

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

August 05, 2016

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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 June 30, 2016**

**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

Smaller reporting company

Non-accelerated filer

Accelerated filer

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 August 01, 2016, there were 26,914,218 shares of the registrant's voting common stock, \$1.00 par value per share, outstanding.

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**AMERICAN NATIONAL INSURANCE COMPANY**

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(Unaudited and in thousands, except share data)

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Fixed maturity, bonds held-to-maturity, at amortized cost (Fair value \$7,895,093 and \$7,755,553)	\$ 7,456,908	\$ 7,609,420
Fixed maturity, bonds available-for-sale, at fair value (Amortized cost \$5,582,349 and \$5,427,831)	5,894,667	5,483,916
Equity securities, at fair value (Cost \$806,541 and \$810,826)	1,531,926	1,514,979
Mortgage loans on real estate, net of allowance	3,996,073	3,483,280
Policy loans	388,763	407,491
Investment real estate, net of accumulated depreciation of \$221,543 and \$212,139	589,497	581,255
Short-term investments	252,431	460,612
Other invested assets	178,659	173,042
<b>Total investments</b>	<b>20,288,924</b>	<b>19,713,995</b>
Cash and cash equivalents	133,889	190,237
Investments in unconsolidated affiliates	456,437	379,348
Accrued investment income	177,215	177,474
Reinsurance recoverables	364,096	413,881
Prepaid reinsurance premiums	62,001	77,907
Premiums due and other receivables	321,638	285,446
Deferred policy acquisition costs	1,281,087	1,324,669
Property and equipment, net	120,426	120,680
Current tax receivable	41,413	4,091
Other assets	139,150	140,788
Separate account assets	900,972	918,446
<b>Total assets</b>	<b>\$ 24,287,248</b>	<b>\$ 23,746,962</b>
<b>LIABILITIES</b>		
Future policy benefits		
Life	\$ 2,878,392	\$ 2,853,962
Annuity	1,222,077	1,113,057
Accident and health	62,249	65,034
Policyholders' account balances	11,038,145	10,829,173
Policy and contract claims	1,257,379	1,280,011
Unearned premium reserve	832,703	812,977
Other policyholder funds	326,196	305,836

Liability for retirement benefits	199,127	207,635
Notes payable	140,239	128,436
Deferred tax liabilities, net	299,355	219,295
Other liabilities	513,019	550,629
Separate account liabilities	900,972	918,446
<b>Total liabilities</b>	<b>19,669,853</b>	<b>19,284,491</b>
<b>STOCKHOLDERS EQUITY</b>		
Common stock, \$1.00 par value, - Authorized 50,000,000, Issued 30,832,449 and 30,832,449 Outstanding 26,914,218 and 26,894,456 shares	30,832	30,832
Additional paid-in capital	15,950	13,689
Accumulated other comprehensive income	488,082	352,620
Retained earnings	4,175,524	4,157,184
Treasury stock, at cost	(101,781)	(102,043)
Total American National stockholders equity	4,608,607	4,452,282
Noncontrolling interest	8,788	10,189
<b>Total stockholders equity</b>	<b>4,617,395</b>	<b>4,462,471</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 24,287,248</b>	<b>\$ 23,746,962</b>

*See accompanying notes to the consolidated financial statements.*

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>PREMIUMS AND OTHER REVENUE</b>				
Premiums				
Life	\$ 77,053	\$ 75,071	\$ 152,170	\$ 147,153
Annuity	86,030	25,088	156,238	66,531
Accident and health	44,828	51,135	87,141	102,972
Property and casualty	304,788	281,909	608,149	558,390
Other policy revenues	65,489	57,597	129,836	115,121
Net investment income	210,710	203,662	406,764	412,875
Net realized investment gains	6,966	16,768	16,028	56,070
Other-than-temporary impairments	(3,551)	(3,472)	(7,027)	(3,497)
Other income	8,135	9,748	16,119	18,458
<b>Total premiums and other revenues</b>	<b>800,448</b>	<b>717,506</b>	<b>1,565,418</b>	<b>1,474,073</b>
<b>BENEFITS, LOSSES AND EXPENSES</b>				
Policyholder benefits				
Life	91,754	91,184	192,525	179,188
Annuity	93,655	36,150	174,902	90,517
Claims incurred				
Accident and health	30,327	32,256	62,619	64,053
Property and casualty	230,960	211,920	442,918	404,172
Interest credited to policyholders' account balances	85,901	69,215	162,428	144,968
Commissions for acquiring and servicing policies	114,945	103,557	227,829	196,672
Other operating expenses	129,197	123,203	259,573	246,661
Change in deferred policy acquisition costs	(16,571)	614	(21,164)	7,076
<b>Total benefits, losses and expenses</b>	<b>760,168</b>	<b>668,099</b>	<b>1,501,630</b>	<b>1,333,307</b>
<b>Income before federal income tax and equity in earnings of unconsolidated affiliates</b>	<b>40,280</b>	<b>49,407</b>	<b>63,788</b>	<b>140,766</b>
Less: Provision for federal income taxes				
Current	7,603	11,117	2,889	46,509
Deferred	2,287	4,093	2,931	14,391

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Total provision for federal income taxes	9,890	15,210	5,820	60,900
Equity in earnings of unconsolidated affiliates	1,798	462	2,735	57,046
<b>Net income</b>	<b>32,188</b>	<b>34,659</b>	<b>60,703</b>	<b>136,912</b>
Less: Net loss attributable to noncontrolling interest, net of tax	(437)	(394)	(1,238)	(1,123)
<b>Net income attributable to American National</b>	<b>\$ 32,625</b>	<b>\$ 35,053</b>	<b>\$ 61,941</b>	<b>\$ 138,035</b>

**Amounts available to American National common stockholders**

Earnings per share				
Basic	\$ 1.21	\$ 1.30	\$ 2.30	\$ 5.14
Diluted	1.21	1.30	2.30	5.12
Cash dividends to common stockholders	0.82	0.77	1.62	1.54
Weighted average common shares outstanding	26,908,077	26,877,833	26,908,748	26,847,936
Weighted average common shares outstanding and dilutive potential common shares	26,970,597	26,952,107	26,965,702	26,941,477
<i>See accompanying notes to the consolidated financial statements.</i>				

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

(Unaudited and in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	\$ 32,188	\$ 34,659	\$ 60,703	\$ 136,912
Other comprehensive income (loss), net of tax				
Change in net unrealized gains (losses) on securities	78,803	(54,139)	130,776	(46,303)
Foreign currency transaction and translation adjustments	442	1,188	430	(650)
Defined benefit pension plan adjustment	2,377	1,589	4,256	3,032
Other comprehensive income (loss), net of tax	81,622	(51,362)	135,462	(43,921)
<b>Total comprehensive income (loss)</b>	<b>113,810</b>	<b>(16,703)</b>	<b>196,165</b>	<b>92,991</b>
Less: Comprehensive loss attributable to noncontrolling interest	(437)	(394)	(1,238)	(1,123)
<b>Total comprehensive income (loss) attributable to American National</b>	<b>\$ 114,247</b>	<b>\$ (16,309)</b>	<b>\$ 197,403</b>	<b>\$ 94,114</b>

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

(Unaudited and in thousands)

	Six months ended June 30,	
	2016	2015
<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,	13,689	9,248
Reissuance of treasury shares	1,795	2,997
Income tax effect from restricted stock arrangement	47	
Amortization of restricted stock	419	653
Balance at end of the period	15,950	12,898



<b>Accumulated Other Comprehensive Income</b>		
Balance as of January 1,	352,620	490,782
Other comprehensive income (loss)	135,462	(43,921)
Balance at end of the period	488,082	446,861
<b>Retained Earnings</b>		
Balance as of January 1,	4,157,184	3,998,642
Net income attributable to American National	61,941	138,035
Cash dividends to common stockholders	(43,601)	(41,371)
Balance at end of the period	4,175,524	4,095,306
<b>Treasury Stock</b>		
Balance as of January 1,	(102,043)	(101,941)
Reissuance of treasury shares	262	136
Balance at end of the period	(101,781)	(101,805)
<b>Noncontrolling Interest</b>		
Balance as of January 1,	10,189	12,384
Contributions		27
Distributions	(163)	(154)
Net loss attributable to noncontrolling interest	(1,238)	(1,123)
Balance at end of the period	8,788	11,134
<b>Total Stockholders Equity</b>	<b>\$ 4,617,395</b>	<b>\$ 4,495,226</b>

*See accompanying notes to the consolidated financial statements.*

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

(Unaudited and in thousands)

	<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 60,703	\$ 136,912
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized investment gains	(16,028)	(56,070)
Other-than-temporary impairments	7,027	3,497
Amortization of premiums, discounts and loan origination fees	1,725	1,098
Net capitalized interest on policy loans and mortgage loans	(14,046)	(15,668)
Depreciation	24,845	18,669
Interest credited to policyholders' account balances	162,428	144,968
Charges to policyholders' account balances	(129,836)	(115,121)
Deferred federal income tax expense	2,931	14,391
Equity in earnings of unconsolidated affiliates	(2,735)	(57,046)
Distributions from equity method investments	572	359
Changes in		
Policyholder liabilities	136,237	107,256
Deferred policy acquisition costs	(21,164)	7,076
Reinsurance recoverables	49,785	19,140
Premiums due and other receivables	(36,399)	(35,837)
Prepaid reinsurance premiums	15,906	(10,860)
Accrued investment income	259	9,648
Current tax receivable/payable	(37,322)	15,461
Liability for retirement benefits	(8,507)	(5,325)
Other, net	34,787	(42,197)
<b>Net cash provided by operating activities</b>	<b>231,168</b>	<b>140,351</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale/maturity/prepayment of		
Held-to-maturity securities	236,480	619,477
Available-for-sale securities	267,510	303,836
Investment real estate	6,701	13,413
Mortgage loans	204,886	399,600
Policy loans	27,919	28,702
Other invested assets	8,143	12,332
Disposals of property and equipment	8,604	817
Distributions from unconsolidated affiliates	9,862	79,514
Payment for the purchase/origination of		
Held-to-maturity securities	(89,169)	(205,446)

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Available-for-sale securities	(443,085)	(600,818)
Investment real estate	(26,578)	(25,985)
Mortgage loans	(713,247)	(358,011)
Policy loans	(12,130)	(11,859)
Other invested assets	(12,471)	(25,386)
Additions to property and equipment	(20,629)	(17,614)
Contributions to unconsolidated affiliates	(97,079)	(55,550)
Change in short-term investments	208,181	758
Other, net	4,168	13,879
<b>Net cash provided by (used in) investing activities</b>	<b>(431,934)</b>	<b>171,659</b>
<b>FINANCING ACTIVITIES</b>		
Policyholders' account deposits	860,140	461,687
Policyholders' account withdrawals	(683,760)	(796,960)
Change in notes payable	11,802	14,287
Dividends to stockholders	(43,601)	(41,371)
Payments to noncontrolling interest	(163)	(127)
<b>Net cash provided by (used in) financing activities</b>	<b>144,418</b>	<b>(362,484)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(56,348)</b>	<b>(50,474)</b>
Beginning of the period	190,237	209,455
<b>End of the period</b>	<b>\$ 133,889</b>	<b>\$ 158,981</b>

*See accompanying notes to the consolidated financial statements.*

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Nature of Operations**

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

**Note 2 Summary of Significant Accounting Policies and Practices**

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

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

The interim consolidated financial statements and notes should be read in conjunction with the annual consolidated financial statements and notes thereto included in American National s Annual Report on Form 10-K as of and for the year ended December 31, 2015. The consolidated results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

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

**Note 3 Recently Issued Accounting Pronouncements**

**Adoption of New Accounting Standards**

In February 2015, the FASB issued guidance amending the consolidation analysis. The guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities. The guidance eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs. We adopted the standard on its required effective date of January 1, 2016. The adoption of this standard did not have a material impact to the Company s results of operations or financial position.

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

In May 2014, the FASB issued guidance that will supersede most existing revenue recognition requirements in GAAP. Insurance contracts generally are excluded from the scope of the guidance. For those contracts which are impacted, the transaction price is attributed to the underlying performance obligations in the contract and revenue is

recognized as the entity satisfies the performance obligations and transfers control of a good or service to the customer. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017 and is to be applied retrospectively. The Company is evaluating the impact of adoption, which is not expected to be material to the Company's results of operations or financial position.

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**Note 3 Recently Issued Accounting Pronouncements (Continued)**

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

In January 2016, the FASB issued guidance that will change certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The new guidance requires that equity investments be measured at fair value and that changes in fair value are recognized in net income. It also simplifies the impairment assessment of equity investments and eliminates the disclosure requirements for methods and significant assumptions used to estimate fair value of financial instruments that are measured at amortized cost on the balance sheet. The amended guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption to the Company's results of operations and financial position.

In February 2016, the FASB issued guidance that will require most leases to be recognized on the statement of financial position. The guidance defines a lease as a contract, or part of a contract, that conveys the right to control the use of the identified property, plant, or equipment for a period of time in exchange for consideration. The accounting applied by a lessor remains largely unchanged. The amended guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption, which is not expected to be material to the Company's results of operations or financial position.

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

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

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

	<b>June 30, 2016</b>			
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Fair Value</b>
<b>Fixed maturity securities, bonds held-to-maturity</b>				
U.S. states and political subdivisions	\$ 317,279	\$ 28,749	\$	\$ 346,028
Foreign governments	4,079	940		5,019
Corporate debt securities	6,876,230	442,296	(54,519)	7,264,007
Residential mortgage-backed securities	254,784	21,183	(671)	275,296
Collateralized debt securities	1,295	99		1,394
Other debt securities	3,241	108		3,349
<b>Total bonds held-to-maturity</b>	<b>7,456,908</b>	<b>493,375</b>	<b>(55,190)</b>	<b>7,895,093</b>
<b>Fixed maturity securities, bonds available-for-sale</b>				
U.S. treasury and government	24,190	865		25,055
U.S. states and political subdivisions	965,790	70,179	(84)	1,035,885
Foreign governments	5,000	2,000		7,000
Corporate debt securities	4,560,458	265,534	(29,518)	4,796,474
Residential mortgage-backed securities	21,216	2,512	(161)	23,567
Collateralized debt securities	5,695	995	(4)	6,686
<b>Total bonds available-for-sale</b>	<b>5,582,349</b>	<b>342,085</b>	<b>(29,767)</b>	<b>5,894,667</b>
<b>Equity securities</b>				
Common stock	785,554	735,384	(19,780)	1,501,158
Preferred stock	20,987	9,782	(1)	30,768
<b>Total equity securities</b>	<b>806,541</b>	<b>745,166</b>	<b>(19,781)</b>	<b>1,531,926</b>
<b>Total investments in securities</b>	<b>\$ 13,845,798</b>	<b>\$ 1,580,626</b>	<b>\$ (104,738)</b>	<b>\$ 15,321,686</b>

	<b>December 31, 2015</b>			
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Fair Value</b>

Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 324,643	\$ 22,318	\$ (444)	\$ 346,517
Foreign governments	4,101	867		4,968
Corporate debt securities	6,985,844	263,927	(158,101)	7,091,670
Residential mortgage-backed securities	277,135	18,351	(1,286)	294,200
Collateralized debt securities	1,924	100		2,024
Other debt securities	15,773	401		16,174
<b>Total bonds held-to-maturity</b>	<b>7,609,420</b>	<b>305,964</b>	<b>(159,831)</b>	<b>7,755,553</b>
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	24,024	702	(34)	24,692
U.S. states and political subdivisions	933,958	39,808	(1,275)	972,491
Foreign governments	5,000	1,733		6,733
Corporate debt securities	4,431,765	120,471	(107,614)	4,444,622
Residential mortgage-backed securities	25,629	2,155	(420)	27,364
Collateralized debt securities	7,455	629	(70)	8,014
<b>Total bonds available-for-sale</b>	<b>5,427,831</b>	<b>165,498</b>	<b>(109,413)</b>	<b>5,483,916</b>
Equity securities				
Common stock	794,839	718,225	(22,035)	1,491,029
Preferred stock	15,987	7,964	(1)	23,950
<b>Total equity securities</b>	<b>810,826</b>	<b>726,189</b>	<b>(22,036)</b>	<b>1,514,979</b>
<b>Total investments in securities</b>	<b>\$ 13,848,077</b>	<b>\$ 1,197,651</b>	<b>\$ (291,280)</b>	<b>\$ 14,754,448</b>



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

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

	<b>June 30, 2016</b>			
	<b>Bonds Held-to-Maturity</b>		<b>Bonds Available-for-Sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 310,167	\$ 317,325	\$ 222,447	\$ 226,023
Due after one year through five years	3,323,763	3,576,841	1,338,240	1,438,204
Due after five years through ten years	3,605,305	3,770,060	3,401,117	3,565,931
Due after ten years	211,822	225,854	615,545	659,653
Without single maturity date	5,851	5,013	5,000	4,856
<b>Total</b>	<b>\$ 7,456,908</b>	<b>\$ 7,895,093</b>	<b>\$ 5,582,349</b>	<b>\$ 5,894,667</b>

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

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

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Proceeds from sales of available-for-sale securities	\$ 27,026	\$ 23,894	\$ 42,731	\$ 39,476
Gross realized gains	3,517	7,226	8,584	14,009
Gross realized losses	(214)	(65)	(338)	(65)

Gains and losses are determined using specific identification of the securities sold. During the six months ended June 30, 2016 and 2015 there were no bonds transferred from held-to-maturity to available-for-sale.

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

	<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Bonds available-for-sale	\$ 256,233	\$ (69,817)
Equity securities	21,232	(21,325)

Change in net unrealized gains (losses) on securities during the year	277,465	(91,142)
Adjustments for		
Deferred policy acquisition costs	(64,746)	17,680
Participating policyholders' interest	(11,882)	2,722
Deferred federal income tax benefit (expense)	(70,061)	24,437
<b>Change in net unrealized gains (losses) on securities, net of tax</b>	<b>\$ 130,776</b>	<b>\$ (46,303)</b>

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

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

	<b>June 30, 2016</b>					
	<b>Less than 12 months</b>		<b>12 Months or more</b>		<b>Total</b>	
	<b>Unrealized</b>	<b>Fair</b>	<b>Unrealized</b>	<b>Fair</b>	<b>Unrealized</b>	<b>Fair</b>
	<b>(Losses)</b>	<b>Value</b>	<b>(Losses)</b>	<b>Value</b>	<b>(Losses)</b>	<b>Value</b>
<b>Fixed maturity securities, bonds held-to-maturity</b>						
Corporate debt securities	\$ (26,871)	\$ 310,356	\$ (27,648)	\$ 287,195	\$ (54,519)	\$ 597,551
Residential mortgage-backed securities	(36)	6,095	(635)	12,876	(671)	18,971
<b>Total bonds held-to-maturity</b>	<b>(26,907)</b>	<b>316,451</b>	<b>(28,283)</b>	<b>300,071</b>	<b>(55,190)</b>	<b>616,522</b>
<b>Fixed maturity securities, bonds available-for-sale</b>						
U.S. treasury and government		3,384				3,384
U.S. states and political subdivisions	(82)	2,933	(2)	121	(84)	3,054
Corporate debt securities	(8,788)	194,814	(20,730)	285,180	(29,518)	479,994
Residential mortgage-backed securities	(8)	1,237	(153)	4,499	(161)	5,736
Collateralized debt securities		51	(4)	191	(4)	242
<b>Total bonds available-for-sale</b>	<b>(8,878)</b>	<b>202,419</b>	<b>(20,889)</b>	<b>289,991</b>	<b>(29,767)</b>	<b>492,410</b>
<b>Equity securities</b>						
Common stock	(19,780)	106,757			(19,780)	106,757
Preferred stock			(1)		(1)	
<b>Total equity securities</b>	<b>(19,780)</b>	<b>106,757</b>	<b>(1)</b>		<b>(19,781)</b>	<b>106,757</b>
<b>Total</b>	<b>\$ (55,565)</b>	<b>\$ 625,627</b>	<b>\$ (49,173)</b>	<b>\$ 590,062</b>	<b>\$ (104,738)</b>	<b>\$ 1,215,689</b>

	<b>December 31, 2015</b>					
	<b>Less than 12 months</b>		<b>12 Months or more</b>		<b>Total</b>	
	<b>Unrealized</b>	<b>Fair</b>	<b>Unrealized</b>	<b>Fair</b>	<b>Unrealized</b>	<b>Fair</b>
	<b>(Losses)</b>	<b>Value</b>	<b>(Losses)</b>	<b>Value</b>	<b>(Losses)</b>	<b>Value</b>
<b>Fixed maturity securities, bonds held-to-maturity</b>						
U.S. states and political subdivisions	\$ (444)	\$ 19,412	\$	\$	\$ (444)	\$ 19,412

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Corporate debt securities	(93,285)	1,912,178	(64,816)	283,469	(158,101)	2,195,647
Residential mortgage-backed securities	(449)	21,275	(837)	14,721	(1,286)	35,996
<b>Total bonds held-to-maturity</b>	<b>(94,178)</b>	<b>1,952,865</b>	<b>(65,653)</b>	<b>298,190</b>	<b>(159,831)</b>	<b>2,251,055</b>
Fixed maturity securities, bonds available-for-sale						
U.S. treasury and government	(34)	18,802			(34)	18,802
U.S. states and political subdivisions	(1,223)	80,807	(52)	2,569	(1,275)	83,376
Corporate debt securities	(81,638)	1,796,357	(25,976)	90,784	(107,614)	1,887,141
Residential mortgage-backed securities	(228)	15,273	(192)	4,984	(420)	20,257
Collateralized debt securities	(66)	2,115	(4)	253	(70)	2,368
<b>Total bonds available-for-sale</b>	<b>(83,189)</b>	<b>1,913,354</b>	<b>(26,224)</b>	<b>98,590</b>	<b>(109,413)</b>	<b>2,011,944</b>
Equity securities						
Common stock	(22,035)	136,694			(22,035)	136,694
Preferred stock			(1)		(1)	
<b>Total equity securities</b>	<b>(22,035)</b>	<b>136,694</b>	<b>(1)</b>		<b>(22,036)</b>	<b>136,694</b>
<b>Total</b>	<b>\$(199,402)</b>	<b>\$4,002,913</b>	<b>\$(91,878)</b>	<b>\$396,780</b>	<b>\$(291,280)</b>	<b>\$4,399,693</b>

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

As of June 30, 2016, the securities with unrealized losses including those exceeding one year were not deemed to be other-than-temporarily impaired. American National has the ability and intent to hold those securities until a market price recovery or maturity. It is not more-likely-than-not that American National will be required to sell them prior to recovery, and recovery is expected in a reasonable period of time. It is possible an issuer's financial circumstances may be different in the future, which may lead to a different impairment conclusion in future periods.

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
AAA	5.4%	5.4%
AA	11.6	12.0
A	35.5	36.5
BBB	44.2	43.3
BB and below	3.3	2.8
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Equity securities by market sector distribution are shown below:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Consumer goods	21.4%	20.5%
Energy and utilities	11.0	10.3
Finance	19.6	20.0
Healthcare	13.7	14.6
Industrials	8.5	8.2
Information technology	17.1	17.8
Other	8.7	8.6
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

**Note 5 Mortgage Loans**

Generally, commercial mortgage loans are secured by first liens on income-producing real estate. American National attempts to maintain a diversified portfolio by considering the location of the underlying collateral. The distribution based on carrying amount of mortgage loans by location are as follows:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
East North Central	17.8%	18.8%

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East South Central	4.6	4.8
Mountain	11.1	11.6
Pacific	15.7	10.7
South Atlantic	17.1	18.8
West South Central	28.1	29.0
Other	5.6	6.3
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

For the six months ended June 30, 2016, American National foreclosed on no loans, and one loan was in the process of foreclosure with a recorded investment of \$2,450,000. For the year ended December 31, 2015, American National foreclosed on three loans with a recorded investment totaling \$24,333,000 and one loan was in the process of foreclosure with a recorded investment of \$2,450,000. American National sold no loans for the six months ended June 30, 2016 and one loan with a recorded investment of \$2,702,000 resulting in a realized loss of \$1,602,000 for the year ended December 31, 2015.

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

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

	30-59 Days Past Due	60-89 Days Past Due	More Than 90 Days	Total	Current	Total Amount	Percent
<b>June 30, 2016</b>							
Industrial	\$	\$	\$	\$	\$ 833,188	\$ 833,188	20.8
Office			2,450	2,450	1,301,245	1,303,695	32.5
Retail					700,259	700,259	17.5
Other					1,170,766	1,170,766	29.2
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,450</b>	<b>\$ 2,450</b>	<b>\$ 4,005,458</b>	<b>\$ 4,007,908</b>	<b>100.0</b>
Allowance for loan losses						(11,835)	
<b>Total, net of allowance</b>						<b>\$ 3,996,073</b>	
<b>December 31, 2015</b>							
Industrial	\$	\$	\$	\$	\$ 704,426	\$ 704,426	20.1
Office		5,883	2,450	8,333	1,252,484	1,260,817	36.1
Retail	19,088			19,088	583,810	602,898	17.2
Other					928,034	928,034	26.6
<b>Total</b>	<b>\$ 19,088</b>	<b>\$ 5,883</b>	<b>\$ 2,450</b>	<b>\$ 27,421</b>	<b>\$ 3,468,754</b>	<b>\$ 3,496,175</b>	<b>100.0</b>
Allowance for loan losses						(12,895)	
<b>Total, net of allowance</b>						<b>\$ 3,483,280</b>	

Total mortgage loans are net of unamortized discounts of \$344,000 and \$452,000 and unamortized origination fees of \$26,141,000 and \$22,637,000 at June 30, 2016 and December 31, 2015, respectively. No unearned income is included in these amounts.

**Allowance for Credit Losses**

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

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

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

	<b>Six months ended June 30,</b>	
	<b>Collectively Evaluated for Impairment</b>	<b>Individually Evaluated for Impairment</b>
<b>Beginning balance 2016</b>	<b>\$ 10,716</b>	<b>\$ 2,179</b>
Change in allowance	626	(1,686)
<b>Ending balance 2016</b>	<b>\$ 11,342</b>	<b>\$ 493</b>

At June 30, 2016 and December 31, 2015, the recorded investment for loans collectively evaluated for impairment was \$3,975,191,000 and \$3,442,211,000, respectively. The recorded investment for loans individually evaluated for impairment was \$32,717,000 and \$53,964,000, respectively.



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

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

	June 30, 2016		June 30, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b><u>Three months ended</u></b>				
<b>Without an allowance</b>				
Office	\$ 28,804	\$ 454	\$ 20,996	\$ 340
Retail	3,939	54	2,503	88
<b>Total</b>	<b>\$ 32,743</b>	<b>\$ 508</b>	<b>\$ 23,499</b>	<b>\$ 428</b>
<b><u>Six months ended</u></b>				
<b>Without an allowance</b>				
Office	\$ 28,943	\$ 911	\$ 20,996	\$ 681
Retail	3,954	119	5,032	177
<b>Total</b>	<b>\$ 32,897</b>	<b>\$ 1,030</b>	<b>\$ 26,028</b>	<b>\$ 858</b>
	June 30, 2016		December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
<b>With an allowance</b>				
Office	\$	\$	\$ 16,168	\$ 17,855
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$ 16,168</b>	<b>\$ 17,855</b>
<b>Without an allowance</b>				
Office	\$ 28,794	\$ 28,794	\$ 29,091	\$ 29,091
Retail	3,923	3,923	8,705	8,705
<b>Total</b>	<b>\$ 32,717</b>	<b>\$ 32,717</b>	<b>\$ 37,796</b>	<b>\$ 37,796</b>

**Table of Contents****Note 5 Mortgage Loans (Continued)****Troubled Debt Restructurings**

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

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

	Six months ended June 30,					
	2016		2015			
	Recorded Number of contracts	Recorded investment pre- modification	Recorded investment post- modification	Recorded Number of contracts	Recorded investment pre- modification	Recorded investment post- modification
Office		\$		1	\$	6,432
Retail	1	3,934	3,934			
<b>Total</b>	<b>1</b>	<b>\$ 3,934</b>	<b>\$ 3,934</b>	<b>1</b>	<b>\$ 6,432</b>	<b>\$ 6,432</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 periods presented.

**Note 6 Investment Real Estate**

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

	June 30, 2016	December 31, 2015
Industrial	9.6%	10.9%
Office	37.8	38.1
Retail	37.4	37.0
Other	15.2	14.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

June 30, 2016	December 31, 2015
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East North Central	7.2%	11.4%
East South Central	3.5	3.6
Mountain	12.3	12.6
Pacific	5.7	5.6
South Atlantic	13.3	10.1
West South Central	52.3	50.7
Other	5.7	6.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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

American National regularly invests in real estate partnerships and joint ventures. American National frequently participates in the design of these entities with the sponsor, but in most cases, its involvement is limited to financing. Through analysis performed by American National, some of these partnerships and joint ventures have been determined to be variable interest entities ( VIEs ). In certain instances, in addition to an economic interest in the entity, American National holds the power to direct the most significant activities of the entity and is deemed the primary beneficiary or consolidator of the entity. The assets of the consolidated VIEs are restricted and must first be used to settle their liabilities. Creditors or beneficial interest holders of these VIEs have no recourse to the general credit of American National, as American National's obligation is limited to the amount of its committed investment. American National has not provided financial or other support to the VIEs in the form of liquidity arrangements, guarantees, or other commitments to third parties that may affect the fair value or risk of its variable interest in the VIEs in 2016 or 2015.

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Investment real estate	\$ 172,589	\$ 174,264
Short-term investments	1	1
Cash and cash equivalents	4,367	3,855
Accrued investment income		557
Other receivables	4,077	8,101
Other assets	10,426	8,210
<b>Total assets of consolidated VIEs</b>	<b>\$ 191,460</b>	<b>\$ 194,988</b>
Notes payable	\$ 140,239	\$ 128,436
Other liabilities	12,544	19,436
<b>Total liabilities of consolidated VIEs</b>	<b>\$ 152,783</b>	<b>\$ 147,872</b>

The notes payable in the consolidated statements of financial position pertain to the borrowings of the consolidated VIEs. The liability of American National relating to notes payable of the consolidated VIEs is limited to the amount of its direct or indirect investment in the respective ventures, which totaled \$36,317,000 and \$34,699,000 at June 30, 2016 and December 31, 2015, respectively. The total long-term portion of notes payable, \$100,537,000, consists of four notes with the following interest rates: 4.0%, one note with adjusted LIBOR plus LIBOR margin, one note at LIBOR, and one note at the lesser of the Prime Rate or the highest rate permitted by law. Of the long-term notes payable, two notes will mature in 2018 and two notes will mature beyond 5 years. The current portion of notes payable, \$39,702,000, maturing in 2016 and 2017, consists of two notes with the following interest: prime plus 0.5%, and a loan with adjusted LIBOR plus LIBOR margin.

For other VIEs in which American National is a partner, it is not the primary beneficiary and these entities are not consolidated, as the major decisions that most significantly impact the economic activities of the VIE require

unanimous consent of all partners. The carrying amount and maximum exposure to loss relating to unconsolidated VIEs follows (in thousands):

	<b>June 30, 2016</b>		<b>December 31, 2015</b>	
	<b>Carrying Amount</b>	<b>Maximum Exposure to Loss</b>	<b>Carrying Amount</b>	<b>Maximum Exposure to Loss</b>
Investment in unconsolidated affiliates	\$ 297,240	\$ 297,240	\$ 236,816	\$ 236,816
Mortgage loans	413,709	413,709	212,228	212,228
Accrued investment income	1,427	1,427	661	661

As of June 30, 2016, no real estate investments were classified as held for sale.

**Table of Contents****Note 7 Derivative Instruments**

American National purchases over-the-counter equity-indexed options as economic hedges against fluctuations in the equity markets to which equity-indexed products are exposed. These options are not designated as hedging instruments for accounting purposes under U.S. GAAP. Equity-indexed contracts include a fixed host universal-life insurance or annuity contract and an equity-indexed embedded derivative. The detail of derivative instruments is shown below (in thousands, except number of instruments):

Derivatives Not Designated as Hedging Instruments	Location in the Consolidated Statements of Financial Position	Number of Instruments	June 30, 2016		December 31, 2015		
			Notional Amounts	Estimated Fair Value	Number of Instruments	Estimated Fair Value	
Equity-indexed options	Other invested assets	428	\$ 1,301,500	\$ 134,575	419	\$ 1,200,600	\$ 123,007
Equity-indexed embedded derivative	Policyholders account balances	56,789	1,175,400	278,570	51,815	1,067,600	242,412

Derivatives Not Designated as Hedging Instruments	Location in the Consolidated Statements of Operations	Gains (Losses) Recognized in Income on Derivatives			
		Three months ended June 30, 2016		Six months ended June 30, 2015	
Equity-indexed options	Net investment income	\$ 5,789	\$ (2,095)	\$ 2,150	\$ (964)
Equity-indexed embedded derivative	Interest credited to policyholders account balances	(8,725)	4,413	(6,173)	3,217

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

Net investment income is shown below (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Bonds	\$ 138,786	\$ 139,095	\$ 278,979	\$ 282,836
Equity securities	10,048	10,049	19,327	18,516
Mortgage loans	49,314	49,502	97,316	99,001
Real estate	429	147	(1,445)	(1,606)
Options	5,789	(2,095)	2,150	(964)
Other invested assets	6,344	6,964	10,437	15,092
<b>Total</b>	<b>\$ 210,710</b>	<b>\$ 203,662</b>	<b>\$ 406,764</b>	<b>\$ 412,875</b>

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

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Bonds	\$ 1,854	\$ 8,799	\$ 4,593	\$ 10,097
Equity securities	6,065	8,283	10,930	36,910
Mortgage loans	(433)	(209)	1,059	(733)
Real estate	273	(78)	273	9,833
Other invested assets	(793)	(27)	(827)	(37)
<b>Total</b>	<b>\$ 6,966</b>	<b>\$ 16,768</b>	<b>\$ 16,028</b>	<b>\$ 56,070</b>

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Equity securities	(3,551)	(3,472)	(7,027)	(3,497)
<b>Total</b>	<b>\$ (3,551)</b>	<b>\$ (3,472)</b>	<b>\$ (7,027)</b>	<b>\$ (3,497)</b>

**Note 9 Fair Value of Financial Instruments**

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

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Fixed maturity securities, bonds held-to-maturity	\$ 7,456,908	\$ 7,895,093	\$ 7,609,420	\$ 7,755,553
Fixed maturity securities, bonds available-for-sale	5,894,667	5,894,667	5,483,916	5,483,916
Equity securities	1,531,926	1,531,926	1,514,979	1,514,979
Equity-indexed options	134,575	134,575	123,007	123,007
Mortgage loans on real estate, net of allowance	3,996,073	4,208,615	3,483,280	3,621,978
Policy loans	388,763	388,763	407,491	407,491
Short-term investments	252,431	252,431	460,612	460,612
Separate account assets	900,972	900,972	918,446	918,446
<b>Total financial assets</b>	<b>\$ 20,556,315</b>	<b>\$ 21,207,042</b>	<b>\$ 20,001,151</b>	<b>\$ 20,285,982</b>
<b>Financial liabilities</b>				
Investment contracts	\$ 8,826,473	\$ 8,826,473	\$ 8,787,376	\$ 8,787,376
Embedded derivative liability for equity-indexed contracts	278,570	278,570	242,412	242,412
Notes payable	140,239	140,239	128,436	128,436
Separate account liabilities	900,972	900,972	918,446	918,446
<b>Total financial liabilities</b>	<b>\$ 10,146,254</b>	<b>\$ 10,146,254</b>	<b>\$ 10,076,670</b>	<b>\$ 10,076,670</b>



Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability. A fair value hierarchy is used to determine fair value based on a hypothetical transaction at the measurement date from the perspective of a market participant. American National has evaluated the types of securities in its investment portfolio to determine an appropriate hierarchy level based upon trading activity and the observability of market inputs. The classification of assets or liabilities within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Quoted prices in markets that are not active or inputs that are observable directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

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

Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect American National's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models and third-party evaluation, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

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

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

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

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

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

**Equity Securities** For publicly-traded equity securities, prices are received from a nationally recognized pricing service that are based on observable market transactions, and these securities are classified as Level 1 measurements. For certain preferred stock, current market quotes in active markets are unavailable. In these instances, an estimate of

fair value is received from the pricing service. The service utilizes similar methodologies to price preferred stocks as it does for fixed maturity securities. These estimates are disclosed as Level 2 measurements. American National tests the accuracy of the information provided by reference to other services regularly.

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

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

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

The significant unobservable input used to calculate the fair value of the embedded derivatives is equity option implied volatility. An increase in implied volatility will result in an increase in the value of the equity-indexed embedded derivatives, all other things being equal. At June 30, 2016 and December 31, 2015, the one year implied volatility used to estimate embedded derivative value was 17.1% and 17.5%, respectively.

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

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

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

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

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

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

	Fair Value Measurement as of June 30, 2016			
	Total Fair Value	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 346,028	\$	\$ 346,028	\$
Foreign governments	5,019		5,019	
Corporate debt securities	7,264,007		7,213,891	50,116
Residential mortgage-backed securities	275,296		274,373	923
Collateralized debt securities	1,394			1,394
Other debt securities	3,349			3,349
<b>Total bonds held-to-maturity</b>	<b>7,895,093</b>		<b>7,839,311</b>	<b>55,782</b>
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	25,055		25,055	
U.S. states and political subdivisions	1,035,885		1,033,405	2,480
Foreign governments	7,000		7,000	
Corporate debt securities	4,796,474		4,781,895	14,579
Residential mortgage-backed securities	23,567		21,083	2,484
Collateralized debt securities	6,686		4,563	2,123
<b>Total bonds available-for-sale</b>	<b>5,894,667</b>		<b>5,873,001</b>	<b>21,666</b>
Equity securities				
Common stock	1,501,158	1,501,158		
Preferred stock	30,768	30,768		
<b>Total equity securities</b>	<b>1,531,926</b>	<b>1,531,926</b>		
Options	134,575			134,575
Mortgage loans on real estate	4,208,615		4,208,615	
Policy loans	388,763			388,763
Short-term investments	252,431		252,431	
Separate account assets	900,972		900,972	

<b>Total financial assets</b>	<b>\$ 21,207,042</b>	<b>\$ 1,531,926</b>	<b>\$ 19,074,330</b>	<b>\$ 600,786</b>
Financial liabilities				
Investment contracts	\$ 8,826,473	\$	\$	\$ 8,826,473
Embedded derivative liability for equity-indexed contracts	278,570			278,570
Notes payable	140,239			140,239
Separate account liabilities	900,972		900,972	
<b>Total financial liabilities</b>	<b>\$ 10,146,254</b>	<b>\$</b>	<b>\$ 900,972</b>	<b>\$ 9,245,282</b>

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

	Fair Value Measurement as of December 31, 2015			
	Total Fair Value	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 346,517	\$	\$ 346,517	\$
Foreign governments	4,968		4,968	
Corporate debt securities	7,091,670		7,010,165	81,505
Residential mortgage-backed securities	294,200		293,267	933
Collateralized debt securities	2,024		2,024	
Other debt securities	16,174		12,355	3,819
<b>Total bonds held-to-maturity</b>	<b>7,755,553</b>		<b>7,669,296</b>	<b>86,257</b>
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	24,692		24,692	
U.S. states and political subdivisions	972,491		969,996	2,495
Foreign governments	6,733		6,733	
Corporate debt securities	4,444,622		4,431,263	13,359
Residential mortgage-backed securities	27,364		24,958	2,406
Collateralized debt securities	8,014		6,144	1,870
<b>Total bonds available-for-sale</b>	<b>5,483,916</b>		<b>5,463,786</b>	<b>20,130</b>
Equity securities				
Common stock	1,491,029	1,491,029		
Preferred stock	23,950	23,950		
<b>Total equity securities</b>	<b>1,514,979</b>	<b>1,514,979</b>		
Options	123,007			123,007
Mortgage loans on real estate	3,621,978		3,621,978	
Policy loans	407,491			407,491
Short-term investments	460,612		460,612	
Separate account assets	918,446		918,446	
<b>Total financial assets</b>	<b>\$ 20,285,982</b>	<b>\$ 1,514,979</b>	<b>\$ 18,134,118</b>	<b>\$ 636,885</b>
Financial liabilities				
Investment contracts	\$ 8,787,376	\$	\$	\$ 8,787,376
Embedded derivative liability for equity-indexed contracts	242,412			242,412
Notes payable	128,436			128,436
Separate account liabilities	918,446		918,446	

<b>Total financial liabilities</b>	<b>\$ 10,076,670</b>	<b>\$</b>	<b>\$ 918,446</b>	<b>\$ 9,158,224</b>
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**Table of Contents****Note 9 Fair Value of Financial Instruments (Continued)**

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

	Level 3					
	Three months ended June 30,			Six months ended June 30,		
	Assets		Liability	Assets		Liability
	Investment	Equity-Indexed	Embedded	Investment	Equity-Indexed	Embedded
	Securities	Options	Derivative	Securities	Options	Derivative
<b>Beginning balance, 2016</b>	<b>\$ 21,689</b>	<b>\$ 123,761</b>	<b>\$ 258,267</b>	<b>\$ 20,130</b>	<b>\$ 123,007</b>	<b>\$ 242,412</b>
Total realized and unrealized investment gains included in other comprehensive income	352			511		
Net fair value change included in realized gains	1			1		
Net gain for derivatives included in net investment income		5,789			2,150	
Net change included in interest credited			8,725			6,173
Purchases, sales and settlements or maturities						
Purchases		7,178			12,471	
Sales						
Settlements or maturities	(376)	(2,153)		(389)	(3,053)	
Premiums less benefits			11,578			29,985
Gross transfers into Level 3				1,413		
Gross transfers out of Level 3						
<b>Ending balance June 30, 2016</b>	<b>\$ 21,666</b>	<b>\$ 134,575</b>	<b>\$ 278,570</b>	<b>\$ 21,666</b>	<b>\$ 134,575</b>	<b>\$ 278,570</b>
<b>Beginning balance, 2015</b>	<b>\$ 65,299</b>	<b>\$ 188,006</b>	<b>\$ 208,412</b>	<b>\$ 64,433</b>	<b>\$ 189,449</b>	<b>\$ 208,187</b>
Total realized and unrealized investment losses included in other comprehensive income	(1,105)			(168)		
Net fair value change included in realized gains (losses)						
Net loss for derivatives included in net investment income		(3,880)			(4,623)	
Net change included in interest credited			(4,413)			(3,217)
Purchases, sales and settlements or maturities						
Purchases		5,825			9,588	

Sales	(60)			(121)			
Settlements or maturities	(332)	(5,988)		(342)	(10,451)		
Premiums less benefits			4,828			3,857	
Gross transfers into Level 3	3,398			3,398			
Gross transfers out of Level 3							
<b>Ending balance June 30, 2015</b>	<b>\$ 67,200</b>	<b>\$ 183,963</b>	<b>\$ 208,827</b>	<b>\$ 67,200</b>	<b>\$ 183,963</b>	<b>\$ 208,827</b>	

Within the net gain (loss) for derivatives included in net investment income were unrealized gains of \$19,745,000 relating to assets still held at June 30, 2016 and losses of \$10,602,000 at June 30, 2015.

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.

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

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

	Life	Annuity	Accident & Health	Property & Casualty	Total
<b>Beginning balance, 2016</b>	<b>\$ 756,023</b>	<b>\$ 411,206</b>	<b>\$ 44,390</b>	<b>\$ 113,050</b>	<b>\$ 1,324,669</b>
Additions	54,464	43,295	4,915	129,507	232,181
Amortization	(39,958)	(36,034)	(7,265)	(127,760)	(211,017)
Effect of change in unrealized gains on available-for-sale securities	(14,808)	(49,938)			(64,746)
<b>Net change</b>	<b>(302)</b>	<b>(42,677)</b>	<b>(2,350)</b>	<b>1,747</b>	<b>(43,582)</b>
<b>Ending balance at June 30, 2016</b>	<b>\$ 755,721</b>	<b>\$ 368,529</b>	<b>\$ 42,040</b>	<b>\$ 114,797</b>	<b>\$ 1,281,087</b>

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

**Note 11 Liability for Unpaid Claims and Claim Adjustment Expenses**

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

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

	Six months ended June 30,	
	2016	2015
<b>Unpaid claims balance, beginning</b>	<b>\$ 1,104,302</b>	<b>\$ 1,132,394</b>
Less reinsurance recoverables	217,337	245,906
<b>Net beginning balance</b>	<b>886,965</b>	<b>886,488</b>
Incurred related to		
Current	523,388	485,872
Prior years	(16,628)	(14,189)
<b>Total incurred claims</b>	<b>506,760</b>	<b>471,683</b>

Paid claims related to		
Current	266,566	246,056
Prior years	209,805	208,300
<b>Total paid claims</b>	<b>476,371</b>	<b>454,356</b>
Net balance	917,354	903,815
Plus reinsurance recoverables	206,962	222,376
<b>Unpaid claims balance, ending</b>	<b>\$ 1,124,316</b>	<b>\$ 1,126,191</b>

The net and gross reserve calculations have shown favorable development as a result of favorable loss emergence compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred claims attributable to insured events of prior years decreased by approximately \$16,628,000 during the first six months of 2016 and decreased by approximately \$14,189,000 during the first six months of 2015, reflecting lower-than-anticipated losses in the multi-peril line of business.

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

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

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Income tax on pre-tax income	\$ 14,727	35.0%	\$ 17,454	35.0%	\$ 23,283	35.0%	\$ 69,234	35.0%
Tax-exempt investment income	(1,974)	(4.7)	(1,946)	(3.9)	(3,946)	(5.9)	(3,825)	(1.9)
Deferred tax adjustment	(341)	(0.8)			(10,508)	(15.8)		
Dividend exclusion	(1,879)	(4.5)	(1,864)	(3.7)	(4,226)	(6.4)	(3,947)	(2.0)
Miscellaneous tax credits, net	(2,865)	(6.8)	(2,541)	(5.1)	(5,116)	(7.7)	(4,472)	(2.3)
Low income housing tax credit expense	1,295	3.1	1,221	2.4	2,589	3.9	2,485	1.3
Other items, net	885	2.1	2,886	5.8	1,142	1.7	1,425	0.7
Provision for federal income tax before interest expense	9,848	23.4	15,210	30.5	3,218	4.8	60,900	30.8
Interest expense	42	0.1			2,602	3.9		
<b>Total</b>	<b>\$ 9,890</b>	<b>23.5%</b>	<b>\$ 15,210</b>	<b>30.5%</b>	<b>\$ 5,820</b>	<b>8.7%</b>	<b>\$ 60,900</b>	<b>30.8%</b>

American National made income tax payments of \$35,458,000 and \$25,080,000 during the six months ended June 30, 2016 and 2015, respectively. In the first quarter of 2016, the Company recognized a \$10,167,000 tax benefit associated with the reduction of a deferred tax liability, when a determination was made that no tax would be due on the restructuring of a subsidiary ownership interest.

Management believes that a sufficient level of taxable income will be achieved over time to utilize the deferred tax assets in the consolidated federal tax return; therefore, no valuation allowance was recorded as of June 30, 2016 and 2015. There are no ordinary loss tax carryforwards that will expire by December 31, 2016.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2006 to 2009 has been extended. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld. No provision for penalties was established, however, management has accrued interest in the amount of \$2.6 million, net of tax, in the first quarter of 2016 relating to a dispute with the Internal Revenue Service. Management does not believe there are any uncertain tax benefits that could be recognized within the next twelve months that would decrease American National's effective tax rate.

**Table of Contents****Note 13 Accumulated Other Comprehensive Income**

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

	Net Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plan Adjustments	Foreign Currency Adjustments	AOCI
<b>Beginning balance, 2016</b>	<b>\$ 453,434</b>	<b>\$ (97,889)</b>	<b>\$ (2,925)</b>	<b>\$ 352,620</b>
Amounts reclassified from AOCI (net of tax benefit \$2,105 and expense \$2,292)	(3,910)	4,256		32,031
Unrealized holding gains arising during the period (net of tax expense \$99,218)	184,262			152,577
Unrealized adjustment to DAC (net of tax benefit \$22,893)	(41,853)			(41,853)
Unrealized losses on investments attributable to participating policyholders' interest (net of tax benefit \$4,159)	(7,723)			(7,723)
Foreign currency adjustment (net of tax expense \$232)			430	430
<b>Ending balance at June 30, 2016</b>	<b>\$ 584,210</b>	<b>\$ (93,633)</b>	<b>\$ (2,495)</b>	<b>\$ 488,082</b>
<b>Beginning balance, 2015</b>	<b>568,151</b>	<b>(76,074)</b>	<b>(1,295)</b>	<b>490,782</b>
Amounts reclassified from AOCI (net of tax benefit \$12,334 and expense \$1,633)	(22,905)	3,032		(19,873)
Unrealized holding losses arising during the period (net of tax benefit \$19,566)	(36,337)			(36,337)
Unrealized adjustment to DAC (net of tax expense \$6,510)	11,170			11,170
Unrealized gains on investments attributable to participating policyholders' interest (net of tax expense \$953)	1,769			1,769
Foreign currency adjustment (net of tax benefit \$350)			(650)	(650)
<b>Ending balance at June 30, 2015</b>	<b>\$ 521,848</b>	<b>\$ (73,042)</b>	<b>\$ (1,945)</b>	<b>\$ 446,861</b>

**Note 14 Stockholders' Equity and Noncontrolling Interests**

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

	June 30, 2016	December 31, 2015
<b>Common stock</b>		
Shares issued	30,832,449	30,832,449
Treasury shares	(3,918,231)	(3,937,993)
<b>Outstanding shares</b>	<b>26,914,218</b>	<b>26,894,456</b>
Restricted shares	(76,000)	(76,000)
<b>Unrestricted outstanding shares</b>	<b>26,838,218</b>	<b>26,818,456</b>

### Stock-based compensation

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

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

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

	SAR Weighted-Average Grant Date		RS Shares Weighted-Average Grant Date		RS Units Weighted-Average Grant Date	
	Shares	Fair Value	Shares	Fair Value	Units	Fair Value
<b>Outstanding at December 31, 2015</b>	<b>38,092</b>	<b>\$ 115.18</b>	<b>76,000</b>	<b>\$ 110.73</b>	<b>135,725</b>	<b>\$ 103.73</b>
Granted					36,849	103.58
Exercised	(4,934)	110.99			(66,234)	100.02
Forfeited					(182)	105.75
Expired	(16,364)	116.89				
<b>Outstanding at June 30, 2016</b>	<b>16,794</b>	<b>\$ 114.74</b>	<b>76,000</b>	<b>\$ 110.73</b>	<b>106,158</b>	<b>\$ 105.98</b>

	SAR	RS Shares	RS Units
Weighted-average contractual remaining life (in years)	1.42	3.18	1.93
Exercisable shares	16,794	N/A	N/A
Weighted-average exercise price	\$ 114.74	\$ 110.73	\$ 105.98
Weighted-average exercise price exercisable shares	114.74	N/A	N/A
Compensation expense (credit)			
Three months ended June 30, 2016	\$ 4,000	\$ 209,000	\$ 345,000
Three months ended June 30, 2015	10,000	276,000	1,127,000
Six months ended June 30, 2016	37,000	419,000	4,447,000
Six months ended June 30, 2015	(67,000)	653,000	4,307,000
Fair value of liability award			
June 30, 2016	\$ 71,000	N/A	\$ 21,168,000
December 31, 2015	37,000	N/A	19,415,000

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

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



price of zero, of which 76,000 shares are unvested.

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

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

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

	Three months ended June		Six months ended June 30,	
	2016	2015	2016	2015
Weighted average shares outstanding	26,908,077	26,877,833	26,908,748	26,847,936
Incremental shares from RS awards and RSUs	62,520	74,274	56,954	93,541
<b>Total shares for diluted calculations</b>	<b>26,970,597</b>	<b>26,952,107</b>	<b>26,965,702</b>	<b>26,941,477</b>
Net income attributable to American National (in thousands)	\$ 32,625	\$ 35,053	\$ 61,941	\$ 138,035
Basic earnings per share	\$ 1.21	\$ 1.30	\$ 2.30	\$ 5.14
Diluted earnings per share	1.21	1.30	2.30	5.12

**Statutory Capital and Surplus**

Risk Based Capital ( RBC ) is a measure insurance regulators use to evaluate the capital adequacy of American National Insurance Company and its insurance subsidiaries. RBC is calculated using formulas applied to certain financial balances and activities that consider, among other things, investment risks related to the type and quality of investments, insurance risks associated with products and liabilities, interest rate risks and general business risks. Insurance companies that do not maintain capital and surplus at a level at least 200% of the authorized control level RBC are required to take certain actions. At June 30, 2016 and December 31, 2015, American National Insurance Company's statutory capital and surplus was \$2,920,318,000 and \$2,925,935,000, respectively. American National Insurance Company and each of its insurance subsidiaries had statutory capital and surplus at June 30, 2016 and December 31, 2015, substantially above 200% of the authorized control level.

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

Statutory accounting differs from GAAP primarily by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions, and valuing securities on a different

basis. In addition, certain assets are not admitted under statutory accounting principles and are charged directly to surplus.

One of American National's insurance subsidiaries has been granted a permitted practice from the Missouri Department of Insurance to record as the valuation of its investment in a wholly-owned subsidiary that is the attorney-in-fact for a Texas domiciled insurer, the statutory capital and surplus of the Texas domiciled insurer. This permitted practice increases the statutory capital and surplus of both American National Insurance Company and the Missouri domiciled insurance subsidiary by \$64,555,000 and \$64,225,000 at June 30, 2016 and June 30, 2015, respectively. Additionally, the statutory capital and surplus of both American National Insurance Company and the Missouri domiciled insurance subsidiary would have remained substantially above the company action level RBC had it not used the permitted practice.

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

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

	<b>June 30, 2016</b>		<b>December 31, 2015</b>	
<b>Statutory capital and surplus</b>				
Life insurance entities	\$ 1,888,976		\$ 1,900,939	
Property and casualty insurance entities	1,040,461		1,033,942	
	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>		<b>2015</b>	
<b>Statutory net income (loss)</b>				
Life insurance entities	\$ 19,182	\$ 33,147	\$ 23,109	\$ 79,241
Property and casualty insurance entities	(1,291)	(1,111)	3,257	13,937

**Dividends**

American National Insurance Company's payment of dividends to stockholders is restricted by statutory regulations. The restrictions require life insurance companies to maintain minimum amounts of capital and surplus, and in the absence of special approval, limit the payment of dividends to the greater of the prior year's statutory net income from operations, or 10% of prior year statutory surplus. American National Insurance Company is permitted to pay total dividends of \$292,593,000 during 2016, without prior approval of the Texas Department of Insurance. Similar restrictions on amounts that can transfer in the form of dividends, loans, or advances to American National Insurance Company apply to its insurance subsidiaries.

**Noncontrolling interests**

American National County Mutual Insurance Company ( County Mutual ) is a mutual insurance company that is owned by its policyholders. American National has a management agreement that effectively gives it control of County Mutual. As a result, County Mutual is included in the consolidated financial statements of American National. Policyholder interests in the financial position of County Mutual are reflected as noncontrolling interest of \$6,750,000 at June 30, 2016 and December 31, 2015.

American National Insurance Company and its subsidiaries exercise significant control or ownership of various joint ventures, resulting in their consolidation into American National's consolidated financial statements. The interests of the other partners in the consolidated joint ventures are shown as noncontrolling interests of \$2,038,000 and \$3,439,000 at June 30, 2016 and December 31, 2015, respectively.

**Note 15 Segment Information**

Management organizes the business into five operating segments:

Life markets whole, term, universal, indexed and variable life insurance on a national basis primarily through career, multiple-line, and independent agents as well as direct marketing channels.

Annuity offers fixed, indexed, and variable annuity products. These products are primarily sold through independent agents, brokers, and financial institutions, along with multiple-line and career agents.

Health primary lines of business are Medicare Supplement, stop loss, other supplemental health products and credit disability insurance. Health products are typically distributed through independent agents and managing general underwriters.

Property and Casualty writes personal, agricultural and targeted commercial coverages and credit-related property insurance. These products are primarily sold through multiple-line and independent agents.

**Table of Contents****Note 15 Segment Information (Continued)**

Corporate and Other consists of net investment income from investments not allocated to the insurance segments and revenues from non-insurance operations.

The accounting policies of the segments are the same as those described in Note 2 to American National's annual report on Form 10-K. All revenues and expenses specifically attributable to policy transactions are recorded directly to the appropriate operating segment. Revenues and expenses not specifically attributable to policy transactions are allocated to each segment as follows:

Recurring income from bonds and mortgage loans is allocated based on the assets allocated to each line of business at the average yield available from these assets.

Net investment income from all other assets is allocated to the insurance segments in accordance with the amount of capital allocated to each segment, with the remainder recorded in the Corporate and Other business segment.

Expenses are allocated based upon various factors, including premium and commission ratios of the operating segments.

The following summarizes the results of operations measured as the income before federal income taxes, and equity in earnings of unconsolidated affiliates by operating segments (in thousands):

	Three months ended June 30, 2016		Six months ended June 30, 2015	
	2016	2015	2016	2015
Life	\$ 16,766	\$ 7,131	\$ 13,285	\$ 15,330
Annuity	17,463	17,122	35,434	34,235
Health	4,419	5,360	3,785	12,903
Property and Casualty	(4,775)	(1,444)	2,215	8,778
Corporate and Other	6,407	21,238	9,069	69,520
<b>Total</b>	<b>\$ 40,280</b>	<b>\$ 49,407</b>	<b>\$ 63,788</b>	<b>\$ 140,766</b>

**Note 16 Commitments and Contingencies****Commitments**

American National had aggregate commitments at June 30, 2016, to purchase, expand or improve real estate, to fund fixed interest rate mortgage loans, and to purchase other invested assets of \$869,114,000 of which \$479,418,000 is expected to be funded in 2016 with the remainder funded in 2017 and beyond.

American National has a \$100,000,000 short-term variable rate borrowing facility containing a \$55,000,000 sub-feature for the issuance of letters of credit. Borrowings under the facility are at the discretion of the lender and would be used only for funding working capital requirements. The combination of borrowings and outstanding letters of credit cannot exceed \$100,000,000 at any time. As of June 30, 2016 and December 31, 2015, the outstanding letters of credit were \$9,501,000 and there were no borrowings on this facility. This facility expires on October 30, 2016. American National expects it will be renewed on substantially equivalent terms upon expiration.

**Table of Contents****Note 16 Commitments and Contingencies (Continued)****Guarantees**

American National has guaranteed bank loans for customers of a third-party marketing operation. The bank loans are used to fund premium payments on life insurance policies issued by American National. The loans are secured by the cash values of the life insurance policies. If the customer were to default on the bank loan, American National would be obligated to pay off the loans. As the cash values of the life insurance policies always equal or exceed the balance of the loans, management does not foresee any loss on these guarantees. The total amount of the guarantees outstanding as of June 30, 2016, was approximately \$206,376,000, while the total cash value of the related life insurance policies was approximately \$210,638,000.

**Litigation**

American National and certain subsidiaries, in common with the insurance industry in general, are defendants in various lawsuits concerning alleged breaches of contracts, various employment matters, allegedly deceptive insurance sales and marketing practices, and miscellaneous other causes of action arising in the ordinary course of operations. Certain of these lawsuits include claims for compensatory and punitive damages. We provide accruals for these items to the extent we deem the losses probable and reasonably estimable. After reviewing these matters with legal counsel, based upon information presently available, management is of the opinion that the ultimate resultant liability, if any, would not have a material adverse effect on American National's consolidated financial position, liquidity or results of operations; however, assessing the eventual outcome of litigation necessarily involves forward-looking speculation as to judgments to be made by judges, juries and appellate courts in the future.

Such speculation warrants caution, as the frequency of large damage awards, which bear little or no relation to the economic damages incurred by plaintiffs in some jurisdictions, continues to create the potential for an unpredictable judgment in any given lawsuit. These lawsuits are in various stages of development, and future facts and circumstances could result in management changing its conclusions. It is possible that, if the defenses in these lawsuits are not successful, and the judgments are greater than management can anticipate, the resulting liability could have a material impact on our consolidated financial position, liquidity or results of operations. With respect to the existing litigation, management currently believes that the possibility of a material judgment adverse to American National is remote and no estimate of range can be made for loss contingencies that are at least reasonably possible but not accrued.

**Note 17 Related Party Transactions**

American National has entered into recurring transactions and agreements with certain related parties. These include mortgage loans, management contracts, agency commission contracts, marketing agreements, accident and health insurance contracts, and legal services. The impact on the consolidated financial statements of significant related party transactions is shown below (in thousands):

<b>Dollar Amount of Transactions to (from) American National</b>		
<b>Six</b>	<b>December</b>	
<b>months ended June 30,</b>	<b>June 30,</b>	<b>31,</b>



<b>Related Party</b>	<b>Financial Statement Line Impacted</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Gal-Tex Hotel Corporation	Mortgage loan on real estate	\$ 700	\$ 651	\$ 4,482	\$ 5,182
Gal-Tex Hotel Corporation	Net investment income	177	226	27	31
Greer, Herz & Adams, LLP	Other operating expenses	4,627	4,012	(336)	(274)

*Mortgage Loans to Gal-Tex Hotel Corporation ( Gal-Tex ):* American National holds a first mortgage loan originated in 1999, with an interest rate of 7.25% and final maturity date of April 1, 2019 issued to Gal-Tex, which is collateralized by a hotel property in San Antonio, Texas. This loan is current as to principal and interest payments.

*Transactions with Greer, Herz & Adams, LLP:* Irwin M. Herz, Jr. is an American National advisory director and a Partner with Greer, Herz & Adams, LLP, which serves as American National's General Counsel.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Set forth on the following pages is management's discussion and analysis (MD&A) of financial condition and results of operations for the three and six months ended June 30, 2016 and 2015 of American National Insurance Company and its subsidiaries (referred to in this document as we, our, us, or the Company). This information should be read in conjunction with our consolidated financial statements included in Item 1, Financial Statements (unaudited), of this Form 10-Q.

**Forward-Looking Statements**

This document contains forward-looking statements that reflect our estimates and assumptions related to business, economic, competitive and legislative developments. Forward-looking statements generally are indicated by words such as expects, intends, anticipates, plans, believes, estimates, will or words of similar meaning and include limitation, statements regarding the outlook of our business and expected financial performance. Forward-looking statements are not guarantees of future performance and involve various risks and uncertainties. Moreover, forward-looking statements speak only as of the date made, and we undertake no obligation to update them. Certain important factors could cause our actual results to differ, possibly materially, from our expectations or estimates. These factors are described in greater detail in Item IA, Risk Factors, in our 2015 Annual Report on Form 10-K filed with the SEC on February 29, 2016, and they include among others:

**Economic & Investment Risk Factors**

difficult conditions in the economy, which may not improve in the near future, and risks related to persistently low or unpredictable interest rates;

fluctuations in the markets for fixed maturity securities, equity securities, and commercial real estate, which could adversely affect the valuation of our investment portfolio, our net investment income, our retirement expense, and sales of or fees from certain of our products;

lack of liquidity for certain of our investments;

risk of investment losses and defaults;

**Operational Risk Factors**

differences between actual experience regarding mortality, morbidity, persistency, expense, surrenders and investment returns, and our assumptions for product pricing, establishing liabilities and reserves or for other purposes;

potential ineffectiveness of our risk management policies and procedures;

changes in our experience related to deferred policy acquisition costs;

failures or limitations of our computer, data security and administration systems;

potential employee error or misconduct, which may result in fraud or adversely affect the execution and administration of our policies and claims;

### **Catastrophic Event Risk Factors**

natural or man-made catastrophes, pandemic disease, or other events resulting in increased claims activity from catastrophic loss of life or property;

the effects of unanticipated events on our disaster recovery and business continuity planning;

### **Marketplace Risk Factors**

the highly competitive nature of the insurance and annuity business;

potential difficulty in attraction and retention of qualified employees and agents;

the introduction of alternative healthcare solutions or changes in federal healthcare policy, both of which could impact our supplement healthcare business;

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**Litigation and Regulation Risk Factors**

adverse determinations in litigation or regulatory proceedings which may result in significant financial losses and harm our reputation;

significant changes in government regulation;

changes in tax law;

changes in statutory or U.S. generally accepted accounting principles ( GAAP ), practices or policies;

**Reinsurance and Counterparty Risk Factors**

potential changes in the availability, affordability, adequacy and collectability of reinsurance protection;

potential default or failure to perform by the counterparties to our reinsurance arrangements and derivative instruments;

**Other Risk Factors**

potentially adverse rating agency actions; and

control of our company by a small number of stockholders.

**Overview**

Chartered in 1905, we are a diversified insurance and financial services company offering a broad spectrum of insurance products in all 50 states, the District of Columbia and Puerto Rico. Our headquarters are in Galveston, Texas.

**General Trends**

American National had no material changes to the general trends, as discussed in the MD&A included in our 2015 Annual Report on Form 10-K filed with the SEC on February 29, 2016.

***Critical Accounting Estimates***

The unaudited interim consolidated financial statements have been prepared in conformity with GAAP. In addition to GAAP, insurance companies apply specific SEC regulations when preparing the consolidated financial statements. The preparation of the consolidated financial statements and notes requires us to make estimates and assumptions that affect the amounts reported. Actual results could differ from results reported using those estimates and assumptions. Our accounting policies inherently require the use of judgments relating to a variety of assumptions and estimates, particularly expectations of current and future mortality, morbidity, persistency, expenses, interest rates, and property and casualty loss frequency, severity, claim reporting and settlement patterns. Due to the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could vary from those reported in the consolidated financial statements.

For a discussion of our critical accounting estimates, see the MD&A in our 2015 Annual Report on Form 10-K filed with the SEC on February 29, 2016. There have been no material changes in accounting policies since December 31, 2015.

***Recently Issued Accounting Pronouncements***

Refer to Note 3, Recently Issued Accounting Pronouncements, of the Notes to the Unaudited Consolidated Financial Statements in Item 1.

**Table of Contents****Consolidated Results of Operations**

The following sets forth the consolidated results of operations (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<b>Premiums and other revenues</b>						
Premiums	\$ 512,699	\$ 433,203	\$ 79,496	\$ 1,003,698	\$ 875,046	\$ 128,652
Other policy revenues	65,489	57,597	7,892	129,836	115,121	14,715
Net investment income	210,710	203,662	7,048	406,764	412,875	(6,111)
Realized investments gains (losses), net	3,415	13,296	(5,161)	9,001	52,573	(36,454)
Other income	8,135	9,748	(6,333)	16,119	18,458	(9,457)
<b>Total premiums and other revenues</b>	<b>800,448</b>	<b>717,506</b>	<b>82,942</b>	<b>1,565,418</b>	<b>1,474,073</b>	<b>91,345</b>
<b>Benefits, losses and expenses</b>						
Policyholder benefits	185,409	127,334	58,075	367,427	269,705	97,722
Claims incurred	261,287	244,176	17,111	505,537	468,225	37,312
Interest credited to policyholders account balances	85,901	69,215	16,686	162,428	144,968	17,460
Commissions for acquiring and servicing policies	114,945	103,557	11,388	227,829	196,672	31,157
Other operating expenses	129,197	123,203	5,994	259,573	246,661	12,912
Change in deferred policy acquisition costs <sup>(1)</sup>	(16,571)	614	(17,185)	(21,164)	7,076	(28,240)
<b>Total benefits and expenses</b>	<b>760,168</b>	<b>668,099</b>	<b>92,069</b>	<b>1,501,630</b>	<b>1,333,307</b>	<b>168,323</b>
<b>Income before other items and federal income taxes</b>	<b>\$ 40,280</b>	<b>\$ 49,407</b>	<b>\$ (9,127)</b>	<b>\$ 63,788</b>	<b>\$ 140,766</b>	<b>\$ (76,978)</b>

(1) A negative amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the period indicated. A positive net change indicates less expense was amortized and represents an increase to expenses in the period indicated.

Consolidated earnings decreased during the three months ended June 30, 2016 compared to 2015 primarily due to a decrease in property and casualty earnings impacted by higher personal auto claim frequency and severity, a decline in health premiums, and a decrease in realized investment gains. Consolidated earnings decreased during the six months ended June 30, 2016 compared to 2015 primarily due to a decrease in realized investment gains.

**Life**

Life segment financial results for the periods indicated were as follows (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<b>Premiums and other revenues</b>						
Premiums	\$ 77,053	\$ 75,071	\$ 1,982	\$ 152,170	\$ 147,153	\$ 5,017
Other policy revenues	62,579	54,174	8,405	124,187	108,600	15,587
Net investment income	56,060	56,372	(312)	110,244	113,986	(3,742)
Other income	477	607	(130)	1,070	1,030	40
<b>Total premiums and other revenues</b>	<b>196,169</b>	<b>186,224</b>	<b>9,945</b>	<b>387,671</b>	<b>370,769</b>	<b>16,902</b>
<b>Benefits, losses and expenses</b>						
Policyholder benefits	91,754	91,184	570	192,525	179,188	13,337
Interest credited to policyholders account balances	17,470	14,112	3,358	33,555	29,900	3,655
Commissions for acquiring and servicing policies	31,189	32,532	(1,343)	60,983	59,848	1,135
Other operating expenses	50,450	48,916	1,534	101,829	101,568	261
Change in deferred policy acquisition costs <sup>(1)</sup>	(11,460)	(7,651)	(3,809)	(14,506)	(15,065)	559
<b>Total benefits and expenses</b>	<b>179,403</b>	<b>179,093</b>	<b>310</b>	<b>374,386</b>	<b>355,439</b>	<b>18,947</b>
<b>Income before other items and federal income taxes</b>	<b>\$ 16,766</b>	<b>\$ 7,131</b>	<b>\$ 9,635</b>	<b>\$ 13,285</b>	<b>\$ 15,330</b>	<b>\$ (2,045)</b>

(1) A negative amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the period indicated. A positive net change indicates less expense was deferred than amortized and represents an increase to expenses in the period indicated.

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Earnings increased during the three months ended June 30, 2016 compared to 2015 primarily due to an increase in other policy revenues. Earnings decreased during the six months ended June 30, 2016 compared to 2015 primarily due to an increase in policyholder benefits.

**Premiums and other revenues**

Premiums increased during the three and six months ended June 30, 2016 compared to 2015 primarily due to continued renewal growth in our term products.

Other policy revenues include mortality charges, earned policy service fees and surrender charges on interest-sensitive life insurance policies. The increase in other policy revenues during the three and six months ended June 30, 2016 compared to 2015 is attributable to an increase in mortality charges resulting from an increase in insurance in-force.

**Life insurance sales**

The following table presents life insurance sales as measured by annualized premium, a non-GAAP measure used by the insurance industry, which allows a comparison of new policies sold by an insurance company during the period (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
Traditional Life	\$ 13,774	\$ 14,210	\$ (436)	\$ 27,313	\$ 28,408	\$ (1,095)
Universal Life	4,807	3,602	1,205	8,965	6,933	2,032
Indexed UL	6,511	6,103	408	11,589	11,161	428
Variable UL	24	5	19	24	9	15
<b>Total Recurring</b>	<b>\$ 25,116</b>	<b>\$ 23,920</b>	<b>\$ 1,196</b>	<b>\$ 47,891</b>	<b>\$ 46,511</b>	<b>\$ 1,380</b>
Single and excess	\$ 532	\$ 562	\$ (30)	\$ 955	\$ 913	\$ 42
Credit life	1,165	1,082	83	2,045	2,042	3

Life insurance sales are based on the total yearly premium that insurance companies would expect to receive if all recurring premium policies would remain in force, plus 10% of single and excess premiums and 15% of credit life premium. Life insurance sales measure activity associated with gaining new insurance business in the current period whereas GAAP premium revenues are associated with policies sold in current and prior periods; therefore, a reconciliation of premium revenues and insurance sales is not meaningful.

Life insurance sales increased slightly during the three and six months ended June 30, 2016 compared to 2015. Universal life sales were the main driver of the increase but were partially offset by lower sales of traditional life products.

**Benefits, losses and expenses**

Policyholder benefits increased during the six months ended June 30, 2016 compared to 2015 primarily due to an increase in claims with higher face amounts on a block of older aged policyholders.



Commissions decreased slightly during the three months ended June 30, 2016 compared to 2015. Commissions increased slightly during the six months ended June 30, 2016 compared to 2015 primarily due to increased sales of universal life products.

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The following table presents the components of the change in DAC (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
Acquisition cost capitalized	\$ 29,247	\$ 28,594	\$ 653	\$ 54,464	\$ 53,632	\$ 832
Amortization of DAC	(17,787)	(20,943)	3,156	(39,958)	(38,567)	(1,391)
<b>Change in DAC</b>	<b>\$ 11,460</b>	<b>\$ 7,651</b>	<b>\$ 3,809</b>	<b>\$ 14,506</b>	<b>\$ 15,065</b>	<b>\$ (559)</b>

**Policy in-force information**

The following table summarizes changes in the Life segment's in-force amounts (in thousands):

	June 30, 2016	December 31, 2015	Change
<b>Life insurance in-force</b>			
Traditional life	\$ 65,545,085	\$ 63,336,601	\$ 2,208,484
Interest-sensitive life	27,291,615	26,858,051	433,564
<b>Total life insurance in-force</b>	<b>\$ 92,836,700</b>	<b>\$ 90,194,652</b>	<b>\$ 2,642,048</b>

The following table summarizes changes in the Life segment's number of policies in-force:

	June 30, 2016	December 31, 2015	Change
<b>Number of policies in-force</b>			
Traditional life	1,856,601	1,890,600	(33,999)
Interest-sensitive life	217,704	212,851	4,853
<b>Total number of policies</b>	<b>2,074,305</b>	<b>2,103,451</b>	<b>(29,146)</b>

Total life insurance in-force increased during the six months ended June 30, 2016 compared to December 31, 2015, while the total number of policies decreased for the same periods, reflecting the transition to fewer but higher face amount policies.

**Table of Contents****Annuity**

Annuity segment financial results for the periods indicated were as follows (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<b>Premiums and other revenues</b>						
Premiums	\$ 86,030	\$ 25,088	\$ 60,942	\$ 156,238	\$ 66,531	\$ 89,707
Other policy revenues	2,910	3,423	(513)	5,649	6,521	(872)
Net investment income	123,640	113,205	10,435	240,536	232,867	7,669
Other income	802	1,012	(210)	1,762	1,882	(120)
<b>Total premiums and other revenues</b>	<b>213,382</b>	<b>142,728</b>	<b>70,654</b>	<b>404,185</b>	<b>307,801</b>	<b>96,384</b>
<b>Benefits, losses and expenses</b>						
Policyholder benefits	93,655	36,150	57,505	174,902	90,517	84,385
Interest credited to policyholders account balances	68,431	55,103	13,328	128,873	115,068	13,805
Commissions for acquiring and servicing policies	21,363	11,349	10,014	43,271	20,454	22,817
Other operating expenses	15,808	12,948	2,860	28,966	25,997	2,969
Change in deferred policy acquisition costs <sup>(1)</sup>	(3,338)	10,056	(13,394)	(7,261)	21,530	(28,791)
<b>Total benefits and expenses</b>	<b>195,919</b>	<b>125,606</b>	<b>70,313</b>	<b>368,751</b>	<b>273,566</b>	<b>95,185</b>
<b>Income before other items and federal income taxes</b>	<b>\$ 17,463</b>	<b>\$ 17,122</b>	<b>\$ 341</b>	<b>\$ 35,434</b>	<b>\$ 34,235</b>	<b>\$ 1,199</b>

(1) A negative amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the period indicated. A positive net change indicates less expense was deferred than amortized and represents an increase to expenses in the period indicated.

Earnings remained relatively constant during the three and six months ended June 30, 2016 compared to 2015.

**Premiums and other revenues**

Annuity premium and deposit amounts received are shown below (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
Fixed deferred annuity	\$ 145,792	\$ 58,151	\$ 87,641	\$ 329,948	\$ 105,710	\$ 224,238

Single premium immediate annuity	98,552	30,243	68,309	177,164	79,853	97,311
Equity-indexed deferred annuity	159,292	82,645	76,647	301,271	134,792	166,479
Variable deferred annuity	20,685	22,364	(1,679)	40,574	48,827	(8,253)
<b>Total premium and deposits</b>	<b>424,321</b>	<b>193,403</b>	<b>230,918</b>	<b>848,957</b>	<b>369,182</b>	<b>479,775</b>
Less: Policy deposits	338,291	168,315	169,976	692,719	302,651	390,068
<b>Total earned premiums</b>	<b>\$ 86,030</b>	<b>\$ 25,088</b>	<b>\$ 60,942</b>	<b>\$ 156,238</b>	<b>\$ 66,531</b>	<b>\$ 89,707</b>

Fixed deferred, single premium immediate, and equity-indexed annuity sales increased significantly during the six months ended June 30, 2016 compared to 2015. During the third quarter of 2015, the Company started marketing enhanced annuity crediting rates for certain annuity products which have been well received by the market and have continued to increase sales in 2016.

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We monitor account values and changes in those values as a key indicator of performance in our Annuity segment. Shown below are the changes in account values (in thousands):

	<b>Six months ended June</b>	
	<b>2016</b>	<b>2015</b>
<b>Fixed deferred and equity-indexed annuity</b>		
Account value, beginning of period	\$ 8,880,448	\$ 8,873,397
Net inflows	492,357	114,330
Surrenders	(439,972)	(557,427)
Fees	(3,060)	(3,378)
Interest credited	125,050	111,408
<b>Account value, end of period</b>	<b>\$ 9,054,823</b>	<b>\$ 8,538,330</b>
<b>Single premium immediate annuity</b>		
Reserve, beginning of period	\$ 1,398,481	\$ 1,274,664
Net inflows	97,199	5,014
Interest and mortality	21,486	22,086
<b>Reserve, end of period</b>	<b>\$ 1,517,166</b>	<b>\$ 1,301,764</b>
<b>Variable deferred annuity</b>		
Account value, beginning of period	\$ 417,821	\$ 494,516
Net inflows	39,470	47,649
Surrenders	(52,156)	(83,877)
Fees	(2,364)	(2,845)
Change in market value and other	2,986	(43,420)
<b>Account value, end of period</b>	<b>\$ 405,757</b>	<b>\$ 412,023</b>

Variable annuity premiums have shown a declining trend in recent years. These net inflows are mostly renewal and first year deposits into group unallocated separate account funds with no minimum guarantees. A small proportion of the variable annuity premium is renewal deposits into a closed block of older retail variable annuities that do have guaranteed minimum death benefits, but with minimal risk exposure. Our total direct exposure on the guaranteed minimum death benefits associated with these products was \$1.0 million and \$0.7 million as of June 30, 2016 and 2015, respectively.

***Benefits, losses and expenses***

Policyholder benefits consist of annuity payments and reserve increases for single premium immediate annuity contracts. Reserve increases are highly correlated to the sales volume of SPIA contracts. The level of benefits for the six months ended June 30, 2016 and 2015, was commensurate with increases in SPIA premium during these periods.

Commissions increased during the six months ended June 30, 2016 compared to 2015 driven by the increase in fixed deferred, single premium immediate, and equity-indexed annuity sales.



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The change in DAC represents acquisition costs capitalized less the amortization of existing DAC, which is calculated in proportion to expected gross profits. The following shows the components of the change in DAC (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
Acquisition cost capitalized	\$ 22,349	\$ 11,278	\$ 11,071	\$ 43,295	\$ 20,233	\$ 23,062
Amortization of DAC	(19,011)	(21,334)	2,323	(36,034)	(41,763)	5,729
<b>Change in DAC</b>	<b>\$ 3,338</b>	<b>\$ (10,056)</b>	<b>\$ 13,394</b>	<b>\$ 7,261</b>	<b>\$ (21,530)</b>	<b>\$ 28,791</b>

The amortization of DAC as a percentage of gross profits is an important ratio for the Annuity segment. Changes in this ratio reflect the impact of emerging experience. The ratios for the six months ended June 30, 2016 and 2015 were 35.9%, and 40.9%, respectively. The decrease in the 2016 ratio was directly related to lower surrenders.

**Options and Derivatives**

The S&P 500 Index return increased by approximately 2.7% and 0.2% in the six months ended June 30, 2016 and 2015, respectively. This change led to an increase in the option return of approximately \$3.4 million during the six months ended June 30, 2016 compared to 2015. Along with the increase in the S&P 500 Index return, declines in interest rates during 2016 led to a \$9.1 million increase in embedded derivative gains, which out-paced option returns, resulting in a \$5.7 million net decrease in earnings.

Net investment income without option return increased during the three and six months ended June 30, 2016 compared to 2015, primarily due to higher aggregate account values.

The following table summarizes the incremental impact of the investment performance of equity-indexed options or option return on net investment income, and the impact of the equity-indexed annuity embedded derivatives to interest credited to policyholder's account balances (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<b>Net investment income</b>						
Without option return	\$ 118,040	\$ 114,860	\$ 3,180	\$ 237,993	\$ 233,697	\$ 4,296
Option return	5,600	(1,655)	7,255	2,543	(830)	3,373
<b>Interest credited to policy account balances</b>						
Without embedded derivatives	59,735	58,803	932	122,486	117,761	4,725
Equity-indexed annuity embedded derivatives	8,696	(3,700)	12,396	6,387	(2,693)	9,080

**Table of Contents****Health**

Health segment results for the periods indicated were as follows (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<b>Premiums and other revenues</b>						
Premiums	\$ 44,828	\$ 51,135	\$ (6,307)	\$ 87,141	\$ 102,972	\$ (15,831)
Net investment income	2,519	2,592	(73)	4,968	5,245	(277)
Other income	4,637	5,356	(719)	8,816	9,925	(1,109)
<b>Total premiums and other revenues</b>	<b>51,984</b>	<b>59,083</b>	<b>(7,099)</b>	<b>100,925</b>	<b>118,142</b>	<b>(17,217)</b>
<b>Benefits, losses and expenses</b>						
Claims incurred	30,327	32,256	(1,929)	62,619	64,053	(1,434)
Commissions for acquiring and servicing policies	5,380	7,955	(2,575)	10,258	15,146	(4,888)
Other operating expenses	11,081	12,900	(1,819)	21,913	24,303	(2,390)
Change in deferred policy acquisition costs <sup>(1)</sup>	777	612	165	2,350	1,737	613
<b>Total benefits and expenses</b>	<b>47,565</b>	<b>53,723</b>	<b>(6,158)</b>	<b>97,140</b>	<b>105,239</b>	<b>(8,099)</b>
<b>Income before other items and federal income taxes</b>	<b>\$ 4,419</b>	<b>\$ 5,360</b>	<b>\$ (941)</b>	<b>\$ 3,785</b>	<b>\$ 12,903</b>	<b>\$ (9,118)</b>

(1) A negative amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the period indicated. A positive net change indicates less expense was deferred than amortized and represents an increase to expenses in the period indicated.

Earnings decreased during the three months and six months ended June 30, 2016 compared to 2015, primarily due to decreasing policies in-force, compounded by claims activity that remained relatively flat in comparison to a large decrease in premiums.

**Premiums and other revenues**

Health earned premiums for the periods indicated were as follows (in thousands, except percentages):

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
Medicare Supplement	\$ 17,236	38.4%	\$ 19,147	37.4%	\$ 34,876	40.0%	\$ 39,010	37.9%
Medical expense	3,505	7.8	4,213	8.2	7,205	8.3	8,785	8.5



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Group health	9,186	20.5	8,037	15.7	17,417	20.0	17,407	16.9
Credit accident and health	3,397	7.6	3,195	6.2	6,188	7.1	6,465	6.3
MGU	4,846	10.8	8,214	16.1	8,265	9.5	13,515	13.1
Supplemental Insurance	5,191	11.6	6,822	13.3	10,448	12.0	14,702	14.3
All other	1,467	3.3	1,507	3.1	2,742	3.1	3,088	3.0
<b>Total</b>	<b>\$ 44,828</b>	<b>100.0%</b>	<b>\$ 51,135</b>	<b>100.0%</b>	<b>\$ 87,141</b>	<b>100.0%</b>	<b>\$ 102,972</b>	<b>100.0%</b>

Earned premiums decreased during the three and six months ended June 30, 2016 compared to 2015, primarily due to risk management initiatives related to the MGU business that significantly decreased sales. Medicare supplement earned premiums decreased during these periods due to lapses that were greater than new sales compounded by the continuing shift in the composition of that block from comprehensive higher premium plans to the lower premium high deductible plan. Supplemental insurance sales began to see an increase when compared to the previous calendar quarter, as the supplemental product portfolio became more widely approved and distributed; however, the increase was not able to offset the continued shrinkage of in-force policies.

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Our in-force certificates or policies as of the dates indicated are as follows:

	<b>Six months ended June 30,</b>			
	<b>2016</b>		<b>2015</b>	
Medicare Supplement	33,896	6.1%	36,230	6.2%
Medical expense	2,384	0.4	2,892	0.5
Group	16,725	3.0	16,974	2.9
Credit accident and health	193,147	34.9	208,046	35.5
MGU	210,353	38.0	217,092	37.0
Supplemental Insurance	61,828	11.2	65,971	11.3
All other	35,311	6.4	39,097	6.6
<b>Total</b>	<b>553,644</b>	<b>100.0%</b>	<b>586,302</b>	<b>100.0%</b>

Total in-force policies decreased during the six months ended June 30, 2016 compared to 2015, primarily due to levels of lapsation that were greater than new sales, and the continued shrinkage of the closed Medical Expense and All Other blocks.

***Benefits, losses and expenses***

Claims incurred remained at similar levels when comparing the second quarter of 2016 to the same period in 2015, but with the decrease in premium, the percentage of benefits to premiums rose. The decrease in commissions is a result of the lower sales. The decrease in other operating expenses is associated with the decline in the number of policies.

***Change in Deferred Policy Acquisition Costs***

The following table presents the components of the change in DAC (in thousands):

	<b>Three months ended June 30,</b>			<b>Six months ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>Change</b>	<b>2016</b>	<b>2015</b>	<b>Change</b>
Acquisition cost capitalized	\$ 935	\$ 3,087	\$ (2,152)	\$ 4,915	\$ 7,041	\$ (2,126)
Amortization of DAC	(1,712)	(3,699)	1,987	(7,265)	(8,778)	1,513
<b>Change in DAC</b>	<b>\$ (777)</b>	<b>\$ (612)</b>	<b>\$ (165)</b>	<b>\$ (2,350)</b>	<b>\$ (1,737)</b>	<b>\$ (613)</b>

The change in DAC had a slightly larger impact on expenses during the period due to declining commission expense deferral.

**Table of Contents****Property and Casualty**

Property and Casualty results for the periods indicated were as follows (in thousands, except percentages):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<b>Premiums and other revenues</b>						
Net premiums written	\$ 332,682	\$ 311,376	\$ 21,306	\$ 646,027	\$ 598,320	\$ 47,707
Net premiums earned	\$ 304,788	\$ 281,909	\$ 22,879	\$ 608,149	\$ 558,390	\$ 49,759
Net investment income	13,040	14,226	(1,186)	27,952	28,632	(680)
Other income	1,361	1,432	(71)	2,351	2,572	(221)
<b>Total premiums and other revenues</b>	<b>319,189</b>	<b>297,567</b>	<b>21,622</b>	<b>638,452</b>	<b>589,594</b>	<b>48,858</b>
<b>Benefits, losses and expenses</b>						
Claims incurred	230,960	211,920	19,040	442,918	404,172	38,746
Commissions for acquiring and servicing policies	57,013	51,722	5,291	113,319	101,225	12,094
Other operating expenses	38,541	37,772	769	81,747	76,545	5,202
Change in deferred policy acquisition costs <sup>(1)</sup>	(2,550)	(2,403)	(147)	(1,747)	(1,126)	(621)
<b>Total benefits and expenses</b>	<b>323,964</b>	<b>299,011</b>	<b>24,953</b>	<b>636,237</b>	<b>580,816</b>	<b>55,421</b>
<b>Income before other items and federal income taxes</b>	<b>\$ (4,775)</b>	<b>\$ (1,444)</b>	<b>\$ (3,331)</b>	<b>\$ 2,215</b>	<b>\$ 8,778</b>	<b>\$ (6,563)</b>
Loss ratio	75.8%	75.2%	0.6	72.8%	72.4%	0.4
Underwriting expense ratio	30.5	30.9	(0.4)	31.8	31.6	0.2
<b>Combined ratio</b>	<b>106.3%</b>	<b>106.1%</b>	<b>0.2</b>	<b>104.6%</b>	<b>104.0%</b>	<b>0.6</b>
<b>Impact of catastrophe events on combined ratio</b>	<b>11.5</b>	<b>12.5</b>	<b>(1.0)</b>	<b>9.4</b>	<b>8.5</b>	<b>0.9</b>
<b>Combined ratio without impact of catastrophe events</b>	<b>94.8%</b>	<b>93.6%</b>	<b>1.2</b>	<b>95.2%</b>	<b>95.5%</b>	<b>(0.3)</b>
Gross catastrophe losses	\$ 35,024	\$ 35,008	\$ 16	\$ 57,351	\$ 47,639	\$ 9,712
Net catastrophe losses	35,020	34,806	214	57,163	47,290	9,873

(1) A negative amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the period indicated. A positive net change indicates less expense was deferred than amortized and represents an increase to expenses in the period indicated.

Earnings decreased during the three months ended June 30, 2016 compared to 2015, as a result of non-catastrophe claims. For the six months ended June 30, 2016 earnings were impacted by higher catastrophe losses during the three months ended March 31, 2016, partially offset by an improvement in non-catastrophe combined ratio.

***Premiums and other revenues***

Net premiums written and earned increased during the three and six months ended June 30, 2016 compared to 2015 for all major lines of business. The largest increases were in the collateral protection and personal automobile lines of business.

***Benefits, losses and expenses***

Claims increased during the three and six months ended June 30, 2016 compared to 2015 primarily due to an increase in frequency and severity of claims related to the automobile lines of business. Additionally, earnings decreased during the six months ended June 30, 2016 compared to 2015 due to an increase in catastrophe claims.

Commissions for acquiring and servicing policies increased during the three and six months ended June 30, 2016 compared to 2015, primarily as a result of the growth of the collateral protection and mortgage security insurance lines of business.

Operating expenses increased during the three and six months ended June 30, 2016 compared to 2015 as a result of costs related to growth initiatives.

**Table of Contents****Products**

Our Property and Casualty segment consists of: (i) Personal products, marketed primarily to individuals, representing 55.1% of net premiums written; (ii) Commercial products, which focus primarily on agricultural and other markets, representing 34.7% of net premiums written; and (iii) Credit-related property insurance products, which are marketed to and through financial institutions and retailers, representing 10.2% of net premiums written.

**Personal Products**

Personal Products results for the periods indicated were as follows (in thousands, except percentages):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<b>Net premiums written</b>						
Automobile	\$ 109,029	\$ 102,100	\$ 6,929	\$ 219,072	\$ 205,775	\$ 13,297
Homeowner	64,961	60,728	4,233	114,840	108,450	6,390
Other Personal	10,887	10,932	(45)	21,831	21,457	374
<b>Total net premiums written</b>	<b>\$ 184,877</b>	<b>\$ 173,760</b>	<b>\$ 11,117</b>	<b>\$ 355,743</b>	<b>\$ 335,682</b>	<b>\$ 20,061</b>
<b>Net premiums earned</b>						
Automobile	\$ 106,487	\$ 101,156	\$ 5,331	\$ 210,356	\$ 200,149	\$ 10,207
Homeowner	56,462	54,649	1,813	112,421	109,341	3,080
Other Personal	10,274	10,135	139	20,640	20,021	619
<b>Total net premiums earned</b>	<b>\$ 173,223</b>	<b>\$ 165,940</b>	<b>\$ 7,283</b>	<b>\$ 343,417</b>	<b>\$ 329,511</b>	<b>\$ 13,906</b>
<b>Loss ratio</b>						
Automobile	86.3%	81.5%	4.8	84.1%	79.1%	5.0
Homeowner	83.2	89.9	(6.7)	74.3	76.1	(1.8)
Other Personal	61.1	50.1	11.0	47.6	62.4	(14.8)
<b>Personal line loss ratio</b>	<b>83.8%</b>	<b>82.4%</b>	<b>1.4</b>	<b>78.7%</b>	<b>77.1%</b>	<b>1.6</b>
<b>Combined Ratio</b>						
Automobile	109.9%	106.5%	3.4	109.4%	104.2%	5.2
Homeowner	109.8	116.7	(6.9)	102.5	103.2	(0.7)
Other Personal	85.3	73.0	12.3	73.7	87.2	(13.5)
<b>Personal line combined ratio</b>	<b>108.4%</b>	<b>107.8%</b>	<b>0.6</b>	<b>105.0%</b>	<b>102.9%</b>	<b>2.1</b>

*Automobile:* Net premiums written and earned increased in our personal automobile line during the three and six months ended June 30, 2016 compared to 2015, due to an increase of policies in force and rate increases. The loss and combined ratio increased during the three and six months ended June 30, 2016 compared to 2015, primarily due to an increase in frequency and severity of claims compared to the prior year.

*Homeowner:* Net premiums written and earned increased during the three and six months ended June 30, 2016 compared to 2015, primarily due to increases in sales of homeowner products to renters. The combined ratio decreased during the three and six months ended June 30, 2016 compared to 2015, due to decreases in non-catastrophe claim activity compared to the prior year.

*Other Personal:* These products include watercraft, rental-owner and umbrella coverages for individuals seeking to protect their personal property and liability not covered within their home and auto policies. The loss ratio decreased during the six months ended June 30, 2016 compared to 2015 primarily due to an umbrella claim re-designation from personal lines to commercial lines.

**Table of Contents****Commercial Products**

Commercial Products results for the periods indicated were as follows (in thousands, except percentages):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<b>Net premiums written</b>						
Other Commercial	\$ 51,152	\$ 49,341	\$ 1,811	\$ 96,764	\$ 93,354	\$ 3,410
Agricultural Business	38,246	35,493	2,753	71,154	65,773	5,381
Automobile	28,262	26,034	2,228	56,226	52,569	3,657
<b>Total net premiums written</b>	<b>\$ 117,660</b>	<b>\$ 110,868</b>	<b>\$ 6,792</b>	<b>\$ 224,144</b>	<b>\$ 211,696</b>	<b>\$ 12,448</b>
<b>Net premiums earned</b>						
Other Commercial	\$ 40,139	\$ 38,254	\$ 1,885	\$ 78,848	\$ 74,632	\$ 4,216
Agricultural Business	33,279	29,924	3,355	65,166	59,164	6,002
Automobile	23,440	21,616	1,824	46,136	42,851	3,285
<b>Total net premiums earned</b>	<b>\$ 96,858</b>	<b>\$ 89,794</b>	<b>\$ 7,064</b>	<b>\$ 190,150</b>	<b>\$ 176,647</b>	<b>\$ 13,503</b>
<b>Loss ratio</b>						
Other Commercial	64.9%	65.7%	(0.8)	67.2%	66.4%	0.8
Agricultural Business	74.1	84.3	(10.2)	76.8	85.9	(9.1)
Automobile	66.2	70.9	(4.7)	70.1	72.1	(2.0)
<b>Commercial line loss ratio</b>	<b>68.4%</b>	<b>73.1%</b>	<b>(4.7)</b>	<b>71.2%</b>	<b>74.3%</b>	<b>(3.1)</b>
<b>Combined ratio</b>						
Other Commercial	95.9%	94.5%	1.4	98.8%	95.3%	3.5
Agricultural Business	111.5	124.8	(13.3)	114.7	125.5	(10.8)
Automobile	90.3	96.2	(5.9)	94.6	97.6	(3.0)
<b>Commercial line combined ratio</b>	<b>99.9%</b>	<b>105.0%</b>	<b>(5.1)</b>	<b>103.2%</b>	<b>106.0%</b>	<b>(2.8)</b>

*Other Commercial:* Net premiums written and earned increased during the three and six months ended June 30, 2016 compared to 2015 primarily due to increased sales of mortgage security insurance. This increase was partially offset by an increase in reinsurance premium for the workers compensation and umbrella lines of business. The increase in the combined ratios for the three and six months ended June 30, 2016 compared to 2015 is primarily due to the increase of reinsurance premium.

*Agricultural Business:* Our agricultural business product allows policyholders to customize and cover their agriculture exposure using a package policy which includes coverage for residences and household contents, farm buildings and building contents, personal and commercial liability and personal property. Net premiums written and earned increased during the three and six months ended June 30, 2016 compared to 2015, primarily as a result of improved rate adequacy. The loss and combined ratio decreased during the three and six months ended June 30, 2016 compared to 2015 primarily due to a decrease in catastrophe losses.

*Automobile:* Net premiums written and earned increased during the three and six months ended June 30, 2016 compared to 2015, primarily due to improved rate adequacy. The loss ratio decreased during the three and six months

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ended June 30, 2016 compared to 2015, primarily due to a decrease in average severity of losses.



**Table of Contents****Credit Products**

Credit-related property product results for the periods indicated were as follows (in thousands, except percentages):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
Net premiums written	\$ 30,145	\$ 26,748	\$ 3,397	\$ 66,140	\$ 50,942	\$ 15,198
Net premiums earned	34,707	26,175	8,532	74,581	52,232	22,349
Loss ratio	56.4%	36.6%	19.8%	50.2%	36.3%	13.9%
Combined ratio	113.6%	104.0%	9.6%	107.7%	105.8%	1.9%

Credit-related property products are offered on automobiles, furniture and appliances in connection with the financing of those items. These policies pay an amount if the insured property is lost or damaged and the amount paid is not directly related to an event affecting the consumer's ability to pay the debt.

Net written and earned premiums increased during the three and six months ended June 30, 2016 compared to 2015, primarily due to increases in our collateral protection business. The loss ratio increased during the three and six months ended June 30, 2016 compared to 2015, primarily due to an increase in claims in our collateral protection and guaranteed auto protection business lines.

**Corporate and Other**

Corporate and Other segment financial results for the periods indicated were as follows (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<b>Other revenues</b>						
Net investment income	\$ 15,451	\$ 17,267	\$ (1,816)	\$ 23,064	\$ 32,145	\$ (9,081)
Realized investment gains, net	3,415	13,296	(9,881)	9,001	52,573	(43,572)
Other income	858	1,341	(483)	2,120	3,049	(929)
<b>Total other revenues</b>	<b>19,724</b>	<b>31,904</b>	<b>(12,180)</b>	<b>34,185</b>	<b>87,767</b>	<b>(53,582)</b>
<b>Benefits, losses and expenses</b>						
Commissions		(1)	1	(2)	(1)	(1)
Other operating expenses	13,317	10,667	2,650	25,118	18,248	6,870
<b>Total benefits, losses and expenses</b>	<b>13,317</b>	<b>10,666</b>	<b>2,651</b>	<b>25,116</b>	<b>18,247</b>	<b>6,869</b>
<b>Income before other items and federal income taxes</b>	<b>\$ 6,407</b>	<b>\$ 21,238</b>	<b>\$ (14,831)</b>	<b>\$ 9,069</b>	<b>\$ 69,520</b>	<b>\$ (60,451)</b>

Earnings decreased during the three and six months ended June 30, 2016 compared to 2015 primarily due to a decrease in realized investment gains and net investment income. The decrease in realized investment gains is attributable to a decrease in the sale of equity securities and certain real estate holdings in unconsolidated joint

ventures compared to 2015.

### **Investments**

We manage our investment portfolio to optimize the rate of return commensurate with sound and prudent asset selection and to maintain a well-diversified portfolio. Our investment operations are regulated primarily by the state insurance departments where the insurance subsidiaries are domiciled. Investment activities, including setting investment policies and defining acceptable risk levels, are subject to oversight by our Board of Directors, which is assisted by our Finance Committee and Management Risk Committee.

Our insurance and annuity products are primarily supported by investment-grade bonds, and to a lesser extent collateralized mortgage obligations and commercial mortgage loans. We purchase fixed maturity securities and designate them as either held-to-maturity or available-for-sale considering our estimated future cash flow needs.

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We also monitor the composition of our fixed maturity securities classified as held-to-maturity and available-for-sale and adjust the mix within the portfolio as investments mature or new investments are purchased. We invest in commercial mortgage loans when the yield and credit risk compare favorably with fixed maturity securities. Individual residential mortgage loans including sub-prime or Alt-A mortgage loans have not been and are not expected to be part of our investment portfolio. We purchase real estate and equity investments based on a risk and reward analysis where we believe there are opportunities for enhanced returns.

The following summarizes the carrying values of our invested assets (other than investments in unconsolidated affiliates) by asset class (in thousands, except percentages):

	June 30, 2016		December 31, 2015	
Bonds held-to-maturity, at amortized cost	\$ 7,456,908	36.7%	\$ 7,609,420	38.6%
Bonds available-for-sale, at fair value	5,894,667	29.1	5,483,916	27.8
Equity securities, at fair value	1,531,926	7.6	1,514,979	7.7
Mortgage loans, net of allowance	3,996,073	19.7	3,483,280	17.7
Policy loans	388,763	1.9	407,491	2.1
Investment real estate, net of accumulated depreciation	589,497	2.9	581,255	2.9
Short-term investments	252,431	1.2	460,612	2.3
Other invested assets	178,659	0.9	173,042	0.9
<b>Total investments</b>	<b>\$ 20,288,924</b>	<b>100.0%</b>	<b>\$ 19,713,995</b>	<b>100.0%</b>

The increase in our total investments at June 30, 2016 compared to December 31, 2015 was primarily a result of the purchase of bonds available-for-sale and increased mortgage loan activity.

**Bonds** We allocate most of our fixed maturity securities to support our insurance business. At June 30, 2016, our fixed maturity securities had an estimated fair value of \$13.8 billion, which was \$0.8 billion, or 5.8%, above amortized cost. At December 31, 2015, our fixed maturity securities had an estimated fair value of \$13.2 billion, which was \$0.2 billion, or 1.6%, above amortized cost. The estimated fair value for securities, due in one year or less, remained constant at approximately \$0.5 billion as of June 30, 2016 and December 31, 2015, primarily as a result of maturities.

The following table identifies the total bonds by credit quality rating, using both Standard & Poor's and Moody's ratings (in thousands, except percentages):

	June 30, 2016			December 31, 2015		
	Amortized Cost	Estimated Fair Value	% of Fair Value	Amortized Cost	Estimated Fair Value	% of Fair Value
AAA	\$ 686,940	\$ 744,263	5.4	\$ 681,918	\$ 720,175	5.4
AA	1,480,478	1,594,043	11.6	1,522,300	1,591,496	12.0
A	4,572,801	4,899,736	35.5	4,672,994	4,828,340	36.5
BBB	5,801,552	6,090,433	44.2	5,731,158	5,732,961	43.3
BB and below	497,486	461,285	3.3	428,881	366,497	2.8

<b>Total</b>	<b>\$ 13,039,257</b>	<b>\$ 13,789,760</b>	<b>100.0</b>	<b>\$ 13,037,251</b>	<b>\$ 13,239,469</b>	<b>100.0</b>
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***Mortgage Loans*** We invest in commercial mortgage loans that are diversified by property type and geography. Generally, mortgage loans are secured by first liens on income-producing real estate with a loan-to-value ratio of up to 75%. Mortgage loans are carried at outstanding principal balances, adjusted for any unamortized premium or discount, deferred fees or expenses, and net of allowances. The weighted average coupon yield on the principal funded for mortgage loans was 4.8% and 4.4% at June 30, 2016 and December 31, 2015, respectively. It is likely that the weighted average yield on funded mortgage loans will decline as loans mature and new loans are originated with lower rates in the current interest rate environment.

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**Equity Securities** We invest in companies publicly traded on national U.S. stock exchanges; the cost and estimated fair value of the equity securities are as follows (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	% of Fair Value
<b>June 30, 2016</b>					
Common Stock	\$ 785,554	\$ 735,384	\$ (19,780)	\$ 1,501,158	98.0
Preferred Stock	20,987	9,782	(1)	30,768	2.0
<b>Total</b>	<b>\$ 806,541</b>	<b>\$ 745,166</b>	<b>\$ (19,781)</b>	<b>\$ 1,531,926</b>	<b>100.0</b>
<b>December 31, 2015</b>					
Common Stock	\$ 794,839	\$ 718,225	\$ (22,035)	\$ 1,491,029	98.4
Preferred Stock	15,987	7,964	(1)	23,950	1.6
<b>Total</b>	<b>\$ 810,826</b>	<b>\$ 726,189</b>	<b>\$ (22,036)</b>	<b>\$ 1,514,979</b>	<b>100.0</b>

**Investment Real Estate** We invest in commercial real estate where positive cash flows and/or appreciation in value is expected. Real estate may be owned directly by our insurance companies or non-insurance affiliates or indirectly in joint ventures with real estate developers or investors we determine share our perspective regarding risk and return relationships. The carrying value of real estate is stated at cost, less accumulated depreciation and valuation allowances, if any. Depreciation is provided over the estimated useful lives of the properties.

**Short-Term Investments** Short-term investments are primarily commercial paper rated A2 or P2 or better by Standard & Poor's and Moody's, respectively. The amount fluctuates depending on our view of the desirability of investing in the available long-term investment opportunities and our liquidity needs, including mortgage investment-funding commitments.

**Policy Loans** For certain life insurance products, policyholders may borrow funds using the policy's cash value as collateral. The maximum amount of the policy loan depends upon the policy's surrender value. As of June 30, 2016, we had \$388.8 million in policy loans with a loan to surrender value of 65.4%, and at December 31, 2015, we had \$407.5 million in policy loans with a loan to surrender value of 61.3%. Interest rates on policy loans primarily range from 3.0% to 12.0% per annum. Policy loans may be repaid at any time by the policyholder and have priority to any claims on the policy. If the policyholder fails to repay the policy loan, funds are withdrawn from the policy's benefits.

**Net Investment Income and Net Realized Gains (Losses)**

Net investment income decreased \$6.1 million during the six months ended June 30, 2016, primarily due to lower earned rates on invested assets.

Interest income on mortgage loans is accrued on the principal amount of the loan at the contractual interest rate. Accretion of discounts is recorded using the effective yield method. Interest income, accretion of discounts and prepayment fees are reported in net investment income. Interest is not accrued on loans generally more than 90 days past due or when the collection of interest is not considered probable. Loans in foreclosure are placed on non-accrual status. Interest received on non-accrual status mortgage loans is included in net investment income in the period

received.

Net realized gains decreased \$40.0 million during the six months ended June 30, 2016 compared to 2015 primarily due to a decrease in the sale of certain real estate holdings in unconsolidated joint ventures. Other-than-temporary impairment on investment securities decreased \$3.5 million during the six months ended June 30, 2016 compared to 2015.

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### ***Net Unrealized Gains and Losses***

The net unrealized gains on available-for-sale securities at June 30, 2016 and December 31, 2015 were \$1.04 billion and \$0.76 billion, respectively. Unrealized gains or losses on available-for-sale securities are recognized as other comprehensive income or loss which has no impact on earnings. The gross unrealized gains of available-for-sale securities increased \$195.6 million to \$1.09 billion during the six months ended June 30, 2016, resulting from increases in the value of bonds and equity securities. The gross unrealized losses of available-for-sale securities changed favorably by \$81.9 million, going from \$131.4 million at December 31, 2015 to \$49.5 million at June 30, 2016. The gross unrealized gains of held-to-maturity securities increased \$187.4 million to \$493.4 million and gross unrealized losses decreased from \$159.8 million at December 31, 2015 to \$55.2 million in June 30, 2016.

The fair value of our investment securities is affected by various factors, including volatility of financial markets, changes in interest rates and fluctuations in credit spread. We currently have the ability and intent to hold those securities in unrealized loss positions until a market price recovery or maturity. Further, it is unlikely that we will be required to sell them prior to recovery, and recovery is expected in a reasonable period of time.

### **Liquidity**

Our liquidity requirements have been and are expected to continue to be met by funds from operations, comprised of premiums received from our customers and investment income. The primary use of cash has been and is expected to continue to be payment of policyholder benefits and claims incurred. Current and expected patterns of claim frequency and severity may change from period to period but continue to be within historical norms. Management considers our current liquidity position to be sufficient to meet anticipated demands over the next twelve months. Our contractual obligations are not expected to have a significant negative impact to cash flow from operations.

Changes in interest rates during 2016 and market expectations for potentially higher rates through 2017, although recently tempered due to economic uncertainty, may lead to an increase in the volume of annuity contracts, which may be partially offset by increases in surrenders. Freezing our defined benefit pension plans will lessen the impact of changes in interest rates on our contributions to these plans. Future contributions to our defined benefit plans are not expected to significantly impact cash flow and are expected to enhance overall funded status. No unusually large capital expenditures are expected in the next 12-24 months. We have paid dividends to stockholders for over 100 consecutive years and expect to continue this trend. There are no other known trends or uncertainties regarding product pricing, changes in product lines or rising costs that would have a significant impact to cash flows from operations.

Funds received as premium payments and deposits are generally invested in bonds and commercial mortgages. Funds are invested with the intent that income from the investments and proceeds from the maturities will meet our ongoing cash flow needs. We historically have not had to liquidate invested assets in order to cover cash flow needs. We believe our portfolio of highly liquid available-for-sale investment securities, including equity securities, is sufficient to meet future liquidity needs as necessary.

Our cash and cash equivalents and short-term investment position decreased from \$650.8 million at December 31, 2015 to \$386.3 million at June 30, 2016. The decrease relates primarily to a reduction in short-term investments used to fund additional investments in mortgage loans and construction projects.

A downgrade or a potential downgrade in our financial strength ratings could result in a loss of business and could adversely affect our cash flow from operations.

Further information regarding additional sources or uses of cash is described in Note 16, Commitments and Contingencies, of the Notes to the Unaudited Consolidated Financial Statements.



**Table of Contents****Capital Resources**

Our capital resources are summarized below (in thousands):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
American National stockholders equity, excluding accumulated other comprehensive income, net of tax ( AOCI )	\$ 4,120,525	\$ 4,099,662
AOCI	488,082	352,620
<b>Total American National stockholders equity</b>	<b>\$ 4,608,607</b>	<b>\$ 4,452,282</b>

We have notes payable relating to borrowings by real estate joint ventures that we consolidate into our financial statements that are not part of our capital resources. The lenders for the notes payable have no recourse against us in the event of default by the joint ventures. Therefore, the liability we have for these notes payable is limited to our investment in the respective ventures, which totaled \$36.3 million and \$34.7 million at June 30, 2016 and December 31, 2015, respectively.

The changes in our capital resources are summarized below (in thousands):

	<b>Six months ended June 30, 2016</b>		
	<b>Capital and Retained Earnings</b>	<b>AOCI</b>	<b>Total</b>
Net income attributable to American National	\$ 61,941	\$	\$ 61,941
Dividends to shareholders	(43,601)		(43,601)
Change in net unrealized gains		130,776	130,776
Defined benefit pension plan adjustment		4,256	4,256
Foreign currency transaction and translation adjustment		430	430
Other	2,523		2,523
<b>Total</b>	<b>\$ 20,863</b>	<b>\$ 135,462</b>	<b>\$ 156,325</b>

**Statutory Capital and Surplus and Risk-based Capital**

Statutory capital and surplus is the capital of our insurance companies reported in accordance with accounting practices prescribed or permitted by the applicable state insurance departments. RBC is calculated using formulas applied to certain financial balances and activities that consider, among other things, investment risks related to the type and quality of investments, insurance risks associated with products and liabilities, interest rate risks and general business risks. Insurance companies that do not maintain capital and surplus at a level of at least 200% of the authorized control level RBC are required to take certain actions. At June 30, 2016 and December 31, 2015, American National Insurance Company's statutory capital and surplus was \$2,920,318,000 and \$2,925,935,000, respectively.

American National Insurance Company and each of its insurance subsidiaries had statutory capital and surplus at June 30, 2016 and December 31, 2015, substantially above 200% of the authorized control level.

The achievement of long-term growth will require growth in American National Insurance Company's and our insurance subsidiaries' statutory capital and surplus. Our subsidiaries may obtain additional statutory capital through various sources, such as retained statutory earnings or equity contributions from us.

### **Contractual Obligations**

Our future cash payments associated with claims and claims adjustment expenses, life, annuity and disability obligations, contractual obligations pursuant to operating leases for office space and equipment, and notes payable have not materially changed since December 31, 2015. We expect to have the capacity to pay our obligations as they come due.

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### **Off-Balance Sheet Arrangements**

We have off-balance sheet arrangements relating to third-party marketing operation bank loans as discussed in Note 16, Commitments and Contingencies, of the Notes to the Unaudited Consolidated Financial Statements. We could be exposed to a liability for these loans, which are supported by the cash value of the underlying insurance contracts. The cash value of the life insurance policies is designed to always equal or exceed the balance of the loans. Accordingly, management does not foresee any loss related to these arrangements.

### **Related-Party Transactions**

We have various agency, consulting and service arrangements with individuals and entities considered to be related parties. Each of these arrangements has been reviewed and approved by our Audit Committee, which retains final decision-making authority for these transactions. The amounts involved, both individually and in the aggregate, with these arrangements are not material to any segment or to our overall operations. For additional details see Note 17, Related Party Transactions, of the Notes to the Unaudited Consolidated Financial Statements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our market risks have not changed materially from those disclosed in our 2015 Annual Report on Form 10-K filed with the SEC on February 29, 2016.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to provide reasonable assurance that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate,

to allow timely decisions regarding required disclosures.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2016. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2016, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Management has monitored the internal controls over financial reporting, including any material changes to the internal control over financial reporting. There were no changes in the Company's internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the six months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Information required for Item 1 is incorporated by reference to the discussion under the heading "Litigation" in Note 16, Commitments and Contingencies, of the Notes to the Unaudited Consolidated Financial Statements.

**ITEM 1A. RISK FACTORS**

There have been no material changes with respect to the risk factors as previously disclosed in our 2015 Annual Report on Form 10-K filed with the SEC on February 29, 2016.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

Exhibit Number	Basic Documents
3.1	Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit No. 3.1 to the registrant's Registration Statement on Form 10-12B filed April 10, 2009).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit No. 3.2 to the registrant's Current Report on Form 8-K filed July 31, 2015).
31.1	Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following unaudited financial information from American National Insurance Company's Quarterly Report on Form 10-Q for six months ended June 30, 2016 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Position, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to the Unaudited Consolidated Financial Statements.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

By: /s/ James E. Pozzi  
 Name: James E. Pozzi  
 Title: *Chairman of the Board, President  
 and Chief Executive Officer*

By: /s/ John J. Dunn, Jr.  
 Name: John J. Dunn, Jr.,  
 Title: *Executive Vice President, Chief  
 Financial Officer*

Date: August 05, 2016