loans on real estate, net of allowance	5,139,758	5,097,623	4,749,999	4,811,006
Policy loans	374,256	374,256	377,103	377,103
Short-term investments	217,221	217,221	658,765	658,765
Separate account assets	1,043,688	1,043,688	969,764	969,764
Total financial assets	**$ 22,927,783**	**$ 22,816,678**	**$ 22,458,314**	**$ 22,740,715**
Financial liabilities				
Investment contracts	$ 10,016,438	$ 10,016,438	$ 8,990,771	$ 8,990,771
Embedded derivative liability for equity-indexed contracts	652,136	652,136	512,526	512,526
Notes payable	137,504	137,504	137,458	137,458
Separate account liabilities	1,043,688	1,043,688	969,764	969,764
Total financial liabilities	**$ 11,849,766**	**$ 11,849,766**	**$ 10,610,519**	**$ 10,610,519**

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.

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.

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Note 9 Fair Value of Financial Instruments (Continued)

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 only produce an estimate of fair value 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-indexed options and certain fixed maturity securities, American National uses a market-based fair value analysis to validate the reasonableness of prices received. 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. If applicable, these estimates would be disclosed as Level 2 measurements. American National tests the accuracy of the information provided by reference to other services annually.

Mortgage Loans The fair value of mortgage loans is estimated using discounted cash flow analyses 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.

Separate account assets and liabilities Separate account assets and liabilities are funds that are held separate from the general assets and liabilities of American National and that represent the investments of variable insurance product contract holders, who bear the investment risk of such funds. Investment income and investment gains and losses from these separate funds accrue to the benefit of the contract holders. 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.

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Note 9 Fair Value of Financial Instruments (Continued)

Embedded Derivative The amounts reported within policyholder contract deposits include equity linked interest crediting rates based on the S&P 500 index within index annuities and indexed life. The following unobservable inputs are used for measuring the fair value of the embedded derivatives associated with the policyholder contract liabilities:

Lapse rate assumptions are determined by company experience. Lapse rates are generally assumed to be lower during a contract s surrender charge period and then higher once the surrender charge period has ended. Decreases to the assumed lapse rates generally increase the fair value of the liability as more policyholders persist to collect the crediting interest pertaining to the indexed product. Increases to the lapse rate assumption will have the inverse effect decreasing the fair value.

Mortality rate assumptions vary by age and by gender based on company and industry experience. Decreases to the assumed mortality rates increase the fair value of the liabilities as more policyholders earn crediting interest. Increases to the assumed mortality rates decrease the fair value as higher decrements reduce the potential for future interest credits.

Equity volatility assumptions begin with current market volatilities and grow to long-term values. Increases to the assumed volatility will increase the fair value of liabilities, as future projections will produce higher increases in the linked index. At September 30, 2018 and December 31, 2017, the one year implied volatility used to estimate embedded derivative value was 8.9% and 13.7%, respectively.

Fair values of indexed life and annuity liabilities are calculated using the discounted cash flow technique. Shown below are the significant unobservable inputs used to calculate the Level 3 fair value of the embedded derivatives within policyholder contract deposits (in millions, except range percentages):

	Fair Value		Unobservable Input	Range	
	September 30, 2018	December 31, 2017		September 30, 2018	December 31, 2017
Indexed Annuities	$ 635.9	$ 498.3	Lapse Rate	1-66%	1-66%
			Mortality Multiplier	90-100%	90-100%
			Equity Volatility	10-40%	7-30%
Indexed Life	16.2	14.2	Equity Volatility	10-40%	7-30%

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 such that they cannot be separated from the policy contracts, the unpredictable timing of repayments and the fact 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 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.

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Note 9 Fair Value of Financial Instruments (Continued)

Quantitative Disclosures

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