

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

November 06, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015**

or

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

American National Insurance Company

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

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

One Moody Plaza

Galveston, Texas 77550-7999

(Address of principal executive offices) (Zip Code)

(409) 763-4661

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of November 2, 2015, there were 26,891,502 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)

	September 30, 2015	December 31, 2014 (As Adjusted)
ASSETS		
Fixed maturity, bonds held-to-maturity, at amortized cost (Fair value \$7,993,004 and \$8,652,913)	\$ 7,689,551	\$ 8,225,050
Fixed maturity, bonds available-for-sale, at fair value (Amortized cost \$5,188,738 and \$4,694,716)	5,334,656	4,921,807
Equity securities, at fair value (Cost \$769,033 and \$739,384)	1,410,636	1,516,978
Mortgage loans on real estate, net of allowance	3,444,403	3,359,586
Policy loans	406,728	405,979
Investment real estate, net of accumulated depreciation of \$206,129 and \$193,611	539,571	479,062
Short-term investments	494,496	431,000
Other invested assets	186,123	220,255
Total investments	19,506,164	19,559,717
Cash and cash equivalents	169,473	209,455
Investments in unconsolidated affiliates	342,841	311,779
Accrued investment income	182,181	185,943
Reinsurance recoverables	410,913	428,654
Prepaid reinsurance premiums	70,981	56,019
Premiums due and other receivables	301,847	280,587
Deferred policy acquisition costs	1,289,127	1,253,544
Property and equipment, net	122,016	110,794
Current tax receivable		8,669
Other assets	141,587	137,856
Separate account assets	894,890	1,001,515
Total assets	\$ 23,432,020	\$ 23,544,532
LIABILITIES		
Future policy benefits		
Life	\$ 2,816,934	\$ 2,770,232
Annuity	1,061,183	1,006,748
Accident and health	66,997	58,364
Policyholders' account balances	10,669,681	10,781,285
Policy and contract claims	1,269,929	1,297,708

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Unearned premium reserve	822,640	755,051
Other policyholder funds	343,068	344,090
Liability for retirement benefits	186,548	195,712
Notes payable	126,145	108,177
Current tax liability	7,608	
Deferred tax liabilities, net	226,894	287,175
Other liabilities	494,469	498,528
Separate account liabilities	894,890	1,001,515
Total liabilities	18,986,986	19,104,585
STOCKHOLDERS EQUITY		
Common stock, \$1.00 par value, - Authorized 50,000,000, Issued 30,832,449 and 30,832,449, Outstanding 26,891,502 and 26,871,942 shares	30,832	30,832
Additional paid-in capital	13,215	9,248
Accumulated other comprehensive income	376,041	490,782
Retained earnings	4,115,757	3,998,642
Treasury stock, at cost	(102,082)	(101,941)
Total American National stockholders equity	4,433,763	4,427,563
Noncontrolling interest	11,271	12,384
Total stockholders equity	4,445,034	4,439,947
Total liabilities and stockholders equity	\$ 23,432,020	\$ 23,544,532

See accompanying notes to the consolidated financial statements.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
		(As Adjusted)		(As Adjusted)
PREMIUMS AND OTHER REVENUE				
Premiums				
Life	\$ 78,397	\$ 79,492	\$ 225,550	\$ 224,165
Annuity	43,514	34,661	110,045	148,250
Accident and health	45,638	53,454	148,610	164,169
Property and casualty	291,486	279,429	849,876	820,953
Other policy revenues	60,271	55,255	175,392	167,041
Net investment income	184,482	236,489	597,357	697,604
Net realized investment gains (losses)	7,528	(649)	63,598	27,548
Other-than-temporary impairments	(19,407)	(1,608)	(22,904)	(3,045)
Other income	7,950	9,647	26,408	26,707
Total premiums and other revenues	699,859	746,170	2,173,932	2,273,392
BENEFITS, LOSSES AND EXPENSES				
Policyholder benefits				
Life	94,087	83,740	273,275	257,505
Annuity	54,720	43,893	145,237	180,372
Claims incurred				
Accident and health	46,236	33,193	110,289	109,859
Property and casualty	179,699	180,413	583,871	563,650
Interest credited to policyholders' account balances	57,509	83,746	202,477	258,952
Commissions for acquiring and servicing policies	111,618	97,608	308,290	299,992
Other operating expenses	121,498	118,002	368,159	357,043
Change in deferred policy acquisition costs	(12,168)	10,800	(5,092)	10,854
Total benefits, losses and expenses	653,199	651,395	1,986,506	2,038,227
Income before federal income tax and equity in earnings of unconsolidated affiliates	46,660	94,775	187,426	235,165

Less: Provision (benefit) for federal income taxes

Current	30,037	25,104	76,546	59,337
Deferred	(11,903)	3,431	2,488	9,759

Total provision for federal income taxes 18,134 28,535 79,034 69,096

Equity in earnings of unconsolidated affiliates 16,339 3,576 73,385 12,181

Net income 44,865 69,816 181,777 178,250

Less: Net income attributable to noncontrolling interest, net of tax 2,852 2,877 1,729 1,883

Net income attributable to American National \$ 42,013 \$ 66,939 \$ 180,048 \$ 176,367

Amounts available to American National common stockholders

Earnings per share

Basic \$ 1.56 \$ 2.50 \$ 6.70 \$ 6.58

Diluted 1.56 2.49 6.68 6.55

Cash dividends to common stockholders 0.80 0.77 2.34 2.31

Weighted average common shares outstanding 26,899,683 26,805,535 26,865,359 26,800,835

Weighted average common shares outstanding and dilutive potential common shares 26,963,635 26,911,507 26,945,386 26,919,414

See accompanying notes to the consolidated financial statements.

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(Unaudited and in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
		(As Adjusted)		(As Adjusted)
Net income	\$ 44,865	\$ 69,816	\$ 181,777	\$ 178,250
Other comprehensive income (loss), net of tax				
Change in net unrealized gain (losses) on securities	(70,900)	(17,708)	(117,203)	89,051
Foreign currency transaction and translation adjustments	(1,437)	(476)	(2,087)	(577)
Defined pension benefit plan adjustment	1,517	718	4,549	2,152
Other comprehensive income (loss), net of tax	(70,820)	(17,466)	(114,741)	90,626
Total comprehensive income (loss)	(25,955)	52,350	67,036	268,876
Less: Comprehensive income attributable to noncontrolling interest	2,852	2,877	1,729	1,883
Total comprehensive income (loss) attributable to American National	\$ (28,807)	\$ 49,473	\$ 65,307	\$ 266,993

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

(Unaudited and in thousands)

	Nine months ended September 30,	
	2015	2014
		(As Adjusted)
Common Stock		
Balance at beginning and end of the period	\$ 30,832	\$ 30,832
Additional Paid-In Capital		

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Balance as of January 1,	9,248	4,650
Reissuance of treasury shares	3,032	1,635
Amortization of restricted stock	935	2,577
Balance at end of the period	13,215	8,862

Accumulated Other Comprehensive Income

Balance as of January 1,	490,782	413,712
Other comprehensive income (loss)	(114,741)	90,626
Balance at end of the period	376,041	504,338

Retained Earnings

Balance as of January 1,	3,998,642	3,836,112
Net income attributable to American National	180,048	176,367
Cash dividends to common stockholders	(62,933)	(62,113)
Balance at end of the period	4,115,757	3,950,366

Treasury Stock

Balance as of January 1,	(101,941)	(97,441)
Purchase of treasury shares	(141)	(4,500)
Balance at end of the period	(102,082)	(101,941)

Noncontrolling Interest

Balance as of January 1,	12,384	12,757
Contributions	32	478
Distributions	(2,874)	(2,839)
Gain attributable to noncontrolling interest	1,729	1,883
Balance at end of the period	11,271	12,279

Total Stockholders Equity	\$ 4,445,034	\$ 4,404,736
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See accompanying notes to the consolidated financial statements.

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AMERICAN NATIONAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Nine months ended September 30,	
	2015	2014
		(As Adjusted)
OPERATING ACTIVITIES		
Net income	\$ 181,777	\$ 178,250
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized investment gains	(63,598)	(27,548)
Other-than-temporary impairments	22,904	3,045
Amortization of premiums, discounts and loan origination fees	2,043	6,316
Net capitalized interest on policy loans and mortgage loans	(23,300)	(23,988)
Depreciation	32,665	26,421
Interest credited to policyholders' account balances	202,477	258,952
Charges to policyholders' account balances	(175,392)	(167,041)
Deferred federal income tax expense	2,488	9,759
Equity in earnings of unconsolidated affiliates	(73,385)	(12,181)
Distributions from equity method investments	549	679
Changes in		
Policyholder liabilities	155,778	166,392
Deferred policy acquisition costs	(5,092)	10,854
Reinsurance recoverables	17,741	4,218
Premiums due and other receivables	(21,814)	(15,189)
Prepaid reinsurance premiums	(14,962)	2,188
Accrued investment income	3,763	(3,729)
Current tax receivable/payable	16,277	14,104
Liability for retirement benefits	(9,164)	(17,453)
Other, net	7,361	(40,979)
Net cash provided by operating activities	259,116	373,070
INVESTING ACTIVITIES		
Proceeds from sale/maturity/prepayment of		
Held-to-maturity securities	906,026	442,748
Available-for-sale securities	380,287	705,681
Investment real estate	14,247	45,843
Mortgage loans	632,309	421,023
Policy loans	42,309	41,331
Other invested assets	25,070	34,537
Disposals of property and equipment	1,397	2,571
Distributions from unconsolidated affiliates	122,162	49,403

Payment for the purchase/origination of		
Held-to-maturity securities	(360,768)	(356,452)
Available-for-sale securities	(883,242)	(883,346)
Investment real estate	(58,536)	(28,865)
Mortgage loans	(718,410)	(444,140)
Policy loans	(18,747)	(21,721)
Other invested assets	(31,078)	(14,376)
Additions to property and equipment	(28,931)	(13,038)
Contributions to unconsolidated affiliates	(90,222)	(40,333)
Change in short-term investments	(63,495)	149,043
Other, net	17,021	3,834
Net cash provided by (used in) investing activities	(112,601)	93,743
FINANCING ACTIVITIES		
Policyholders' account deposits	941,340	783,255
Policyholders' account withdrawals	(1,080,029)	(1,162,898)
Change in notes payable	17,967	(4,500)
Dividends to stockholders	(62,933)	(62,113)
Payments to noncontrolling interest	(2,842)	(2,361)
Net cash used in financing activities	(186,497)	(448,617)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(39,982)	18,196
Beginning of the period	209,455	117,946
End of the period	\$ 169,473	\$ 136,142

See accompanying notes to the 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 stockholders equity, and cash flows.

The interim consolidated financial statements and notes should be read in conjunction with the annual consolidated financial statements and notes thereto included in American National s Annual Report on Form 10-K as of and for the year ended December 31, 2014. 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.

Note 3 Recently Issued Accounting Pronouncements

Adoption of New Accounting Standards

In January 2014, the FASB issued Accounting Standards Update (ASU) 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The new standard allows a proportional amortization approach and treats the net investment performance as a component of income tax expense. Previously, these investments were accounted for under the equity method that records changes to investment value as a component of investment income and generates a deferred tax balance until the investment terminates. American National adopted this standard effective January 1, 2015, with retrospective adoption as of January 1, 2013. Accordingly, upon adoption the investment in unconsolidated affiliate s asset was reduced by \$7,504,000 with a release of a related deferred tax liability of \$2,937,000 resulting in a \$4,567,000 reduction in the opening balance of stockholders equity at January 1, 2015.

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

Financial statement amounts previously reported were revised as shown below (in thousands):

	As of December 31, 2014		
	As Reported	As Adjusted	Effect of Change
Investment in unconsolidated affiliates	\$ 319,283	\$ 311,779	\$ (7,504)
Deferred tax liabilities, net	290,112	287,175	(2,937)
Retained earnings	4,003,209	3,998,642	(4,567)

	As Reported	As Adjusted	Effect of Change
Three months ended September 30, 2014			
Provision for federal income taxes, current	\$ 23,639	\$ 25,104	\$ 1,465
Provision for federal income taxes, deferred	3,110	3,431	321
Equity in earnings of unconsolidated affiliates	2,735	3,576	841
Net Income attributable to American National	67,884	66,939	(945)
Nine months ended September 30, 2014			
Provision for federal income taxes, current	\$ 55,690	\$ 59,337	\$ 3,647
Provision for federal income taxes, deferred	9,974	9,759	(215)
Equity in earnings of unconsolidated affiliates	10,405	12,181	1,776
Net Income attributable to American National	178,023	176,367	(1,656)

American National held investments in Qualified Affordable Housing Projects totaling \$40,579,000 and \$32,778,000 as of September 30, 2015 and December 31, 2014, respectively. For the nine months ended September 30, 2015 and September 30, 2014, American National recognized tax credits and other tax benefits of \$6,672,000 and \$5,817,000, respectively, and amortized cost of \$5,834,000 and \$4,033,000, relating to these investments. At September 30, 2015 American National had commitments to provide additional funding to these investments during the following fiscal years as follows (in thousands):

Expected year of payment	2015	2016	2017	2018	2019	Total
Equity commitments	\$ 8,251	4,148	1,314	726	1,078	\$ 15,517

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

In May 2014, the FASB issued guidance that will supersede most existing revenue recognition requirements in U.S. GAAP. Insurance contracts generally are excluded from the scope of the new guidance. For those contracts which are impacted by the guidance, 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. In August 2015, the effective date of the guidance was deferred one year and is now effective for reporting periods beginning after December 15, 2017 and is to be applied retrospectively. The Company is evaluating the impact of adoption, which is not expected to be material to the Company's financial statements.

In February 2015, the FASB issued guidance that amends the consolidation analysis. The guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities. The guidance eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs. The amended guidance is effective for reporting periods beginning after December 15, 2015. The impact of the adoption is not expected to be material to the Company's financial statements.

In May 2015, the FASB issued guidance to expand the disclosures that an insurance entity must provide about its short duration contracts. The additional disclosure about the liability for unpaid claims and claim adjustment expenses is intended to increase the transparency of significant estimates made in the measuring of those liabilities. It will also provide additional insight into an insurance entity's ability to underwrite and anticipate costs associated with claims. The amended guidance is effective for annual reporting periods beginning after December 15, 2015 and for interim reporting periods beginning after December 15, 2016. The impact of the adoption is not expected to be material to the Company's financial statements.

Table of Contents**Note 4 Investment in Securities**

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

	Cost or Amortized Cost	September 30, 2015 Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 324,191	\$ 26,068	\$	\$ 350,259
Foreign governments	4,111	975		5,086
Corporate debt securities	7,055,332	344,616	(90,276)	7,309,672
Residential mortgage-backed securities	288,223	22,236	(913)	309,546
Collateralized debt securities	1,928	127		2,055
Other debt securities	15,766	620		16,386
Total bonds held-to-maturity	7,689,551	394,642	(91,189)	7,993,004
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	24,025	814		24,839
U.S. states and political subdivisions	925,948	34,206	(1,834)	958,320
Foreign governments	5,000	1,929		6,929
Corporate debt securities	4,196,262	160,179	(51,382)	4,305,059
Residential mortgage-backed securities	28,452	1,648	(259)	29,841
Collateralized debt securities	9,051	658	(41)	9,668
Total bonds available-for-sale	5,188,738	199,434	(53,516)	5,334,656
Equity securities				
Common stock	755,546	655,360	(23,857)	1,387,049
Preferred stock	13,487	10,100		23,587
Total equity securities	769,033	665,460	(23,857)	1,410,636
Total investments in securities	\$ 13,647,322	\$ 1,259,536	\$ (168,562)	\$ 14,738,296

	Cost or Amortized Cost	December 31, 2014 Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 323,053	\$ 26,800	\$ (93)	\$ 349,760

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Foreign governments	29,130	1,293		30,423
Corporate debt securities	7,517,195	424,845	(47,315)	7,894,725
Residential mortgage-backed securities	336,853	22,317	(1,535)	357,635
Collateralized debt securities	2,232	238		2,470
Other debt securities	16,587	1,313		17,900
Total bonds held-to-maturity	8,225,050	476,806	(48,943)	8,652,913
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	22,415	825	(7)	23,233
U.S. states and political subdivisions	802,846	36,151	(1,381)	837,616
Foreign governments	5,000	2,021		7,021
Corporate debt securities	3,812,771	203,048	(15,770)	4,000,049
Residential mortgage-backed securities	40,988	1,903	(492)	42,399
Collateralized debt securities	10,696	863	(70)	11,489
Total bonds available-for-sale	4,694,716	244,811	(17,720)	4,921,807
Equity securities				
Common stock	719,651	774,650	(7,176)	1,487,125
Preferred stock	19,733	10,121	(1)	29,853
Total equity securities	739,384	784,771	(7,177)	1,516,978
Total investments in securities	\$ 13,659,150	\$ 1,506,388	\$ (73,840)	\$ 15,091,698

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):

	September 30, 2015			
	Bonds Held-to-Maturity		Bonds Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 394,934	\$ 401,042	\$ 357,147	\$ 361,475
Due after one year through five years	2,348,115	2,535,513	1,015,790	1,083,981
Due after five years through ten years	4,556,548	4,641,818	3,208,405	3,267,070
Due after ten years	384,104	409,531	602,396	617,155
Without single maturity date	5,850	5,100	5,000	4,975
Total	\$ 7,689,551	\$ 7,993,004	\$ 5,188,738	\$ 5,334,656

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Proceeds from sales of available-for-sale securities	\$ 8,876	\$ 2,671	\$ 48,352	\$ 139,137
Gross realized gains	3,982	228	17,991	24,994
Gross realized losses			(65)	(2,123)

Gains and losses are determined using specific identification of the securities sold. During the nine months ended September 30, 2015 and 2014, bonds with a carrying value of \$171,000 and \$44,781,000, respectively, were transferred from held-to-maturity to available-for-sale after a significant deterioration in the issuers' creditworthiness became evident. An unrealized loss of \$53,000 and an unrealized gain of \$1,301,000 were established in 2015 and 2014, respectively following the transfer at fair value.

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

Nine months ended September 30,
2015 **2014**

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Bonds available-for-sale	\$ (81,173)	\$ 82,701
Equity securities	(135,991)	79,211
Change in net unrealized gains (losses) on securities during the year	(217,164)	161,912
Adjustments for		
Deferred policy acquisition costs	30,491	(17,175)
Participating policyholders interest	7,222	(8,526)
Deferred federal income tax benefit (expense)	62,248	(47,160)
Change in net unrealized gains (losses) on securities, net of tax	\$ (117,203)	\$ 89,051

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		September 30, 2015 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	\$	\$	\$	\$	\$	\$
Corporate debt securities	(62,176)	1,484,022	(28,100)	205,613	(90,276)	1,689,635
Residential mortgage-backed securities	(146)	21,304	(767)	16,697	(913)	38,001
Total bonds held-to-maturity	(62,322)	1,505,326	(28,867)	222,310	(91,189)	1,727,636
Fixed maturity securities, bonds available-for-sale						
U.S. treasury and government		3,876				3,876
U.S. states and political subdivisions	(1,758)	172,536	(76)	2,059	(1,834)	174,595
Corporate debt securities	(43,045)	1,195,908	(8,337)	62,378	(51,382)	1,258,286
Residential mortgage-backed securities	(82)	13,772	(177)	6,217	(259)	19,989
Collateralized debt securities	(36)	1,986	(5)	292	(41)	2,278
Total bonds available-for-sale	(44,921)	1,388,078	(8,595)	70,946	(53,516)	1,459,024
Equity securities						
Common stock	(23,857)	112,392			(23,857)	112,392
Preferred stock						
Total equity securities	(23,857)	112,392			(23,857)	112,392
Total	\$ (131,100)	\$ 3,005,796	\$ (37,462)	\$ 293,256	\$ (168,562)	\$ 3,299,052

	Less than 12 months		December 31, 2014 12 Months or more		Total	
	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value

Fixed maturity securities, bonds held-to-maturity						
U.S. states and political subdivisions	\$ (37)	\$ 3,388	\$ (56)	\$ 2,465	\$ (93)	\$ 5,853
Corporate debt securities	(20,575)	523,766	(26,740)	662,362	(47,315)	1,186,128
Residential mortgage-backed securities	(232)	12,186	(1,303)	31,163	(1,535)	43,349
Total bonds held-to-maturity	(20,844)	539,340	(28,099)	695,990	(48,943)	1,235,330
Fixed maturity securities, bonds available-for-sale						
U.S. treasury and government	(7)	14,552			(7)	14,552
U.S. states and political subdivisions	(166)	27,719	(1,215)	78,851	(1,381)	106,570
Corporate debt securities	(8,852)	384,451	(6,918)	288,808	(15,770)	673,259
Residential mortgage-backed securities	(170)	9,386	(322)	14,042	(492)	23,428
Collateralized debt securities	(63)	2,033	(7)	339	(70)	2,372
Total bonds available-for-sale	(9,258)	438,141	(8,462)	382,040	(17,720)	820,181
Equity securities						
Common stock	(7,176)	43,907			(7,176)	43,907
Preferred stock	(1)				(1)	
Total equity securities	(7,177)	43,907			(7,177)	43,907
Total	\$ (37,279)	\$ 1,021,388	\$ (36,561)	\$ 1,078,030	\$ (73,840)	\$ 2,099,418

As of September 30, 2015, 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 not more-likely-than-not that American National will be required to sell them prior to recovery, and recovery is expected in a reasonable period of time. It is possible an issuer's financial circumstances may be different in the future, which may lead to a different impairment conclusion in future periods.

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

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

	September 30, 2015	December 31, 2014
AAA	5.4%	5.0%
AA	12.2	12.8
A	38.1	39.4
BBB	41.3	39.5
BB and below	3.0	3.3
Total	100.0%	100.0%

Equity securities by market sector distribution are shown below:

	September 30, 2015	December 31, 2014
Consumer goods	21.4%	20.4%
Energy and utilities	10.8	13.3
Financials	19.1	19.1
Healthcare	14.9	14.0
Industrials	8.1	8.4
Information technology	17.3	16.2
Other	8.4	8.6
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 are as follows:

	September 30, 2015	December 31, 2014
East North Central	18.8%	19.4%
East South Central	4.4	5.0
Mountain	12.3	11.0
Pacific	10.0	10.8
South Atlantic	19.7	21.9
West South Central	29.2	24.9
Other	5.6	7.0

Total

100.0%

100.0%

As of September 30, 2015, American National had foreclosed on two loans with a recorded investment of \$19,328,000, and there was one loan in the process of foreclosure with a recorded investment of \$2,450,000. There were two loans in the process of foreclosure with a recorded investment of \$15,945,000 as of September 30, 2014. American National sold one loan with a recorded investment of \$2,702,000 resulting in a realized loss of \$1,602,000 for the nine months ended September 30, 2015. No loans were sold in the same period in 2014.

Table of Contents**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, 2015							
Industrial	\$	\$	\$	\$	\$ 705,260	\$ 705,260	20.4%
Office			8,228	8,228	1,267,942	1,276,170	37.2
Retail			5,005	5,005	807,829	812,834	23.7
Other					662,908	662,908	18.7
Total	\$	\$	\$ 13,233	\$ 13,233	\$ 3,443,939	3,457,172	100.0%
Allowance for loan losses						(12,769)	
Total, net of allowance						\$ 3,444,403	
December 31, 2014							
Industrial	\$	\$	\$	\$	\$ 702,541	\$ 702,541	20.9%
Office			19,327	19,327	1,201,833	1,221,160	36.1
Retail					615,813	615,813	18.1
Other					837,932	837,932	24.9
Total	\$	\$	\$ 19,327	\$ 19,327	\$ 3,358,119	\$ 3,377,446	100.0%
Allowance for loan losses						(17,860)	
Total, net of allowance						\$ 3,359,586	

Total mortgage loans are net of unamortized discounts of \$505,000 and \$658,000 and unamortized origination fees of \$19,333,000 and \$15,659,000 at September 30, 2015 and December 31, 2014, respectively. No unearned income is included in these amounts.

Allowance for Credit Losses

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

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

property types and in certain regions based on loss experience or a blended historical loss factor.

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

	Nine months ended Collectively Evaluated for Impairment	September 30, Individually Evaluated for Impairment
Beginning balance, 2015	\$ 12,277	\$ 5,583
Change in allowance	(1,688)	(3,403)
Ending balance, 2015	\$ 10,589	\$ 2,180

At September 30, 2015 and December 31, 2014, the recorded investment for loans collectively evaluated for impairment was \$3,405,419,000 and \$3,321,241,000, respectively. The recorded investment for loans individually evaluated for impairment was \$51,752,000 and \$56,205,000, respectively.

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

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

	September 30, 2015		September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Three months ended				
With an allowance recorded				
Office	\$ 18,014	\$ 555	\$ 27,564	\$ 547
Total	\$ 18,014	\$ 555	\$ 27,564	\$ 547
Without an allowance recorded				
Office	\$ 26,639	\$ 422	\$ 26,941	\$ 431
Industrial			2,702	36
Retail	8,812	134	851	11
Total	\$ 35,451	\$ 556	\$ 30,494	\$ 478
Nine months ended				
With an allowance recorded				
Office	\$ 18,116	\$ 1,016	\$ 29,421	\$ 1,663
Total	\$ 18,116	\$ 1,016	\$ 29,421	\$ 1,663
Without an allowance recorded				
Office	\$ 26,326	\$ 1,262	\$ 27,019	\$ 1,298
Industrial			2,721	110
Retail	8,895	410	1,149	16
Total	\$ 35,221	\$ 1,672	\$ 30,889	\$ 1,424
	September 30, 2015		December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
With an allowance recorded				
Office	\$ 16,275	\$ 17,961	\$ 26,563	\$ 31,653
Retail				493

Total	\$ 16,275	\$ 17,961	\$ 26,563	\$ 32,146
Without an allowance recorded				
Office	\$ 26,695	\$ 26,695	\$ 26,941	\$ 26,941
Industrial			2,702	2,702
Retail	8,782	8,782		
Total	\$ 35,477	\$ 35,477	\$ 29,643	\$ 29,643

Troubled Debt Restructurings

American National has granted concessions which are classified as troubled debt restructurings to 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.

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

	Nine months ended September 30,				
	2015		2014		
	Recorded Number of contracts	Recorded investment pre- modification	Recorded investment post modification	Recorded investment pre- modification	Recorded investment post modification
Office	2	\$ 12,211	\$ 12,211	3	\$ 34,400
					\$ 30,996

There are no commitments to lend additional funds to debtors whose loans have been modified in troubled debt restructuring, and there have been no defaults on modified loans during the periods presented.

Table of Contents**Note 6 Investment Real Estate**

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

	September 30, 2015	December 31, 2014
Industrial	11.2%	13.0%
Office	33.4	25.0
Retail	40.0	44.1
Other	15.4	17.9
Total	100.0%	100.0%

	September 30, 2015	December 31, 2014
East North Central	12.3%	4.5%
East South Central	3.8	4.6
Mountain	8.0	9.6
Pacific	6.1	7.1
South Atlantic	10.9	12.2
West South Central	53.0	55.6
Other	5.9	6.4
Total	100.0%	100.0%

American National regularly invests in real estate partnerships and joint ventures. American National frequently participates in the design of these entities with the sponsor, but in most cases, its involvement is limited to financing. Through analysis performed by American National, some of these partnerships and joint ventures have been determined to be variable interest entities (VIEs). In certain instances, in addition to an economic interest in the entity, American National holds the power to direct the most significant activities of the entity and is deemed the primary beneficiary or consolidator of the entity. The assets of the consolidated VIEs are restricted and must first be used to settle their liabilities. Creditors or beneficial interest holders of these VIEs have no recourse to the general credit of American National, as American National's obligation is limited to the amount of its committed investment. American National has not provided financial or other support to the VIEs in the form of liquidity arrangements, guarantees, or other commitments to third parties that may affect the fair value or risk of its variable interest in the VIEs in 2015 or 2014.

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

	September 30, 2015	December 31, 2014
Investment real estate	\$ 165,685	\$ 140,032
Short-term investments	1	1
Cash and cash equivalents	3,204	2,495

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Accrued investment income	339	683
Other receivables	7,095	7,999
Other assets	6,316	8,483
Total assets of consolidated VIEs	\$ 182,640	\$ 159,693
Notes payable	\$ 126,145	\$ 108,177
Other liabilities	11,102	8,954
Total liabilities of consolidated VIEs	\$ 137,247	\$ 117,131

Table of Contents**Note 6 Investment Real Estate (Continued)**

The notes payable in the consolidated statements of financial position pertain to the borrowings of the consolidated VIEs. The liability of American National Insurance Company relating to notes payable of the consolidated VIEs is limited to the amount of its direct or indirect investment in the respective ventures, which totaled \$32,277,000 and \$15,016,000 at September 30, 2015 and December 31, 2014, respectively. The total long-term portion of notes payable consists of four notes with the following interest rates: 4.0%, prime plus 0.5%, and two notes with adjusted LIBOR plus LIBOR margin. Of the long-term notes payable, \$29,265,000 will mature in 2016, with the remainder maturing beyond 5 years.

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

	September 30, 2015		December 31, 2014	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Investment in unconsolidated affiliates	\$ 220,223	\$ 220,223	\$ 157,620	\$ 157,620
Mortgage loans	212,972	212,972	172,408	172,408
Accrued investment income	778	778	721	721

As of September 30, 2015, a real estate investment with a carrying value of \$4,028,000 was 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. 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 Statements of Financial Position	Number of Instruments	September 30, 2015			December 31, 2014		
			Notional Amounts	Estimated Fair Value		Number of Instruments	Notional Amounts	Estimated Fair Value
Hedging Instruments								
Equity-indexed options	Other invested assets	454	\$ 1,249,300	\$ 141,385	436	\$ 1,095,300	\$ 189,400	
Equity-indexed embedded derivative	Policyholders account balances	48,923	1,005,100	207,302	42,287	961,300	208,100	

**Gains (Losses) Recognized
in Income on Derivatives**

Derivatives Not Designated as Hedging Instruments	Location in the Consolidated Statements of Operations	Three months ended September 30,		Nine months ended September 30,	
		2015	2014	2015	2014
Equity-indexed options	Net investment income	\$ (33,682)	\$ 6,562	\$ (34,646)	\$ 29,011
Equity-indexed embedded derivative	Interest credited to policyholders account balances	16,780	(1,762)	19,997	(16,484)

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

Net investment income is shown below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Bonds	\$ 138,707	\$ 148,715	\$ 421,543	\$ 450,110
Equity securities	9,353	8,146	27,869	26,488
Mortgage loans	50,681	51,652	149,682	159,010
Real estate	13,555	14,245	11,949	11,347
Options	(33,682)	6,562	(34,646)	29,011
Other invested assets	5,868	7,169	20,960	21,638
Total	\$ 184,482	\$ 236,489	\$ 597,357	\$ 697,604

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Bonds	\$ (34)	\$ 1,925	\$ 10,063	\$ 21,837
Equity securities	7,669	229	44,579	10,293
Mortgage loans	639	(1,551)	(94)	(5,424)
Real estate	(739)	(1,242)	9,094	1,787
Other invested assets	(7)	(10)	(44)	(945)
Total	\$ 7,528	\$ (649)	\$ 63,598	\$ 27,548

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Bonds	\$ (286)	\$	\$ (286)	\$ (41)
Equity securities	(19,121)	(1,608)	(22,618)	(3,004)
Total	\$ (19,407)	\$ (1,608)	\$ (22,904)	\$ (3,045)

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

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

	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Fixed maturity securities, bonds held-to-maturity	\$ 7,689,551	\$ 7,993,004	\$ 8,225,050	\$ 8,652,913
Fixed maturity securities, bonds available-for-sale	5,334,656	5,334,656	4,921,807	4,921,807
Equity securities	1,410,636	1,410,636	1,516,978	1,516,978
Equity-indexed options	141,385	141,385	189,449	189,449
Mortgage loans on real estate, net of allowance	3,444,403	3,670,607	3,359,586	3,618,944
Policy loans	406,728	406,728	405,979	405,979
Short-term investments	494,496	494,496	431,000	431,000
Separate account assets	894,890	894,890	1,001,515	1,001,515
Total financial assets	\$ 19,816,745	\$ 20,346,402	\$ 20,051,364	\$ 20,738,585
Financial liabilities				
Investment contracts	\$ 8,711,223	\$ 8,711,223	\$ 8,894,747	\$ 8,894,747
Embedded derivative liability for equity-indexed contracts	207,302	207,302	208,187	208,187
Notes payable	126,145	126,145	108,177	108,177
Separate account liabilities	894,890	894,890	1,001,515	1,001,515
Total financial liabilities	\$ 9,939,560	\$ 9,939,560	\$ 10,212,626	\$ 10,212,626

Summary

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.

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

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

Mortgage Loans The 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.

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

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Note 9 Fair Value of Financial Instruments (Continued)

The significant unobservable input used to calculate the fair value of the embedded derivatives is equity option implied volatility. An increase in implied volatility will result in an increase in the value of the equity-indexed embedded derivatives, all other things being equal. At September 30, 2015 and December 31, 2014, the one year implied volatility used to estimate embedded derivative value was 20.1% and 17.3%, respectively.

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

Policy loans The carrying value of policy loans is the outstanding balance plus any accrued interest. Due to the collateralized nature of policy loans such that they cannot be separated from the policy contracts and 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 to current rates offered at anniversary.

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

Table of Contents**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 September 30, 2015			
	Total Fair Value	Level 1	Level 2	Level 3
Financial assets				
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 350,259	\$	\$ 350,259	\$
Foreign governments	5,086		5,086	
Corporate debt securities	7,309,672		7,261,358	48,314
Residential mortgage-backed securities	309,546		308,605	941
Collateralized debt securities	2,055		2,055	
Other debt securities	16,386		12,530	3,856
Total bonds held-to-maturity	7,993,004		7,939,893	53,111
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	24,839		24,839	
U.S. states and political subdivisions	958,320		955,825	2,495
Foreign governments	6,929		6,929	
Corporate debt securities	4,305,059		4,298,265	6,794
Residential mortgage-backed securities	29,841		28,038	1,803
Collateralized debt securities	9,668		7,769	1,899
Total bonds available-for-sale	5,334,656		5,321,665	12,991
Equity securities				
Common stock	1,387,049	1,387,049		
Preferred stock	23,587	23,587		
Total equity securities	1,410,636	1,410,636		
Options	141,385			141,385
Mortgage loans on real estate	3,670,607		3,670,607	
Policy loans	406,728			406,728
Short-term investments	494,496		494,496	
Separate account assets	894,890		894,890	

Total financial assets	\$ 20,346,402	\$ 1,410,636	\$ 18,321,551	\$ 614,215
Financial liabilities				
Investment contracts	\$ 8,711,223	\$	\$	\$ 8,711,223
Embedded derivative liability for equity-indexed contracts	207,302			207,302
Notes payable	126,145			126,145
Separate account liabilities	894,890		894,890	
Total financial liabilities	\$ 9,939,560	\$	\$ 894,890	\$ 9,044,670

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

	Fair Value Measurement as of December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Financial assets				
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 349,760	\$	\$ 349,760	\$
Foreign governments	30,423		30,423	
Corporate debt securities	7,894,725		7,833,564	61,161
Residential mortgage-backed securities	357,635		356,670	965
Collateralized debt securities	2,470			2,470
Other debt securities	17,900		12,975	4,925
Total bonds held-to-maturity	8,652,913		8,583,392	69,521
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	23,233		23,233	
U.S. states and political subdivisions	837,616		835,106	2,510
Foreign governments	7,021		7,021	
Corporate debt securities	4,000,049		3,941,925	58,124
Residential mortgage-backed securities	42,399		40,473	1,926
Collateralized debt securities	11,489		9,616	1,873
Total bonds available-for-sale	4,921,807		4,857,374	64,433
Equity securities				
Common stock	1,487,125	1,487,125		
Preferred stock	29,853	29,853		
Total equity securities	1,516,978	1,516,978		
Options	189,449			189,449
Mortgage loans on real estate	3,618,944		3,618,944	
Policy loans	405,979			405,979
Short-term investments	431,000		431,000	
Separate account assets	1,001,515		1,001,515	
Total financial assets	\$ 20,738,585	\$ 1,516,978	\$ 18,492,225	\$ 729,382
Financial liabilities				
Investment contracts	\$ 8,894,747	\$	\$	\$ 8,894,747
Embedded derivative liability for equity-indexed contracts	208,187			208,187

Notes payable	108,177		108,177
Separate account liabilities	1,001,515		1,001,515
Total financial liabilities	\$ 10,212,626	\$	\$ 1,001,515 \$ 9,211,111

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

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

	Level 3					
	Three months ended September 30,			Nine months ended September 30,		
	Assets		Liability	Assets		Liability
	Investment Securities	Equity-Indexed Options	Embedded Derivative	Investment Securities	Equity-Indexed Options	Embedded Derivative
Beginning balance, 2015	\$ 67,200	\$ 183,963	\$ 208,827	\$ 64,433	\$ 189,449	\$ 208,187
Total realized and unrealized investment gains (losses) included in other comprehensive income	150			(18)		
Net fair value change included in realized gains (losses)						
Net gain (loss) for derivatives included in net investment income		(34,643)			(39,266)	
Net change included in interest credited			(16,780)			(19,997)
Purchases, sales and settlements or maturities						
Purchases		5,725			15,313	
Sales	120	(11,160)		(1)	(11,160)	
Settlements or maturities	(1)	(2,500)		(343)	(12,951)	
Premiums less benefits			15,255			19,112
Gross transfers into Level 3				3,398		
Gross transfers out of Level 3	(54,478)			(54,478)		
Ending balance September 30, 2015	\$ 12,991	\$ 141,385	\$ 207,302	\$ 12,991	\$ 141,385	\$ 207,302
Beginning balance, 2014	\$ 11,932	\$ 163,861	\$ 186,261	\$ 48,304	\$ 164,753	\$ 148,435
Total realized and unrealized investment gains (losses) included in other comprehensive income	138			(11,735)		
Net fair value change included in realized gains (losses)				13,056		
Net gain (loss) for derivatives included in net investment income		4,998			23,788	
Net change included in interest credited			1,762			16,484

Purchases, sales and settlements or maturities						
Purchases			3,655		12,345	
Sales	(120)			(37,670)		
Settlements or maturities	(5)	(2,171)		(10)	(30,543)	
Premiums less benefits			3,737			26,841
Gross transfers into Level 3	30,199			30,199		
Gross transfers out of Level 3						

Ending balance September 30, 2014 \$ 42,144 \$ 170,343 \$ 191,760 \$ 42,144 \$ 170,343 \$ 191,760

Within the net gain (loss) for derivatives included in net investment income were unrealized losses of \$51,875,000 relating to assets still held at September 30, 2015 and gains of \$7,395,000 at September 30 2014, respectively.

The transfers into Level 3 during the nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, were the result of existing securities no longer being priced by the third-party pricing service at the end of the period. American National's valuation of these securities involves judgment regarding assumptions market participants would use including quotes from independent brokers. The 2015 transfers out of Level 3 were securities being priced by a third-party service at the end of the period, using inputs that are observable or derived from market data, which resulted in classification of these assets as Level 2.

Table of Contents**Note 10 Deferred Policy Acquisition Costs**

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

	Life	Annuity	Accident & Health	Property & Casualty	Total
Beginning balance, 2015	\$ 711,469	\$ 382,441	\$ 47,784	\$ 111,850	\$ 1,253,544
Additions	81,568	42,264	15,869	175,006	314,707
Amortization	(60,998)	(57,412)	(18,195)	(173,010)	(309,615)
Effect of change in unrealized gains on available-for-sale securities	7,742	22,749			30,491
Net change	28,312	7,601	(2,326)	1,996	35,583
Ending balance at September 30, 2015	\$ 739,781	\$ 390,042	\$ 45,458	\$ 113,846	\$ 1,289,127

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

Note 11 Liability for Unpaid Claims and Claim Adjustment Expenses

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

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

	Nine months ended September 30,	
	2015	2014
Unpaid claims balance, beginning	\$ 1,132,394	\$ 1,096,299
Less reinsurance recoverables	245,906	215,161
Net beginning balance	886,488	881,138
Incurred related to		
Current	705,988	706,824
Prior years	(7,835)	(29,044)
Total incurred claims	698,153	677,780
Paid claims related to		

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Current	414,287	410,077
Prior years	284,732	252,082
Total paid claims	699,019	662,159
Net balance	885,622	896,759
Plus reinsurance recoverables	215,464	235,485
Unpaid claims balance, ending	\$ 1,101,086	\$ 1,132,244

The net and gross reserve calculations have shown favorable development as a result of favorable loss emergence compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred claims attributable to insured events of prior years decreased by approximately \$7,835,000 during the first nine months of 2015 and \$29,044,000 during the first nine months of 2014, reflecting lower-than-anticipated losses in the workers compensation, commercial auto, and personal auto liability lines of business.

Table of Contents**Note 12 Federal Income Taxes**

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

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Income tax on pre-tax income	\$ 22,050	35.0%	\$ 33,171	35.0%	\$ 91,284	35.0%	\$ 82,308	35.0%
Tax-exempt investment income	(1,863)	(3.0)	(1,742)	(1.8)	(5,688)	(2.2)	(4,897)	(2.1)
Dividend exclusion	(1,841)	(2.9)	(1,700)	(1.8)	(5,788)	(2.2)	(5,253)	(2.2)
Miscellaneous tax credits, net	(2,256)	(3.6)	(2,658)	(2.8)	(6,728)	(2.6)	(5,873)	(2.5)
Low income housing tax credit expense	1,307	2.1	1,786	1.9	3,792	1.5	3,432	1.5
Other items, net	737	1.2	(322)	(0.3)	2,162	0.8	(621)	(0.3)
Total	\$ 18,134	28.8%	\$ 28,535	30.2%	\$ 79,034	30.3%	\$ 69,096	29.4%

American National made income tax payments of \$52,106,000 and \$41,121,000 during the nine months ended September 30, 2015 and 2014, respectively.

Management believes that a sufficient level of taxable income will be achieved over time to utilize the deferred tax assets in the consolidated federal tax return; therefore, no valuation allowance was recorded as of September 30, 2015 and 2014. There are no ordinary loss tax carryforwards that will expire by December 31, 2015.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2006 to 2009 has been extended. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld. No provision for penalties was established, and no interest expense was incurred for 2015 or 2014 relating to uncertain tax positions. Management does not believe there are any uncertain tax benefits that could be recognized within the next twelve months that would decrease American National's effective tax rate.

Table of Contents**Note 13 Accumulated Other Comprehensive Income (Loss)**

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

	Net Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plan Adjustments	Foreign Currency Adjustments	AOCI
Beginning balance, 2015	\$ 568,151	\$ (76,074)	\$ (1,295)	\$ 490,782
Amounts reclassified from AOCI (net of tax benefit \$8,221 and expense \$2,449)	(15,268)	4,549		(10,719)
Unrealized holding losses arising during the period (net of tax benefit \$67,787)	(125,888)			(125,888)
Unrealized adjustment to DAC (net of tax expense \$11,232)	19,259			19,259
Unrealized gains on investments attributable to participating policyholders' interest (net of tax expense \$2,528)	4,694			4,694
Foreign currency adjustment (net of tax benefit \$1,124)			(2,087)	(2,087)
Ending balance at September 30, 2015	\$ 450,948	\$ (71,525)	\$ (3,382)	\$ 376,041
Beginning balance, 2014	\$ 457,937	\$ (43,884)	\$ (341)	\$ 413,712
Amounts reclassified from AOCI (net of tax benefit \$8,906 and expense \$1,159)	(16,539)	2,152		(14,387)
Unrealized holding gains arising during the period (net of tax expense \$65,575)	121,782			121,782
Unrealized adjustment to DAC (net of tax benefit \$6,525)	(10,650)			(10,650)
Unrealized gains on investments attributable to participating policyholders' interest (net of tax benefit \$2,984)	(5,542)			(5,542)
Foreign currency adjustment (net of tax benefit \$311)			(577)	(577)
Ending balance at September 30, 2014	\$ 546,988	\$ (41,732)	\$ (918)	\$ 504,338

Table of Contents**Note 14 Stockholders Equity and Noncontrolling Interests**

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

	September 30, 2015	December 31, 2014
Common stock		
Shares issued	30,832,449	30,832,449
Treasury shares	(3,940,947)	(3,960,507)
Outstanding shares	26,891,502	26,871,942
Restricted shares	(76,000)	(142,667)
Unrestricted outstanding shares	26,815,502	26,729,275

Stock-based compensation

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

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

	SAR			RS Shares			RS Units		
	Shares	Weighted- Average Grant Date Fair Value	Shares	Weighted- Average Grant Date Fair Value	Shares	Weighted- Average Grant Date Fair Value	Units	Weighted- Average Grant Date Fair Value	
Outstanding at December 31, 2014	54,930	\$ 114.86	142,667	\$ 107.39	128,214	\$ 95.82			
Granted					83,093	104.75			
Exercised	(116)	73.97	(66,667)	103.58	(72,093)	90.85			
Forfeited					(281)	105.02			
Expired	(16,646)	114.57							
Outstanding at September 30, 2015	38,168	\$ 115.11	76,000	\$ 110.73	138,933	\$ 103.73			

	SAR	RS Shares	RS Units
Weighted-average contractual remaining life (in years)	1.44	3.71	1.95
Exercisable shares	38,154	N/A	N/A
Weighted-average exercise price	\$ 115.11	\$ 110.73	\$ 103.73
Weighted-average exercise price exercisable shares	115.12	N/A	N/A
Compensation expense (credit)			
Three months ended September 30, 2015	\$ (14,000)	\$ 282,000	\$ 1,114,000
Three months ended September 30, 2014	(19,000)	496,000	522,000
Nine months ended September 30, 2015	(82,000)	935,000	5,421,000
Nine months ended September 30, 2014	(33,000)	2,577,000	6,447,000
Fair value of liability award			
September 30, 2015	\$ 27,000	N/A	\$ 19,134,000
December 31, 2014	167,000	N/A	16,301,000

Table of Contents**Note 14 Stockholders Equity and Noncontrolling Interests (Continued)**

The SARs give the holder the right to cash compensation based on the difference between the stock price on the grant date and the stock price on the exercise date. The SARs vest at a rate of 20% per year for five years and expire five years after vesting.

RS awards entitle the participant to full dividend and voting rights. Each RS share awarded has the value of one share of restricted stock and vests 10 years from the grant date. Unvested shares are restricted as to disposition, and are subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. The restrictions on these awards lapse after 10 years and these awards feature a graded vesting schedule in the case of the retirement of an award holder. Restricted stock awards for 350,334 shares have been granted at an exercise price of zero, of which 76,000 shares are unvested.

RSU awards allow the recipient of the awards to settle the vested RSUs in either shares of American National's common stock or cash. RSUs vest after a three-year graded vesting requirement or over a shorter period as a result of death, disability or retirement after age 65.

Earnings per share

Basic earnings per share were calculated using a weighted average number of shares outstanding. Diluted earnings per share include RS and RSU award shares.

	Three months ended September 30, 2015		Nine months ended September 30, 2014	
	2015	2014 (As Adjusted)	2015	2014 (As Adjusted)
Weighted average shares outstanding	26,899,683	26,805,535	26,865,359	26,800,835
Incremental shares from RS awards and RSUs	63,952	105,972	80,027	118,579
Total shares for diluted calculations	26,963,635	26,911,507	26,945,386	26,919,414
Net income attributable to American National (in thousands)	\$ 42,013	\$ 66,939	\$ 180,048	\$ 176,367
Basic earnings per share	\$ 1.56	\$ 2.50	\$ 6.70	\$ 6.58
Diluted earnings per share	1.56	2.49	6.68	6.55

Statutory Capital and Surplus

Risk Based Capital (RBC) is a measure insurance regulators use to evaluate the capital adequacy of American National Insurance Company and its insurance subsidiaries. RBC is calculated using formulas applied to certain

financial balances and activities that consider, among other things, investment risks related to the type and quality of investments, insurance risks associated with products and liabilities, interest rate risks and general business risks. Insurance companies that do not maintain capital and surplus at a level at least 200% of the authorized control level RBC are required to take certain actions. At September 30, 2015 and December 31, 2014, American National Insurance Company's statutory capital and surplus was \$2,924,950,000 and \$2,879,154,000, respectively. American National Insurance Company and each of its insurance subsidiaries had statutory capital and surplus at September 30, 2015 and December 31, 2014, substantially above 200% of the authorized control level.

Table of Contents**Note 14 Stockholders Equity and Noncontrolling Interests (Continued)**

American National and its insurance subsidiaries prepare statutory-basis financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile which include certain components of the National Association of Insurance Commissioners Codification of Statutory Accounting Principles (NAIC Codification). NAIC Codification is intended to standardize regulatory accounting and reporting to state insurance departments. However, statutory accounting practices continue to be established by individual state laws and permitted practices. Modifications by the various state insurance departments may impact the statutory capital and surplus of American National Insurance Company and its insurance subsidiaries.

Statutory accounting differs from GAAP primarily by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions, and valuing securities on a different basis. In addition, certain assets are not admitted under statutory accounting principles and are charged directly to surplus.

One of American National's insurance subsidiaries has been granted a permitted practice from the Missouri Department of Insurance to record as the valuation of its investment in a wholly-owned subsidiary that is the attorney-in-fact for a Texas domiciled insurer, the statutory capital and surplus of the Texas domiciled insurer. This permitted practice increases the statutory capital and surplus of both American National Insurance Company and the Missouri domiciled insurance subsidiary by \$66,042,000 and \$60,732,000 at September 30, 2015 and September 30, 2014, respectively. Additionally, the statutory capital and surplus of both American National Insurance Company and the Missouri domiciled insurance subsidiary would have remained substantially above the company action level RBC had it not used the permitted practice.

The statutory capital and surplus and net income of our life and property and casualty insurance entities in accordance with statutory accounting practices are shown below (in thousands):

	September 30, 2015	December 31, 2014
Statutory capital and surplus		
Life insurance entities	\$ 1,927,011	\$ 1,904,128
Property and casualty insurance entities	1,006,622	984,155
	Three months ended September 30, 2015	Three months ended September 30, 2014
Statutory net income		