

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

May 08, 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 March 31, 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**  
**(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, 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 May 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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**AMERICAN NATIONAL INSURANCE COMPANY**

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(Unaudited and in thousands, except share data)

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
<b>ASSETS</b>		
Fixed maturity, bonds held-to-maturity, at amortized cost (Fair value \$7,963,724 and \$7,774,353)	\$ 7,915,973	\$ 7,552,959
Fixed maturity, bonds available-for-sale, at fair value (Amortized cost \$6,100,771 and \$5,957,901)	6,145,010	6,145,308
Equity securities, at fair value (Cost \$776,740 and \$757,583)	1,770,753	1,784,226
Mortgage loans on real estate, net of allowance	4,920,041	4,749,999
Policy loans	374,930	377,103
Investment real estate, net of accumulated depreciation of \$264,345 and \$260,904	536,699	532,346
Short-term investments	284,456	658,765
Other invested assets	82,722	80,165
<b>Total investments</b>	<b>22,030,584</b>	<b>21,880,871</b>
Cash and cash equivalents	329,036	375,837
Investments in unconsolidated affiliates	493,191	484,207
Accrued investment income	193,776	187,670
Reinsurance recoverables	412,805	418,589
Prepaid reinsurance premiums	61,993	63,625
Premiums due and other receivables	329,592	314,345
Deferred policy acquisition costs	1,410,864	1,373,844
Property and equipment, net of accumulated depreciation of \$223,034 and \$217,076	114,062	115,818
Current tax receivable	6,949	44,170
Other assets	141,420	158,024
Separate account assets	939,605	969,764
<b>Total assets</b>	<b>\$ 26,463,877</b>	<b>\$ 26,386,764</b>
<b>LIABILITIES</b>		
Future policy benefits		
Life	\$ 3,002,178	\$ 2,997,353
Annuity	1,435,323	1,400,150
Accident and health	55,940	57,104
Policyholders' account balances	12,238,653	12,060,045
Policy and contract claims	1,375,793	1,390,561
Unearned premium reserve	898,117	875,294
Other policyholder funds	325,348	334,501
Liability for retirement benefits	111,028	114,538

Notes payable	137,389	137,458
Deferred tax liabilities, net	294,071	316,370
Other liabilities	428,922	477,855
Separate account liabilities	939,605	969,764
<b>Total liabilities</b>	<b>21,242,367</b>	<b>21,130,993</b>
<b>EQUITY</b>		
American National stockholders' equity:		
Common stock, \$1.00 par value, Authorized 50,000,000, Issued 30,832,449 and 30,832,449		
Outstanding 26,938,341 and 26,931,884 shares	30,832	30,832
Additional paid-in capital	20,069	19,193
Accumulated other comprehensive income (loss)	(86,070)	642,216
Retained earnings	5,350,129	4,656,134
Treasury stock, at cost	(101,546)	(101,616)
Total American National stockholders' equity	5,213,414	5,246,759
Noncontrolling interest	8,096	9,012
<b>Total equity</b>	<b>5,221,510</b>	<b>5,255,771</b>
<b>Total liabilities and equity</b>	<b>\$ 26,463,877</b>	<b>\$ 26,386,764</b>

*See accompanying notes to the unaudited consolidated financial statements.*

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

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

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>PREMIUMS AND OTHER REVENUE</b>		
Premiums		
Life	\$ 81,376	\$ 77,474
Annuity	70,616	29,809
Accident and health	41,015	37,039
Property and casualty	351,973	327,450
Other policy revenues	71,339	63,452
Net investment income	176,039	228,503
Net realized investment gains	2,099	14,008
Other-than-temporary impairments	(1,595)	(6,783)
Other income	10,513	8,845
<b>Total premiums and other revenues</b>	<b>803,375</b>	<b>779,797</b>
<b>BENEFITS, LOSSES AND EXPENSES</b>		
Policyholder benefits		
Life	98,546	101,166
Annuity	84,746	43,989
Claims incurred		
Accident and health	28,140	24,380
Property and casualty	242,490	227,530
Interest credited to policyholders' account balances	70,545	96,008
Commissions for acquiring and servicing policies	144,696	125,492
Other operating expenses	130,394	126,061
Change in deferred policy acquisition costs	(16,966)	(9,487)
<b>Total benefits, losses and expenses</b>	<b>782,591</b>	<b>735,139</b>
<b>Income before federal income tax and other items</b>	<b>20,784</b>	<b>44,658</b>
Less: Provision (benefit) for federal income taxes		
Current	(2,105)	(1,204)
Deferred	3,294	14,939
<b>Total provision for federal income taxes</b>	<b>1,189</b>	<b>13,735</b>
<b>Income after federal income tax</b>	<b>19,595</b>	<b>30,923</b>

Equity in earnings (losses) of unconsolidated affiliates	(545)	9,500
Other components of net periodic pension costs, net of tax	(792)	(1,232)
<b>Net income</b>	<b>18,258</b>	<b>39,191</b>
Less : Net loss attributable to noncontrolling interest, net of tax	(519)	(649)
<b>Net income attributable to American National</b>	<b>\$ 18,777</b>	<b>\$ 39,840</b>

**Amounts available to American National common stockholders**

Earnings per share		
Basic	\$ 0.70	\$ 1.48
Diluted	0.70	1.48
Cash dividends to common stockholders	0.82	0.82
Weighted average common shares outstanding	26,889,151	26,899,648
Weighted average common shares outstanding and dilutive potential common shares	26,964,355	26,972,128

*See accompanying notes to the unaudited consolidated financial statements.*



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(Unaudited and in thousands)

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Net income	\$ 18,258	\$ 39,191
Other comprehensive income (loss), net of tax		
Change in net unrealized gains (losses) on securities	(91,333)	55,912
Foreign currency transaction and translation adjustments	(366)	112
Defined benefit pension plan adjustment	789	1,534
Other comprehensive income (loss), net of tax	(90,910)	57,558
<b>Total comprehensive income (loss)</b>	<b>(72,652)</b>	<b>96,749</b>
Less: Comprehensive loss attributable to noncontrolling interest	(519)	(649)
<b>Total comprehensive income (loss) attributable to American National</b>	<b>\$ (72,133)</b>	<b>\$ 97,398</b>

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

(Unaudited and in thousands)

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Common Stock</b>		
Balance at beginning and end of the period	\$ 30,832	\$ 30,832
<b>Additional Paid-In Capital</b>		
Balance as of January 1,	19,193	16,406
Reissuance of treasury shares	675	1,379
Amortization of restricted stock	201	207
Balance at end of the period	20,069	17,992
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance as of January 1,	642,216	455,899
Cumulative effect of accounting change	(637,376)	
Other comprehensive income (loss)	(90,910)	57,558

Balance at end of the period	(86,070)	513,457
<b>Retained Earnings</b>		
Balance as of January 1,	4,656,134	4,250,818
Cumulative effect of accounting changes	697,307	
Net income attributable to American National	18,777	39,840
Cash dividends to common stockholders	(22,089)	(22,080)
Balance at end of the period	5,350,129	4,268,578
<b>Treasury Stock</b>		
Balance as of January 1,	(101,616)	(101,777)
Reissuance of treasury shares	70	182
Balance at end of the period	(101,546)	(101,595)
<b>Noncontrolling Interest</b>		
Balance as of January 1,	9,012	9,317
Contributions		224
Distributions	(397)	(246)
Net loss attributable to noncontrolling interest	(519)	(649)
Balance at end of the period	8,096	8,646
<b>Total Equity</b>	<b>\$ 5,221,510</b>	<b>\$ 4,737,910</b>

*See accompanying notes to the unaudited consolidated financial statements.*

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**AMERICAN NATIONAL INSURANCE COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited and in thousands)

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 18,258	\$ 39,191
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized investment gains	(2,099)	(14,008)
Other-than-temporary impairments	1,595	6,783
Accretion of premiums, discounts and loan origination fees	(2,325)	(2,661)
Net capitalized interest on policy loans and mortgage loans	(10,808)	(8,368)
Depreciation	12,992	14,981
Interest credited to policyholders' account balances	70,545	96,008
Charges to policyholders' account balances	(71,339)	(63,452)
Deferred federal income tax expense	3,294	14,939
Equity in (earnings) losses of unconsolidated affiliates	545	(9,500)
Distributions from equity method investments	245	410
Changes in		
Policyholder liabilities	44,688	39,136
Deferred policy acquisition costs	(16,966)	(9,487)
Reinsurance recoverables	5,784	29,163
Premiums due and other receivables	(15,247)	(16,257)
Prepaid reinsurance premiums	1,632	239
Accrued investment income	(6,106)	18
Current tax receivable/payable	37,221	(3,260)
Liability for retirement benefits	(2,511)	(3,366)
Fair value of option securities	14,166	(23,034)
Fair value of equity securities	32,630	
Other, net	3,882	22,604
<b>Net cash provided by operating activities</b>	<b>120,076</b>	<b>110,079</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale/maturity/prepayment of		
Held-to-maturity securities	152,587	203,445
Available-for-sale securities	136,481	118,007
Investment real estate	4,264	3,911
Mortgage loans	89,936	104,007
Policy loans	16,893	12,885
Other invested assets	20,527	14,404
Disposals of property and equipment		1,408
Distributions from unconsolidated affiliates	6,461	2,639

Payment for the purchase/origination of		
Held-to-maturity securities	(529,876)	(28,356)
Available-for-sale securities	(258,285)	(138,132)
Investment real estate	(16,052)	(7,829)
Mortgage loans	(247,555)	(212,561)
Policy loans	(5,976)	(6,201)
Other invested assets	(20,128)	(7,577)
Additions to property and equipment	(4,232)	(10,588)
Contributions to unconsolidated affiliates	(20,926)	(14,748)
Change in short-term investments	374,309	(219,723)
Change in collateral held for derivatives	(17,093)	14,062
Other, net	(5,058)	15,649
<b>Net cash used in investing activities</b>	<b>(323,723)</b>	<b>(155,298)</b>
<b>FINANCING ACTIVITIES</b>		
Policyholders' account deposits	461,788	393,369
Policyholders' account withdrawals	(282,386)	(322,746)
Change in notes payable	(70)	3,593
Dividends to stockholders	(22,089)	(22,080)
Payments to noncontrolling interest	(397)	(22)
<b>Net cash provided by financing activities</b>	<b>156,846</b>	<b>52,114</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(46,801)</b>	<b>6,895</b>
Beginning of the period	375,837	289,338
<b>End of the period</b>	<b>\$ 329,036</b>	<b>\$ 296,233</b>

*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**

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

In February 2016, the FASB issued guidance that will require significant changes to the statement of financial position of lessees. With certain limited exceptions, lessees will need to recognize virtually all of their leases on the statement of financial position, by recording a right-of-use asset and a lease liability. 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. We are currently quantifying the expected gross up of our balance sheet for a right of use asset and a lease liability as required. Since the majority of our lease activity is as a lessor, we 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 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 consolidated financial position, results of operations, equity or cash flows.

### **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 three months ended March 31, 2018.

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**Table of Contents****Note 3 Recently Issued Accounting Pronouncements (Continued)****Adoption of New Accounting Standards (Continued)**

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 participating policyholders' interest related to unrealized gains and losses on equity securities of \$30.4 million, net of tax were reclassified from accumulated other comprehensive income to retained earnings. Net investment income decreased \$32.6 million from the change in unrealized gains and losses on equity securities for the three months ended March 31, 2018.

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 three months ended March 31, 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 \$1,232 net of tax for the three months ended March 31, 2017, 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 plans have been frozen, the components of net periodic benefit cost have not materially changed from year-end 2017.

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

	<b>March 31, 2018</b>			
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Fair Value</b>
<b>Fixed maturity securities, bonds held-to-maturity</b>				
U.S. states and political subdivisions	\$ 269,946	\$ 8,924	\$ (204)	\$ 278,666
Foreign governments	3,999	523		4,522
Corporate debt securities	7,372,239	112,160	(78,867)	7,405,532
Residential mortgage-backed securities	267,929	7,679	(2,517)	273,091
Collateralized debt securities	597	22		619
Other debt securities	1,263	31		1,294
<b>Total bonds held-to-maturity</b>	<b>7,915,973</b>	<b>129,339</b>	<b>(81,588)</b>	<b>7,963,724</b>
<b>Fixed maturity securities, bonds available-for-sale</b>				
U.S. treasury and government	28,483	403	(274)	28,612
U.S. states and political subdivisions	859,090	16,478	(3,856)	871,712
Foreign governments	5,000	1,287		6,287
Corporate debt securities	5,173,405	83,455	(53,795)	5,203,065
Residential mortgage-backed securities	31,708	390	(546)	31,552
Collateralized debt securities	3,085	702	(5)	3,782
<b>Total bonds available-for-sale</b>	<b>6,100,771</b>	<b>102,715</b>	<b>(58,476)</b>	<b>6,145,010</b>
<b>Equity securities</b>				
Common stock	758,422	1,002,501	(11,545)	1,749,378
Preferred stock	18,318	3,657	(600)	21,375
<b>Total equity securities</b>	<b>776,740</b>	<b>1,006,158</b>	<b>(12,145)</b>	<b>1,770,753</b>
<b>Total investments in securities</b>	<b>\$ 14,793,484</b>	<b>\$ 1,238,212</b>	<b>\$ (152,209)</b>	<b>\$ 15,879,487</b>

	<b>December 31, 2017</b>			
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Fair Value</b>
<b>Fixed maturity securities, bonds held-to-maturity</b>				
U.S. states and political subdivisions	\$ 266,966	\$ 12,466	\$ (37)	\$ 279,395
Foreign governments	4,011	582		4,593



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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
<b>Total bonds held-to-maturity</b>	<b>7,552,959</b>	<b>240,713</b>	<b>(19,319)</b>	<b>7,774,353</b>
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
<b>Total bonds available-for-sale</b>	<b>5,957,901</b>	<b>204,803</b>	<b>(17,396)</b>	<b>6,145,308</b>
Equity securities				
Common stock	738,453	1,029,340	(7,166)	1,760,627
Preferred stock	19,130	4,469		23,599
<b>Total equity securities</b>	<b>757,583</b>	<b>1,033,809</b>	<b>(7,166)</b>	<b>1,784,226</b>
<b>Total investments in securities</b>	<b>\$ 14,268,443</b>	<b>\$ 1,479,325</b>	<b>\$ (43,881)</b>	<b>\$ 15,703,887</b>

**Table of Contents****Note 4 Investment in Securities (Continued)**

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

	<b>March 31, 2018</b>			
	<b>Bonds Held-to-Maturity</b>		<b>Bonds Available-for-Sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 226,948	\$ 229,707	\$ 137,593	\$ 139,037
Due after one year through five years	4,349,837	4,415,709	2,228,746	2,265,488
Due after five years through ten years	2,758,080	2,740,046	3,172,783	3,178,309
Due after ten years	581,108	578,262	561,649	562,176
<b>Total</b>	<b>\$ 7,915,973</b>	<b>\$ 7,963,724</b>	<b>\$ 6,100,771</b>	<b>\$ 6,145,010</b>

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):

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Proceeds from sales of available-for-sale securities	\$ 47,181	\$ 27,723
Gross realized gains	1,424	10,826
Gross realized losses	(555)	(6)

Gains and losses are determined using specific identification of the securities sold. During the three months ended March 31, 2018 and 2017, bonds with a carrying value of \$34,850,000 and \$15,000,000, respectively, were transferred from held-to-maturity to available-for-sale after a significant 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):

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Bonds available-for-sale	\$ (143,168)	\$ 36,075
Adjustments for		

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Deferred policy acquisition costs	20,054	(5,444)
Participating policyholders' interest	6,953	(4,971)
Deferred federal income tax benefit (expense)	24,828	(8,290)

<b>Change in net unrealized gains (losses) on debt securities, net of tax</b>	<b>\$ (91,333)</b>	<b>\$ 17,370</b>
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The components of the change in unrealized gains (losses) on equity securities are shown below (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Net gains (losses) on equity securities	\$ (31,575)	\$ 70,656
Less: Net gains on equity securities sold	(1,055)	(11,360)
<b>Unrealized gains (losses) on equity securities</b>	<b>\$ (32,630)</b>	<b>\$ 59,296</b>

**Table of Contents****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):

	Less than 12 months		March 31, 2018 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	\$ (204)	\$ 40,410	\$	\$	\$ (204)	\$ 40,410
Corporate debt securities	(68,999)	2,869,097	(9,868)	156,182	(78,867)	3,025,279
Residential mortgage-backed securities	(1,430)	104,506	(1,087)	17,564	(2,517)	122,070
<b>Total bonds held-to-maturity</b>	<b>(70,633)</b>	<b>3,014,013</b>	<b>(10,955)</b>	<b>173,746</b>	<b>(81,588)</b>	<b>3,187,759</b>
Fixed maturity securities, bonds available-for-sale						
U.S. treasury and government	(271)	15,456	(3)	4,221	(274)	19,677
U.S. states and political subdivisions	(2,455)	183,318	(1,401)	27,197	(3,856)	210,515
Corporate debt securities	(41,341)	1,895,863	(12,454)	146,268	(53,795)	2,042,131
Residential mortgage-backed securities	(405)	27,023	(141)	1,359	(546)	28,382
Collateralized debt securities	(1)	159	(4)	123	(5)	282
<b>Total bonds available-for-sale</b>	<b>(44,473)</b>	<b>2,121,819</b>	<b>(14,003)</b>	<b>179,168</b>	<b>(58,476)</b>	<b>2,300,987</b>
Equity securities						
Common stock	(11,545)	76,088			(11,545)	76,088
Preferred stock	(600)	5,000			(600)	5,000
<b>Total equity securities</b>	<b>(12,145)</b>	<b>81,088</b>			<b>(12,145)</b>	<b>81,088</b>
<b>Total</b>	<b>\$ (127,251)</b>	<b>\$ 5,216,920</b>	<b>\$ (24,958)</b>	<b>\$ 352,914</b>	<b>\$ (152,209)</b>	<b>\$ 5,569,834</b>

	Less than 12 months		December 31, 2017 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
<b>Total bonds held-to-maturity</b>	<b>(8,806)</b>	<b>1,002,645</b>	<b>(10,513)</b>	<b>211,625</b>	<b>(19,319)</b>	<b>1,214,270</b>
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
<b>Total bonds available-for-sale</b>	<b>(7,151)</b>	<b>620,150</b>	<b>(10,245)</b>	<b>192,968</b>	<b>(17,396)</b>	<b>813,118</b>
Equity securities						
Common stock	(7,166)	60,391			(7,166)	60,391
<b>Total equity securities</b>	<b>(7,166)</b>	<b>60,391</b>			<b>(7,166)</b>	<b>60,391</b>
<b>Total</b>	<b>\$ (23,123)</b>	<b>\$ 1,683,186</b>	<b>\$ (20,758)</b>	<b>\$ 404,593</b>	<b>\$ (43,881)</b>	<b>\$ 2,087,779</b>

As of March 31, 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.

**Table of Contents****Note 4 Investment in Securities (Continued)**

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

	March 31, 2018			December 31, 2017		
	Amortized Cost	Estimated Fair Value	% of Fair Value	Amortized Cost	Estimated Fair Value	% of Fair Value
AAA	\$ 631,251	\$ 646,046	4.6%	\$ 638,039	\$ 664,396	4.8%
AA	1,239,163	1,256,909	8.9	1,220,544	1,264,282	9.0
A	5,041,380	5,061,204	35.9	4,856,802	4,997,574	35.9
BBB	6,575,551	6,631,221	47.0	6,273,220	6,480,719	46.6
BB and below	529,399	513,354	3.6	522,255	512,690	3.7
<b>Total</b>	<b>\$ 14,016,744</b>	<b>\$ 14,108,734</b>	<b>100.0%</b>	<b>\$ 13,510,860</b>	<b>\$ 13,919,661</b>	<b>100.0%</b>

Equity securities by market sector distribution are shown below:

	March 31, 2018	December 31, 2017
Consumer goods	20.1%	20.2%
Energy and utilities	8.1	8.6
Finance	21.3	21.9
Healthcare	11.5	11.8
Industrials	9.6	9.5
Information technology	20.8	20.0
Other	8.6	8.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

**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:

	March 31, 2018	December 31, 2017
East North Central	15.2%	15.4%
East South Central	3.0	3.1
Mountain	15.2	14.0
Pacific	16.7	16.5
South Atlantic	13.5	14.1

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West South Central	29.0	29.8
Other	7.4	7.1
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

For the three months ended March 31, 2018, American National foreclosed on two loans with recorded investments of \$1,940,000 and \$8,376,000. Three loans with a total recorded investment of \$12,635,000 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 three months ended March 31, 2018 or during the year ended December 31, 2017.

**Table of Contents****Note 5 Mortgage Loans (Continued)**

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

<b>March 31, 2018</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>More Than 90 Days</b>	<b>Total</b>	<b>Current</b>	<b>Total Amount</b>	<b>Percent</b>
Industrial	\$ 28,822	\$	\$	\$ 28,822	\$ 778,680	\$ 807,502	16.4
Office	7,509	5,708	6,432	19,649	1,806,365	1,826,014	37.0
Retail					759,257	759,257	15.4
Other		15,102		15,102	1,530,221	1,545,323	31.2
<b>Total</b>	<b>\$ 36,331</b>	<b>\$ 20,810</b>	<b>\$ 6,432</b>	<b>\$ 63,573</b>	<b>\$ 4,874,523</b>	<b>\$ 4,938,096</b>	<b>100.0</b>
Allowance for loan losses						(18,055)	
<b>Total, net of allowance</b>						<b>\$ 4,920,041</b>	
<b>December 31, 2017</b>							
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
<b>Total</b>	<b>\$ 4,985</b>	<b>\$ 10,713</b>	<b>\$ 8,881</b>	<b>\$ 24,579</b>	<b>\$ 4,744,286</b>	<b>\$ 4,768,865</b>	<b>100.0</b>
Allowance for loan losses						(18,866)	
<b>Total, net of allowance</b>						<b>\$ 4,749,999</b>	

Total mortgage loans are calculated net of unamortized purchase discounts. There were no unamortized purchase discounts for the three months ended March 31, 2018 or during the year ended December 31, 2017. Total mortgage loans were also net of unamortized origination fees of \$31,923,000 and \$32,766,000 at March 31, 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 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 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
<b>Beginning balance, 2018</b>	<b>451</b>	<b>\$ 4,762,315</b>	<b>16,041</b>	<b>3</b>	<b>\$ 6,550</b>	<b>2,825</b>	<b>454</b>	<b>\$ 4,768,865</b>	<b>\$ 18,866</b>
Change in allowance			(302)						(302)
Net change in recorded investment	6	171,171		(1)	(1,940)	(509)	5	169,231	(509)
<b>Ending balance at March 31, 2018</b>	<b>457</b>	<b>\$ 4,933,486</b>	<b>\$ 15,739</b>	<b>2</b>	<b>\$ 4,610</b>	<b>\$ 2,316</b>	<b>459</b>	<b>\$ 4,938,096</b>	<b>\$ 18,055</b>

**Table of Contents****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):

	Three months ended March 31,			
	2018		2017	
	Recorded Number of loans	Recorded investment pre- investment post- modification	Recorded Number of loans	Recorded investment pre- investment post- modification
Other (hotel/motel)	\$	\$	5	\$ 24,801
<b>Total</b>	\$	\$	<b>5</b>	<b>\$ 24,801</b>

There are no loans determined to be troubled debt restructurings for the three months from year end to March 31, 2018.

**Note 6 Real Estate and Other Investments**

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

	March 31, 2018	December 31, 2017
Industrial	5.6%	6.0%
Office	40.2	39.0
Retail	39.2	39.3
Other	15.0	15.7
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

  

	March 31, 2018	December 31, 2017
East North Central	6.0%	6.1%

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East South Central	4.0	3.6
Mountain	13.0	13.2
Pacific	8.3	8.5
South Atlantic	15.3	14.0
West South Central	51.0	52.4
Other	2.4	2.2
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

**Table of Contents****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):

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Investment real estate	\$ 146,533	\$ 148,456
Short-term investments	500	501
Cash and cash equivalents	9,722	6,320
Other receivables	5,071	4,461
Other assets	13,628	15,920
<b>Total assets of consolidated VIEs</b>	<b>\$ 175,454</b>	<b>\$ 175,658</b>
Notes payable	\$ 137,389	\$ 137,458
Other liabilities	8,887	5,616
<b>Total liabilities of consolidated VIEs</b>	<b>\$ 146,276</b>	<b>\$ 143,074</b>

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 \$27,952,000 and \$28,377,000 at March 31, 2018 and December 31, 2017, respectively.

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

<b>Interest rate</b>	<b>Maturity</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
LIBOR	2020	\$ 10,129	\$ 9,702
90 day LIBOR + 2.5%	2021	40,342	40,124
4% fixed	2022	86,918	87,632

<b>Total</b>	<b>\$</b>	<b>137,389</b>	<b>\$</b>	<b>137,458</b>
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**Table of Contents****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):

	March 31, 2018		December 31, 2017	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Investment in unconsolidated affiliates	\$ 322,797	\$ 322,797	\$ 314,808	\$ 314,808
Mortgage loans	557,195	557,195	493,014	493,014
Accrued investment income	2,128	2,128	1,817	1,817

As of March 31, 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):

Derivatives Not Designated	Location in the Consolidated	March 31, 2018			December 31, 2017		
		Number of Instruments	Notional Amounts	Estimated Fair Value	Number of Instruments	Notional Amounts	Estimated Fair Value
as Hedging Instruments	Statements of Financial Position						
Equity-indexed options	Other invested assets	488	\$ 2,086,850	\$ 204,308	468	\$ 1,885,600	\$ 220,190
Equity-indexed embedded derivative	Policyholders account balances	80,420	1,976,400	535,641	76,621	1,819,523	512,520

Derivatives Not Designated	Location in the Consolidated	Gains (Losses) Recognized in Income on Derivatives	
		Three months ended March 31,	
as Hedging Instruments	Statements of Operations	2018	2017
Equity-indexed options	Net investment income	\$ (14,145)	\$ 23,133
Equity-indexed embedded derivative	Interest credited to policyholders account balances	13,436	(25,127)

**Table of Contents****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):

Counterparty	Moody/S&P Rating	Options Fair Value	Collateral Held	March 31, 2018 Collateral Amounts used to		Exposure Net of Collateral
				Offset Exposure	Excess Collateral	
Barclays	Baa2/BBB	\$ 49,066	\$ 49,443	\$ 49,066	\$ 377	\$
Goldman-Sachs	A3/BBB+	927	1,030	927	103	
ING	Baa1/A-	25,617	25,890	25,617	273	
JP Morgan	A3/A-	190				190
Morgan Stanley	A3/BBB+	14,535	14,396	14,396		139
NATIXIS*	A2/A	38,140	36,980	36,980		1,160
SunTrust	Baa1/BBB+	36,763	34,040	34,040		2,723
Wells Fargo	A2/A-	39,070	37,310	37,310		1,760
<b>Total</b>		<b>\$ 204,308</b>	<b>\$ 199,089</b>	<b>\$ 198,336</b>	<b>\$ 753</b>	<b>\$ 5,972</b>

Counterparty	Moody/S&P Rating	Options Fair Value	Collateral Held	December 31, 2017 Collateral Amounts used to		Exposure Net of Collateral
				Offset Exposure	Excess 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	

<b>Total</b>	<b>\$ 220,190</b>	<b>\$ 221,419</b>	<b>\$ 215,429</b>	<b>\$ 5,990</b>	<b>\$ 4,761</b>
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\* *Includes collateral restrictions.*



**Table of Contents****Note 8 Net Investment Income and Realized Investment Gains (Losses)**

Net investment income is shown below (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Bonds	\$ 140,095	\$ 134,350
Dividends on equity securities	9,440	8,732
Net unrealized losses on equity securities	(32,630)	
Mortgage loans	63,868	57,704
Real estate	4,283	(1,195)
Options	(14,145)	23,133
Other invested assets	5,128	5,779
<b>Total</b>	<b>\$ 176,039</b>	<b>\$ 228,503</b>

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

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Bonds	\$ 667	\$ 3,504
Equity securities	1,055	11,360
Mortgage loans	302	(1,626)
Real estate	83	788
Other invested assets	(8)	(18)
<b>Total</b>	<b>\$ 2,099</b>	<b>\$ 14,008</b>

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

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Bonds	\$	\$ (6,000)
Equity securities	(1,595)	(783)
<b>Total</b>	<b>\$ (1,595)</b>	<b>\$ (6,783)</b>

**Table of Contents****Note 9 Fair Value of Financial Instruments**

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

	March 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Fixed maturity securities, bonds held-to-maturity	\$ 7,915,973	\$ 7,963,724	\$ 7,552,959	\$ 7,774,353
Fixed maturity securities, bonds available-for-sale	6,145,010	6,145,010	6,145,308	6,145,308
Equity securities	1,770,753	1,770,753	1,784,226	1,784,226
Equity-indexed options	204,308	204,308	220,190	220,190
Mortgage loans on real estate, net of allowance	4,920,041	4,961,466	4,749,999	4,811,006
Policy loans	374,930	374,930	377,103	377,103
Short-term investments	284,456	284,456	658,765	658,765
Separate account assets	939,605	939,605	969,764	969,764
<b>Total financial assets</b>	<b>\$ 22,555,076</b>	<b>\$ 22,644,252</b>	<b>\$ 22,458,314</b>	<b>\$ 22,740,715</b>
<b>Financial liabilities</b>				
Investment contracts	\$ 9,844,880	\$ 9,844,880	\$ 8,990,771	\$ 8,990,771
Embedded derivative liability for equity-indexed contracts	535,641	535,641	512,526	512,526
Notes payable	137,389	137,389	137,458	137,458
Separate account liabilities	939,605	939,605	969,764	969,764
<b>Total financial liabilities</b>	<b>\$ 11,457,515</b>	<b>\$ 11,457,515</b>	<b>\$ 10,610,519</b>	<b>\$ 10,610,519</b>

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.

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**Table of Contents****Note 9 Fair Value of Financial Instruments (Continued)**

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 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. 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 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.



**Table of Contents****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 March 31, 2018 and December 31, 2017, the one year implied volatility used to estimate embedded derivative value was 18.0% 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
	March 31, 2018	December 31, 2017		
<b>Indexed Annuities</b>	\$ 524.7	\$ 498.3	Lapse Rate	1-66%
			Mortality Multiplier	90-100%
			Equity Volatility	7-30%
<b>Indexed Life</b>	10.9	14.2	Equity Volatility	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.

**Table of Contents****Note 9 Fair Value of Financial Instruments (Continued)****Quantitative Disclosures**

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

	Fair Value Measurement as of March 31, 2018			
	Total Fair Value	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 278,666	\$	\$ 278,666	\$
Foreign governments	4,522		4,522	
Corporate debt securities	7,405,532		7,405,532	
Residential mortgage-backed securities	273,091		273,091	
Collateralized debt securities	619		619	
Other debt securities	1,294		1,294	
<b>Total bonds held-to-maturity</b>	<b>7,963,724</b>		<b>7,963,724</b>	
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	28,612		28,612	
U.S. states and political subdivisions	871,712		871,712	
Foreign governments	6,287		6,287	
Corporate debt securities	5,203,065		5,203,065	
Residential mortgage-backed securities	31,552		31,552	
Collateralized debt securities	3,782		3,782	
<b>Total bonds available-for-sale</b>	<b>6,145,010</b>		<b>6,145,010</b>	
Equity securities				
Common stock	1,749,378	1,749,260		118
Preferred stock	21,375	21,375		
<b>Total equity securities</b>	<b>1,770,753</b>	<b>1,770,635</b>		<b>118</b>
Options	204,308			204,308
Mortgage loans on real estate	4,961,466		4,961,466	
Policy loans	374,930			374,930
Short-term investments	284,456		284,456	
Separate account assets	939,605		939,605	
<b>Total financial assets</b>	<b>\$ 22,644,252</b>	<b>\$ 1,770,635</b>	<b>\$ 20,294,261</b>	<b>\$ 579,356</b>



Financial liabilities				
Investment contracts	\$ 9,844,880	\$	\$	\$ 9,844,880
Embedded derivative liability for equity-indexed contracts	535,641			535,641
Notes payable	137,389			137,389
Separate account liabilities	939,605		939,605	
<b>Total financial liabilities</b>	<b>\$ 11,457,515</b>	<b>\$</b>	<b>\$ 939,605</b>	<b>\$ 10,517,910</b>

**Table of Contents****Note 9 Fair Value of Financial Instruments (Continued)**

	<b>Fair Value Measurement as of December 31, 2017</b>			
	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>				
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 279,395	\$	\$ 276,450	\$ 2,945
Foreign governments	4,593		4,593	
Corporate debt securities	7,232,327		7,232,327	
Residential mortgage-backed securities	255,243		255,243	
Collateralized debt securities	954		954	
Other debt securities	1,841		1,841	
<b>Total bonds held-to-maturity</b>	<b>7,774,353</b>		<b>7,771,408</b>	<b>2,945</b>
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	27,898		27,898	
U.S. states and political subdivisions	897,047		897,047	
Foreign governments	6,460		6,460	
Corporate debt securities	5,192,927		5,192,927	
Residential mortgage-backed securities	14,717		14,717	
Collateralized debt securities	3,818		3,818	
Other debt securities	2,441		2,441	
<b>Total bonds available-for-sale</b>	<b>6,145,308</b>		<b>6,145,308</b>	
Equity securities				
Common stock	1,760,627	1,760,499		128
Preferred stock	23,599	23,599		
<b>Total equity securities</b>	<b>1,784,226</b>	<b>1,784,098</b>		<b>128</b>