

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

May 06, 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 March 31, 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 May 02, 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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**Table of Contents****AMERICAN NATIONAL INSURANCE COMPANY****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited and in thousands, except share data)

|  | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--|---------------------------|------------------------------|
| <b>ASSETS</b>  |                           |                              |
| Fixed maturity, bonds held-to-maturity, at amortized cost (Fair value \$7,863,320 and \$7,755,553)   | \$ 7,567,273              | \$ 7,609,420                 |
| Fixed maturity, bonds available-for-sale, at fair value (Amortized cost \$5,600,875 and \$5,427,831) | 5,776,762                 | 5,483,916                    |
| Equity securities, at fair value (Cost \$808,650 and \$810,826)                                      | 1,510,495                 | 1,514,979                    |
| Mortgage loans on real estate, net of allowance  | 3,693,211                 | 3,483,280                    |
| Policy loans   | 405,604                   | 407,491                      |
| Investment real estate, net of accumulated depreciation of \$217,103 and \$212,139                   | 584,459                   | 581,255                      |
| Short-term investments   | 312,306                   | 460,612                      |
| Other invested assets  | 170,031                   | 173,042                      |
| <b>Total investments</b>   | <b>20,020,141</b>         | <b>19,713,995</b>            |
| Cash and cash equivalents  | 148,945                   | 190,237                      |
| Investments in unconsolidated affiliates   | 410,045                   | 379,348                      |
| Accrued investment income  | 170,609                   | 177,474                      |
| Reinsurance recoverables   | 386,533                   | 413,881                      |
| Prepaid reinsurance premiums   | 65,825                    | 77,907                       |
| Premiums due and other receivables   | 290,347                   | 285,446                      |
| Deferred policy acquisition costs  | 1,297,799                 | 1,324,669                    |
| Property and equipment, net  | 119,522                   | 120,680                      |
| Current tax receivable   | 16,868                    | 4,091                        |
| Other assets   | 141,502                   | 140,788                      |
| Separate account assets  | 899,750                   | 918,446                      |
| <b>Total assets</b>  | <b>\$ 23,967,886</b>      | <b>\$ 23,746,962</b>         |
| <b>LIABILITIES</b>   |                           |                              |
| Future policy benefits   |                           |                              |
| Life   | \$ 2,863,567              | \$ 2,853,962                 |
| Annuity  | 1,161,836                 | 1,113,057                    |
| Accident and health  | 63,260                    | 65,034                       |
| Policyholders' account balances  | 10,952,355                | 10,829,173                   |
| Policy and contract claims   | 1,282,734                 | 1,280,011                    |
| Unearned premium reserve   | 808,506                   | 812,977                      |
| Other policyholder funds   | 311,747                   | 305,836                      |
| Liability for retirement benefits  | 202,014                   | 207,635                      |

|  |                      |                      |
|--|----------------------|----------------------|
| Notes payable  | 135,975              | 128,436              |
| Deferred tax liabilities, net  | 251,350              | 219,295              |
| Other liabilities  | 509,184              | 550,629              |
| Separate account liabilities   | 899,750              | 918,446              |
| <b>Total liabilities</b>   | <b>19,442,278</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   | 15,740               | 13,689               |
| Accumulated other comprehensive income   | 406,460              | 352,620              |
| Retained earnings  | 4,164,969            | 4,157,184            |
| Treasury stock, at cost  | (101,781)            | (102,043)            |
| Total American National stockholders equity  | 4,516,220            | 4,452,282            |
| Noncontrolling interest  | 9,388                | 10,189               |
| <b>Total stockholders equity</b>   | <b>4,525,608</b>     | <b>4,462,471</b>     |
| <b>Total liabilities and stockholders equity</b>   | <b>\$ 23,967,886</b> | <b>\$ 23,746,962</b> |

*See accompanying notes to the consolidated financial statements.*

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**AMERICAN NATIONAL INSURANCE COMPANY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

|   | <b>Three months ended March 31,</b> |                |
|---|-------------------------------------|----------------|
|   | <b>2016</b>                         | <b>2015</b>    |
| <b>PREMIUMS AND OTHER REVENUE</b>   |                                     |                |
| Premiums  |                                     |                |
| Life  | \$ 75,117                           | \$ 72,082      |
| Annuity   | 70,208                              | 41,443         |
| Accident and health   | 42,313                              | 51,837         |
| Property and casualty   | 303,361                             | 276,481        |
| Other policy revenues   | 64,347                              | 57,524         |
| Net investment income   | 196,054                             | 209,213        |
| Net realized investment gains   | 9,062                               | 39,302         |
| Other-than-temporary impairments  | (3,476)                             | (25)           |
| Other income  | 7,984                               | 8,710          |
| <b>Total premiums and other revenues</b>  | <b>764,970</b>                      | <b>756,567</b> |
| <b>BENEFITS, LOSSES AND EXPENSES</b>  |                                     |                |
| Policyholder benefits   |                                     |                |
| Life  | 100,771                             | 88,004         |
| Annuity   | 81,247                              | 54,367         |
| Claims incurred   |                                     |                |
| Accident and health   | 32,292                              | 31,797         |
| Property and casualty   | 211,958                             | 192,252        |
| Interest credited to policyholders' account balances  | 76,527                              | 75,753         |
| Commissions for acquiring and servicing policies  | 112,884                             | 93,115         |
| Other operating expenses  | 130,376                             | 123,458        |
| Change in deferred policy acquisition costs   | (4,593)                             | 6,462          |
| <b>Total benefits, losses and expenses</b>  | <b>741,462</b>                      | <b>665,208</b> |
| <b>Income before federal income tax and equity in earnings of unconsolidated affiliates</b> | <b>23,508</b>                       | <b>91,359</b>  |
| Less: Provision (benefit) for federal income taxes  |                                     |                |
| Current   | (4,714)                             | 35,392         |
| Deferred  | 644                                 | 10,298         |
| <b>Total provision (benefit) for federal income taxes</b>                                   | <b>(4,070)</b>                      | <b>45,690</b>  |
| <b>Equity in earnings of unconsolidated affiliates</b>                                      | <b>937</b>                          | <b>56,584</b>  |

|  |        |         |
|--|--------|---------|
| <b>Net income</b>  | 28,515 | 102,253 |
| Less: Net loss attributable to noncontrolling interest, net of tax | (801)  | (729)   |

|   |                  |                   |
|---|------------------|-------------------|
| <b>Net income attributable to American National</b> | <b>\$ 29,316</b> | <b>\$ 102,982</b> |
|---|------------------|-------------------|

**Amounts available to American National common stockholders**

|   |            |            |
|---|------------|------------|
| <b>Earnings per share</b>   |            |            |
| Basic   | \$ 1.09    | \$ 3.84    |
| Diluted   | 1.09       | 3.82       |
| Cash dividends to common stockholders   | 0.80       | 0.77       |
| Weighted average common shares outstanding                                      | 26,909,511 | 26,818,215 |
| Weighted average common shares outstanding and dilutive potential common shares | 26,965,967 | 26,964,350 |

*See accompanying notes to the consolidated financial statements.*

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

(Unaudited and in thousands)

|   | <b>Three months ended March 31,</b> |                   |
|---|-------------------------------------|-------------------|
|   | <b>2016</b>                         | <b>2015</b>       |
| Net income  | \$ 28,515                           | \$ 102,253        |
| Other comprehensive income, net of tax                              |                                     |                   |
| Change in net unrealized gains on securities                        | 51,973                              | 7,836             |
| Foreign currency transaction and translation adjustments            | (12)                                | (1,838)           |
| Defined benefit pension plan adjustment                             | 1,879                               | 1,443             |
| Other comprehensive income, net of tax                              | 53,840                              | 7,441             |
| <b>Total comprehensive income</b>                                   | <b>82,355</b>                       | <b>109,694</b>    |
| Less: Comprehensive loss attributable to noncontrolling interest    | (801)                               | (729)             |
| <b>Total comprehensive income attributable to American National</b> | <b>\$ 83,156</b>                    | <b>\$ 110,423</b> |

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

(Unaudited and in thousands)

|   | <b>Three months ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2016</b>                         | <b>2015</b> |
| <b>Common Stock</b>                           |                                     |             |
| Balance at beginning and end of the period    | \$ 30,832                           | \$ 30,832   |
| <b>Additional Paid-In Capital</b>             |                                     |             |
| Balance as of January 1,                      | 13,689                              | 9,248       |
| Reissuance of treasury shares                 | 1,841                               | 1,978       |
| Amortization of restricted stock              | 210                                 | 377         |
| Balance at end of the period                  | 15,740                              | 11,603      |
| <b>Accumulated Other Comprehensive Income</b> |                                     |             |
| Balance as of January 1,                      | 352,620                             | 490,782     |
| Other comprehensive income                    | 53,840                              | 7,441       |
| Balance at end of the period                  | 406,460                             | 498,223     |

**Retained Earnings**

|  |           |           |
|--|-----------|-----------|
| Balance as of January 1,                     | 4,157,184 | 3,998,644 |
| Net income attributable to American National | 29,316    | 102,982   |
| Cash dividends to common stockholders        | (21,531)  | (20,711)  |
| Balance at end of the period                 | 4,164,969 | 4,080,915 |

**Treasury Stock**

|                               |           |           |
|-------------------------------|-----------|-----------|
| Balance as of January 1,      | (102,043) | (101,941) |
| Reissuance of treasury shares | 262       | 243       |
| Balance at end of the period  | (101,781) | (101,698) |

**Noncontrolling Interest**

|  |        |        |
|--|--------|--------|
| Balance as of January 1,                         | 10,189 | 12,384 |
| Contributions                                    |        | 24     |
| Net loss attributable to noncontrolling interest | (801)  | (729)  |
| Balance at end of the period                     | 9,388  | 11,679 |

**Total Stockholders Equity** **\$ 4,525,608** **\$ 4,531,554**

*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>Three months ended March 31,</b> |                |
|--|-------------------------------------|----------------|
|  | <b>2016</b>                         | <b>2015</b>    |
| <b>OPERATING ACTIVITIES</b>  |                                     |                |
| Net income   | \$ 28,515                           | \$ 102,253     |
| Adjustments to reconcile net income to net cash provided by operating activities |                                     |                |
| Net realized investment gains  | (9,062)                             | (39,302)       |
| Other-than-temporary impairments   | 3,476                               | 25             |
| Amortization of premiums, discounts and loan origination fees                    | 161                                 | 977            |
| Net capitalized interest on policy loans and mortgage loans                      | (6,820)                             | (7,708)        |
| Depreciation   | 12,752                              | 10,896         |
| Interest credited to policyholders' account balances                             | 76,527                              | 75,753         |
| Charges to policyholders' account balances                                       | (64,347)                            | (57,524)       |
| Deferred federal income tax expense  | 644                                 | 10,298         |
| Equity in earnings of unconsolidated affiliates                                  | (937)                               | (56,584)       |
| Distributions from equity method investments                                     | 317                                 | 199            |
| Changes in   |                                     |                |
| Policyholder liabilities   | 54,761                              | 57,193         |
| Deferred policy acquisition costs  | (4,593)                             | 6,462          |
| Reinsurance recoverables   | 27,348                              | 12,782         |
| Premiums due and other receivables   | (5,108)                             | (15,042)       |
| Prepaid reinsurance premiums   | 12,082                              | 838            |
| Accrued investment income  | 6,865                               | 1,606          |
| Current tax receivable/payable   | (12,777)                            | 32,873         |
| Liability for retirement benefits  | (5,621)                             | 4,348          |
| Other, net   | 16,628                              | (17,609)       |
| <b>Net cash provided by operating activities</b>                                 | <b>130,811</b>                      | <b>122,734</b> |
| <b>INVESTING ACTIVITIES</b>  |                                     |                |
| Proceeds from sale/maturity/prepayment of  |                                     |                |
| Held-to-maturity securities  | 116,940                             | 319,361        |
| Available-for-sale securities  | 120,761                             | 120,746        |
| Investment real estate   |                                     | 10,821         |
| Mortgage loans   | 125,983                             | 167,304        |
| Policy loans   | 13,610                              | 13,929         |
| Other invested assets  | 4,592                               | 6,080          |
| Disposals of property and equipment  | 8,349                               | 800            |
| Distributions from unconsolidated affiliates                                     | 4,972                               | 24,465         |
| Payment for the purchase/origination of  |                                     |                |
| Held-to-maturity securities  | (80,091)                            | (85,733)       |

|  |                   |                   |
|--|-------------------|-------------------|
| Available-for-sale securities                              | (325,867)         | (236,077)         |
| Investment real estate                                     | (9,710)           | (16,533)          |
| Mortgage loans   | (332,093)         | (155,138)         |
| Policy loans   | (5,868)           | (6,134)           |
| Other invested assets                                      | (5,294)           | (3,729)           |
| Additions to property and equipment                        | (13,442)          | (13,580)          |
| Contributions to unconsolidated affiliates                 | (40,351)          | (24,668)          |
| Change in short-term investments                           | 148,306           | (89,333)          |
| Other, net   | 90                | 12,301            |
| <b>Net cash provided by (used in) investing activities</b> | <b>(269,113)</b>  | <b>44,882</b>     |
| <b>FINANCING ACTIVITIES</b>                                |                   |                   |
| Policyholders' account deposits                            | 435,506           | 212,245           |
| Policyholders' account withdrawals                         | (324,504)         | (406,870)         |
| Change in notes payable                                    | 7,539             | 8,258             |
| Dividends to stockholders                                  | (21,531)          | (20,711)          |
| Proceeds from noncontrolling interest                      |                   | 24                |
| <b>Net cash provided by (used in) financing activities</b> | <b>97,010</b>     | <b>(207,054)</b>  |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>           | <b>(41,292)</b>   | <b>(39,438)</b>   |
| Beginning of the period                                    | 190,237           | 209,455           |
| <b>End of the period</b>                                   | <b>\$ 148,945</b> | <b>\$ 170,017</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 financial statements.

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

In May 2014, the FASB issued guidance that will supersede most existing revenue recognition requirements in U.S. GAAP. Insurance contracts generally are excluded from the scope of the 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 reporting periods beginning after December 15, 2017 and is to be applied retrospectively. The Company is evaluating the impact of adoption, which is not expected to be material to the Company's financial statements.

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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 reporting periods beginning after December 15, 2015 and for interim reporting periods beginning after December 15, 2016. The guidance affects disclosures only and will not impact the Company's financial statements.

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 reporting periods beginning after December 15, 2017. The Company is evaluating the impact of the adoption and assessing its potential impact on the Company's financial statements.

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 beginning after December 15, 2018, and interim periods within those annual periods. The Company is evaluating the impact of the adoption, which is not expected to be material to the Company's financial statements.

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

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

|  | <b>March 31, 2016</b>             |                                   |                                      |                      |
|--|-----------------------------------|-----------------------------------|--------------------------------------|----------------------|
|  | <b>Cost or<br/>Amortized Cost</b> | <b>Gross Unrealized<br/>Gains</b> | <b>Gross Unrealized<br/>(Losses)</b> | <b>Fair Value</b>    |
| <b>Fixed maturity securities, bonds held-to-maturity</b>   |                                   |                                   |                                      |                      |
| U.S. states and political subdivisions                     | \$ 321,746                        | \$ 27,475                         | \$ (298)                             | \$ 348,923           |
| Foreign governments  | 4,090                             | 949                               |                                      | 5,039                |
| Corporate debt securities                                  | 6,958,916                         | 360,442                           | (113,137)                            | 7,206,221            |
| Residential mortgage-backed securities                     | 265,889                           | 21,046                            | (734)                                | 286,201              |
| Collateralized debt securities                             | 1,297                             | 92                                |                                      | 1,389                |
| Other debt securities                                      | 15,335                            | 212                               |                                      | 15,547               |
| <b>Total bonds held-to-maturity</b>                        | <b>7,567,273</b>                  | <b>410,216</b>                    | <b>(114,169)</b>                     | <b>7,863,320</b>     |
| <b>Fixed maturity securities, bonds available-for-sale</b> |                                   |                                   |                                      |                      |
| U.S. treasury and government                               | 24,221                            | 813                               | (7)                                  | 25,027               |
| U.S. states and political subdivisions                     | 946,797                           | 53,300                            | (240)                                | 999,857              |
| Foreign governments  | 5,000                             | 1,918                             |                                      | 6,918                |
| Corporate debt securities                                  | 4,594,317                         | 185,932                           | (68,981)                             | 4,711,268            |
| Residential mortgage-backed securities                     | 23,377                            | 2,412                             | (165)                                | 25,624               |
| Collateralized debt securities                             | 7,163                             | 909                               | (4)                                  | 8,068                |
| <b>Total bonds available-for-sale</b>                      | <b>5,600,875</b>                  | <b>245,284</b>                    | <b>(69,397)</b>                      | <b>5,776,762</b>     |
| <b>Equity securities</b>                                   |                                   |                                   |                                      |                      |
| Common stock   | 787,663                           | 717,630                           | (23,842)                             | 1,481,451            |
| Preferred stock  | 20,987                            | 8,057                             |                                      | 29,044               |
| <b>Total equity securities</b>                             | <b>808,650</b>                    | <b>725,687</b>                    | <b>(23,842)</b>                      | <b>1,510,495</b>     |
| <b>Total investments in securities</b>                     | <b>\$ 13,976,798</b>              | <b>\$ 1,381,187</b>               | <b>\$ (207,408)</b>                  | <b>\$ 15,150,577</b> |

|  | <b>December 31, 2015</b>          |                                   |                                      |                   |
|--|-----------------------------------|-----------------------------------|--------------------------------------|-------------------|
|  | <b>Cost or<br/>Amortized Cost</b> | <b>Gross Unrealized<br/>Gains</b> | <b>Gross Unrealized<br/>(Losses)</b> | <b>Fair Value</b> |
| <b>Fixed maturity securities, bonds held-to-maturity</b> |                                   |                                   |                                      |                   |
| 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>March 31, 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                | \$ 301,205                    | \$ 307,473          | \$ 223,697                      | \$ 224,443          |
| Due after one year through five years  | 3,097,258                     | 3,297,275           | 1,318,208                       | 1,393,884           |
| Due after five years through ten years | 3,937,641                     | 4,014,344           | 3,466,832                       | 3,535,364           |
| Due after ten years                    | 225,319                       | 239,203             | 587,138                         | 618,208             |
| Without single maturity date           | 5,850                         | 5,025               | 5,000                           | 4,863               |
| <b>Total</b>                           | <b>\$ 7,567,273</b>           | <b>\$ 7,863,320</b> | <b>\$ 5,600,875</b>             | <b>\$ 5,776,762</b> |

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

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

|  | <b>Three months ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2016</b>                         | <b>2015</b> |
| Proceeds from sales of available-for-sale securities | \$ 15,705                           | \$ 15,582   |
| Gross realized gains                                 | 5,067                               | 6,783       |
| Gross realized losses                                | 124                                 |             |

Gains and losses are determined using specific identification of the securities sold. During the three months ended March 31, 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>Three months ended March 31,</b> |             |
|--------------------------|-------------------------------------|-------------|
|                          | <b>2016</b>                         | <b>2015</b> |
| Bonds available-for-sale | \$ 119,802                          | \$ 47,093   |
| Equity securities        | (2,308)                             | (12,435)    |

|   |                  |                 |
|---|------------------|-----------------|
| Change in net unrealized gains on securities during the year    | 117,494          | 34,658          |
| Adjustments for   |                  |                 |
| Deferred policy acquisition costs                               | (31,463)         | (14,048)        |
| Participating policyholders' interest                           | (6,012)          | (2,882)         |
| Deferred federal income tax expense                             | (28,046)         | (9,892)         |
| <b>Change in net unrealized gains on securities, net of tax</b> | <b>\$ 51,973</b> | <b>\$ 7,836</b> |

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

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

|   | Less than 12 months    |                     | March 31, 2016<br>12 Months or more |                   | Total                  |                     |
|---|------------------------|---------------------|-------------------------------------|-------------------|------------------------|---------------------|
|   | Unrealized<br>(Losses) | Fair<br>Value       | Unrealized<br>(Losses)              | Fair<br>Value     | Unrealized<br>(Losses) | Fair<br>Value       |
| Fixed maturity securities, bonds held-to-maturity   |                        |                     |                                     |                   |                        |                     |
| U.S. states and political subdivisions              | \$ (298)               | \$ 4,074            | \$                                  | \$                | \$ (298)               | \$ 4,074            |
| Corporate debt securities                           | (57,810)               | 750,427             | (55,327)                            | 332,409           | (113,137)              | 1,082,836           |
| Residential mortgage-backed securities              | (37)                   | 7,444               | (697)                               | 14,030            | (734)                  | 21,474              |
| <b>Total bonds held-to-maturity</b>                 | <b>(58,145)</b>        | <b>761,945</b>      | <b>(56,024)</b>                     | <b>346,439</b>    | <b>(114,169)</b>       | <b>1,108,384</b>    |
| Fixed maturity securities, bonds available-for-sale |                        |                     |                                     |                   |                        |                     |
| U.S. treasury and government                        | (7)                    | 9,507               |                                     |                   | (7)                    | 9,507               |
| U.S. states and political subdivisions              | (234)                  | 6,800               | (6)                                 | 2,090             | (240)                  | 8,890               |
| Corporate debt securities                           | (47,354)               | 756,561             | (21,627)                            | 157,966           | (68,981)               | 914,527             |
| Residential mortgage-backed securities              | (10)                   | 1,745               | (155)                               | 4,787             | (165)                  | 6,532               |
| Collateralized debt securities                      |                        | 51                  | (4)                                 | 217               | (4)                    | 268                 |
| <b>Total bonds available-for-sale</b>               | <b>(47,605)</b>        | <b>774,664</b>      | <b>(21,792)</b>                     | <b>165,060</b>    | <b>(69,397)</b>        | <b>939,724</b>      |
| Equity securities                                   |                        |                     |                                     |                   |                        |                     |
| Common stock  | (23,842)               | 132,434             |                                     |                   | (23,842)               | 132,434             |
| Preferred stock                                     |                        |                     |                                     |                   |                        |                     |
| <b>Total equity securities</b>                      | <b>(23,842)</b>        | <b>132,434</b>      |                                     |                   | <b>(23,842)</b>        | <b>132,434</b>      |
| <b>Total</b>  | <b>\$ (129,592)</b>    | <b>\$ 1,669,043</b> | <b>\$ (77,816)</b>                  | <b>\$ 511,499</b> | <b>\$ (207,408)</b>    | <b>\$ 2,180,542</b> |

|  | Less than 12 months    |               | December 31, 2015<br>12 Months or more |               | Total                  |               |
|--|------------------------|---------------|--|---------------|------------------------|---------------|
|  | Unrealized<br>(Losses) | Fair<br>Value | Unrealized<br>(Losses)                 | Fair<br>Value | Unrealized<br>(Losses) | Fair<br>Value |
|  |                        |               |  |               |                        |               |

|   |                     |                     |                    |                   |                     |                     |
|---|---------------------|---------------------|--------------------|-------------------|---------------------|---------------------|
| Fixed maturity securities, bonds held-to-maturity   |                     |                     |                    |                   |                     |                     |
| U.S. states and political subdivisions              | \$ (444)            | \$ 19,412           | \$                 | \$                | \$ (444)            | \$ 19,412           |
| 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 March 31, 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>March 31, 2016</b> | <b>December 31, 2015</b> |
|--------------|-----------------------|--------------------------|
| AAA          | 5.4%                  | 5.4%                     |
| AA           | 11.7                  | 12.0                     |
| A            | 35.5                  | 36.5                     |
| BBB          | 44.3                  | 43.3                     |
| BB and below | 3.1                   | 2.8                      |
| <b>Total</b> | <b>100.0%</b>         | <b>100.0%</b>            |

Equity securities by market sector distribution are shown below:

|                        | <b>March 31, 2016</b> | <b>December 31, 2015</b> |
|------------------------|-----------------------|--------------------------|
| Consumer goods         | 21.5%                 | 20.5%                    |
| Energy and utilities   | 10.4                  | 10.3                     |
| Finance                | 19.2                  | 20.0                     |
| Healthcare             | 13.5                  | 14.6                     |
| Industrials            | 8.5                   | 8.2                      |
| Information technology | 18.1                  | 17.8                     |
| Other                  | 8.8                   | 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>March 31, 2016</b> | <b>December 31, 2015</b> |
|--------------------|-----------------------|--------------------------|
| East North Central | 18.7%                 | 18.8%                    |

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|                    |               |               |
|--------------------|---------------|---------------|
| East South Central | 4.9           | 4.8           |
| Mountain           | 11.7          | 11.6          |
| Pacific            | 13.4          | 10.7          |
| South Atlantic     | 17.2          | 18.8          |
| West South Central | 28.7          | 29.0          |
| Other              | 5.4           | 6.3           |
| <b>Total</b>       | <b>100.0%</b> | <b>100.0%</b> |

For the quarter ended March 31, 2016, American National foreclosed on no loans. As of March 31, 2016 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 was in the process of foreclosure with a recorded investment of \$2,450,000. American National sold no loans for the three months ended March 31, 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<br>Past<br>Due | 60-89 Days<br>Past<br>Due | More Than<br>90 Days | Total            | Current             | Total<br>Amount     | Percent      |
|--------------------------------|---------------------------|---------------------------|----------------------|------------------|---------------------|---------------------|--------------|
| <b>March 31, 2016</b>          |                           |                           |                      |                  |                     |                     |              |
| Industrial                     | \$                        | \$                        | \$                   | \$               | \$ 778,077          | \$ 778,077          | 21.0         |
| Office                         | 6,406                     |                           | 2,450                | 8,856            | 1,259,282           | 1,268,138           | 34.2         |
| Retail                         |                           |                           |                      |                  | 583,408             | 583,408             | 15.7         |
| Other                          |                           |                           |                      |                  | 1,074,991           | 1,074,991           | 29.1         |
| <b>Total</b>                   | <b>\$ 6,406</b>           | <b>\$</b>                 | <b>\$ 2,450</b>      | <b>\$ 8,856</b>  | <b>\$ 3,695,758</b> | <b>\$ 3,704,614</b> | <b>100.0</b> |
| Allowance for loan losses      |                           |                           |                      |                  |                     | (11,403)            |              |
| <b>Total, net of allowance</b> |                           |                           |                      |                  |                     | <b>\$ 3,693,211</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 \$399,000 and \$452,000 and unamortized origination fees of \$23,113,000 and \$22,637,000 at March 31, 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>Three months ended March 31,</b>  |                     |
|-------------------------------|--------------------------------------|---------------------|
|                               | <b>Collectively</b>                  | <b>Individually</b> |
|                               | <b>Evaluated</b>                     | <b>Evaluated</b>    |
|                               | <b>for Impairment for Impairment</b> |                     |
| <b>Beginning balance 2016</b> | <b>\$ 10,716</b>                     | <b>\$ 2,179</b>     |
| Change in allowance           | 194                                  | (1,686)             |
| <b>Ending balance 2016</b>    | <b>\$ 10,910</b>                     | <b>\$ 493</b>       |

At March 31, 2016 and December 31, 2015, the recorded investment for loans collectively evaluated for impairment was \$3,675,801,000 and \$3,442,211,000, respectively. The recorded investment for loans individually evaluated for impairment was \$28,813,000 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):

|                             | Three months ended March 31,      |                                  |                                   |                                  |
|-----------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                             | 2016                              |                                  | 2015                              |                                  |
|                             | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <b>With an allowance</b>    |                                   |                                  |                                   |                                  |
| Office                      | \$                                | \$                               | \$ 9,979                          | \$ 209                           |
| Industrial                  |                                   |                                  | 1,100                             | 37                               |
| <b>Total</b>                | <b>\$</b>                         | <b>\$</b>                        | <b>\$ 11,079</b>                  | <b>\$ 246</b>                    |
| <b>Without an allowance</b> |                                   |                                  |                                   |                                  |
| Office                      | \$ 28,952                         | \$ 457                           | \$ 20,996                         | \$ 341                           |
| <b>Total</b>                | <b>\$ 28,952</b>                  | <b>\$ 457</b>                    | <b>\$ 20,996</b>                  | <b>\$ 341</b>                    |
|                             | March 31, 2016                    |                                  | December 31, 2015                 |                                  |
|                             | Recorded<br>Investment            | Unpaid<br>Principal<br>Balance   | Recorded<br>Investment            | Unpaid<br>Principal<br>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                      | \$ 28,813                         | \$ 28,813                        | \$ 29,091                         | \$ 29,091                        |
| Retail                      |                                   |                                  | 8,705                             | 8,705                            |
| <b>Total</b>                | <b>\$ 28,813</b>                  | <b>\$ 28,813</b>                 | <b>\$ 37,796</b>                  | <b>\$ 37,796</b>                 |

**Troubled Debt Restructurings**

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

recovery is higher than the pre-modification recovery assessment.

There were no mortgage loans placed into troubled debt restructuring during the three months ended March 31, 2016 and 2015, respectively.

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

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

|              | <b>March 31, 2016</b> | <b>December 31, 2015</b> |
|--------------|-----------------------|--------------------------|
| Industrial   | 9.7%                  | 10.9%                    |
| Office       | 38.0                  | 38.1                     |
| Retail       | 37.7                  | 37.0                     |
| Other        | 14.6                  | 14.0                     |
| <b>Total</b> | <b>100.0%</b>         | <b>100.0%</b>            |

|                    | <b>March 31,<br/>2016</b> | <b>December<br/>31, 2015</b> |
|--------------------|---------------------------|------------------------------|
| East North Central | 7.3%                      | 11.4%                        |
| East South Central | 3.6                       | 3.6                          |
| Mountain           | 12.4                      | 12.6                         |
| Pacific            | 5.7                       | 5.6                          |
| South Atlantic     | 14.1                      | 10.1                         |
| West South Central | 51.0                      | 50.7                         |
| Other              | 5.9                       | 6.0                          |
| <b>Total</b>       | <b>100.0%</b>             | <b>100.0%</b>                |

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>March 31, 2016</b> | <b>December 31, 2015</b> |
|---------------------------|-----------------------|--------------------------|
| Investment real estate    | \$ 173,244            | \$ 174,264               |
| Short-term investments    | 1                     | 1                        |
| Cash and cash equivalents | 3,842                 | 3,855                    |

|   |                   |           |                |
|---|-------------------|-----------|----------------|
| Accrued investment income                     |                   |           | 557            |
| Other receivables                             | 6,812             |           | 8,101          |
| Other assets                                  | 10,093            |           | 8,210          |
| <b>Total assets of consolidated VIEs</b>      | <b>\$ 193,992</b> | <b>\$</b> | <b>194,988</b> |
| Notes payable                                 | \$ 135,975        | \$        | 128,436        |
| Other liabilities                             | 16,425            |           | 19,436         |
| <b>Total liabilities of consolidated VIEs</b> | <b>\$ 152,400</b> | <b>\$</b> | <b>147,872</b> |

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

The notes payable in the consolidated statements of financial position pertain to the borrowings of the consolidated VIEs. The liability of American National 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 \$36,924,000 and \$34,699,000 at March 31, 2016 and December 31, 2015, respectively. The total long-term portion of notes payable, \$98,293,000, 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, \$37,682,000, 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):

|   | March 31, 2016 |            | December 31, 2015 |            |
|---|----------------|------------|-------------------|------------|
|   | Carrying       | Maximum    | Carrying          | Maximum    |
|   | Amount         | Exposure   | Amount            | Exposure   |
|   |                | to Loss    |                   | to Loss    |
| Investment in unconsolidated affiliates | \$ 240,681     | \$ 240,681 | \$ 236,816        | \$ 236,816 |
| Mortgage loans                          | 317,530        | 317,530    | 212,228           | 212,228    |
| Accrued investment income               | 1,172          | 1,172      | 661               | 661        |

As of March 31, 2016, no real estate investments were classified as held for sale.

**Note 7 Derivative Instruments**

American National purchases over-the-counter equity-indexed options as economic hedges against fluctuations in the equity markets to which equity-indexed products are exposed. Equity-indexed contracts include a fixed host universal-life insurance or annuity contract and an equity-indexed embedded derivative. The detail of derivative instruments is shown below (in thousands, except number of instruments):

| Derivatives Not Designated         | Location in the Consolidated     | Number      | March 31, 2016 |            | December 31, 2015 |              | Estimated  |
|------------------------------------|----------------------------------|-------------|----------------|------------|-------------------|--------------|------------|
|                                    |                                  |             | of             | Estimated  | Number            | Estimated    |            |
| Derivatives Hedging Instruments    | Statements of Financial Position | Instruments | Notional       | Fair       | Instruments       | Notional     | Fair       |
|                                    |                                  |             | Amounts        | Value      |                   | Amounts      | Value      |
| Equity-indexed options             | Other invested assets            | 422         | \$ 1,242,000   | \$ 123,761 | 419               | \$ 1,200,600 | \$ 123,000 |
| Equity-indexed embedded derivative | Policyholders account balances   | 54,091      | 1,122,600      | 258,267    | 51,815            | 1,067,600    | 242,400    |

| Derivatives Not Designated<br>as Hedging Instruments | Location in the Consolidated<br>Statements of Operations | Gains (Losses) Recognized in Income on Derivatives<br>Three months ended March 31, |          |
|--|--|--|----------|
|  |  | 2016   | 2015     |
| Equity-indexed options                               | Net investment income                                    | \$ (3,639)   | \$ 1,131 |
| Equity-indexed embedded derivative                   | Interest credited to policyholders<br>account balances   | 2,552  | (1,196)  |

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

Net investment income is shown below (in thousands):

|                       | <b>Three months ended March 31,</b> |                   |
|-----------------------|-------------------------------------|-------------------|
|                       | <b>2016</b>                         | <b>2015</b>       |
| Bonds                 | \$ 140,193                          | \$ 143,741        |
| Equity securities     | 9,279                               | 8,467             |
| Mortgage loans        | 48,002                              | 49,499            |
| Real estate           | (1,874)                             | (1,753)           |
| Options               | (3,639)                             | 1,131             |
| Other invested assets | 4,093                               | 8,128             |
| <b>Total</b>          | <b>\$ 196,054</b>                   | <b>\$ 209,213</b> |

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

|                       | <b>Three months ended March 31,</b> |                  |
|-----------------------|-------------------------------------|------------------|
|                       | <b>2016</b>                         | <b>2015</b>      |
| Bonds                 | \$ 2,739                            | \$ 1,298         |
| Equity securities     | 4,865                               | 28,627           |
| Mortgage loans        | 1,492                               | (524)            |
| Real estate           |                                     | 9,911            |
| Other invested assets | (34)                                | (10)             |
| <b>Total</b>          | <b>\$ 9,062</b>                     | <b>\$ 39,302</b> |

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

|                   | <b>Three months ended March 31,</b> |                |
|-------------------|-------------------------------------|----------------|
|                   | <b>2016</b>                         | <b>2015</b>    |
| Equity securities | (3,476)                             | (25)           |
| <b>Total</b>      | <b>\$ (3,476)</b>                   | <b>\$ (25)</b> |

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

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

|  | March 31, 2016       |                      | December 31, 2015    |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | Carrying Amount      | Fair Value           | Carrying Amount      | Fair Value           |
| <b>Financial assets</b>                                    |                      |                      |                      |                      |
| Fixed maturity securities, bonds held-to-maturity          | \$ 7,567,273         | \$ 7,863,320         | \$ 7,609,420         | \$ 7,755,553         |
| Fixed maturity securities, bonds available-for-sale        | 5,776,762            | 5,776,762            | 5,483,916            | 5,483,916            |
| Equity securities  | 1,510,495            | 1,510,495            | 1,514,979            | 1,514,979            |
| Equity-indexed options                                     | 123,761              | 123,761              | 123,007              | 123,007              |
| Mortgage loans on real estate, net of allowance            | 3,693,211            | 3,772,509            | 3,483,280            | 3,621,978            |
| Policy loans   | 405,604              | 405,604              | 407,491              | 407,491              |
| Short-term investments                                     | 312,306              | 312,306              | 460,612              | 460,612              |
| Separate account assets                                    | 899,750              | 899,750              | 918,446              | 918,446              |
| <b>Total financial assets</b>                              | <b>\$ 20,289,162</b> | <b>\$ 20,664,507</b> | <b>\$ 20,001,151</b> | <b>\$ 20,285,982</b> |
| <b>Financial liabilities</b>                               |                      |                      |                      |                      |
| Investment contracts                                       | \$ 8,825,987         | \$ 8,825,987         | \$ 8,787,376         | \$ 8,787,376         |
| Embedded derivative liability for equity-indexed contracts | 258,267              | 258,267              | 242,412              | 242,412              |
| Notes payable  | 135,975              | 135,975              | 128,436              | 128,436              |
| Separate account liabilities                               | 899,750              | 899,750              | 918,446              | 918,446              |
| <b>Total financial liabilities</b>                         | <b>\$ 10,119,979</b> | <b>\$ 10,119,979</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.
- Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect American National's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities

include financial instruments whose values are determined using pricing models and third-party evaluation, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

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

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

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

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

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

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

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

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

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

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

The significant unobservable input used to calculate the fair value of the embedded derivatives is equity option implied volatility. An increase in implied volatility will result in an increase in the value of the equity-indexed embedded derivatives, all other things being equal. At March 31, 2016 and December 31, 2015, the one year implied volatility used to estimate embedded derivative value was 16.4% 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 March 31, 2016 |                     |                      |                   |
|---|---|---------------------|----------------------|-------------------|
|   | 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              | \$ 348,923                                  | \$                  | \$ 348,923           | \$                |
| Foreign governments                                 | 5,039                                       |                     | 5,039                |                   |
| Corporate debt securities                           | 7,206,221                                   |                     | 7,125,502            | 80,719            |
| Residential mortgage-backed securities              | 286,201                                     |                     | 285,274              | 927               |
| Collateralized debt securities                      | 1,389                                       |                     |                      | 1,389             |
| Other debt securities                               | 15,547                                      |                     | 12,222               | 3,325             |
| <b>Total bonds held-to-maturity</b>                 | <b>7,863,320</b>                            |                     | <b>7,776,960</b>     | <b>86,360</b>     |
| Fixed maturity securities, bonds available-for-sale |   |                     |                      |                   |
| U.S. treasury and government                        | 25,027                                      |                     | 25,027               |                   |
| U.S. states and political subdivisions              | 999,857                                     |                     | 997,377              | 2,480             |
| Foreign governments                                 | 6,918                                       |                     | 6,918                |                   |
| Corporate debt securities                           | 4,711,268                                   |                     | 4,696,574            | 14,694            |
| Residential mortgage-backed securities              | 25,624                                      |                     | 23,138               | 2,486             |
| Collateralized debt securities                      | 8,068                                       |                     | 6,039                | 2,029             |
| <b>Total bonds available-for-sale</b>               | <b>5,776,762</b>                            |                     | <b>5,755,073</b>     | <b>21,689</b>     |
| Equity securities                                   |   |                     |                      |                   |
| Common stock  | 1,481,451                                   | 1,481,451           |                      |                   |
| Preferred stock                                     | 29,044                                      | 29,044              |                      |                   |
| <b>Total equity securities</b>                      | <b>1,510,495</b>                            | <b>1,510,495</b>    |                      |                   |
| Options   | 123,761                                     |                     |                      | 123,761           |
| Mortgage loans on real estate                       | 3,772,509                                   |                     | 3,772,509            |                   |
| Policy loans  | 405,604                                     |                     |                      | 405,604           |
| Short-term investments                              | 312,306                                     |                     | 312,306              |                   |
| Separate account assets                             | 899,750                                     |                     | 899,750              |                   |
| <b>Total financial assets</b>                       | <b>\$ 20,664,507</b>                        | <b>\$ 1,510,495</b> | <b>\$ 18,516,598</b> | <b>\$ 637,414</b> |

|  |                      |           |                                |
|--|----------------------|-----------|--------------------------------|
| Financial liabilities                                      |                      |           |                                |
| Investment contracts                                       | \$ 8,825,987         | \$        | \$ 8,825,987                   |
| Embedded derivative liability for equity-indexed contracts | 258,267              |           | 258,267                        |
| Notes payable  | 135,975              |           | 135,975                        |
| Separate account liabilities                               | 899,750              | 899,750   |                                |
| <b>Total financial liabilities</b>                         | <b>\$ 10,119,979</b> | <b>\$</b> | <b>\$ 899,750 \$ 9,220,229</b> |

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

|  | Fair Value Measurement as of December 31, 2015 |                     |                      |                   |
|--|--|---------------------|----------------------|-------------------|
|  | Total<br>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> |
|------------------------------------|----------------------|-----------|-------------------|---------------------|

**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 March 31,       |                           | Liability<br>Embedded<br>Derivative |
|  | Assets<br>Investment<br>Securities | Equity-Indexed<br>Options |                                     |
| <b>Beginning balance, 2016</b>   | <b>\$ 20,130</b>                   | <b>\$ 123,007</b>         | <b>\$ 242,412</b>                   |
| Total realized and unrealized investment gains (losses) included in other comprehensive income | 159                                |                           |                                     |
| Net fair value change included in realized gains (losses)                                      |                                    |                           |                                     |
| Net gain (loss) for derivatives included in net investment income                              |                                    | (3,639)                   |                                     |
| Net change included in interest credited   |                                    |                           | (2,552)                             |
| Purchases, sales and settlements or maturities   |                                    |                           |                                     |
| Purchases  |                                    | 5,293                     |                                     |
| Sales  |                                    |                           |                                     |
| Settlements or maturities  | (13)                               | (900)                     |                                     |
| Premiums less benefits   |                                    |                           | 18,407                              |
| Gross transfers into Level 3   | 1,413                              |                           |                                     |
| Gross transfers out of Level 3   |                                    |                           |                                     |
| <b>Ending balance March 31, 2016</b>   | <b>\$ 21,689</b>                   | <b>\$ 123,761</b>         | <b>\$ 258,267</b>                   |
| <b>Beginning balance, 2015</b>   | <b>\$ 64,433</b>                   | <b>\$ 189,449</b>         | <b>\$ 208,187</b>                   |
| Total realized and unrealized investment gains (losses) included in other comprehensive income | 937                                |                           |                                     |
| Net fair value change included in realized gains (losses)                                      |                                    |                           |                                     |
| Net gain (loss) for derivatives included in net investment income                              |                                    | (743)                     |                                     |
| Net change included in interest credited   |                                    |                           | 1,196                               |
| Purchases, sales and settlements or maturities   |                                    |                           |                                     |
| Purchases  |                                    | 3,763                     |                                     |
| Sales  | (61)                               |                           |                                     |
| Settlements or maturities  | (10)                               | (4,463)                   |                                     |
| Premiums less benefits   |                                    |                           | (971)                               |
| Gross transfers into Level 3   |                                    |                           |                                     |
| Gross transfers out of Level 3   |                                    |                           |                                     |
| <b>Ending balance March 31, 2015</b>   | <b>\$ 65,299</b>                   | <b>\$ 188,006</b>         | <b>\$ 208,412</b>                   |

Within the net gain (loss) for derivatives included in net investment income were unrealized gains of \$5,401,000 relating to assets still held at March 31, 2016 and losses of \$3,309,000 at March 31, 2015.

There were no transfers between Level 1 and Level 2 fair value hierarchies. The transfers into Level 3 during the three months ended March 31, 2016 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<br>&<br>Health | Property<br>&<br>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  | 25,217            | 20,946            | 3,980                   | 64,214                    | 114,357             |
| Amortization   | (22,171)          | (17,023)          | (5,553)                 | (65,017)                  | (109,764)           |
| Effect of change in unrealized gains on<br>available-for-sale securities | (6,294)           | (25,169)          |                         |                           | (31,463)            |
| <b>Net change</b>  | <b>(3,248)</b>    | <b>(21,246)</b>   | <b>(1,573)</b>          | <b>(803)</b>              | <b>(26,870)</b>     |
| <b>Ending balance at March 31, 2016</b>                                  | <b>\$ 752,775</b> | <b>\$ 389,960</b> | <b>\$ 42,817</b>        | <b>\$ 112,247</b>         | <b>\$ 1,297,799</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):

|   | <b>Three months ended March 31,</b> |                     |
|---|-------------------------------------|---------------------|
|   | <b>2016</b>                         | <b>2015</b>         |
| <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                                 | 252,781                             | 239,128             |
| Prior years                             | (7,806)                             | (12,100)            |
| <b>Total incurred claims</b>            | <b>244,975</b>                      | <b>227,028</b>      |

|                                      |                     |                     |
|--------------------------------------|---------------------|---------------------|
| Paid claims related to               |                     |                     |
| Current                              | 101,995             | 98,382              |
| Prior years                          | 129,200             | 124,534             |
| <b>Total paid claims</b>             | <b>231,195</b>      | <b>222,916</b>      |
| Net balance                          | 900,745             | 890,600             |
| Plus reinsurance recoverables        | 202,386             | 236,370             |
| <b>Unpaid claims balance, ending</b> | <b>\$ 1,103,131</b> | <b>\$ 1,126,970</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 \$7,806,000 during the first three months of 2016 and decreased by approximately \$12,100,000 during the first three months of 2015, reflecting lower-than-anticipated losses in the commercial auto, other liability and multi-peril lines of business.

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

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

|                                       | Three months ended March 31,<br>2016 |                | 2015             |              |
|---------------------------------------|--------------------------------------|----------------|------------------|--------------|
|                                       | Amount                               | Rate           | Amount           | Rate         |
| Income tax on pre-tax income          | \$ 8,556                             | 35.0%          | \$ 51,780        | 35.0%        |
| Tax-exempt investment income          | (1,972)                              | (8.1)          | (1,879)          | (1.3)        |
| Tax-exempt restructuring              | (10,167)                             | (41.6)         |                  |              |
| Dividend exclusion                    | (2,347)                              | (9.6)          | (2,083)          | (1.4)        |
| Miscellaneous tax credits, net        | (2,251)                              | (9.2)          | (1,931)          | (1.3)        |
| Low income housing tax credit expense | 1,294                                | 5.3            | 1,264            | 0.9          |
| Interest expense                      | 2,560                                | 10.5           |                  |              |
| Other items, net                      | 257                                  | 1.0            | (1,461)          | (1.0)        |
| <b>Total</b>                          | <b>\$ (4,070)</b>                    | <b>(16.7)%</b> | <b>\$ 45,690</b> | <b>30.9%</b> |

American National made income tax payments of \$5,952,000 and \$370,000 during the three months ended March 31, 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 March 31, 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<br>Gains (Losses)<br>on<br>Securities | Defined<br>Benefit<br>Pension Plan<br>Adjustments | Foreign<br>Currency<br>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 expense \$5,496 and expense \$1,012)                                     | 10,208   | 1,879   |                                    | 12,087            |
| Unrealized holding gains arising during the period (net of tax expense \$35,626)                                    | 66,164   |   |                                    | 66,164            |
| Unrealized adjustment to DAC (net of tax benefit \$10,972)  | (20,491)   |   |                                    | (20,491)          |
| Unrealized losses on investments attributable to participating policyholders' interest (net of tax benefit \$2,104) | (3,908)  |   |                                    | (3,908)           |
| Foreign currency adjustment (net of tax benefit \$6)  |  |   | (12)                               | (12)              |
| <b>Ending balance at March 31, 2016</b>   | <b>\$ 505,407</b>                                    | <b>\$ (96,010)</b>                                | <b>\$ (2,937)</b>                  | <b>\$ 406,460</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 \$7,502 and expense \$777)                                       | (21,184)   | 1,443   |                                    | (19,741)          |
| Unrealized holding gains arising during the period (net of tax expense \$23,320)                                    | 40,024   |   |                                    | 40,024            |
| Unrealized adjustment to DAC (net of tax benefit \$4,917)   | (9,131)  |   |                                    | (9,131)           |
| Unrealized losses on investments attributable to participating policyholders' interest (net of tax benefit \$1,009) | (1,873)  |   |                                    | (1,873)           |
| Foreign currency adjustment (net of tax benefit \$990)  |  |   | (1,838)                            | (1,838)           |
| <b>Ending balance at March 31, 2015</b>   | <b>\$ 575,987</b>                                    | <b>\$ (74,631)</b>                                | <b>\$ (3,133)</b>                  | <b>\$ 498,223</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:

|                     | March 31, 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<br>Weighted-Average<br>Grant<br>Date |                  | RS Shares<br>Weighted-Average<br>Grant<br>Date |                  | RS Units<br>Weighted-Average<br>Grant<br>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                               | (1,267)                                  | 96.31            |  |                  | (65,734)                                      | 99.99            |
| Forfeited                               |  |                  |  |                  | (182)   | 105.75           |
| Expired                                 | (4,200)                                  | 116.48           |  |                  |   |                  |
| <b>Outstanding at March 31, 2016</b>    | <b>32,625</b>                            | <b>\$ 115.74</b> | <b>76,000</b>                                  | <b>\$ 110.73</b> | <b>106,658</b>                                | <b>\$ 105.98</b> |

|  | SAR       | RS Shares  | RS Units      |
|--|-----------|------------|---------------|
| Weighted-average contractual remaining life (in years) | 1.06      | 3.34       | 2.13          |
| Exercisable shares                                     | 32,625    | N/A        | N/A           |
| Weighted-average exercise price                        | \$ 115.74 | \$ 110.73  | \$ 105.98     |
| Weighted-average exercise price exercisable shares     | 115.74    | N/A        | N/A           |
| Compensation expense (credit)                          |           |            |               |
| Three months ended March 31, 2016                      | \$ 33,000 | \$ 210,000 | \$ 4,102,000  |
| Three months ended March 31, 2015                      | (77,000)  | 377,000    | 3,180,000     |
| Fair value of liability award                          |           |            |               |
| March 31, 2016   | \$ 67,000 | N/A        | \$ 20,823,000 |
| 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.

|   | <b>Three months ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>March 31,</b>          |                   |
|   | <b>2016</b>               | <b>2015</b>       |
| Weighted average shares outstanding                         | 26,909,511                | 26,818,215        |
| Incremental shares from RS awards and RSUs                  | 56,456                    | 146,135           |
| <b>Total shares for diluted calculations</b>                | <b>26,965,967</b>         | <b>26,964,350</b> |
| Net income attributable to American National (in thousands) | \$ 29,316                 | \$ 102,982        |
| Basic earnings per share                                    | \$ 1.09                   | \$ 3.84           |
| Diluted earnings per share                                  | 1.09                      | 3.82              |

**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 March 31, 2016 and December 31, 2015, American National Insurance Company's statutory capital and surplus was \$2,921,096,000 and \$2,925,935,000, respectively. American National Insurance Company and each of its insurance subsidiaries had statutory capital and surplus at March 31, 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 \$67,115,000 and \$64,991,000 at March 31, 2016 and March 31, 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>March 31, 2016</b>               |           | <b>December 31, 2015</b> |           |
|--|-------------------------------------|-----------|--------------------------|-----------|
| <b>Statutory capital and surplus</b>     |                                     |           |                          |           |
| Life insurance entities                  | \$                                  | 1,893,485 | \$                       | 1,900,939 |
| Property and casualty insurance entities |                                     | 1,036,577 |                          | 1,033,942 |
| <br>                                     |                                     |           |                          |           |
|  | <b>Three months ended March 31,</b> |           | <b>2016</b>              |           |
| <b>Statutory net income</b>              |                                     |           |                          |           |
| Life insurance entities                  | \$                                  | 3,927     | \$                       | 46,094    |
| Property and casualty insurance entities |                                     | 4,548     |                          | 15,048    |

**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 March 31, 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 \$2,638,000 and \$3,439,000 at March 31, 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.

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

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.

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):

|                       | <b>Three months ended March 31,</b> |                  |
|-----------------------|-------------------------------------|------------------|
|                       | <b>2016</b>                         | <b>2015</b>      |
| Life                  | \$ (3,481)                          | \$ 8,199         |
| Annuity               | 17,971                              | 17,113           |
| Health                | (634)                               | 7,543            |
| Property and Casualty | 6,990                               | 10,222           |
| Corporate and Other   | 2,662                               | 48,282           |
| <b>Total</b>          | <b>\$ 23,508</b>                    | <b>\$ 91,359</b> |

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

American National had aggregate commitments at March 31, 2016, to purchase, expand or improve real estate, to fund fixed interest rate mortgage loans, and to purchase other invested assets of \$727,320,000 of which \$578,084,000 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 March 31, 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.

### **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,

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

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 March 31, 2016, was approximately \$206,376,000, while the total cash value of the related life insurance policies was approximately \$211,503,000.

**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):

| Related Party             | Financial Statement Line Impacted | Dollar Amount of Transactions to (from) American National<br>Three months ended March 31, December 31, |        |          |          |
|---------------------------|-----------------------------------|--|--------|----------|----------|
|                           |                                   | 2016   | 2015   | 2016     | 2015     |
| Gal-Tex Hotel Corporation | Mortgage loan on real estate      | \$ 347   | \$ 323 | \$ 4,835 | \$ 5,182 |
| Gal-Tex Hotel Corporation | Net investment income             | 92   | 116    | 29       | 31       |
|                           | Other operating expenses          | 2,550  | 1,964  | (418)    | (274)    |

Greer, Herz & Adams,  
LLP

*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 months ended March 31, 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):

|  | <b>Three months ended March 31,</b> |                  |                   |
|--|-------------------------------------|------------------|-------------------|
|  | <b>2016</b>                         | <b>2015</b>      | <b>Change</b>     |
| <b>Premiums and other revenues</b>                         |                                     |                  |                   |
| Premiums   | \$ 490,999                          | \$ 441,843       | \$ 49,156         |
| Other policy revenues                                      | 64,347                              | 57,524           | 6,823             |
| Net investment income                                      | 196,054                             | 209,213          | (13,159)          |
| Realized investments gains (losses), net                   | 5,586                               | 39,277           | (33,691)          |
| Other income   | 7,984                               | 8,710            | (726)             |
| <b>Total premiums and other revenues</b>                   | <b>764,970</b>                      | <b>756,567</b>   | <b>8,403</b>      |
| <b>Benefits, losses and expenses</b>                       |                                     |                  |                   |
| Policyholder benefits                                      | 182,018                             | 142,371          | 39,647            |
| Claims incurred  | 244,250                             | 224,049          | 20,201            |
| Interest credited to policyholders account balances        | 76,527                              | 75,753           | 774               |
| Commissions for acquiring and servicing policies           | 112,884                             | 93,115           | 19,769            |
| Other operating expenses                                   | 130,376                             | 123,458          | 6,918             |
| Change in deferred policy acquisition costs <sup>(1)</sup> | (4,593)                             | 6,462            | (11,055)          |
| <b>Total benefits and expenses</b>                         | <b>741,462</b>                      | <b>665,208</b>   | <b>76,254</b>     |
| <b>Income before other items and federal income taxes</b>  | <b>\$ 23,508</b>                    | <b>\$ 91,359</b> | <b>\$(67,851)</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 March 31, 2016 compared to 2015 primarily due to decreases in realized investment gains and net investment income, as well as increases in policyholder benefits and claims incurred.

**Life**

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

|  | <b>Three months ended March 31,</b> |             |               |
|--|-------------------------------------|-------------|---------------|
|  | <b>2016</b>                         | <b>2015</b> | <b>Change</b> |

| <b>Premiums and other revenues</b>                         |                   |                 |                    |
|--|-------------------|-----------------|--------------------|
| Premiums   | \$ 75,117         | \$ 72,082       | \$ 3,035           |
| Other policy revenues                                      | 61,608            | 54,426          | 7,182              |
| Net investment income                                      | 54,184            | 57,614          | (3,430)            |
| Other income   | 593               | 423             | 170                |
| <b>Total premiums and other revenues</b>                   | <b>191,502</b>    | <b>184,545</b>  | <b>6,957</b>       |
| <b>Benefits, losses and expenses</b>                       |                   |                 |                    |
| Policyholder benefits                                      | 100,771           | 88,004          | 12,767             |
| Interest credited to policyholders' account balances       | 16,085            | 15,788          | 297                |
| Commissions for acquiring and servicing policies           | 29,794            | 27,316          | 2,478              |
| Other operating expenses                                   | 51,379            | 52,652          | (1,273)            |
| Change in deferred policy acquisition costs <sup>(1)</sup> | (3,046)           | (7,414)         | 4,368              |
| <b>Total benefits and expenses</b>                         | <b>194,983</b>    | <b>176,346</b>  | <b>18,637</b>      |
| <b>Income before other items and federal income taxes</b>  | <b>\$ (3,481)</b> | <b>\$ 8,199</b> | <b>\$ (11,680)</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.

**Table of Contents*****Premiums and other revenues***

Premiums increased during the three months ended March 31, 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 months ended March 31, 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):

|                        | <b>Three months ended March 31,</b> |                  |               |
|------------------------|-------------------------------------|------------------|---------------|
|                        | <b>2016</b>                         | <b>2015</b>      | <b>Change</b> |
| Traditional Life       | \$ 13,539                           | \$ 14,198        | \$ (659)      |
| Universal Life         | 4,158                               | 3,331            | 827           |
| Indexed UL             | 5,078                               | 5,058            | 20            |
| Variable UL            |                                     | 4                | (4)           |
| <b>Total Recurring</b> | <b>\$ 22,775</b>                    | <b>\$ 22,591</b> | <b>\$ 184</b> |
| Single and excess      | \$ 423                              | \$ 351           | \$ 72         |
| Credit life            | 880                                 | 959              | (79)          |

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 months ended March 31, 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 three months ended March 31, 2016 compared to 2015 primarily due to an increase in claims.

Commissions increased slightly during the three months ended March 31, 2016 compared to 2015 primarily due to increased sales of universal life products.

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

|                              | <b>Three months ended March 31,</b> |                 |                   |
|------------------------------|-------------------------------------|-----------------|-------------------|
|                              | <b>2016</b>                         | <b>2015</b>     | <b>Change</b>     |
| Acquisition cost capitalized | \$ 25,217                           | \$ 25,038       | \$ 179            |
| Amortization of DAC          | (22,171)                            | (17,624)        | (4,547)           |
| <b>Change in DAC</b>         | <b>\$ 3,046</b>                     | <b>\$ 7,414</b> | <b>\$ (4,368)</b> |

**Table of Contents****Policy in-force information**

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

|                                      | March 31,<br>2016    | December 31,<br>2015 | Change              |
|--------------------------------------|----------------------|----------------------|---------------------|
| <b>Life insurance in-force</b>       |                      |                      |                     |
| Traditional life                     | \$ 64,291,076        | \$ 63,336,601        | \$ 954,475          |
| Interest-sensitive life              | 27,060,675           | 26,858,051           | 202,624             |
| <b>Total life insurance in-force</b> | <b>\$ 91,351,751</b> | <b>\$ 90,194,652</b> | <b>\$ 1,157,099</b> |

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

|                                    | March 31,<br>2016 | December 31,<br>2015 | Change          |
|------------------------------------|-------------------|----------------------|-----------------|
| <b>Number of policies in-force</b> |                   |                      |                 |
| Traditional life                   | 1,874,556         | 1,890,600            | (16,044)        |
| Interest-sensitive life            | 215,125           | 212,851              | 2,274           |
| <b>Total number of policies</b>    | <b>2,089,681</b>  | <b>2,103,451</b>     | <b>(13,770)</b> |

Total life insurance in-force increased during the three months ended March 31, 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.

**Annuity**

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

|  | Three months ended March 31, |                |               |
|--|------------------------------|----------------|---------------|
|  | 2016                         | 2015           | Change        |
| <b>Premiums and other revenues</b>       |                              |                |               |
| Premiums                                 | \$ 70,208                    | \$ 41,443      | \$ 28,765     |
| Other policy revenues                    | 2,739                        | 3,098          | (359)         |
| Net investment income                    | 116,896                      | 119,662        | (2,766)       |
| Other income                             | 960                          | 870            | 90            |
| <b>Total premiums and other revenues</b> | <b>190,803</b>               | <b>165,073</b> | <b>25,730</b> |
| <b>Benefits, losses and expenses</b>     |                              |                |               |
| Policyholder benefits                    | 81,247                       | 54,367         | 26,880        |

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|  |                  |                  |               |
|--|------------------|------------------|---------------|
| Interest credited to policyholders account balances        | 60,442           | 59,965           | 477           |
| Commissions for acquiring and servicing policies           | 21,908           | 9,105            | 12,803        |
| Other operating expenses                                   | 13,158           | 13,049           | 109           |
| Change in deferred policy acquisition costs <sup>(1)</sup> | (3,923)          | 11,474           | (15,397)      |
| <b>Total benefits and expenses</b>                         | <b>172,832</b>   | <b>147,960</b>   | <b>24,872</b> |
| <b>Income before other items and federal income taxes</b>  | <b>\$ 17,971</b> | <b>\$ 17,113</b> | <b>\$ 858</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 were relatively flat during the three months ended March 31, 2016 compared to 2015.

**Table of Contents****Premiums and other revenues**

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

|                                   | <b>Three months ended March 31,</b> |                  |                  |
|-----------------------------------|-------------------------------------|------------------|------------------|
|                                   | <b>2016</b>                         | <b>2015</b>      | <b>Change</b>    |
| Fixed deferred annuity            | \$ 184,156                          | \$ 47,559        | \$ 136,597       |
| Single premium immediate annuity  | 78,612                              | 49,610           | 29,002           |
| Equity-indexed deferred annuity   | 141,979                             | 52,147           | 89,832           |
| Variable deferred annuity         | 19,889                              | 26,463           | (6,574)          |
| <b>Total premium and deposits</b> | <b>424,636</b>                      | <b>175,779</b>   | <b>248,857</b>   |
| Less: Policy deposits             | 354,428                             | 134,336          | 220,092          |
| <b>Total earned premiums</b>      | <b>\$ 70,208</b>                    | <b>\$ 41,443</b> | <b>\$ 28,765</b> |

Fixed deferred and equity-indexed annuity sales increased significantly during the three months ended March 31, 2016 compared to 2015. During the third quarter of 2015, the Company marketed enhanced annuity crediting rates for certain products, which were well received by the market and increased sales.

Single premium immediate annuity (SPIA) sales, which tend to vary with market conditions, increased during the three months ended March 31, 2016 compared to 2015.

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>Three months ended March 31,</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                                      | 253,769                             | 84,013              |
| Surrenders                                       | (202,981)                           | (333,931)           |
| Fees   | (1,506)                             | (1,573)             |
| Interest credited                                | 57,558                              | 58,328              |
| <b>Account value, end of period</b>              | <b>\$ 8,987,288</b>                 | <b>\$ 8,680,234</b> |
| <b>Single premium immediate annuity</b>          |                                     |                     |
| Reserve, beginning of period                     | \$ 1,398,481                        | \$ 1,274,664        |
| Net inflows                                      | 38,768                              | 12,880              |
| Interest and mortality                           | 14,031                              | 14,377              |
| <b>Reserve, end of period</b>                    | <b>\$ 1,451,280</b>                 | <b>\$ 1,301,921</b> |

| <b>Variable deferred annuity</b>    |           |                |                   |
|-------------------------------------|-----------|----------------|-------------------|
| Account value, beginning of period  | \$        | 417,821        | \$ 494,516        |
| Net inflows                         |           | 19,070         | 25,551            |
| Surrenders                          |           | (24,499)       | (52,014)          |
| Fees                                |           | (1,167)        | (1,429)           |
| Change in market value and other    |           | (3,468)        | 30,663            |
| <b>Account value, end of period</b> | <b>\$</b> | <b>407,757</b> | <b>\$ 497,287</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 \$0.9 million as of March 31, 2016 and 2015, respectively.

**Table of Contents*****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 three months ended March 31, 2016 and 2015, was commensurate with increases in SPIA premium during these periods.

Commissions increased during the three months ended March 31, 2016 compared to 2015 driven by the increase in fixed deferred and equity-indexed annuity sales.

Other operating expenses were relatively flat during the three months ended March 31, 2016 compared to 2015.

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):

|                              | <b>Three months ended March 31,</b> |                    |                  |
|------------------------------|-------------------------------------|--------------------|------------------|
|                              | <b>2016</b>                         | <b>2015</b>        | <b>Change</b>    |
| Acquisition cost capitalized | \$ 20,946                           | \$ 8,955           | \$ 11,991        |
| Amortization of DAC          | (17,023)                            | (20,429)           | 3,406            |
| <b>Change in DAC</b>         | <b>\$ 3,923</b>                     | <b>\$ (11,474)</b> | <b>\$ 15,397</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 three months ended March 31, 2016 and 2015 were 34.7%, and 39.7%, 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 0.8% and 0.4% in the three months ended March 31, 2016 and 2015, respectively. This change led to a decrease in the option return of \$3.9 million during the three months ended March 31, 2016 compared to 2015, partially offset by a \$3.3 million decrease in the related equity-indexed embedded derivative, for a net decrease in earnings of \$0.6 million.

Net investment income without option return increased during the three months ended March 31, 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):

|                              | <b>Three months ended March 31,</b> |             |               |
|------------------------------|-------------------------------------|-------------|---------------|
|                              | <b>2016</b>                         | <b>2015</b> | <b>Change</b> |
| <b>Net investment income</b> |                                     |             |               |
| Without option return        | \$ 119,953                          | \$ 118,837  | \$ 1,116      |

|   |         |        |         |
|---|---------|--------|---------|
| Option return                                       | (3,057) | 825    | (3,882) |
| <b>Interest credited to policy account balances</b> |         |        |         |
| Without embedded derivatives                        | 62,751  | 58,958 | 3,793   |
| Equity-indexed annuity embedded derivatives         | (2,309) | 1,007  | (3,316) |

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

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

|  | <b>Three months ended March 31,</b> |                 |                   |
|--|-------------------------------------|-----------------|-------------------|
|  | <b>2016</b>                         | <b>2015</b>     | <b>Change</b>     |
| <b>Premiums and other revenues</b>                         |                                     |                 |                   |
| Premiums   | \$ 42,313                           | \$ 51,837       | \$ (9,524)        |
| Net investment income                                      | 2,449                               | 2,653           | (204)             |
| Other income   | 4,179                               | 4,569           | (390)             |
| <b>Total premiums and other revenues</b>                   | <b>48,941</b>                       | <b>59,059</b>   | <b>(10,118)</b>   |
| <b>Benefits, losses and expenses</b>                       |                                     |                 |                   |
| Claims incurred  | 32,292                              | 31,797          | 495               |
| Commissions for acquiring and servicing policies           | 4,878                               | 7,191           | (2,313)           |
| Other operating expenses                                   | 10,832                              | 11,403          | (571)             |
| Change in deferred policy acquisition costs <sup>(1)</sup> | 1,573                               | 1,125           | 448               |
| <b>Total benefits and expenses</b>                         | <b>49,575</b>                       | <b>51,516</b>   | <b>(1,941)</b>    |
| <b>Income before other items and federal income taxes</b>  | <b>\$ (634)</b>                     | <b>\$ 7,543</b> | <b>\$ (8,177)</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 significantly during the three months ended March 31, 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):

|                            | <b>Three months ended March 31,</b> |        |             |        |
|----------------------------|-------------------------------------|--------|-------------|--------|
|                            | <b>2016</b>                         |        | <b>2015</b> |        |
| Medicare Supplement        | \$ 17,640                           | 41.7 % | \$ 19,863   | 38.3 % |
| Medical expense            | 3,700                               | 8.7    | 4,572       | 8.8    |
| Group health               | 8,231                               | 19.5   | 9,370       | 18.1   |
| Credit accident and health | 2,791                               | 6.6    | 3,270       | 6.3    |

|                        |                  |                |                  |                |
|------------------------|------------------|----------------|------------------|----------------|
| MGU                    | 3,419            | 8.1            | 5,301            | 10.2           |
| Supplemental Insurance | 5,257            | 12.4           | 7,880            | 15.2           |
| All other              | 1,275            | 3.0            | 1,581            | 3.1            |
| <b>Total</b>           | <b>\$ 42,313</b> | <b>100.0 %</b> | <b>\$ 51,837</b> | <b>100.0 %</b> |

Earned premiums decreased during the three months ended March 31, 2016 compared to 2015, primarily due to risk management initiatives related to the MGU business that significantly decreased sales. 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>Three months ended March 31,</b> |               |                |               |
|----------------------------|-------------------------------------|---------------|----------------|---------------|
|                            | <b>2016</b>                         |               | <b>2015</b>    |               |
| Medicare Supplement        | 34,365                              | 6.5%          | 36,878         | 6.1%          |
| Medical expense            | 2,477                               | 0.5           | 3,027          | 0.5           |
| Group                      | 16,756                              | 3.2           | 16,856         | 2.8           |
| Credit accident and health | 196,104                             | 37.2          | 216,684        | 35.7          |
| MGU                        | 179,406                             | 34.1          | 226,361        | 37.3          |
| Supplemental Insurance     | 61,097                              | 11.6          | 67,124         | 11.1          |
| All other                  | 36,408                              | 6.9           | 40,346         | 6.5           |
| <b>Total</b>               | <b>526,613</b>                      | <b>100.0%</b> | <b>607,276</b> | <b>100.0%</b> |

Total in-force policies decreased during the three months ended March 31, 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 first 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.

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

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

|                              | <b>Three months ended March 31,</b> |                   |                 |
|------------------------------|-------------------------------------|-------------------|-----------------|
|                              | <b>2016</b>                         | <b>2015</b>       | <b>Change</b>   |
| Acquisition cost capitalized | \$ 3,980                            | \$ 3,954          | \$ 26           |
| Amortization of DAC          | (5,553)                             | (5,079)           | (474)           |
| <b>Change in DAC</b>         | <b>\$ (1,573)</b>                   | <b>\$ (1,125)</b> | <b>\$ (448)</b> |

The change in DAC had a 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):

|  | <b>Three months ended March 31,</b> |                  |                   |
|--|-------------------------------------|------------------|-------------------|
|  | <b>2016</b>                         | <b>2015</b>      | <b>Change</b>     |
| <b>Premiums and other revenues</b>                         |                                     |                  |                   |
| Net premiums written                                       | \$ 313,345                          | \$ 286,944       | \$ 26,401         |
| Net premiums earned  | \$ 303,361                          | \$ 276,481       | \$ 26,880         |
| Net investment income                                      | 14,912                              | 14,406           | 506               |
| Other income   | 990                                 | 1,140            | (150)             |
| <b>Total premiums and other revenues</b>                   | <b>319,263</b>                      | <b>292,027</b>   | <b>27,236</b>     |
| <b>Benefits, losses and expenses</b>                       |                                     |                  |                   |
| Claims incurred  | 211,958                             | 192,252          | 19,706            |
| Commissions for acquiring and servicing policies           | 56,306                              | 49,503           | 6,803             |
| Other operating expenses                                   | 43,206                              | 38,773           | 4,433             |
| Change in deferred policy acquisition costs <sup>(1)</sup> | 803                                 | 1,277            | (474)             |
| <b>Total benefits and expenses</b>                         | <b>312,273</b>                      | <b>281,805</b>   | <b>30,468</b>     |
| <b>Income before other items and federal income taxes</b>  |                                     |                  |                   |
|  | <b>\$ 6,990</b>                     | <b>\$ 10,222</b> | <b>\$ (3,232)</b> |
| Loss ratio   | 69.9%                               | 69.5%            | 0.4               |
| Underwriting expense ratio                                 | 33.1                                | 32.4             | 0.7               |
| Combined ratio   | <b>103.0%</b>                       | <b>101.9%</b>    | <b>1.1</b>        |
| Impact of catastrophe events on combined ratio             | 7.4                                 | 4.5              | 2.9               |
| Combined ratio without impact of catastrophe events        | <b>95.6%</b>                        | <b>97.4%</b>     | <b>(1.8)</b>      |
| Gross catastrophe losses                                   | \$ 22,327                           | \$ 12,630        | \$ 9,697          |
| Net catastrophe losses                                     | 22,143                              | 12,485           | 9,658             |

(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.

Property and Casualty results decreased during the three months ended March 31, 2016 compared to 2015 primarily due to a return to more typical first quarter wind and hail losses in 2016 from a low amount in the first quarter of 2015

and larger claims related to the automobile lines of business during the first quarter of 2016.

**Premiums and other revenues**

Net premiums written and earned increased during the three months ended March 31, 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**

Commissions for acquiring and servicing policies increased during the three months ended March 31, 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 months ended March 31, 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 54.5% of net premiums written; (ii) Commercial products, which focus primarily on agricultural and other markets, representing 34.0% of net premiums written; and (iii) Credit-related property insurance products, which are marketed to and through financial institutions and retailers, representing 11.5% of net premiums written.

**Personal Products**

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

|                                     | <b>Three months ended March 31,</b> |                   |                 |
|-------------------------------------|-------------------------------------|-------------------|-----------------|
|                                     | <b>2016</b>                         | <b>2015</b>       | <b>Change</b>   |
| <b>Net premiums written</b>         |                                     |                   |                 |
| Automobile                          | \$ 110,043                          | \$ 103,675        | \$ 6,368        |
| Homeowner                           | 49,879                              | 47,722            | 2,157           |
| Other Personal                      | 10,944                              | 10,525            | 419             |
| <b>Total net premiums written</b>   | <b>\$ 170,866</b>                   | <b>\$ 161,922</b> | <b>\$ 8,944</b> |
| <b>Net premiums earned</b>          |                                     |                   |                 |
| Automobile                          | \$ 103,869                          | \$ 98,993         | \$ 4,876        |
| Homeowner                           | 55,959                              | 54,692            | 1,267           |
| Other Personal                      | 10,366                              | 9,886             | 480             |
| <b>Total net premiums earned</b>    | <b>\$ 170,194</b>                   | <b>\$ 163,571</b> | <b>\$ 6,623</b> |
| <b>Loss ratio</b>                   |                                     |                   |                 |
| Automobile                          | 81.8%                               | 76.6%             | 5.2             |
| Homeowner                           | 65.3                                | 62.2              | 3.1             |
| Other Personal                      | 34.2                                | 75.0              | (40.8)          |
| <b>Personal line loss ratio</b>     | <b>73.5%</b>                        | <b>71.7%</b>      | <b>1.8</b>      |
| <b>Combined Ratio</b>               |                                     |                   |                 |
| Automobile                          | 109.0%                              | 101.9%            | 7.1             |
| Homeowner                           | 95.2                                | 89.7              | 5.5             |
| Other Personal                      | 62.1                                | 101.7             | (39.6)          |
| <b>Personal line combined ratio</b> | <b>101.6%</b>                       | <b>97.8%</b>      | <b>3.8</b>      |

*Automobile:* Net premiums written and earned increased in our personal automobile line during the three months ended March 31, 2016 compared to 2015, due to an increase of policies in force and improved rate adequacy. The loss and combined ratio increased during the three months ended March 31, 2016 compared to 2015, primarily due to an increase in larger claims compared to the prior year.

*Homeowner:* Net premiums written and earned increased during the three months ended March 31, 2016 compared to 2015, primarily due to increases in sales of homeowner products to renters. The combined ratio increased during the three months ended March 31, 2016 compared to 2015, due to increases in wind and hail claims 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 three months ended March 31, 2016 compared to 2015 due to unusually low claim activity in 2016.

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

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

|                                       | <b>Three months ended March 31,</b> |                   |                 |
|---------------------------------------|-------------------------------------|-------------------|-----------------|
|                                       | <b>2016</b>                         | <b>2015</b>       | <b>Change</b>   |
| <b>Net premiums written</b>           |                                     |                   |                 |
| Other Commercial                      | \$ 45,612                           | \$ 44,013         | \$ 1,599        |
| Agricultural Business                 | 32,908                              | 30,280            | 2,628           |
| Automobile                            | 27,964                              | 26,535            | 1,429           |
| <b>Total net premiums written</b>     | <b>\$ 106,484</b>                   | <b>\$ 100,828</b> | <b>\$ 5,656</b> |
| <b>Net premiums earned</b>            |                                     |                   |                 |
| Other Commercial                      | \$ 38,709                           | \$ 36,378         | \$ 2,331        |
| Agricultural Business                 | 31,888                              | 29,240            | 2,648           |
| Automobile                            | 22,696                              | 21,235            | 1,461           |
| <b>Total net premiums earned</b>      | <b>\$ 93,293</b>                    | <b>\$ 86,853</b>  | <b>\$ 6,440</b> |
| <b>Loss ratio</b>                     |                                     |                   |                 |
| Other Commercial                      | 69.5%                               | 67.2%             | 2.3             |
| Agricultural Business                 | 79.6                                | 87.5              | (7.9)           |
| Automobile                            | 74.1                                | 73.3              | 0.8             |
| <b>Commercial line loss ratio</b>     | <b>74.1%</b>                        | <b>75.5%</b>      | <b>(1.4)</b>    |
| <b>Combined ratio</b>                 |                                     |                   |                 |
| Other Commercial                      | 101.8%                              | 96.2%             | 5.6             |
| Agricultural Business                 | 118.0                               | 126.3             | (8.3)           |
| Automobile                            | 99.0                                | 99.1              | (0.1)           |
| <b>Commercial line combined ratio</b> | <b>106.6%</b>                       | <b>107.0%</b>     | <b>(0.4)</b>    |

*Other Commercial:* Net premiums written and earned increased during the three months ended March 31, 2016 compared to 2015 primarily due to increased sales of mortgage security insurance. Increases in the loss and combined ratios for the three months ended March 31, 2016 compared to 2015 are primarily due to increased claim activity on the business owners policy line of business.

*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 months ended March 31, 2016 compared to 2015, primarily as a result of improved rate adequacy. The loss and combined ratio decreased during the three months ended March 31, 2016 compared to 2015 primarily due to a decrease in catastrophe losses.

*Automobile:* Net premiums written and earned increased during the three months ended March 31, 2016 compared to 2015, primarily due to improved rate adequacy. The loss ratio increased during the three months ended March 31, 2016 compared to 2015, primarily due to an increase 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):

|                      | <b>Three months ended March 31,</b> |             |               |
|----------------------|-------------------------------------|-------------|---------------|
|                      | <b>2016</b>                         | <b>2015</b> | <b>Change</b> |
| Net premiums written | \$ 35,995                           | \$ 24,194   | \$ 11,801     |
| Net premiums earned  | 39,874                              | 26,057      | 13,817        |
| Loss ratio           | 44.7%                               | 36.0%       | 8.7%          |
| Combined ratio       | 102.5%                              | 107.5%      | (5.0)%        |

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 months ended March 31, 2016 compared to 2015, primarily due to increases in our collateral protection business. The loss ratio increased during the three months ended March 31, 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):

|   | <b>Three months ended March 31,</b> |                  |                    |
|---|-------------------------------------|------------------|--------------------|
|   | <b>2016</b>                         | <b>2015</b>      | <b>Change</b>      |
| <b>Other revenues</b>                                     |                                     |                  |                    |
| Net investment income                                     | \$ 7,613                            | \$ 14,878        | \$ (7,265)         |
| Realized investment gains, net                            | 5,586                               | 39,277           | (33,691)           |
| Other Income  | 1,262                               | 1,708            | (446)              |
| <b>Total other revenues</b>                               | <b>14,461</b>                       | <b>55,863</b>    | <b>(41,402)</b>    |
| <b>Benefits, losses and expenses</b>                      |                                     |                  |                    |
| Commissions   | (2)                                 |                  | (2)                |
| Other operating expenses                                  | 11,801                              | 7,581            | 4,220              |
| <b>Total benefits, losses and expenses</b>                | <b>11,799</b>                       | <b>7,581</b>     | <b>4,218</b>       |
| <b>Income before other items and federal income taxes</b> | <b>\$ 2,662</b>                     | <b>\$ 48,282</b> | <b>\$ (45,620)</b> |

Earnings decreased during the three months ended March 31, 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 investment real estate property 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):

|   | March 31, 2016       |               | December 31, 2015    |               |
|---|----------------------|---------------|----------------------|---------------|
| Bonds held-to-maturity, at amortized cost               | \$ 7,567,273         | 37.9%         | \$ 7,609,420         | 38.6%         |
| Bonds available-for-sale, at fair value                 | 5,776,762            | 28.9          | 5,483,916            | 27.8          |
| Equity securities, at fair value                        | 1,510,495            | 7.5           | 1,514,979            | 7.7           |
| Mortgage loans, net of allowance                        | 3,693,211            | 18.4          | 3,483,280            | 17.7          |
| Policy loans  | 405,604              | 2.0           | 407,491              | 2.1           |
| Investment real estate, net of accumulated depreciation | 584,459              | 2.9           | 581,255              | 2.9           |
| Short-term investments                                  | 312,306              | 1.6           | 460,612              | 2.3           |
| Other invested assets                                   | 170,031              | 0.8           | 173,042              | 0.9           |
| <b>Total investments</b>                                | <b>\$ 20,020,141</b> | <b>100.0%</b> | <b>\$ 19,713,995</b> | <b>100.0%</b> |

The increase in our total investments at March 31, 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 March 31, 2016, our fixed maturity securities had an estimated fair value of \$13.6 billion, which was \$0.5 billion, or 3.6%, 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 similar at approximately \$0.5 billion as of December 31, 2015 and March 31, 2016, 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):

|     | March 31, 2016 |                      |                 | December 31, 2015 |                      |                 |
|-----|----------------|----------------------|-----------------|-------------------|----------------------|-----------------|
|     | Amortized Cost | Estimated Fair Value | % of Fair Value | Amortized Cost    | Estimated Fair Value | % of Fair Value |
| AAA | \$ 690,467     | \$ 739,216           | 5.4             | \$ 681,918        | \$ 720,175           | 5.4             |
| AA  | 1,496,195      | 1,595,624            | 11.7            | 1,522,300         | 1,591,496            | 12.0            |
| A   | 4,585,276      | 4,842,133            | 35.5            | 4,672,994         | 4,828,340            | 36.5            |
| BBB | 5,910,949      | 6,036,287            | 44.3            | 5,731,158         | 5,732,961            | 43.3            |

|              |                      |                      |              |                      |                      |              |
|--------------|----------------------|----------------------|--------------|----------------------|----------------------|--------------|
| BB and below | 485,260              | 426,822              | 3.1          | 428,881              | 366,497              | 2.8          |
| <b>Total</b> | <b>\$ 13,168,147</b> | <b>\$ 13,640,082</b> | <b>100.0</b> | <b>\$ 13,037,251</b> | <b>\$ 13,239,469</b> | <b>100.0</b> |

**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 March 31, 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<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Fair Value          | % of Fair<br>Value |
|--------------------------|-------------------|------------------------------|---------------------------------|---------------------|--------------------|
| <b>March 31, 2016</b>    |                   |                              |                                 |                     |                    |
| Common Stock             | \$ 787,663        | \$ 717,630                   | \$ (23,842)                     | \$ 1,481,451        | 98.1               |
| Preferred Stock          | 20,987            | 8,057                        |                                 | 29,044              | 1.9                |
| <b>Total</b>             | <b>\$ 808,650</b> | <b>\$ 725,687</b>            | <b>\$ (23,842)</b>              | <b>\$ 1,510,495</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 March 31, 2016, we had \$405.6 million in policy loans with a loan to surrender value of 67.0%, and at March 31, 2015, we had \$406.4 million in policy loans with a loan to surrender value of 57.7%. 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 \$13.2 million during the three months ended March 31, 2016, primarily from decreased interest rates on bonds and a decrease in option income due to lower gains on the S&P 500 index.

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 \$30.2 million during the three months ended March 31, 2016 compared to 2015 due to fewer sales in the first quarter of 2016. Other-than-temporary impairment on investment securities decreased \$3.5 million during the three months ended March 31, 2016 compared to 2015.

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

The net unrealized gains on available-for-sale securities at March 31, 2016 and December 31, 2015 were \$0.88 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 \$79.3 million to \$971.0 million during the three months ended March 31, 2016, resulting from increases in the value of bonds and equity securities. The gross unrealized losses of available-for-sale securities changed favorably by \$38.2 million, going from \$131.4 million at December 31, 2015 to \$93.2 million at March 31, 2016. The gross unrealized gains of held-to-maturity securities increased \$104.2 million to \$410.2 million and gross unrealized losses decreased from \$159.8 million at December 31, 2015 to \$114.2 million in March 31, 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 \$461.3 million at March 31, 2016. The decrease relates primarily to a reduction in short-term investments.

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>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--|---------------------------|------------------------------|
| American National stockholders equity, excluding accumulated other comprehensive income, net of tax ( AOCI ) | \$ 4,109,760              | \$ 4,099,662                 |
| AOCI   | 406,460                   | 352,620                      |
| <b>Total American National stockholders equity</b>   | <b>\$ 4,516,220</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 \$36.9 million and \$34.7 million at March 31, 2016 and December 31, 2015, respectively.

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

|   | <b>Three months ended March 31, 2016</b> |                  |                  |
|---|--|------------------|------------------|
|   | <b>Capital and Retained Earnings</b>     |                  |                  |
|   | <b>AOCI</b>                              | <b>Total</b>     |                  |
| Net income attributable to American National            | \$ 29,316                                | \$               | \$ 29,316        |
| Dividends to shareholders                               | (21,531)                                 |                  | (21,531)         |
| Increase in net unrealized gains                        | 51,973                                   |                  | 51,973           |
| Defined benefit pension plan adjustment                 | 1,879                                    |                  | 1,879            |
| Foreign currency transaction and translation adjustment | (12)                                     |                  | (12)             |
| Other   | 2,313                                    |                  | 2,313            |
| <b>Total</b>  | <b>\$ 10,098</b>                         | <b>\$ 53,840</b> | <b>\$ 63,938</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 March 31, 2016 and December 31, 2015, American National Insurance Company's statutory capital and surplus was \$2,921,096,000 and \$2,925,935,000, respectively. American National Insurance Company and each of its insurance subsidiaries had statutory capital and surplus at March 31, 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 March 31, 2016. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 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 three months ended March 31, 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<br>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 three months ended March 31, 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: May 06, 2016