

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

November 05, 2013

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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, 2013**

or

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

**American National Insurance Company**

(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction of  
incorporation or organization)

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

**One Moody Plaza**

**Galveston, Texas 77550-7999**

(Address of principal executive offices) (Zip Code)

**(409) 763-4661**

(Registrant's telephone number, including area code)

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

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

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

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

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

As of October 31, 2013, there were 26,895,188 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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## ITEM 1. FINANCIAL STATEMENTS

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

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

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| Fixed maturity, bonds held-to-maturity, at amortized cost<br>(Fair Value \$9,102,292 and \$9,840,751)   | \$ 8,674,301          | \$ 9,009,282         |
| Fixed maturity, bonds available-for-sale, at fair value<br>(Amortized cost \$4,371,545 and \$4,316,467) | 4,557,161             | 4,665,576            |
| Equity securities, at fair value<br>(Cost \$724,658 and \$688,579)                                      | 1,277,131             | 1,075,439            |
| Mortgage loans on real estate, net of allowance   | 3,333,363             | 3,143,011            |
| Policy loans  | 395,709               | 395,333              |
| Investment real estate, net of accumulated depreciation of \$207,346 and \$223,462                      | 471,810               | 511,233              |
| Short-term investments  | 339,479               | 313,086              |
| Other invested assets   | 161,515               | 125,104              |
| <b>Total investments</b>  | <b>19,210,469</b>     | <b>19,238,064</b>    |
| Cash and cash equivalents   | 122,637               | 303,008              |
| Investments in unconsolidated affiliates  | 316,062               | 248,425              |
| Accrued investment income   | 203,684               | 207,314              |
| Reinsurance recoverables  | 400,860               | 418,743              |
| Prepaid reinsurance premiums  | 51,881                | 56,826               |
| Premiums due and other receivables  | 309,694               | 283,446              |
| Deferred policy acquisition costs   | 1,274,750             | 1,247,675            |
| Property and equipment, net   | 101,245               | 92,695               |
| Current tax receivable  |                       | 14,578               |
| Other assets  | 179,903               | 154,911              |
| Separate account assets   | 931,947               | 841,389              |
| <b>Total assets</b>   | <b>\$ 23,103,132</b>  | <b>\$ 23,107,074</b> |
| <b>LIABILITIES</b>  |                       |                      |
| Future policy benefits  |                       |                      |
| Life  | \$ 2,677,978          | \$ 2,650,822         |
| Annuity   | 854,576               | 811,192              |
| Accident and health   | 65,919                | 69,962               |
| Policyholders' account balances   | 11,201,569            | 11,555,201           |
| Policy and contract claims  | 1,290,890             | 1,340,366            |
| Unearned premium reserve  | 773,020               | 757,532              |
| Other policyholder funds  | 303,680               | 288,391              |
| Liability for retirement benefits   | 273,410               | 265,317              |
| Notes payable   | 114,126               | 163,384              |
| Current federal income taxes  | 16,397                |                      |
| Deferred tax liabilities, net   | 120,992               | 92,150               |

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|   |                      |                      |
|---|----------------------|----------------------|
| Other liabilities                                     | 453,576              | 432,041              |
| Separate account liabilities                          | 931,947              | 841,389              |
| <b>Total liabilities</b>                              | <b>19,078,080</b>    | <b>19,267,747</b>    |
| <b>STOCKHOLDERS EQUITY</b>                            |                      |                      |
| Common stock, \$1.00 par value, Authorized 50,000,000 |                      |                      |
| Issued 30,832,449 and 30,832,449,                     |                      |                      |
| Outstanding 26,895,044 and 26,836,664 shares          | 30,832               | 30,832               |
| Additional paid-in capital                            | 4,120                |                      |
| Accumulated other comprehensive income                | 281,995              | 242,010              |
| Retained earnings                                     | 3,791,911            | 3,653,280            |
| Treasury stock, at cost                               | (97,442)             | (98,286)             |
| Total American National stockholders equity           | 4,011,416            | 3,827,836            |
| Noncontrolling interest                               | 13,636               | 11,491               |
| <b>Total stockholders equity</b>                      | <b>4,025,052</b>     | <b>3,839,327</b>     |
| <b>Total liabilities and stockholders equity</b>      | <b>\$ 23,103,132</b> | <b>\$ 23,107,074</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 for share and per share data)

|   | Three months ended<br>September 30, |                  | Nine months ended<br>September 30, |                   |
|---|-------------------------------------|------------------|------------------------------------|-------------------|
|   | 2013                                | 2012             | 2013                               | 2012              |
| <b>PREMIUMS AND OTHER REVENUE</b>   |                                     |                  |                                    |                   |
| Premiums  |                                     |                  |                                    |                   |
| Life  | \$ 75,278                           | \$ 72,203        | \$ 215,479                         | \$ 209,353        |
| Annuity   | 23,412                              | 30,140           | 89,733                             | 93,275            |
| Accident and health   | 52,839                              | 56,199           | 159,100                            | 167,965           |
| Property and casualty   | 271,270                             | 272,903          | 801,106                            | 814,503           |
| Other policy revenues   | 52,975                              | 49,343           | 152,910                            | 146,406           |
| Net investment income   | 254,336                             | 258,190          | 752,488                            | 754,449           |
| Realized investment gains (losses)  | 43,795                              | 26,905           | 107,473                            | 46,852            |
| Other-than-temporary impairments  | (312)                               | (13,975)         | (3,503)                            | (22,073)          |
| Other income  | 11,911                              | 8,160            | 29,423                             | 22,975            |
| <b>Total premiums and other revenues</b>  | <b>785,504</b>                      | <b>760,068</b>   | <b>2,304,209</b>                   | <b>2,233,705</b>  |
| <b>BENEFITS, LOSSES AND EXPENSES</b>  |                                     |                  |                                    |                   |
| Policyholder benefits   |                                     |                  |                                    |                   |
| Life  | 83,821                              | 84,615           | 246,896                            | 245,237           |
| Annuity   | 34,860                              | 37,964           | 118,155                            | 120,931           |
| Claims incurred   |                                     |                  |                                    |                   |
| Accident and health   | 34,404                              | 38,436           | 106,378                            | 119,586           |
| Property and casualty   | 182,809                             | 187,944          | 581,042                            | 620,462           |
| Interest credited to policyholders' account balances  | 98,862                              | 108,069          | 309,738                            | 323,952           |
| Commissions for acquiring and servicing policies  | 94,504                              | 92,253           | 273,360                            | 283,295           |
| Other operating expenses  | 128,115                             | 114,234          | 381,850                            | 336,378           |
| Change in deferred policy acquisition costs   | 7,265                               | 7,168            | 19,568                             | 12,468            |
| <b>Total benefits, losses and expenses</b>  | <b>664,640</b>                      | <b>670,683</b>   | <b>2,036,987</b>                   | <b>2,062,309</b>  |
| <b>Income (loss) before federal income tax and equity in earnings/losses of unconsolidated affiliates</b> | <b>120,864</b>                      | <b>89,385</b>    | <b>267,222</b>                     | <b>171,396</b>    |
| Less: Provision (benefit) for federal income taxes  |                                     |                  |                                    |                   |
| Current   | 36,541                              | 19,900           | 63,920                             | 43,384            |
| Deferred  | (782)                               | 7,754            | 7,959                              | (1,131)           |
| Total provision (benefit) for federal income taxes  | 35,759                              | 27,654           | 71,879                             | 42,253            |
| Equity in earnings (losses) of unconsolidated affiliates, net of tax                                      | 121                                 | (895)            | 9,774                              | (2,462)           |
| <b>Net income (loss)</b>  | <b>85,226</b>                       | <b>60,836</b>    | <b>205,117</b>                     | <b>126,681</b>    |
| Less: Net income (loss) attributable to noncontrolling interest, net of tax                               | 2,613                               | 1,650            | 4,364                              | 1,773             |
| <b>Net income (loss) attributable to American National</b>  | <b>\$ 82,613</b>                    | <b>\$ 59,186</b> | <b>\$ 200,753</b>                  | <b>\$ 124,908</b> |

Amounts available to American National common stockholders

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|   |    |            |    |            |    |            |    |            |
|---|----|------------|----|------------|----|------------|----|------------|
| Earnings per share  |    |            |    |            |    |            |    |            |
| Basic   | \$ | 3.08       | \$ | 2.21       | \$ | 7.49       | \$ | 4.68       |
| Diluted   |    | 3.07       |    | 2.20       |    | 7.46       |    | 4.65       |
| Cash dividends to common stockholders   |    | 0.77       |    | 0.77       |    | 2.31       |    | 2.31       |
| Weighted average common shares outstanding  |    | 26,780,313 |    | 26,736,464 |    | 26,789,564 |    | 26,699,211 |
| Weighted average common shares outstanding and dilutive potential common shares   |    | 26,905,093 |    | 26,870,655 |    | 26,910,017 |    | 26,859,100 |
| <i>See accompanying notes to the unaudited consolidated financial statements.</i> |    |            |    |            |    |            |    |            |

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(Unaudited and in thousands)

|  | Three months ended<br>September 30, |                   | Nine months ended<br>September 30, |                   |
|--|-------------------------------------|-------------------|------------------------------------|-------------------|
|  | 2013                                | 2012              | 2013                               | 2012              |
| Net income (loss)  | \$ 85,226                           | \$ 60,836         | \$ 205,117                         | \$ 126,681        |
| Other comprehensive income (loss), net of tax                              |                                     |                   |                                    |                   |
| Change in net unrealized gain (loss) on securities                         | 26,747                              | 53,446            | 31,569                             | 113,183           |
| Foreign currency transaction and translation adjustments                   | (625)                               | (300)             | (211)                              | 30                |
| Defined benefit plan adjustment  | 2,876                               | 2,351             | 8,627                              | 7,144             |
| Other comprehensive income (loss), net of tax                              | 28,998                              | 55,497            | 39,985                             | 120,357           |
| <b>Total comprehensive income (loss)</b>                                   | <b>114,224</b>                      | <b>116,333</b>    | <b>245,102</b>                     | <b>247,038</b>    |
| Less: Comprehensive income (loss) attributable to noncontrolling interest  | 2,613                               | 1,650             | 4,364                              | 1,773             |
| <b>Total comprehensive income (loss) attributable to American National</b> | <b>\$ 111,611</b>                   | <b>\$ 114,683</b> | <b>\$ 240,738</b>                  | <b>\$ 245,265</b> |

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

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

|   | Nine months ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2013                               | 2012      |
| <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,                                    |                                    |           |
| Reissuance of treasury shares                               | 3,012                              | (204)     |
| Income tax effect from restricted stock arrangement         | 80                                 | (610)     |
| Amortization of restricted stock                            | 1,028                              | 7,710     |
| Purchase of ownership interest from noncontrolling interest |                                    | (1,892)   |
| Balance at end of period                                    | 4,120                              | 5,004     |
| <b>Accumulated Other Comprehensive Income (Loss)</b>        |                                    |           |
| Balance as of January 1,                                    | 242,010                            | 159,403   |
| Other comprehensive income (loss)                           | 39,985                             | 120,357   |
| Balance at end of the period                                | 281,995                            | 279,760   |



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**Retained Earnings**

|   |           |           |
|---|-----------|-----------|
| Balance as of January 1,                            | 3,653,280 | 3,545,546 |
| Net income (loss) attributable to American National | 200,753   | 124,908   |
| Cash dividends to common stockholders               | (62,122)  | (61,995)  |
| Balance at end of the period                        | 3,791,911 | 3,608,459 |

**Treasury Stock**

|                               |          |          |
|-------------------------------|----------|----------|
| Balance as of January 1,      | (98,286) | (98,490) |
| Reissuance of treasury shares | 844      | 204      |
| Balance at end of the period  | (97,442) | (98,286) |

**Noncontrolling Interest**

|   |         |         |
|---|---------|---------|
| Balance as of January 1,                                    | 11,491  | 12,947  |
| Contributions   | 456     |         |
| Distributions   | (2,675) | (2,591) |
| Gain (loss) attributable to noncontrolling interest         | 4,364   | 1,773   |
| Purchase of ownership interest from noncontrolling interest |         | 299     |
| Balance at end of the period                                | 13,636  | 12,428  |

**Total Stockholders Equity** **\$ 4,025,052** **\$ 3,838,197**

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

**Table of Contents****AMERICAN NATIONAL INSURANCE COMPANY****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited and in thousands)

|   | <b>Nine months ended<br/>September 30,</b> |                |
|---|--|----------------|
|   | <b>2013</b>                                | <b>2012</b>    |
| <b>OPERATING ACTIVITIES</b>   |  |                |
| Net income (loss)   | \$ 205,117                                 | \$ 126,681     |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities |  |                |
| Realized investment (gains) losses  | (107,473)                                  | (46,852)       |
| Other-than-temporary impairments  | 3,503                                      | 22,073         |
| Accretion (amortization) of discounts, premiums and loan origination fees               | 4,460                                      | (1,719)        |
| Net capitalized interest on policy loans and mortgage loans                             | (20,156)                                   | (22,635)       |
| Depreciation  | 24,873                                     | 27,697         |
| Interest credited to policyholders' account balances                                    | 309,738                                    | 323,952        |
| Charges to policyholders' account balances  | (152,910)                                  | (146,406)      |
| Deferred federal income tax (benefit) expense   | 7,959                                      | (1,131)        |
| Equity in (earnings) losses of unconsolidated affiliates                                | (9,774)                                    | 2,462          |
| Distributions from equity method investments  | 18,925                                     | 11,274         |
| Changes in  |  |                |
| Policyholder liabilities  | 48,816                                     | 79,909         |
| Deferred policy acquisition costs   | 19,568                                     | 12,468         |
| Reinsurance recoverables  | 17,883                                     | 16,574         |
| Premiums due and other receivables  | (26,248)                                   | (30,021)       |
| Prepaid reinsurance premiums  | 4,945                                      | 7,368          |
| Accrued investment income   | 3,630                                      | (3,877)        |
| Current tax receivable/payable  | 30,975                                     | 21,856         |
| Liability for retirement benefits   | 8,093                                      | 2,117          |
| Other, net  | (38,730)                                   | (80,674)       |
| <b>Net cash provided by (used in) operating activities</b>                              | <b>353,194</b>                             | <b>321,116</b> |
| <b>INVESTING ACTIVITIES</b>   |  |                |
| Proceeds from sale/maturity/prepayment of   |  |                |
| Held-to-maturity securities   | 1,209,058                                  | 975,850        |
| Available-for-sale securities   | 702,625                                    | 437,265        |
| Investment real estate  | 84,371                                     |                |
| Mortgage loans  | 446,480                                    | 226,527        |
| Policy loans  | 43,911                                     | 50,928         |
| Other invested assets   | 11,021                                     | 6,436          |
| Disposals of property and equipment   | 674  | 1,323          |
| Distributions from unconsolidated affiliates  | 22,834                                     | 19,246         |
| Payment for the purchase/origination of   |  |                |
| Held-to-maturity securities   | (856,086)                                  | (916,538)      |
| Available-for-sale securities   | (737,342)                                  | (568,180)      |
| Investment real estate  | (35,240)                                   | (21,948)       |
| Mortgage loans  | (638,690)                                  | (385,263)      |
| Policy loans  | (19,564)                                   | (33,423)       |
| Other invested assets   | (13,690)                                   | (11,507)       |
| Additions to property and equipment   | (17,958)                                   | (19,733)       |
| Contributions to unconsolidated affiliates  | (94,078)                                   | (29,099)       |
| Change in short-term investments  | (26,393)                                   | 23,818         |

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|   |                   |                   |
|---|-------------------|-------------------|
| Other, net  | 8,561             | 8,945             |
| <b>Net cash provided by (used in) investing activities</b>  | <b>90,494</b>     | <b>(235,353)</b>  |
| <b>FINANCING ACTIVITIES</b>                                 |                   |                   |
| Policyholders' account deposits                             | 654,346           | 897,654           |
| Policyholders' account withdrawals                          | (1,164,806)       | (960,668)         |
| Change in notes payable                                     | (49,258)          | 102,353           |
| Dividends to stockholders                                   | (62,122)          | (61,995)          |
| Proceeds from (payments to) noncontrolling interest         | (2,219)           | (2,591)           |
| <b>Net cash provided by (used in) financing activities</b>  | <b>(624,059)</b>  | <b>(25,247)</b>   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>(180,371)</b>  | <b>60,516</b>     |
| Beginning of the period                                     | 303,008           | 102,114           |
| <b>End of period</b>  | <b>\$ 122,637</b> | <b>\$ 162,630</b> |

See accompanying notes to the unaudited consolidated financial statements.

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### **NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

#### **1. NATURE OF OPERATIONS**

American National Insurance Company and its consolidated subsidiaries (collectively "American National") offer a broad spectrum of insurance products, including individual and group life insurance, health insurance, annuities, and property and casualty insurance. Through non-insurance subsidiaries, American National invests primarily in stocks and real estate. Business is conducted in 50 states, the District of Columbia, Puerto Rico, Guam and American Samoa. The majority of revenues are generated by the insurance business. Various distribution systems are utilized, including multiple-line exclusive agents, independent agents, third-party marketing organizations, career agents, and direct sales to the public.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and are reported in U.S. currency. American National consolidates all entities that are wholly-owned and those in which American National owns less than 100% but controls, as well as any variable interest entities in which American National is the primary beneficiary. All material intercompany 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 the current year presentation.

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

The interim consolidated financial statements and notes should be read in conjunction with the annual consolidated financial statements and notes thereto included in American National's Annual Report on Form 10-K as of and for the year ended December 31, 2012. The consolidated results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

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

#### **3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**Adoption of New Accounting Standards** The Financial Accounting Standards Board ("FASB") issued the following accounting guidance relevant to American National, including technical amendments and corrections to make the accounting standards easier to understand and fair value measurement easier to apply. Each became effective for American National on January 1, 2013, and unless stated otherwise, did not have a material effect on the consolidated financial statements:

Amended guidance for derecognition of an in substance real estate subsidiary. The amendment clarifies that when a reporting entity ceases to have a controlling financial interest in a subsidiary that is in substance real estate because of a default on the subsidiary's nonrecourse debt secured by the real estate, the reporting entity should apply the guidance for real estate sales when evaluating the subsidiary for deconsolidation.

Guidance that amends the disclosures about offsetting assets and liabilities. The new guidance requires disclosures of both gross and net information about offsetting and related arrangements. Subsequently, amendments were issued to clarify the scope of this guidance covering only those derivatives that are either offsets in accordance with the right of setoff conditions, the balance sheet netting criteria or subject to an enforceable master netting arrangement or similar agreement.

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Amended guidance on presentation of accumulated other comprehensive income ( AOCI ). The amendments require disclosures about the amounts reclassified out of AOCI by component. In addition, an entity is required to present, either on the face of the statement of operations or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts.

**Future Adoption of New Accounting Standards** The FASB issued the following significant accounting guidance relevant to American National. Each will become effective for American National on January 1, 2014 and unless stated otherwise, is not expected to have a material effect on the consolidated financial statements:

Guidance addressing questions on the recognition and classification of fees mandated by the Patient Protection and Affordable Care Act on the health insurers' financial statements. The guidance specifies that the liability for the fee should be recorded in full once the entity provides qualifying health insurance in the applicable calendar year. The corresponding deferred cost is then amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable.

Amended guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date, except for obligations addressed within existing GAAP guidance.

**4. INVESTMENTS IN SECURITIES**

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

|  | September 30, 2013        |                              |                                 |                         |
|--|---------------------------|------------------------------|---------------------------------|-------------------------|
|  | Cost or<br>Amortized Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Estimated Fair<br>Value |
| <b>Fixed maturity securities, bonds held-to-maturity</b>   |                           |                              |                                 |                         |
| U.S. treasury and government                               | \$ 1,967                  | \$ 19                        | \$                              | \$ 1,986                |
| U.S. states and political subdivisions                     | 357,495                   | 21,895                       | (333)                           | 379,057                 |
| Foreign governments  | 29,092                    | 3,005                        |                                 | 32,097                  |
| Corporate debt securities                                  | 7,844,517                 | 465,822                      | (89,678)                        | 8,220,661               |
| Residential mortgage-backed securities                     | 421,530                   | 26,654                       | (2,039)                         | 446,145                 |
| Collateralized debt securities                             | 2,370                     | 243                          |                                 | 2,613                   |
| Other debt securities                                      | 17,330                    | 2,403                        |                                 | 19,733                  |
| <b>Total bonds held-to-maturity</b>                        | <b>8,674,301</b>          | <b>520,041</b>               | <b>(92,050)</b>                 | <b>9,102,292</b>        |
| <b>Fixed maturity securities, bonds available-for-sale</b> |                           |                              |                                 |                         |
| U.S. treasury and government                               | 21,537                    | 853                          |                                 | 22,390                  |
| U.S. states and political subdivisions                     | 608,732                   | 25,882                       | (11,290)                        | 623,324                 |
| Foreign governments  | 5,000                     | 1,803                        |                                 | 6,803                   |
| Corporate debt securities                                  | 3,622,629                 | 193,827                      | (42,486)                        | 3,773,970               |
| Residential mortgage-backed securities                     | 67,257                    | 3,240                        | (688)                           | 69,809                  |
| Commercial mortgage-backed securities                      | 20,934                    | 12,251                       |                                 | 33,185                  |
| Collateralized debt securities                             | 15,436                    | 1,157                        | (19)                            | 16,574                  |
| Other debt securities                                      | 10,020                    | 1,086                        |                                 | 11,106                  |
| <b>Total bonds available-for-sale</b>                      | <b>4,371,545</b>          | <b>240,099</b>               | <b>(54,483)</b>                 | <b>4,557,161</b>        |
| <b>Equity securities</b>                                   |                           |                              |                                 |                         |
| Common stock   | 701,968                   | 543,559                      | (6,232)                         | 1,239,295               |
| Preferred stock  | 22,690                    | 15,440                       | (294)                           | 37,836                  |

|  |                      |                     |                     |                      |
|--|----------------------|---------------------|---------------------|----------------------|
| <b>Total equity securities</b>         | <b>724,658</b>       | <b>558,999</b>      | <b>(6,526)</b>      | <b>1,277,131</b>     |
| <b>Total investments in securities</b> | <b>\$ 13,770,504</b> | <b>\$ 1,319,139</b> | <b>\$ (153,059)</b> | <b>\$ 14,936,584</b> |

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|  | Cost or<br>Amortized Cost | December 31, 2012            |                                 | Estimated Fair<br>Value |
|--|---------------------------|------------------------------|---------------------------------|-------------------------|
|  |                           | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) |                         |
| <b>Fixed maturity securities, bonds held-to-maturity</b>   |                           |                              |                                 |                         |
| U.S. treasury and government                               | \$ 3,593                  | \$ 69                        | \$                              | \$ 3,662                |
| U.S. states and political subdivisions                     | 393,541                   | 40,161                       | (7)                             | 433,695                 |
| Foreign governments  | 29,071                    | 4,367                        |                                 | 33,438                  |
| Corporate debt securities                                  | 7,993,167                 | 748,773                      | (6,782)                         | 8,735,158               |
| Residential mortgage-backed securities                     | 549,384                   | 42,313                       | (1,195)                         | 590,502                 |
| Collateralized debt securities                             | 2,500                     | 321                          |                                 | 2,821                   |
| Other debt securities                                      | 38,026                    | 3,449                        |                                 | 41,475                  |
| <b>Total bonds held-to-maturity</b>                        | <b>9,009,282</b>          | <b>839,453</b>               | <b>(7,984)</b>                  | <b>9,840,751</b>        |
| <b>Fixed maturity securities, bonds available-for-sale</b> |                           |                              |                                 |                         |
| U.S. treasury and government                               | 19,649                    | 1,156                        |                                 | 20,805                  |
| U.S. states and political subdivisions                     | 570,751                   | 44,792                       | (105)                           | 615,438                 |
| Foreign governments  | 5,000                     | 2,344                        |                                 | 7,344                   |
| Corporate debt securities                                  | 3,582,913                 | 303,908                      | (14,188)                        | 3,872,633               |
| Residential mortgage-backed securities                     | 89,486                    | 5,165                        | (266)                           | 94,385                  |
| Commercial mortgage-backed securities                      | 20,933                    | 3,509                        |                                 | 24,442                  |
| Collateralized debt securities                             | 17,676                    | 1,448                        | (33)                            | 19,091                  |
| Other debt securities                                      | 10,059                    | 1,379                        |                                 | 11,438                  |
| <b>Total bonds available-for-sale</b>                      | <b>4,316,467</b>          | <b>363,701</b>               | <b>(14,592)</b>                 | <b>4,665,576</b>        |
| <b>Equity securities</b>                                   |                           |                              |                                 |                         |
| Common stock   | 660,889                   | 383,634                      | (6,739)                         | 1,037,784               |
| Preferred stock  | 27,690                    | 9,995                        | (30)                            | 37,655                  |
| <b>Total equity securities</b>                             | <b>688,579</b>            | <b>393,629</b>               | <b>(6,769)</b>                  | <b>1,075,439</b>        |
| <b>Total investments in securities</b>                     | <b>\$ 14,014,328</b>      | <b>\$ 1,596,783</b>          | <b>\$ (29,345)</b>              | <b>\$ 15,581,766</b>    |

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

|  | September 30, 2013     |                         |                          |                         |
|--|------------------------|-------------------------|--------------------------|-------------------------|
|  | Bonds Held-to-Maturity |                         | Bonds Available-for-Sale |                         |
|  | Amortized<br>Cost      | Estimated<br>Fair Value | Amortized<br>Cost        | Estimated Fair<br>Value |
| Due in one year or less                | \$ 626,017             | \$ 635,488              | \$ 587,342               | \$ 601,975              |
| Due after one year through five years  | 2,597,458              | 2,837,116               | 1,174,148                | 1,290,383               |
| Due after five years through ten years | 4,928,988              | 5,082,875               | 2,223,776                | 2,271,703               |
| Due after ten years                    | 515,987                | 541,638                 | 381,279                  | 388,300                 |
| Without single maturity date           | 5,851                  | 5,175                   | 5,000                    | 4,800                   |
| <b>Total</b>                           | <b>\$ 8,674,301</b>    | <b>\$ 9,102,292</b>     | <b>\$ 4,371,545</b>      | <b>\$ 4,557,161</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.





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

|  | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2013                                | 2012      | 2013                               | 2012       |
| Proceeds from sales of available-for-sale securities | \$ 33,390                           | \$ 85,400 | \$ 189,438                         | \$ 123,705 |
| Gross realized gains                                 | 10,349                              | 15,742    | 33,699                             | 27,769     |
| Gross realized losses                                | (97)                                | (204)     | (623)                              | (374)      |

All gains and losses for securities sold throughout the year were determined using specific identification of the securities sold. During the nine months ended September 30, 2013 and 2012, bonds with a carrying value of \$13,492,000 and \$34,227,000, 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 \$263,000 was established at the time of the transfer in 2013, while an other-than-temporary impairment of \$11,358,000 was recorded in 2012 following the transfers at fair value.

**Change in net unrealized gains (losses) on securities**

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

|  | Nine months ended<br>September 30, |                   |
|--|------------------------------------|-------------------|
|  | 2013                               | 2012              |
| Bonds available-for-sale   | \$ (163,493)                       | \$ 109,003        |
| Equity securities  | 165,613                            | 111,498           |
| Change in net unrealized gains (losses) on securities during the year    | 2,120                              | 220,501           |
| Adjustments for  |                                    |                   |
| Deferred policy acquisition costs  | 46,643                             | (38,358)          |
| Participating policyholders' interest                                    | 1,018                              | (8,192)           |
| Deferred federal income tax benefit (expense)                            | (18,212)                           | (60,768)          |
| <b>Change in net unrealized gains (losses) on securities, net of tax</b> | <b>\$ 31,569</b>                   | <b>\$ 113,183</b> |

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

|   | Less than 12 months    |                     | September 30, 2013<br>12 Months or more |                   | Total                  |                     |
|---|------------------------|---------------------|---|-------------------|------------------------|---------------------|
|   | Unrealized<br>(Losses) | Fair<br>Value       | Unrealized<br>(Losses)                  | Fair<br>Value     | Unrealized<br>(Losses) | Fair<br>Value       |
| Fixed maturity securities, bonds held-to-maturity   |                        |                     |   |                   |                        |                     |
| U.S. states and political subdivisions              | \$ (333)               | \$ 9,506            | \$                                      | \$                | \$ (333)               | \$ 9,506            |
| Corporate debt securities                           | (84,681)               | 1,675,699           | (4,997)                                 | 65,551            | (89,678)               | 1,741,250           |
| Residential mortgage-backed securities              | (1,113)                | 32,648              | (926)                                   | 13,333            | (2,039)                | 45,981              |
| <b>Total bonds held-to-maturity</b>                 | <b>(86,127)</b>        | <b>1,717,853</b>    | <b>(5,923)</b>                          | <b>78,884</b>     | <b>(92,050)</b>        | <b>1,796,737</b>    |
| Fixed maturity securities, bonds available-for-sale |                        |                     |   |                   |                        |                     |
| U.S. states and political subdivisions              | (11,290)               | 139,386             |   |                   | (11,290)               | 139,386             |
| Corporate debt securities                           | (38,704)               | 869,875             | (3,782)                                 | 88,918            | (42,486)               | 958,793             |
| Residential mortgage-backed securities              | (552)                  | 17,462              | (136)                                   | 1,902             | (688)                  | 19,364              |
| Collateralized debt securities                      | (2)                    | 208                 | (17)                                    | 644               | (19)                   | 852                 |
| <b>Total bonds available-for-sale</b>               | <b>(50,548)</b>        | <b>1,026,931</b>    | <b>(3,935)</b>                          | <b>91,464</b>     | <b>(54,483)</b>        | <b>1,118,395</b>    |
| Equity securities                                   |                        |                     |   |                   |                        |                     |
| Common stock  | (6,232)                | 59,238              |   |                   | (6,232)                | 59,238              |
| Preferred stock                                     | (294)                  | 6,207               |   |                   | (294)                  | 6,207               |
| <b>Total equity securities</b>                      | <b>(6,526)</b>         | <b>65,445</b>       |   |                   | <b>(6,526)</b>         | <b>65,445</b>       |
| <b>Total</b>  | <b>\$ (143,201)</b>    | <b>\$ 2,810,229</b> | <b>\$ (9,858)</b>                       | <b>\$ 170,348</b> | <b>\$ (153,059)</b>    | <b>\$ 2,980,577</b> |

|   | Less than 12 months    |                | December 31, 2012<br>12 Months or more |               | Total                  |                |
|---|------------------------|----------------|--|---------------|------------------------|----------------|
|   | Unrealized<br>(Losses) | Fair<br>Value  | Unrealized<br>(Losses)                 | Fair<br>Value | Unrealized<br>(Losses) | Fair<br>Value  |
| Fixed maturity securities, bonds held-to-maturity   |                        |                |  |               |                        |                |
| U.S. states and political subdivisions              | \$ (6)                 | \$ 914         | \$ (1)                                 | \$ 80         | \$ (7)                 | \$ 994         |
| Corporate debt securities                           | (4,394)                | 319,434        | (2,388)                                | 39,632        | (6,782)                | 359,066        |
| Residential mortgage-backed securities              | (147)                  | 13,824         | (1,048)                                | 24,666        | (1,195)                | 38,490         |
| <b>Total bonds held-to-maturity</b>                 | <b>(4,547)</b>         | <b>334,172</b> | <b>(3,437)</b>                         | <b>64,378</b> | <b>(7,984)</b>         | <b>398,550</b> |
| Fixed maturity securities, bonds available-for-sale |                        |                |  |               |                        |                |
| U.S. states and political subdivisions              | (105)                  | 6,523          |  |               | (105)                  | 6,523          |
| Corporate debt securities                           | (2,077)                | 242,261        | (12,111)                               | 70,187        | (14,188)               | 312,448        |
| Residential mortgage-backed securities              | (34)                   | 1,527          | (232)                                  | 8,029         | (266)                  | 9,556          |
| Collateralized debt securities                      | (8)                    | 527            | (25)                                   | 911           | (33)                   | 1,438          |
| <b>Total bonds available-for-sale</b>               | <b>(2,224)</b>         | <b>250,838</b> | <b>(12,368)</b>                        | <b>79,127</b> | <b>(14,592)</b>        | <b>329,965</b> |
| Equity securities                                   |                        |                |  |               |                        |                |
| Common stock  | (6,739)                | 64,003         |  |               | (6,739)                | 64,003         |
| Preferred stock                                     | (30)                   | 30             |  |               | (30)                   | 30             |

|                                |                    |                   |                    |                   |                    |                   |
|--------------------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| <b>Total equity securities</b> | <b>(6,769)</b>     | <b>64,033</b>     |                    |                   | <b>(6,769)</b>     | <b>64,033</b>     |
| <b>Total</b>                   | <b>\$ (13,540)</b> | <b>\$ 649,043</b> | <b>\$ (15,805)</b> | <b>\$ 143,505</b> | <b>\$ (29,345)</b> | <b>\$ 792,548</b> |

As of September 30, 2013, the securities with unrealized losses were not deemed to be other-than-temporarily impaired, including those with the duration of the unrealized losses exceeding one year. American National has the ability and intent to hold those securities until a market price recovery or maturity. Further, it is not more-likely-than-not that American National will be required to sell them prior to recovery, and recovery is expected in a reasonable period of time. It is possible an issuer's financial circumstances may be different in the future, which may lead to a different impairment conclusion in future periods.

**Table of Contents****Credit Risk Management**

The bond portfolio distributed by credit quality rating, using both S&P and Moody's ratings, is shown below:

|              | September 30, 2013 | December 31, 2012 |
|--------------|--------------------|-------------------|
| AAA          | 4.9%               | 5.5%              |
| AA           | 10.8               | 10.6              |
| A            | 41.0               | 38.2              |
| BBB          | 39.6               | 41.4              |
| BB and below | 3.7                | 4.3               |
| <b>Total</b> | <b>100.0%</b>      | <b>100.0%</b>     |

Equity securities by market sector distribution are shown below:

|                        | September 30, 2013 | December 31, 2012 |
|------------------------|--------------------|-------------------|
| Consumer goods         | 18.9%              | 20.3%             |
| Energy and utilities   | 15.9               | 15.8              |
| Financials             | 19.6               | 18.9              |
| Healthcare             | 12.7               | 12.7              |
| Industrials            | 8.9                | 9.1               |
| Information technology | 15.9               | 16.9              |
| Other                  | 8.1                | 6.3               |
| <b>Total</b>           | <b>100.0%</b>      | <b>100.0%</b>     |

**5. MORTGAGE LOANS**

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

|                 | September 30, 2013 | December 31, 2012 |
|-----------------|--------------------|-------------------|
| Hotel and motel | 9.6%               | 13.9%             |
| Industrial      | 25.1               | 24.0              |
| Office          | 34.1               | 34.9              |
| Retail          | 18.6               | 17.7              |
| Other           | 12.6               | 9.5               |
| <b>Total</b>    | <b>100.0%</b>      | <b>100.0%</b>     |

|                    | September 30, 2013 | December 31, 2012 |
|--------------------|--------------------|-------------------|
| East North Central | 18.6%              | 18.2%             |
| East South Central | 5.5                | 7.1               |
| Mountain           | 8.0                | 7.0               |
| Pacific            | 11.3               | 13.3              |
| South Atlantic     | 21.6               | 23.0              |

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|                    |               |               |
|--------------------|---------------|---------------|
| West South Central | 28.5          | 23.2          |
| Other              | 6.5           | 8.2           |
| <b>Total</b>       | <b>100.0%</b> | <b>100.0%</b> |

During the nine months ended September 30, 2013, American National foreclosed one loan with a recorded investment of \$5,600,000, and four loans with a recorded investment of \$34,562,000 in the same period in 2012. There were no loans sold during the nine months ended September 30, 2013, however, during the same period in 2012, American National sold one commercial loan with a recorded investment of \$19,665,000 resulting in a realized gain of \$2,607,000.

**Table of Contents****Credit Quality**

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

|                      | September 30, 2013 | December 31, 2012 |
|----------------------|--------------------|-------------------|
| Commercial mortgages |                    |                   |
| Retail               | \$                 | \$ 12,861         |

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

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

|  | September 30, 2013        |                        |                         |                   | Current      | Total<br>Mortgage Loans |
|--|---------------------------|------------------------|-------------------------|-------------------|--------------|-------------------------|
|  | 30-59 Days<br>Past<br>Due | 60-89 Days<br>Past Due | Greater Than<br>90 Days | Total<br>Past Due |              |                         |
| Commercial mortgages                                   |                           |                        |                         |                   |              |                         |
| Industrial   | \$                        | \$                     | \$                      | \$                | \$ 839,095   | \$ 839,095              |
| Office   |                           |                        |                         |                   | 1,141,901    | 1,141,901               |
| Retail   |                           |                        |                         |                   | 627,821      | 627,821                 |
| Other  |                           |                        |                         |                   | 739,789      | 739,789                 |
| Total  | \$                        | \$                     | \$                      | \$                | \$ 3,348,606 | 3,348,606               |
| Allowance for loan losses                              |                           |                        |                         |                   |              | 15,243                  |
| <b>Mortgage loans on real estate, net of allowance</b> |                           |                        |                         |                   |              | <b>\$ 3,333,363</b>     |

|  | December 31, 2012         |                           |                            |                   | Current      | Total<br>Mortgage<br>Loans |
|--|---------------------------|---------------------------|----------------------------|-------------------|--------------|----------------------------|
|  | 30-59 Days<br>Past<br>Due | 60-89<br>Days<br>Past Due | Greater<br>Than<br>90 Days | Total<br>Past Due |              |                            |
| Commercial mortgages                                   |                           |                           |                            |                   |              |                            |
| Industrial   | \$                        | \$                        | \$                         | \$                | \$ 755,198   | \$ 755,198                 |
| Office   |                           |                           |                            |                   | 1,100,407    | 1,100,407                  |
| Retail   |                           |                           | 12,861                     | 12,861            | 547,965      | 560,826                    |
| Other  |                           |                           |                            |                   | 738,592      | 738,592                    |
| Total  | \$                        | \$                        | \$ 12,861                  | \$ 12,861         | \$ 3,142,162 | \$ 3,155,023               |
| Allowance for loan losses                              |                           |                           |                            |                   |              | 12,012                     |
| <b>Mortgage loans on real estate, net of allowance</b> |                           |                           |                            |                   |              | <b>\$ 3,143,011</b>        |

Total mortgage loans are net of unamortized discounts of \$898,000 and \$4,346,000 and unamortized origination fees of \$15,599,000 and \$14,076,000 at September 30, 2013 and December 31, 2012, respectively. No unearned income is included in these amounts.

**Allowance for Credit Losses**

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Loans not evaluated individually for collectibility 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.

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

|                                | Three Months Ended September 30,<br>Collectively<br>Evaluated<br>for<br>Impairment | Individually<br>Evaluated<br>for<br>Impairment | Nine Months Ended September 30<br>Collectively<br>Evaluated<br>for<br>Impairment | Individually<br>Evaluated<br>for<br>Impairment |
|--------------------------------|--|--|--|--|
| <b>Beginning balance, 2013</b> | \$ 12,019  | \$ 1,662                                       | \$ 11,519  | \$ 493   |
| Change in allowance            | 1,562  |  | 2,062  | 1,169  |
| <b>Ending balance, 2013</b>    | <b>\$ 13,581</b>   | <b>\$ 1,662</b>                                | <b>\$ 13,581</b>   | <b>\$ 1,662</b>                                |
| <b>Beginning balance, 2012</b> | \$ 11,873  | \$ 493   | \$ 10,828  | \$ 493   |
| Write down                     |  |  |  | (2,277)  |
| Change in allowance            | 475  |  | 1,520  | 2,277  |
| <b>Ending balance, 2012</b>    | <b>\$ 12,348</b>   | <b>\$ 493</b>                                  | <b>\$ 12,348</b>   | <b>\$ 493</b>                                  |

At September 30, 2013 and 2012, the recorded investment for loans collectively evaluated for impairment was \$3,318,555,000 and \$2,999,164,000, respectively, and the recorded investment for loans individually evaluated for impairment was \$30,051,000 and \$72,340,000, respectively.

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

|                               | September 30, 2013                |                                  | September 30, 2012                |                                  |
|-------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                               | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <b>Three months ended</b>     |                                   |                                  |                                   |                                  |
| With an allowance recorded    |                                   |                                  |                                   |                                  |
| Office                        | \$ 23,159                         | \$ 393                           | \$                                | \$                               |
| Retail                        | 493                               |                                  | 493                               |                                  |
| <b>Total</b>                  | <b>\$ 23,652</b>                  | <b>\$ 393</b>                    | <b>\$ 493</b>                     | <b>\$</b>                        |
| Without an allowance recorded |                                   |                                  |                                   |                                  |
| Office                        | 6,432                             | 110                              | 13,022                            | 847                              |
| Retail                        |                                   |                                  | 14,425                            | 158                              |
| Other                         |                                   |                                  | 45,277                            | 756                              |
| <b>Total</b>                  | <b>\$ 6,432</b>                   | <b>\$ 110</b>                    | <b>\$ 72,724</b>                  | <b>\$ 1,761</b>                  |
| <b>Nine months ended</b>      |                                   |                                  |                                   |                                  |
| With an allowance recorded    |                                   |                                  |                                   |                                  |
| Office                        | \$ 23,234                         | \$ 1,192                         | \$                                | \$                               |
| Retail                        | 493                               |                                  | 493                               |                                  |
| <b>Total</b>                  | <b>\$ 23,727</b>                  | <b>\$ 1,192</b>                  | <b>\$ 493</b>                     | <b>\$</b>                        |
| Without an allowance recorded |                                   |                                  |                                   |                                  |
| Office                        | \$ 6,439                          | \$ 331                           | \$ 13,050                         | \$ 635                           |



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|              |                 |               |                  |                 |
|--------------|-----------------|---------------|------------------|-----------------|
| Retail       |                 |               | 13,992           | 604             |
| Other        |                 |               | 45,283           | 2,276           |
| <b>Total</b> | <b>\$ 6,439</b> | <b>\$ 331</b> | <b>\$ 72,325</b> | <b>\$ 3,515</b> |

|   | September 30, 2013  |                          | December 31, 2012   |                          |
|---|---------------------|--------------------------|---------------------|--------------------------|
|   | Recorded Investment | Unpaid Principal Balance | Recorded Investment | Unpaid Principal Balance |
| <b>With an allowance recorded</b>             |                     |                          |                     |                          |
| Office (related allowance of \$1,169 and \$0) | \$ 23,126           | \$ 23,304                | \$                  | \$                       |
| Retail (related allowance of \$493 and \$493) | 493                 | 493                      | 493                 | 493                      |
| <b>Total</b>                                  | <b>\$ 23,619</b>    | <b>\$ 23,797</b>         | <b>\$ 493</b>       | <b>\$ 493</b>            |
| <b>Without an allowance recorded</b>          |                     |                          |                     |                          |
| Office  | \$ 6,432            | \$ 6,432                 | \$ 36,544           | \$ 36,544                |
| Retail  |                     |                          | 17,180              | 17,180                   |
| Other   |                     |                          | 55,320              | 55,320                   |
| <b>Total</b>                                  | <b>\$ 6,432</b>     | <b>\$ 6,432</b>          | <b>\$ 109,044</b>   | <b>\$ 109,044</b>        |

**Table of Contents****Troubled Debt Restructurings**

A small portion of the mortgage loan portfolio for which American National has granted concessions related to the borrowers' ability to pay the loans is classified as troubled debt restructurings. Concessions are generally one of, or a combination of, a delay in payment of principal or interest, a reduction of the contractual interest rate or an extension of the maturity date. American National considers the amount, timing and extent of concessions in determining any impairment or changes in the specific allowance for loan losses recorded in connection with a troubled debt restructuring. The carrying value after specific allowance, before and after modification in a troubled debt restructuring, may not 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:

|              | Nine months ended September 30, 2013 |                                      |                                       | Nine months ended September 30, 2012 |                                      |                                       |
|--------------|--------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
|              | Number of contracts                  | Recorded investment pre-modification | Recorded investment post-modification | Number of contracts                  | Recorded investment pre-modification | Recorded investment post-modification |
| Office       | 1                                    | \$ 6,432                             | \$ 6,432                              | 1                                    | \$ 6,803                             | \$ 6,803                              |
| Retail       |                                      |                                      |                                       | 1                                    | 4,319                                | 4,319                                 |
| <b>Total</b> | <b>1</b>                             | <b>\$ 6,432</b>                      | <b>\$ 6,432</b>                       | <b>2</b>                             | <b>\$ 11,122</b>                     | <b>\$ 11,122</b>                      |

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 period.

**6. INVESTMENT REAL ESTATE**

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

|                  | September 30, 2013 | December 31, 2012 |
|------------------|--------------------|-------------------|
| Industrial       | 17.8%              | 18.1%             |
| Office           | 25.7               | 21.9              |
| Shopping centers | 33.4               | 41.0              |
| Other            | 23.1               | 19.0              |
| <b>Total</b>     | <b>100.0%</b>      | <b>100.0%</b>     |

|                    | September 30, 2013 | December 31, 2012 |
|--------------------|--------------------|-------------------|
| East North Central | 8.9%               | 10.3%             |
| East South Central | 6.4                | 5.3               |
| Mountain           | 6.9                | 6.2               |
| South Atlantic     | 10.8               | 11.2              |
| West South Central | 58.7               | 60.8              |
| Other              | 8.3                | 6.2               |
| <b>Total</b>       | <b>100.0%</b>      | <b>100.0%</b>     |

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American National and its wholly-owned subsidiaries regularly invest in real estate partnerships and joint ventures. American National 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 the liabilities of the VIE. 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 2013 or 2012.

The assets and liabilities relating to the VIEs which are consolidated in American National's financial statements are as follows (in thousands):

|   | September 30, 2013 | December 31, 2012 |
|---|--------------------|-------------------|
| Investment real estate                        | \$ 113,214         | \$ 162,502        |
| Short-term investments                        |                    | 969               |
| Cash and cash equivalents                     | 2,372              | 3,671             |
| Accrued investment income                     | 2,146              | 2,641             |
| Other receivables                             | 9,165              | 11,709            |
| Other assets                                  | 5,437              | 6,487             |
| <b>Total assets of consolidated VIEs</b>      | <b>\$ 132,334</b>  | <b>\$ 187,979</b> |
| Notes payable                                 | \$ 114,126         | \$ 163,384        |
| Other liabilities                             | 5,470              | 6,647             |
| <b>Total liabilities of consolidated VIEs</b> | <b>\$ 119,596</b>  | <b>\$ 170,031</b> |

The total notes payable in the consolidated statements of financial position pertain to the borrowings of the consolidated VIEs. The liability of American National Insurance Company on notes payable of the consolidated VIEs is limited to the amount of its direct or indirect investment in the respective ventures, which totaled \$12,856,000 and \$18,063,000 at September 30, 2013 and December 31, 2012, respectively. The current portion of notes payable was \$3,200,000 and \$50,884,000 at September 30, 2013 and December 31, 2012, respectively. The average interest rate on the current portion of the notes payable was 4.0% during 2013. The total long-term portion of notes payable consists of three notes with the following interest rates: 4.0%, adjusted LIBOR plus 1.0% and adjusted LIBOR plus 2.5%. Of the long-term notes payable, \$9,375,000 will mature in 2016, with the remainder maturing beyond 5 years.

For other VIEs in which American National 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 following table presents the carrying amount and maximum exposure to loss relating to unconsolidated VIEs (in thousands):

|   | September 30, 2013 |                                | December 31, 2012  |                                |
|---|--------------------|--------------------------------|--------------------|--------------------------------|
|   | Carrying<br>Amount | Maximum<br>Exposure<br>to Loss | Carrying<br>Amount | Maximum<br>Exposure<br>to Loss |
| Investment in unconsolidated affiliates | \$ 153,425         | \$ 153,425                     | \$ 81,548          | \$ 81,548                      |
| Mortgage loans                          | 84,497             | 84,497                         | 57,434             | 57,434                         |
| Accrued investment income               | 631                | 631                            | 309                | 309                            |

**Table of Contents****7. DERIVATIVE INSTRUMENTS**

American National purchases over-the-counter equity-indexed options as economic hedges against fluctuations in the equity markets to which equity-indexed 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 the number of instruments):

| Derivatives Not Designated as Hedging Instruments | Location in the Consolidated Statements of Financial Position | September 30, 2013    |                  |                      | December 31, 2012     |                  |                      |
|---|---|-----------------------|------------------|----------------------|-----------------------|------------------|----------------------|
|   |   | Number of Instruments | Notional Amounts | Estimated Fair Value | Number of Instruments | Notional Amounts | Estimated Fair Value |
| Equity-indexed options                            | Other invested assets   | 379                   | \$ 918,100       | \$ 129,749           | 356                   | \$ 846,900       | \$ 82,625            |
| Equity-indexed embedded derivative                | Future policy benefits  | 30,804                | 782,900          | 111,289              | 22,941                | 722,500          | 75,032               |

| Derivatives Not Designated as Hedging Instruments | Location in the Consolidated Statements of Operations | Gains (Losses) Recognized in Income on Derivatives |           |                                 |           |
|---|---|--|-----------|---------------------------------|-----------|
|   |   | Three months ended September 30,                   |           | Nine months ended September 30, |           |
|   |   | 2013   | 2012      | 2013                            | 2012      |
| Equity-indexed options                            | Net investment income                                 | \$ 13,260  | \$ 10,448 | \$ 48,019                       | \$ 21,947 |
| Equity-indexed embedded derivative                | Interest credited to policyholders account balances   | (11,056)   | (7,756)   | (39,750)                        | (16,765)  |

**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, |                   |
|-----------------------|----------------------------------|-------------------|---------------------------------|-------------------|
|                       | 2013                             | 2012              | 2013                            | 2012              |
| Bonds                 | \$ 157,888                       | \$ 171,515        | \$ 479,296                      | \$ 514,237        |
| Equity securities     | 7,417                            | 6,965             | 22,653                          | 20,718            |
| Mortgage loans        | 55,629                           | 52,501            | 163,497                         | 153,008           |
| Real estate           | 11,297                           | 8,173             | 10,228                          | 16,456            |
| Options               | 13,260                           | 10,448            | 48,019                          | 21,947            |
| Other invested assets | 8,845                            | 8,588             | 28,795                          | 28,083            |
| <b>Total</b>          | <b>\$ 254,336</b>                | <b>\$ 258,190</b> | <b>\$ 752,488</b>               | <b>\$ 754,449</b> |

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

|                       | Three months ended September 30, |                  | Nine months ended September 30, |                  |
|-----------------------|----------------------------------|------------------|---------------------------------|------------------|
|                       | 2013                             | 2012             | 2013                            | 2012             |
| Bonds                 | \$ 9,907                         | \$ 8,393         | \$ 16,826                       | \$ 21,813        |
| Equity securities     | 10,149                           | 12,172           | 30,668                          | 22,386           |
| Mortgage loans        | (1,561)                          | 2,132            | (1,172)                         | (1,190)          |
| Real estate           | 25,311                           | 3,386            | 61,257                          | 3,134            |
| Other invested assets | (11)                             | 822              | (106)                           | 709              |
| <b>Total</b>          | <b>\$ 43,795</b>                 | <b>\$ 26,905</b> | <b>\$ 107,473</b>               | <b>\$ 46,852</b> |



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

|                   | Three months ended<br>September 30, |                    | Nine months ended<br>September 30, |                    |
|-------------------|-------------------------------------|--------------------|------------------------------------|--------------------|
|                   | 2013                                | 2012               | 2013                               | 2012               |
| Bonds             | \$                                  | \$ (12,659)        | \$                                 | \$ (12,659)        |
| Equity securities | (312)                               | (1,316)            | (3,503)                            | (9,414)            |
| <b>Total</b>      | <b>\$ (312)</b>                     | <b>\$ (13,975)</b> | <b>\$ (3,503)</b>                  | <b>\$ (22,073)</b> |

**9. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

|  | September 30, 2013   |                         | December 31, 2012    |                         |
|--|----------------------|-------------------------|----------------------|-------------------------|
|  | Carrying<br>Amount   | Estimated<br>Fair Value | Carrying<br>Amount   | Estimated<br>Fair Value |
| <b>Financial assets</b>                                    |                      |                         |                      |                         |
| Fixed maturity securities, bonds held-to-maturity          | \$ 8,674,301         | \$ 9,102,292            | \$ 9,009,282         | \$ 9,840,751            |
| Fixed maturity securities, bonds available-for-sale        | 4,557,161            | 4,557,161               | 4,665,576            | 4,665,576               |
| Equity securities  | 1,277,131            | 1,277,131               | 1,075,439            | 1,075,439               |
| Equity-indexed options                                     | 129,749              | 129,749                 | 82,625               | 82,625                  |
| Mortgage loans on real estate, net of allowance            | 3,333,363            | 3,679,838               | 3,143,011            | 3,441,645               |
| Policy loans   | 395,709              | 395,709                 | 395,333              | 395,333                 |
| Short-term investments                                     | 339,479              | 339,479                 | 313,086              | 313,086                 |
| Separate account assets                                    | 931,947              | 931,947                 | 841,389              | 841,389                 |
| <b>Total financial assets</b>                              | <b>\$ 19,638,840</b> | <b>\$ 20,413,306</b>    | <b>\$ 19,525,741</b> | <b>\$ 20,655,844</b>    |
| <b>Financial liabilities</b>                               |                      |                         |                      |                         |
| Investment contracts                                       | \$ 9,495,111         | \$ 9,495,111            | \$ 9,987,431         | \$ 9,987,431            |
| Embedded derivative liability for equity-indexed contracts | 111,289              | 111,289                 | 75,032               | 75,032                  |
| Notes payable  | 114,126              | 114,126                 | 163,384              | 163,384                 |
| Separate account liabilities                               | 931,947              | 931,947                 | 841,389              | 841,389                 |
| <b>Total financial liabilities</b>                         | <b>\$ 10,652,473</b> | <b>\$ 10,652,473</b>    | <b>\$ 11,067,236</b> | <b>\$ 11,067,236</b>    |

**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.

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

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

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

American National has reviewed the inputs and methodology used and the techniques applied by the pricing service to produce quotes that represent the fair value of a specific security. The review confirms that the pricing service is utilizing information from observable transactions or a technique that represents a market participant's assumptions. American National does not adjust quotes received from the pricing service. The pricing service utilized by American National has indicated that they will 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.

The pricing of certain commercial mortgage-backed securities use discounted cash flow models, and these securities are classified as Level 3 measurements. These models include significant non-observable inputs including an internally determined credit rating of the security and an externally provided credit spread. At September 30, 2013 and December 31, 2012, the modeled discount rate ranges from 5.9% to 6.0%.

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 generally performed on a weekly basis, but no less frequently than on a monthly basis.

**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 number, payment type and current status.



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**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.

The significant unobservable input used to calculate the fair value of the embedded derivatives is equity option implied volatility. This volatility assumption is the range of implied volatilities that American National has determined market participants would use to price equity options that match the current derivative characteristics of our in-force equity-indexed contracts. Implied volatility can vary by term and strike price. 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, 2013 and December 31, 2012, the implied volatility used to estimate embedded derivative value ranges from 14.5% to 29.4% and 15.9% to 30.1%, 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, unpredictable timing of repayments and the fact that it cannot be separated from the policy contract and it is settled at outstanding value, American National believes that the carrying value of policy loans approximates fair value.

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

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

**Table of Contents****Quantitative Disclosures**

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

|  | Fair Value Measurement as of September 30, 2013 |                     |                      |                     |
|--|---|---------------------|----------------------|---------------------|
|  | Total Estimated<br>Fair Value                   | Level 1             | Level 2              | Level 3             |
| <b>Financial assets</b>                                    |   |                     |                      |                     |
| Fixed maturity securities, bonds held-to-maturity          |   |                     |                      |                     |
| U.S. treasury and government                               | \$ 1,986  | \$                  | \$ 1,986             | \$                  |
| U.S. states and political subdivisions                     | 379,057   |                     | 379,057              |                     |
| Foreign governments  | 32,097  |                     | 32,097               |                     |
| Corporate debt securities                                  | 8,220,661                                       |                     | 8,174,665            | 45,996              |
| Residential mortgage-backed securities                     | 446,145   |                     | 445,139              | 1,006               |
| Collateralized debt securities                             | 2,613   |                     |                      | 2,613               |
| Other debt securities                                      | 19,733  |                     | 19,733               |                     |
| <b>Total bonds held-to-maturity</b>                        | <b>9,102,292</b>                                |                     | <b>9,052,677</b>     | <b>49,615</b>       |
| Fixed maturity securities, bonds available-for-sale        |   |                     |                      |                     |
| U.S. treasury and government                               | 22,390  |                     | 22,390               |                     |
| U.S. states and political subdivisions                     | 623,324   |                     | 620,804              | 2,520               |
| Foreign governments  | 6,803   |                     | 6,803                |                     |
| Corporate debt securities                                  | 3,773,970                                       |                     | 3,761,613            | 12,357              |
| Residential mortgage-backed securities                     | 69,809  |                     | 67,683               | 2,126               |
| Commercial mortgage-backed securities                      | 33,185  |                     |                      | 33,185              |
| Collateralized debt securities                             | 16,574  |                     | 14,614               | 1,960               |
| Other debt securities                                      | 11,106  |                     | 11,106               |                     |
| <b>Total bonds available-for-sale</b>                      | <b>4,557,161</b>                                |                     | <b>4,505,013</b>     | <b>52,148</b>       |
| <b>Equity securities</b>                                   |   |                     |                      |                     |
| Common stock   | 1,239,295                                       | 1,239,295           |                      |                     |
| Preferred stock  | 37,836  | 37,836              |                      |                     |
| <b>Total equity securities</b>                             | <b>1,277,131</b>                                | <b>1,277,131</b>    |                      |                     |
| <b>Options</b>   |   |                     |                      |                     |
| Mortgage loans on real estate                              | 129,749   |                     |                      | 129,749             |
| Policy loans   | 3,679,838                                       |                     | 3,679,838            |                     |
| Short-term investments                                     | 395,709   |                     |                      | 395,709             |
| Separate account assets                                    | 339,479   |                     | 339,479              |                     |
|  | 931,947   |                     | 931,947              |                     |
| <b>Total financial assets</b>                              | <b>\$ 20,413,306</b>                            | <b>\$ 1,277,131</b> | <b>\$ 18,508,954</b> | <b>\$ 627,221</b>   |
| <b>Financial liabilities</b>                               |   |                     |                      |                     |
| Investment contracts                                       | \$ 9,495,111                                    | \$                  | \$                   | \$ 9,495,111        |
| Embedded derivative liability for equity-indexed contracts | 111,289   |                     |                      | 111,289             |
| Notes payable  | 114,126   |                     |                      | 114,126             |
| Separate account liabilities                               | 931,947   |                     | 931,947              |                     |
| <b>Total financial liabilities</b>                         | <b>\$ 10,652,473</b>                            | <b>\$</b>           | <b>\$ 931,947</b>    | <b>\$ 9,720,526</b> |



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|  | Fair Value Measurement as of December 31, 2012 |                     |                      |                      |
|--|--|---------------------|----------------------|----------------------|
|  | Total Estimated<br>Fair Value                  | Level 1             | Level 2              | Level 3              |
| <b>Financial assets</b>                                    |  |                     |                      |                      |
| Fixed maturity securities, bonds held-to-maturity          |  |                     |                      |                      |
| U.S. treasury and government                               | \$ 3,662                                       | \$                  | \$ 3,662             | \$                   |
| U.S. states and political subdivisions                     | 433,695  |                     | 433,695              |                      |
| Foreign governments  | 33,438   |                     | 33,438               |                      |
| Corporate debt securities                                  | 8,735,158                                      |                     | 8,662,164            | 72,994               |
| Residential mortgage-backed securities                     | 590,502  |                     | 589,441              | 1,061                |
| Collateralized debt securities                             | 2,821  |                     |                      | 2,821                |
| Other debt securities                                      | 41,475   |                     | 41,475               |                      |
| <b>Total bonds held-to-maturity</b>                        | <b>9,840,751</b>                               |                     | <b>9,763,875</b>     | <b>76,876</b>        |
| Fixed maturity securities, bonds available-for-sale        |  |                     |                      |                      |
| U.S. treasury and government                               | 20,805   |                     | 20,805               |                      |
| U.S. states and political subdivisions                     | 615,438  |                     | 612,913              | 2,525                |
| Foreign governments  | 7,344  |                     | 7,344                |                      |
| Corporate debt securities                                  | 3,872,633                                      |                     | 3,796,949            | 75,684               |
| Residential mortgage-backed securities                     | 94,385   |                     | 91,938               | 2,447                |
| Commercial mortgage-backed securities                      | 24,442   |                     |                      | 24,442               |
| Collateralized debt securities                             | 19,091   |                     | 17,156               | 1,935                |
| Other debt securities                                      | 11,438   |                     | 11,438               |                      |
| <b>Total bonds available-for-sale</b>                      | <b>4,665,576</b>                               |                     | <b>4,558,543</b>     | <b>107,033</b>       |
| Equity securities  |  |                     |                      |                      |
| Common stock   | 1,037,784                                      | 1,037,784           |                      |                      |
| Preferred stock  | 37,655   | 37,652              |                      | 3                    |
| <b>Total equity securities</b>                             | <b>1,075,439</b>                               | <b>1,075,436</b>    |                      | <b>3</b>             |
| Options  | 82,625   |                     |                      | 82,625               |
| Mortgage loans on real estate                              | 3,441,645                                      |                     | 3,441,645            |                      |
| Policy loans   | 395,333  |                     |                      | 395,333              |
| Short-term investments                                     | 313,086  |                     | 313,086              |                      |
| Separate account assets                                    | 841,389  |                     | 841,389              |                      |
| <b>Total financial assets</b>                              | <b>\$ 20,655,844</b>                           | <b>\$ 1,075,436</b> | <b>\$ 18,918,538</b> | <b>\$ 661,870</b>    |
| Financial liabilities                                      |  |                     |                      |                      |
| Investment contracts                                       | \$ 9,987,431                                   | \$                  | \$                   | \$ 9,987,431         |
| Embedded derivative liability for equity-indexed contracts | 75,032   |                     |                      | 75,032               |
| Notes payable  | 163,384  |                     |                      | 163,384              |
| Separate account liabilities                               | 841,389  |                     | 841,389              |                      |
| <b>Total financial liabilities</b>                         | <b>\$ 11,067,236</b>                           | <b>\$</b>           | <b>\$ 841,389</b>    | <b>\$ 10,225,847</b> |

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

|  | Level 3                          |                        |                     |                                 |                        |                     |
|--|----------------------------------|------------------------|---------------------|---------------------------------|------------------------|---------------------|
|  | Three months ended September 30, |                        |                     | Nine months ended September 30, |                        |                     |
|  | Assets                           |                        | Liability           | Assets                          |                        | Liability           |
|  | Investment Securities            | Equity-Indexed Options | Embedded Derivative | Investment Securities           | Equity-Indexed Options | Embedded Derivative |
| <b>Beginning balance, 2013</b>   | <b>\$ 55,558</b>                 | <b>\$ 115,558</b>      | <b>\$ 100,963</b>   | <b>\$ 107,036</b>               | <b>\$ 82,625</b>       | <b>\$ 75,032</b>    |
| Total realized and unrealized investment gains/losses included in other comprehensive income | (633)                            |                        |                     | 10,496                          |                        |                     |
| Net fair value change included in realized gains/losses                                      | (1)                              |                        |                     | 218                             |                        |                     |
| Net gain (loss) for derivatives included in net investment income                            |                                  | 11,775                 |                     |                                 | 42,941                 |                     |
| Net change included in interest credited   |                                  |                        | 11,056              |                                 |                        | 39,750              |
| Purchases, sales and settlements or maturities   |                                  |                        |                     |                                 |                        |                     |
| Purchases  | 45                               | 4,470                  |                     | 2,115                           | 12,178                 |                     |
| Sales  | (138)                            |                        |                     | (14,272)                        |                        |                     |
| Settlements or maturities  |                                  | (2,054)                |                     |                                 | (7,995)                |                     |
| Premiums less benefits   |                                  |                        | (730)               |                                 |                        | (3,493)             |
| Gross transfers into Level 3   | 157                              |                        |                     | 157                             |                        |                     |
| Gross transfers out of Level 3   | (2,840)                          |                        |                     | (53,602)                        |                        |                     |
| <b>Ending balance September 30, 2013</b>   | <b>\$ 52,148</b>                 | <b>\$ 129,749</b>      | <b>\$ 111,289</b>   | <b>\$ 52,148</b>                | <b>\$ 129,749</b>      | <b>\$ 111,289</b>   |

|  | 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 |
| <b>Beginning balance, 2012</b>   | <b>\$ 47,921</b>                 | <b>\$ 77,136</b>       | <b>\$ 72,194</b>    | <b>\$ 15,815</b>                | <b>\$ 65,188</b>       | <b>\$ 63,275</b>    |
| Total realized and unrealized investment gains/losses included in other comprehensive income | 11,372                           |                        |                     | 10,836                          |                        |                     |
| Net fair value change included in realized gains/losses                                      | (11,471)                         |                        |                     | (11,441)                        |                        |                     |
| Net gain (loss) for derivatives included in net investment income                            |                                  | 9,708                  |                     |                                 | 17,878                 |                     |
| Net change included in interest credited   |                                  |                        | 7,756               |                                 |                        | 16,765              |
| Purchases, sales and settlements or maturities   |                                  |                        |                     |                                 |                        |                     |
| Purchases  | 46                               | 2,991                  |                     | 598                             | 11,472                 |                     |
| Sales  | (3)                              |                        |                     | (269)                           |                        |                     |
| Settlements or maturities  |                                  | (1,359)                |                     | (395)                           | (6,062)                |                     |
| Premiums less benefits   |                                  |                        | 374                 |                                 |                        | 284                 |
| Transfers from held to maturity  | 13,118                           |                        |                     | 13,118                          |                        |                     |
| Gross transfers into Level 3   | 2                                |                        |                     | 32,723                          |                        |                     |
| <b>Ending balance, 2012</b>  | <b>\$ 60,985</b>                 | <b>\$ 88,476</b>       | <b>\$ 80,324</b>    | <b>\$ 60,985</b>                | <b>\$ 88,476</b>       | <b>\$ 80,324</b>    |

Within the net gain (loss) for derivatives included in net investment income were unrealized gains of \$39,652,000 and \$16,334,000 relating to assets still held at September 30, 2013 and 2012, respectively.

There were no transfers between Level 1 and Level 2 fair value hierarchies. The transfers into Level 3 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 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****10. DEFERRED POLICY ACQUISITION COSTS**

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

|   | Life              | Annuity           | Accident<br>& Health | Property<br>&<br>Casualty | Total               |
|---|-------------------|-------------------|----------------------|---------------------------|---------------------|
| <b>Beginning balance 2013</b>   | <b>\$ 653,416</b> | <b>\$ 406,540</b> | <b>\$ 49,206</b>     | <b>\$ 138,513</b>         | <b>\$ 1,247,675</b> |
| Additions   | 80,226            | 38,467            | 9,457                | 157,206                   | 285,356             |
| Amortization  | (59,201)          | (66,129)          | (11,537)             | (168,057)                 | (304,924)           |
| Effect of change in unrealized gains on available-for-sale securities | 5,654             | 40,989            |                      |                           | 46,643              |
| <b>Net change</b>   | <b>26,679</b>     | <b>13,327</b>     | <b>(2,080)</b>       | <b>(10,851)</b>           | <b>27,075</b>       |
| <b>Ending balance at September 30, 2013</b>                           | <b>\$ 680,095</b> | <b>\$ 419,867</b> | <b>\$ 47,126</b>     | <b>\$ 127,662</b>         | <b>\$ 1,274,750</b> |

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

**11. LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES**

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

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

|                                  | Nine months ended<br>September 30, |                |
|----------------------------------|------------------------------------|----------------|
|                                  | 2013                               | 2012           |
| Unpaid claims balance, beginning | \$ 1,168,047                       | \$ 1,180,259   |
| Less reinsurance recoverables    | 256,885                            | 235,174        |
| <b>Net beginning balance</b>     | <b>911,162</b>                     | <b>945,085</b> |
| Incurred related to              |                                    |                |
| Current                          | 743,194                            | 779,602        |
| Prior years                      | (50,553)                           | (46,037)       |
| <b>Total incurred claims</b>     | <b>692,641</b>                     | <b>733,565</b> |
| Paid claims related to           |                                    |                |
| Current                          | 442,100                            | 454,183        |
| Prior years                      | 266,472                            | 284,025        |
| <b>Total paid claims</b>         | <b>708,572</b>                     | <b>738,208</b> |
| Net balance                      | 895,231                            | 940,442        |

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|                                      |                     |                     |
|--------------------------------------|---------------------|---------------------|
| Plus reinsurance recoverables        | 226,822             | 238,268             |
| <b>Unpaid claims balance, ending</b> | <b>\$ 1,122,053</b> | <b>\$ 1,178,710</b> |

The net and gross reserve calculations have shown favorable development for the last several years as a result of favorable loss emergence compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred claims attributable to insured events of prior years decreased by approximately \$50,553,000 during the first nine months of 2013 and \$46,037,000 during the same period in 2012.



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

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

|                                      | Three months ended September 30, |       |           |       | Nine months ended September 30, |       |           |       |
|--------------------------------------|----------------------------------|-------|-----------|-------|---------------------------------|-------|-----------|-------|
|                                      | 2013                             |       | 2012      |       | 2013                            |       | 2012      |       |
|                                      | Amount                           | Rate  | Amount    | Rate  | Amount                          | Rate  | Amount    | Rate  |
| Income tax expense on pre-tax income | \$ 42,302                        | 35.0% | \$ 31,285 | 35.0% | \$ 93,527                       | 35.0% | \$ 59,989 | 35.0% |
| Tax-exempt investment income         | (1,502)                          | (1.2) | (1,827)   | (2.0) | (4,700)                         | (1.8) | (5,569)   | (3.2) |
| Dividend exclusion                   | (1,710)                          | (1.4) | (1,501)   | (1.7) | (4,802)                         | (1.8) | (4,453)   | (2.6) |
| Miscellaneous tax credits, net       |                                  |       |           |       |                                 |       |           |       |