AMERICAN NATIONAL INSURANCE CO /TX/
Form 10-Q
August 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2014

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	**74-0484030**
(State or other jurisdiction of incorporation or organization)	**(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. x 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). x 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	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of August 4, 2014, there were 26,871,752 shares of the registrant s voting common stock, $1.00 par value per share, outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN NATIONAL INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	June 30, 2014	December 31, 2013
ASSETS		
Fixed maturity, bonds held-to-maturity, at amortized cost		
(Fair Value $8,853,771 and $8,823,068)	$ 8,320,345	$ 8,491,347
Fixed maturity, bonds available-for-sale, at fair value		
(Amortized cost $4,669,307 and $4,456,391)	4,927,864	4,599,673
Equity securities, at fair value		
(Cost $743,049 and $741,080)	1,501,863	1,410,608
Mortgage loans on real estate, net of allowance	3,311,380	3,299,242
Policy loans	399,927	397,407
Investment real estate, net of accumulated depreciation of $215,008 and $211,575	492,407	507,142
Short-term investments	341,508	495,386
Other invested assets	196,433	201,442
Total investments	**19,491,727**	**19,402,247**
Cash and cash equivalents	134,716	117,946
Investments in unconsolidated affiliates	340,784	341,012
Accrued investment income	195,395	194,830
Reinsurance recoverables	413,720	414,743
Prepaid reinsurance premiums	54,591	57,869
Premiums due and other receivables	291,844	279,929
Deferred policy acquisition costs	1,246,842	1,277,733
Property and equipment, net	110,650	107,070
Current tax receivable	17,890	18,507
Other assets	153,575	142,043
Separate account assets	1,006,320	970,954
Total assets	**$ 23,458,054**	**$ 23,324,883**
LIABILITIES		
Future policy benefits		

Life	$ 2,714,771	$ 2,677,213
Annuity	982,398	903,437
Accident and health	72,530	71,941
Policyholders account balances	10,893,608	11,181,650
Policy and contract claims	1,305,640	1,297,646
Unearned premium reserve	777,215	739,878
Other policyholder funds	338,095	326,885
Liability for retirement benefits	145,689	160,853
Notes payable	112,450	113,849
Deferred tax liabilities, net	292,183	220,428
Other liabilities	438,917	456,818
Separate account liabilities	1,006,320	970,954
Total liabilities	**19,079,816**	**19,121,552**
STOCKHOLDERS EQUITY		
Common stock, $1.00 par value, - Authorized 50,000,000		
Issued 30,832,449 and 30,832,449,		
Outstanding 26,871,752 and 26,895,188 shares	30,832	30,832
Additional paid-in capital	8,352	4,650
Accumulated other comprehensive income	521,804	413,712
Retained earnings	3,907,539	3,838,821
Treasury stock, at cost	(101,795)	(97,441)
Total American National stockholders equity	4,366,732	4,190,574
Noncontrolling interest	11,506	12,757
Total stockholders equity	**4,378,238**	**4,203,331**
Total liabilities and stockholders equity	**$ 23,458,054**	**$ 23,324,883**

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 for share and per share data)

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
PREMIUMS AND OTHER REVENUE				
Premiums				
Life	$ 72,678	$ 71,546	$ 144,673	$ 140,201
Annuity	46,653	33,625	113,589	66,321
Accident and health	55,379	53,532	110,715	106,261
Property and casualty	270,916	264,147	541,524	529,836
Other policy revenues	55,859	49,937	111,786	99,935
Net investment income	242,292	246,786	461,115	498,152
Realized investment gains (losses)	1,751	45,140	28,197	63,678
Other-than-temporary impairments	(462)	(1,604)	(1,437)	(3,191)
Other income	9,720	10,551	17,060	17,512
Total premiums and other revenues	754,786	773,660	1,527,222	1,518,705
BENEFITS, LOSSES AND EXPENSES				
Policyholder benefits				
Life	82,485	81,573	173,765	163,075
Annuity	59,027	42,600	136,479	83,295
Claims incurred				
Accident and health	32,737	33,006	76,666	71,974
Property and casualty	204,725	208,639	383,237	398,233
Interest credited to policyholders account balances	91,794	99,770	175,206	210,876
Commissions for acquiring and servicing policies	103,949	93,733	202,384	178,856
Other operating expenses	120,517	129,160	239,041	253,735
Change in deferred policy acquisition costs	(6,370)	969	54	12,303
Total benefits, losses and expenses	688,864	689,450	1,386,832	1,372,347
Income (loss) before federal income tax and equity in earnings/losses of unconsolidated affiliates	65,922	84,210	140,390	146,358
Less: Provision (benefit) for federal income taxes				
Current	22,345	22,415	32,051	27,379

Deferred	(787)	2,388	10,994	8,741
Total provision (benefit) for federal income taxes	21,558	24,803	43,045	36,120
Equity in earnings (losses) of unconsolidated affiliates, net of tax	12,659	1,076	11,800	9,653
Net income (loss)	57,023	60,483	109,145	119,891
Less**:** Net income (loss) attributable to noncontrolling interest, net of tax	(238)	2,314	(994)	1,751
Net income (loss) attributable to American National	**$ 57,261**	**$ 58,169**	**$ 110,139**	**$ 118,140**
Amounts available to American National common stockholders				
Earnings per share				
Basic	$ 2.14	$ 2.17	$ 4.11	$ 4.41
Diluted	2.12	2.16	4.09	4.39
Cash dividends to common stockholders	0.77	0.77	1.54	1.54
Weighted average common shares outstanding	26,802,896	26,779,969	26,799,648	26,777,029
Weighted average common shares outstanding and dilutive potential common shares	26,926,351	26,901,347	26,924,629	26,894,798

See accompanying notes to the consolidated financial statements.

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AMERICAN NATIONAL INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited and in thousands)

	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Net income (loss)	$ 57,023	$ 60,483	$ 109,145	$ 119,891
Other comprehensive income (loss), net of tax				
Change in net unrealized gain (loss) on securities	72,925	(57,897)	106,759	4,822
Foreign currency transaction and translation adjustments	865	265	(101)	414
Defined pension benefit plan adjustment	717	2,875	1,434	5,751
Other comprehensive income (loss), net of tax	74,507	(54,757)	108,092	10,987
Total comprehensive income (loss)	**131,530**	**5,726**	**217,237**	**130,878**
Less: Comprehensive income (loss) attributable to noncontrolling interest	(238)	2,314	(994)	1,751
Total comprehensive income (loss) attributable to American National	**$ 131,768**	**$ 3,412**	**$ 218,231**	**$ 129,127**

AMERICAN NATIONAL INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

	Six months ended June 30, 2014	2013
Common Stock		
Balance at beginning and end of the period	$ 30,832	$ 30,832
Additional Paid-In Capital		
Balance as of January 1,	4,650	
Reissuance of treasury shares	1,621	2,926
Income tax effect from restricted stock arrangement		79
Amortization of restricted stock	2,081	255
Balance at end of period	8,352	3,260

Accumulated Other Comprehensive Income (Loss)		
Balance as of January 1,	413,712	242,010
Other comprehensive income (loss)	108,092	10,987
Balance at end of the period	521,804	252,997
Retained Earnings		
Balance as of January 1,	3,838,821	3,653,280
Net income (loss) attributable to American National	110,139	118,140
Cash dividends to common stockholders	(41,421)	(41,418)
Balance at end of the period	3,907,539	3,730,002
Treasury Stock		
Balance as of January 1,	(97,441)	(98,286)
Reissuance of treasury shares	(4,354)	823
Balance at end of the period	(101,795)	(97,463)
Noncontrolling Interest		
Balance as of January 1,	12,757	11,491
Contributions	255	1
Distributions	(5)	(21)
Gain (loss) attributable to noncontrolling interest	(994)	1,751
Cumulative tax adjustment	(507)	
Balance at end of the period	11,506	13,222
Total Stockholders Equity	**$ 4,378,238**	**$ 3,932,850**

See accompanying notes to the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Six months ended June 30, 2014	2013
OPERATING ACTIVITIES		
Net income (loss)	$ 109,145	$ 119,891
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Realized investment (gains) losses	(28,197)	(63,678)
Other-than-temporary impairments	1,437	3,191
Accretion (amortization) of discounts, premiums and loan origination fees	5,636	1,479
Net capitalized interest on policy loans and mortgage loans	(16,268)	(13,172)
Depreciation	12,874	14,973
Interest credited to policyholders account balances	175,206	210,876
Charges to policyholders account balances	(111,786)	(99,935)
Deferred federal income tax (benefit) expense	10,994	8,741
Equity in (earnings) losses of unconsolidated affiliates	(11,800)	(9,653)
Distributions from equity method investments	23,132	15,873
Changes in		
Policyholder liabilities	163,271	29,894
Deferred policy acquisition costs	54	12,303
Reinsurance recoverables	1,023	25,775
Premiums due and other receivables	(12,235)	(25,155)
Prepaid reinsurance premiums	3,278	4,051
Accrued investment income	(565)	7,723
Current tax receivable/payable	617	7,879
Liability for retirement benefits	(15,164)	5,428
Other, net	(54,785)	(12,848)
Net cash provided by (used in) operating activities	**255,867**	**243,636**
INVESTING ACTIVITIES		
Proceeds from sale/maturity/prepayment of		
Held-to-maturity securities	344,981	762,394
Available-for-sale securities	514,707	484,501
Investment real estate	25,278	78,067
Mortgage loans	299,528	252,379
Policy loans	28,171	29,714
Other invested assets	31,849	7,527
Disposals of property and equipment	1,012	783
Distributions from unconsolidated affiliates	1,150	21,149
Payment for the purchase/origination of		
Held-to-maturity securities	(218,764)	(706,980)
Available-for-sale securities	(655,266)	(552,322)

Investment real estate	(10,593)	(19,822)
Mortgage loans	(314,774)	(344,240)
Policy loans	(12,542)	(12,012)
Other invested assets	(8,623)	(9,370)
Additions to property and equipment	(8,128)	(10,337)
Contributions to unconsolidated affiliates	(14,907)	(67,235)
Change in short-term investments	153,878	141,301
Other, net	(2,022)	744
Net cash provided by (used in) investing activities	**154,935**	**56,241**
FINANCING ACTIVITIES		
Policyholders account deposits	528,732	444,357
Policyholders account withdrawals	(880,194)	(843,286)
Change in notes payable	(1,399)	(48,648)
Dividends to stockholders	(41,421)	(41,418)
Proceeds from (payments to) noncontrolling interest	250	(20)
Net cash provided by (used in) financing activities	**(394,032)**	**(489,015)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,770	(189,138)
Beginning of the period	117,946	303,008
End of period	**$ 134,716**	**$ 113,870**

See accompanying notes to the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

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

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 (loss), changes in stockholders equity, and cash flows.

The interim consolidated financial statements and notes should be read in conjunction with the annual consolidated financial statements and notes thereto included in American National s Annual Report on Form 10-K as of and for the year ended December 31, 2013. The consolidated results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

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

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards The Financial Accounting Standards Board (FASB) issued the following accounting guidance relevant to American National, including technical amendments and corrections to make the accounting standards easier to understand and fair value measurement easier to apply. Each became effective for American National on January 1, 2014 and, unless stated otherwise, did not have a material effect on the consolidated financial statements.

Amended guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date. The amended guidance requires the entity to measure obligations resulting from joint and several liability arrangements as the sum of the amount the reporting entity agreed with co-obligors to pay and any additional amounts it expects to pay on behalf of one or more co-obligors.

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

Guidance that allows investors to elect the use of proportional amortization method to account for investments in qualified affordable housing projects, if certain conditions are met. The new guidance replaces the effective yield method and allows an investor to amortize the cost of its investment, in proportion to the tax credits and other tax benefits it receives, to income tax expense. The guidance requires new disclosure for all investors for all investments in qualified affordable housing projects, regardless of the accounting method used for those investments.

Guidance that will supersede most existing revenue recognition requirements in U.S. Generally Accepted Accounting Principles. The Standard will become effective for American National on January 1, 2017 and allows for both retrospective and prospective methods of adoption. American National is in the process of determining the adoption method and is currently assessing the impact of this standard.

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4. INVESTMENTS IN SECURITIES

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

	June 30, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	$ 336,690	$ 25,148	$ (120)	$ 361,718
Foreign governments	29,114	1,990		31,104
Corporate debt securities	7,565,940	514,662	(32,720)	8,047,882
Residential mortgage-backed securities	369,391	24,515	(1,954)	391,952
Collateralized debt securities	2,240	241		2,481
Other debt securities	16,970	1,664		18,634
Total bonds held-to-maturity	**8,320,345**	**568,220**	**(34,794)**	**8,853,771**
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	23,424	813		24,237
U.S. states and political subdivisions	705,786	30,663	(4,414)	732,035
Foreign governments	5,000	1,899		6,899
Corporate debt securities	3,870,075	237,928	(11,092)	4,096,911
Residential mortgage-backed securities	50,818	2,269	(809)	52,278
Collateralized debt securities	12,214	1,342	(12)	13,544
Other debt securities	1,990		(30)	1,960
Total bonds available-for-sale	**4,669,307**	**274,914**	**(16,357)**	**4,927,864**
Equity securities				
Common stock	719,331	741,190	(1,736)	1,458,785
Preferred stock	23,718	19,364	(4)	43,078
Total equity securities	**743,049**	**760,554**	**(1,740)**	**1,501,863**
Total investments in securities	**$ 13,732,701**	**$ 1,603,688**	**$ (52,891)**	**$ 15,283,498**

	December 31, 2013			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				

U.S. treasury and government	$ 1,738	$ 6	$	$ 1,744
U.S. states and political subdivisions	346,240	16,945	(529)	362,656
Foreign governments	29,099	2,505		31,604
Corporate debt securities	7,700,559	410,232	(116,900)	7,993,891
Residential mortgage-backed securities	400,619	20,711	(2,647)	418,683
Collateralized debt securities	2,366	225		2,591
Other debt securities	10,726	1,173		11,899
Total bonds held-to-maturity	**8,491,347**	**451,797**	**(120,076)**	**8,823,068**
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	21,751	725		22,476
U.S. states and political subdivisions	630,199	22,118	(13,756)	638,561
Foreign governments	5,000	1,649		6,649
Corporate debt securities	3,689,349	171,717	(54,033)	3,807,033
Residential mortgage-backed securities	61,135	2,940	(1,068)	63,007
Commercial mortgage-backed securities	18,223	11,037		29,260
Collateralized debt securities	13,884	1,320	(18)	15,186
Other debt securities	16,850	679	(28)	17,501
Total bonds available-for-sale	**4,456,391**	**212,185**	**(68,903)**	**4,599,673**
Equity securities				
Common stock	717,390	653,967	(2,362)	1,368,995
Preferred stock	23,690	18,301	(378)	41,613
Total equity securities	**741,080**	**672,268**	**(2,740)**	**1,410,608**
Total investments in securities	**$ 13,688,818**	**$ 1,336,250**	**$ (191,719)**	**$ 14,833,349**

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

	June 30, 2014			
	Bonds Held-to-Maturity		Bonds Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 737,686	$ 758,211	$ 463,325	$ 471,836
Due after one year through five years	2,170,952	2,407,061	889,951	979,564
Due after five years through ten years	4,942,711	5,193,871	2,845,895	2,986,961
Due after ten years	463,146	489,544	465,136	484,503
Without single maturity date	5,850	5,084	5,000	5,000
Total	**$ 8,320,345**	**$ 8,853,771**	**$ 4,669,307**	**$ 4,927,864**

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

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Proceeds from sales of available-for-sale securities	$ 54,802	$ 79,191	$ 136,466	$ 156,048
Gross realized gains	4,823	12,612	24,765	23,350
Gross realized losses	(2)	(4)	(2,123)	(526)

All gains and losses for securities sold throughout the quarter were determined using specific identification of the securities sold. During the six months ended June 30, 2014 and 2013, bonds with a carrying value of $44,781,000 and $13,492,000, respectively, were transferred from held-to-maturity to available-for-sale after a significant deterioration in the issuers creditworthiness became evident. An unrealized gain of $1,301,000 and loss of $263,000 were established at the time of the transfers in 2014 and 2013, respectively following the transfers at fair value.

Change in net unrealized gains (losses) on securities

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

	Six months ended June 30,	
	2014	2013
Bonds available-for-sale	$ 115,275	$ (149,796)
Equity securities	89,286	117,153

Change in net unrealized gains (losses) on securities during the year	204,561	(32,643)
Adjustments for		
Deferred policy acquisition costs	(30,837)	40,596
Participating policyholders interest	(10,378)	248
Deferred federal income tax benefit (expense)	(56,587)	(3,379)
Change in net unrealized gains (losses) on securities, net of tax	**$ 106,759**	**$ 4,822**

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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):

	June 30, 2014					
	Less than 12 months		12 Months or more		Total	
	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity						
U.S. states and political subdivisions	$ (11)	$ 1,177	$ (109)	$ 2,590	$ (120)	$ 3,767
Corporate debt securities	(4,686)	140,730	(28,034)	992,305	(32,720)	1,133,035
Residential mortgage-backed securities	(229)	12,585	(1,725)	32,288	(1,954)	44,873
Total bonds held-to-maturity	**(4,926)**	**154,492**	**(29,868)**	**1,027,183**	**(34,794)**	**1,181,675**
Fixed maturity securities, bonds available-for-sale						
U.S. states and political subdivisions	(398)	19,646	(4,016)	111,151	(4,414)	130,797
Corporate debt securities	(723)	72,895	(10,369)	464,311	(11,092)	537,206
Residential mortgage-backed securities	(206)	12,872	(603)	13,885	(809)	26,757
Collateralized debt securities			(12)	507	(12)	507
Other debt securities	(30)	1,959			(30)	1,959
Total bonds available-for-sale	**(1,357)**	**107,372**	**(15,000)**	**589,854**	**(16,357)**	**697,226**
Equity securities						
Common stock	(1,736)	21,500			(1,736)	21,500
Preferred stock	(4)	997			(4)	997
Total equity securities	**(1,740)**	**22,497**			**(1,740)**	**22,497**
Total	**$ (8,023)**	**$ 284,361**	**$ (44,868)**	**$ 1,617,037**	**$ (52,891)**	**$ 1,901,398**

	December 31, 2013					
	Less than 12 months		12 Months or more		Total	
	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity						
U.S. states and political subdivisions	$ (529)	$ 22,430	$	$	$ (529)	$ 22,430

Corporate debt securities	(104,308)	1,916,758	(12,592)	109,603	(116,900)	2,026,361
Residential mortgage-backed securities	(1,718)	31,715	(929)	13,514	(2,647)	45,229
Total bonds held-to-maturity	**(106,555)**	**1,970,903**	**(13,521)**	**123,117**	**(120,076)**	**2,094,020**
Fixed maturity securities, bonds available-for-sale						
U.S. Treasury & other U.S. Gov corporations and agencies		725				725
U.S. states and political subdivisions	(13,271)	168,093	(485)	2,905	(13,756)	170,998
Corporate debt securities	(49,198)	1,083,677	(4,835)	92,004	(54,033)	1,175,681
Residential mortgage-backed securities	(978)	16,835	(90)	1,872	(1,068)	18,707
Collateralized debt securities	(3)	205	(15)	587	(18)	792
Other debt securities	(28)	10,027			(28)	10,027
Total bonds available-for-sale	**(63,478)**	**1,279,562**	**(5,425)**	**97,368**	**(68,903)**	**1,376,930**
Equity securities						
Common stock	(2,362)	29,978			(2,362)	29,978
Preferred stock	(378)	6,123			(378)	6,123
Total equity securities	**(2,740)**	**36,101**			**(2,740)**	**36,101**
Total	**$ (172,773)**	**$ 3,286,566**	**$ (18,946)**	**$ 220,485**	**$ (191,719)**	**$ 3,507,051**

As of June 30, 2014, the securities with unrealized losses were not deemed to be other-than-temporarily impaired, including those with the duration of the unrealized losses exceeding one year. American National has the ability and intent to hold those securities until a market price recovery or maturity. Further, it is not more-likely-than-not that American National will be required to sell them prior to recovery, and recovery is expected in a reasonable period of time. It is possible an issuer s financial circumstances may be different in the future, which may lead to a different impairment conclusion in future periods.

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Credit Risk Management

Bonds distributed by credit quality rating, using both S&P and Moody s ratings, are shown below:

	June 30, 2014	December 31, 2013
AAA	4.8%	4.9%
AA	12.3	11.3
A	40.1	40.7
BBB	39.2	39.2
BB and below	3.6	3.9
Total	**100.0%**	**100.0%**

Equity securities by market sector distribution are shown below:

	June 30, 2014	December 31, 2013
Consumer goods	18.9%	19.8%
Energy and utilities	16.0	15.0
Financials	18.8	19.3
Healthcare	13.1	12.7
Industrials	8.5	9.0
Information technology	15.8	15.7
Other	8.9	8.5
Total	**100.0%**	**100.0%**

5. MORTGAGE LOANS

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

	June 30, 2014	December 31, 2013
Hotel and motel	11.1%	10.0%
Industrial	22.3	24.9
Office	35.3	34.0
Retail	18.7	19.6
Other	12.6	11.5
Total	**100.0%**	**100.0%**

	June 30, 2014	December 31, 2013
East North Central	17.3%	19.3%
East South Central	5.6	6.8
Mountain	10.2	10.0
Pacific	12.4	12.3
South Atlantic	21.3	19.6
West South Central	26.2	26.4
Other	7.0	5.6
Total	**100.0%**	**100.0%**

As of June 30, 2014, American National was in the process of foreclosure on one loan with a recorded investment of $5,945,000; there were no loans foreclosed in the same period in 2013. No loans were sold in the six months ended June 30, 2014 and 2013.

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Credit Quality

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

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

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Mortgage Loans
June 30, 2014						
Industrial	$	$	$	$	$ 739,782	$ 739,782
Office			5,945	5,945	1,171,698	1,177,643
Retail					625,473	625,473
Other					784,537	784,537
Total	**$**	**$**	**$ 5,945**	**$ 5,945**	**$ 3,321,490**	3,327,435
Allowance for loan losses						16,055
Mortgage loans on real estate, net of allowance						**$ 3,311,380**
December 31, 2013						
Industrial	$	$	$ 2,739	$ 2,739	$ 821,741	$ 824,480
Office					1,124,818	1,124,818
Retail					651,236	651,236
Other					710,889	710,889
Total	**$**	**$**	**$ 2,739**	**$ 2,739**	**$ 3,308,684**	3,311,423
Allowance for loan losses						12,181
Mortgage loans on real estate, net of allowance						**$ 3,299,242**

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

	June 30, 2014	December 31, 2013
Industrial	$	$ 2,739
Office	5,945	

Total mortgage loans are net of unamortized discounts of $757,000 and $852,000 and unamortized origination fees of $17,428,000 and $15,709,000 at June 30, 2014 and December 31, 2013, respectively. No unearned income is included in these amounts.

Allowance for Credit Losses

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 commercial mortgage loans is shown below (in thousands):

	Six months ended June 30,	
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment
Beginning balance, 2014	$ 11,688	$ 493
Change in allowance	470	3,404
Ending balance, 2014	**$ 12,158**	**$ 3,897**

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At June 30, 2014 and December 31, 2013, the recorded investment for loans collectively evaluated for impairment was $3,287,071,000 and $3,294,235,000 respectively, and the recorded investment for loans individually evaluated for impairment was $40,364,000 and $17,188,000, respectively.

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

	June 30, 2014		June 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Three months ended				
With an allowance recorded				
Office	$ 11,763	$ 209	$ 22,209	$ 799
Retail				
Total	**$ 11,763**	**$ 209**	**$ 22,209**	**$ 799**
Without an allowance recorded				
Office	$ 6,256	$ 85	$ 27,904	$ 30
Industrial	7,877	144		
Retail			17,166	282
Other			55,043	907
Total	**$ 14,133**	**$ 229**	**$ 100,113**	**$ 1,219**
Six months ended				
With an allowance recorded				
Office	$ 11,763	$ 207	$ 23,450	$ 799
Retail		20		
Total	**$ 11,763**	**$ 227**	**$ 23,450**	**$ 799**
Without an allowance recorded				
Office	$ 18,649	$ 288	$ 19,417	$ 643
Industrial	10,598	173		
Retail	1,280	6	17,166	565
Other			55,125	1,831
Total	**$ 30,527**	**$ 467**	**$ 91,708**	**$ 3,039**

	June 30, 2014		December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
With an allowance recorded				

Office	$ 10,000	$ 13,404	$	$
Retail		493	493	493
Total	**$ 10,000**	**$ 13,897**	**$ 493**	**$ 493**
Without an allowance recorded				
Office	$ 18,617	$ 18,617	$ 12,377	$ 12,377
Industrial	10,766	10,766	2,739	2,739
Retail	982	982	1,579	1,579
Total	**$ 30,365**	**$ 30,365**	**$ 16,695**	**$ 16,695**

Troubled Debt Restructurings

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

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

	Six months ended June 30,					
	2014			2013		
	Number of contracts	Recorded investment pre-modification	Recorded investment post	Number of contracts	Recorded investment pre-modification	Recorded investment post
Office	2	$ 19,836	$ 19,836		$	$

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

6. INVESTMENT REAL ESTATE

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

	June 30, 2014	December 31, 2013
Industrial	12.1%	12.3%
Office	22.9	23.1
Retail	42.5	43.4
Other	22.5	21.2
Total	**100.0%**	**100.0%**

	June 30, 2014	December 31, 2013
East North Central	4.4%	7.8%
East South Central	4.6	5.4
Mountain	6.1	6.0
Pacific	6.5	5.5
South Atlantic	11.9	13.4
West South Central	60.0	59.0
Other	6.5	2.9
Total	**100.0%**	**100.0%**

American National regularly invests in real estate partnerships and joint ventures. American National frequently participates in the design of these entities with the sponsor, but in most cases, its involvement is limited to financing. Through analysis performed by American National, some of these partnerships and joint ventures have been determined to be variable interest entities (VIEs). In certain instances, in addition to an economic interest in the entity, American National holds the power to direct the most significant activities of the entity and is deemed the primary beneficiary or consolidator of the entity. The assets of the consolidated VIEs are restricted and must first be used to settle their liabilities. Creditors or beneficial interest holders of these VIEs have no recourse to the general credit of

American National, as American National s obligation is limited to the amount of its committed investment. American National has not provided financial or other support to the VIEs in the form of liquidity arrangements, guarantees, or other commitments to third parties that may affect the fair value or risk of its variable interest in the VIEs in 2014 or 2013.

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

	June 30, 2014	December 31, 2013
Investment real estate	$ 132,875	$ 123,624
Cash and cash equivalents	3,343	2,154
Accrued investment income	295	2,197
Other receivables	8,326	8,488
Other assets	5,029	6,016
Total assets of consolidated VIEs	**$ 149,868**	**$ 142,479**
Notes payable	$ 112,450	$ 113,849
Other liabilities	4,596	6,680
Total liabilities of consolidated VIEs	**$ 117,046**	**$ 120,529**

The notes payable in the consolidated statements of financial position pertain to the borrowings of the consolidated VIEs. The liability of American National Insurance Company relating to notes payable of the consolidated VIEs is limited to the amount of its direct or indirect investment in the respective ventures, which totaled $16,539,000 and $12,782,000 at June 30, 2014 and December 31, 2013, respectively. The current portion of notes payable was $3,024,000 and $3,199,000 at June 30, 2014 and December 31, 2013, respectively. The average interest rate on the current portion of the notes payable was 4.25% during 2014. The total long-term portion of notes payable consists of three notes with the following interest rates: 4.0 %, and adjusted LIBOR plus 1.0% LIBOR margin. Of the long-term notes payable, $9,375,000 will mature in 2016, with the remainder maturing beyond 5 years.

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

	June 30, 2014		December 31, 2013	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Investment in unconsolidated affiliates	$ 186,460	$ 186,460	$ 195,794	$ 195,794
Mortgage loans	146,817	146,817	101,648	101,648
Accrued investment income	621	621	454	454

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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 policies are exposed. Equity-indexed policies include a fixed host universal-life insurance or annuity policies and an equity-indexed embedded derivative. The detail of derivative instruments is shown below (in thousands, except the number of instruments):

		June 30, 2014			December 31, 2013		
Derivatives Not Designated as Hedging Instruments	**Location in the Consolidated Statements of Financial Position**	Number of Instruments	Notional Amounts	Estimated Fair Value	Number of Instruments	Notional Amounts	Estimated Fair Value
Equity-indexed options	Other invested assets	395	$ 976,500	$ 163,861	394	$ 951,400	$ 164,753
Equity-indexed embedded derivative	Policyholders account balances	37,728	893,400	186,261	33,579	819,200	148,435

		Gains (Losses) Recognized in Income on Derivatives			
		Three months ended June 30,		Six months ended June 30,	
Derivatives Not Designated as Hedging Instruments	**Location in the Consolidated Statements of Operations**	**2014**	**2013**	**2014**	**2013**
Equity-indexed options	Net investment income	$ 18,464	$ 10,419	$ 22,449	$ 34,759
Equity-indexed embedded derivative	Interest credited to policyholders account balances	(11,826)	(8,047)	(14,722)	(28,694)

8. NET INVESTMENT INCOME AND REALIZED INVESTMENT GAINS (LOSSES)

Net investment income is shown below (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Bonds	$ 149,879	$ 157,975	$ 301,395	$ 321,408
Equity securities	9,258	8,421	18,342	15,236
Mortgage loans	55,904	56,083	107,358	107,868
Real estate	2,073	352	(2,898)	(1,069)
Options	18,464	10,419	22,449	34,759
Other invested assets	6,714	13,536	14,469	19,950
Total	**$ 242,292**	**$ 246,786**	**$ 461,115**	**$ 498,152**

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

	Three months ended June 30,	Six months ended June 30,

	2014	2013	2014	2013
Bonds	$ 3,293	$ 3,696	$ 19,912	$ 6,919
Equity securities	3,533	11,836	10,064	20,519
Mortgage loans	(3,145)	101	(3,873)	389
Real estate	(1,934)	29,563	3,029	35,946
Other invested assets	4	(56)	(935)	(95)
Total	**$ 1,751**	**$ 45,140**	**$ 28,197**	**$ 63,678**

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Bonds	$	$	$ (41)	$
Equity securities	(462)	(1,604)	(1,396)	(3,191)
Total	**$ (462)**	**$ (1,604)**	**$ (1,437)**	**$ (3,191)**

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	June 30, 2014		December 31, 2013	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Fixed maturity securities, bonds held-to-maturity	$ 8,320,345	$ 8,853,771	$ 8,491,347	$ 8,823,068
Fixed maturity securities, bonds available-for-sale	4,927,864	4,927,864	4,599,673	4,599,673
Equity securities	1,501,863	1,501,863	1,410,608	1,410,608
Equity-indexed options	163,861	163,861	164,753	164,753
Mortgage loans on real estate, net of allowance	3,311,380	3,535,188	3,299,242	3,470,663
Policy loans	399,927	399,927	397,407	397,407
Short-term investments	341,508	341,508	495,386	495,386
Separate account assets	1,006,320	1,006,320	970,954	970,954
Total financial assets	**$ 19,973,068**	**$ 20,730,302**	**$ 19,829,370**	**$ 20,332,512**
Financial liabilities				
Investment contracts	$ 9,061,887	$ 9,061,887	$ 9,423,122	$ 9,423,122
Embedded derivative liability forequity-indexed contracts	186,261	186,261	148,435	148,435
Notes payable	112,450	112,450	113,849	113,849
Separate account liabilities	1,006,320	1,006,320	970,954	970,954
Total financial liabilities	**$ 10,366,918**	**$ 10,366,918**	**$ 10,656,360**	**$ 10,656,360**

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

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Quoted prices in markets that are not active or inputs that are observable directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect American National s own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models and third-party evaluation, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

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

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

American National has reviewed the inputs and methodology used and the techniques applied by the pricing service to produce quotes that represent the fair value of a specific security. The review confirms that the pricing service is utilizing information from observable transactions or a technique that represents a market participant s assumptions. American National does not adjust quotes received from the pricing service. The pricing service utilized by American National has indicated that they will produce an estimate of fair value only 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 estimated fair value of mortgage loans is determined 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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The significant unobservable input used to calculate the fair value of the embedded derivatives is equity option implied volatility. An increase in implied volatility will result in an increase in the value of the equity-indexed embedded derivatives, all other things being equal. At June 30, 2014 and December 31, 2013, the one year implied volatility used to estimate embedded derivative value was 14.23% and 15.01%, 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 that it cannot be separated from the policy contract and the unpredictable timing of repayments and 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.

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Quantitative Disclosures

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

	Fair Value Measurement as of June 30, 2014			
	Total Fair Value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	$ 361,718	$	$ 361,718	$
Foreign governments	31,104		31,104	
Corporate debt securities	8,047,882		8,001,421	46,461
Residential mortgage-backed securities	391,952		390,965	987
Collateralized debt securities	2,481			2,481
Other debt securities	18,634		13,309	5,325
Total bonds held-to-maturity	**8,853,771**		**8,798,517**	**55,254**
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	24,237		24,237	
U.S. states and political subdivisions	732,035		729,520	2,515
Foreign governments	6,899		6,899	
Corporate debt securities	4,096,911		4,091,691	5,220
Residential mortgage-backed securities	52,278		50,352	1,926
Collateralized debt securities	13,544		11,274	2,270
Other debt securities	1,960		1,960	
Total bonds available-for-sale	**4,927,864**		**4,915,933**	**11,931**
Equity securities				
Common stock	1,458,785	1,458,785		
Preferred stock	43,078	43,078		
Total equity securities	**1,501,863**	**1,501,863**		
Options	163,861			163,861
Mortgage loans on real estate	3,535,188		3,535,188	
Policy loans	399,927			399,927
Short-term investments	341,508		341,508	
Separate account assets	1,006,320		1,006,320	
Total financial assets	**$ 20,730,302**	**$ 1,501,863**	**$ 18,597,466**	**$ 630,973**
Financial liabilities				
Investment contracts	$ 9,061,887	$	$	$ 9,061,887
	186,261			186,261

Embedded derivative liability for equity-indexed contracts				
Notes payable	112,450			112,450
Separate account liabilities	1,006,320		1,006,320	
Total financial liabilities	**$ 10,366,918**	**$**	**$ 1,006,320**	**$ 9,360,598**

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	Fair Value Measurement as of December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Financial assets				
Fixed maturity securities, bonds held-to-maturity				
U.S. treasury and government	$ 1,744	$	$ 1,744	$
U.S. states and political subdivisions	362,656		362,656	
Foreign governments	31,604		31,604	
Corporate debt securities	7,993,891		7,950,418	43,473
Residential mortgage-backed securities	418,683		417,688	995
Collateralized debt securities	2,591			2,591
Other debt securities	11,899		11,899	
Total bonds held-to-maturity	**8,823,068**		**8,776,009**	**47,059**
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	22,476		22,476	
U.S. states and political subdivisions	638,561		636,041	2,520
Foreign governments	6,649		6,649	
Corporate debt securities	3,807,033		3,794,809	12,224
Residential mortgage-backed securities	63,007		60,841	2,166
Commercial mortgage-backed securities	29,260			29,260
Collateralized debt securities	15,186		13,052	2,134
Other debt securities	17,501		17,501	
Total bonds available-for-sale	**4,599,673**		**4,551,369**	**48,304**
Equity securities				
Common stock	1,368,995	1,368,995		
Preferred stock	41,613	41,613		
Total equity securities	**1,410,608**	**1,410,608**		
Options	164,753			164,753
Mortgage loans on real estate	3,470,663		3,470,663	
Policy loans	397,407			397,407
Short-term investments	495,386		495,386	
Separate account assets	970,954		970,954	
Total financial assets	**$ 20,332,512**	**$ 1,410,608**	**$ 18,264,381**	**$ 657,523**
Financial liabilities				
Investment contracts	$ 9,423,122	$	$	$ 9,423,122
Embedded derivative liability for equity-indexed contracts	148,435			148,435
Notes payable	113,849			113,849
Separate account liabilities	970,954		970,954	

Total financial liabilities	**$ 10,656,360**	**$**	**$ 970,954**	**$ 9,685,406**

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

	Level 3					
	Three months ended June 30,			Six months ended June 30,		
	Assets		Liability	Assets		Liability
	Investment Securities	Equity-Indexed Options	Embedded Derivative	Investment Securities	Equity-Indexed Options	Investment Contracts
Beginning balance, 2014	**$ 11,973**	**$ 146,147**	**$ 155,191**	**$ 48,304**	**$ 164,753**	**$ 148,435**
Total realized and unrealized investment gains/losses included in other comprehensive income	321			(11,873)		
Net fair value change included in realized gains/losses				13,056		
Net gain (loss) for derivatives included in net investment income		16,678			18,790	
Net change included in interest credited			11,826			14,722
Purchases, sales and settlements or maturities						
Purchases		4,017			8,690	
Sales	(362)			(37,550)		
Settlements or maturities		(2,981)		(5)	(28,372)	
Premiums less benefits			19,244			23,104
Ending balance June 30, 2014	**$ 11,932**	**$ 163,861**	**$ 186,261**	**$ 11,932**	**$ 163,861**	**$ 186,261**
Beginning balance, 2013	**$ 114,373**	**$ 105,254**	**$ 93,988**	**$ 107,036**	**$ 82,625**	**$ 75,032**
Total realized and unrealized investment gains/losses included in other comprehensive income	2,720			11,129		
Net fair value change included in realized gains/losses	8			219		
Net gain (loss) for derivatives included in net investment income		8,700			31,166	
Net change included in interest credited			8,047			28,694
Purchases, sales and settlements or maturities						
Purchases	63	4,418		2,070	7,708	
Sales	(10,844)			(14,134)		
Settlements or maturities		(2,814)			(5,941)	
Premiums less benefits			(1,072)			(2,763)
Gross transfers out of Level 3	(50,762)			(50,762)		

Ending balance June 30, 2013	**$ 55,558**	**$ 115,558**	**$ 100,963**	**$ 55,558**	**$ 115,558**	**$ 100,963**

Within the net gain (loss) for derivatives included in net investment income were an unrealized gain/(loss) of $3,641,000 and $28,651,000 relating to assets still held at June 30, 2014 and 2013, respectively.

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10. DEFERRED POLICY ACQUISITION COSTS

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

	Life	Annuity	Accident & Health	Property & Casualty	Total
Beginning balance 2014	**$ 684,084**	**$ 424,158**	**$ 47,220**	**$ 122,271**	**$ 1,277,733**
Additions	50,990	24,194	9,463	109,103	193,750
Amortization	(35,082)	(37,804)	(9,292)	(111,626)	(193,804)
Effect of change in unrealized gains on available-for-sale securities	(5,716)	(25,121)			(30,837)
Net change	10,192	(38,731)	171	(2,523)	(30,891)
Ending balance at June 30, 2014	**$ 694,276**	**$ 385,427**	**$ 47,391**	**$ 119,748**	**$ 1,246,842**

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

11. LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

The liability for unpaid claims and claim adjustment expenses (claims) for accident and health, and property and casualty insurance is included in the Policy and contract claims in the consolidated statements of financial position and represents the amount estimated for claims that have been reported but not settled and 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, reduced for anticipated salvage and subrogation. The effects of the changes are included in the consolidated results of operations in the period in which the changes occur.

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

	Six months ended June 30, 2014	2013
Unpaid claims balance, beginning	$ 1,096,301	$ 1,168,047
Less reinsurance recoverables	215,161	256,885
Net beginning balance	**881,140**	**911,162**
Incurred related to		
Current	472,008	492,192
Prior years	(10,860)	(18,633)
Total incurred claims	**461,148**	**473,559**

Paid claims related to		
Current	224,618	262,490
Prior years	199,925	210,013
Total paid claims	**424,543**	**472,503**
Net balance	917,745	912,218
Plus reinsurance recoverables	228,340	241,079
Unpaid claims balance, ending	**$ 1,146,085**	**$ 1,153,297**

The net and gross reserve calculations have shown favorable development for the last several years as a result of favorable loss emergence compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred claims attributable to insured events of prior years decreased by approximately $10,860,000 during the first six months of 2014 and $18,633,000 during the same period in 2013.

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12. FEDERAL INCOME TAXES

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

	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Income tax (benefit) on pre-tax income	$ 23,073	35.0%	$ 29,473	35.0%	$ 49,137	35.0%	$ 51,225	35.0%
Tax-exempt investment income	(1,602)	(2.4)	(1,575)	(1.9)	(3,155)	(2.2)	(3,198)	(2.2)
Dividend exclusion	(1,665)	(2.5)	(1,621)	(1.9)	(3,553)	(2.5)	(3,092)	(2.1)
Miscellaneous tax credits, net	(1,664)	(2.5)	(1,929)	(2.3)	(3,215)	(2.3)	(3,890)	(2.6)
Other items, net	3,416	5.2	455	0.6	3,831	2.7	(4,925)	(3.4)
	$ 21,558	32.8%	$ 24,803	29.5%	$ 43,045	30.7%	$ 36,120	24.7%

American National made federal tax payments of $30,913,000 during the six months ended June 30, 2014 and made payments of $24,083,000 during the first six months ended June 30, 2013.

Management believes that a sufficient level of taxable income will be achieved over time to utilize the deferred tax assets in the consolidated federal tax return; therefore, no valuation allowance was recorded as of June 30, 2014 and December 31, 2013. However, if not utilized beforehand, approximately $4,650,000 in ordinary loss tax carryforwards will expire on December 31, 2034.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2006 to 2013 either has been extended or has not expired. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld. No provision for penalties was established, and no interest expense was incurred for 2014 or 2013, relating to uncertain tax positions. Management does not believe there are any uncertain tax benefits that could be recognized within the next twelve months that would decrease American National s effective tax rate.

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13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Net Unrealized Gains/(Losses) on Securities	Defined Benefit Pension Plan Adjustments	Foreign Currency Adjustments	AOCI
Beginning balance 2014	**$ 457,937**	**$ (43,884)**	**$ (341)**	**$ 413,712**
Amounts reclassified from AOCI (net of tax benefit $9,225 and expense $772)	(17,133)	1,434		(15,699)
Unrealized holding gains (losses) arising during the period (net of tax expense $80,821)	150,098			150,098
Unrealized adjustment to DAC (net of tax benefit $11,377)	(19,460)			(19,460)
Unrealized (gains) losses on investments attributable to participating policyholders interest (net of tax benefit $3,632)	(6,746)			(6,746)
Foreign currency adjustment (net of tax benefit $54)			(101)	(101)
Ending balance at June 30, 2014	**$ 564,696**	**$ (42,450)**	**$ (442)**	**$ 521,804**

	Net Unrealized Gains/(Losses) on Securities	Defined Benefit Pension Plan Adjustments	Foreign Currency Adjustments	AOCI
Beginning balance 2013	**$ 370,842**	**$ (129,003)**	**$ 171**	**$ 242,010**
Amounts reclassified from AOCI (net of tax benefit $7,902 and expense $3,097)	(14,374)	5,751		(8,623)
Unrealized holding gains (losses) arising during the period (net of tax benefit $3,628)	(6,739)			(6,739)
Unrealized adjustment to DAC (net of tax expense $14,822)	25,774			25,774
Unrealized (gains) losses on investments attributable to	161			161

participating policyholders interest (net of tax expense $87)							
Foreign currency adjustment (net of tax expense $223)						414	414
Ending balance at June 30, 2013	**$**	**375,664**	**$**	**(123,252)**	**$**	**585**	**$ 252,997**

14. STOCKHOLDERS EQUITY AND NONCONTROLLING INTERESTS

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

	June 30, 2014	**December 31, 2013**
Common stock		
Shares issued	30,832,449	30,832,449
Treasury shares	(3,960,697)	(3,937,261)
Outstanding shares	**26,871,752**	**26,895,188**
Restricted shares	(150,667)	(190,667)
Unrestricted outstanding shares	**26,721,085**	**26,704,521**

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. The Board Compensation Committee makes incentive awards under this plan to our executives after meeting established performance objectives. All awards are subject to review by the Board of Directors, both at the time of setting applicable performance objectives and at the time of 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.

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

	SAR		RS Shares		RS Units	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value	Units	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2013	**74,435**	**$ 113.86**	**190,667**	**$ 107.54**	**121,369**	**$ 76.23**
Granted					66,383	113.49
Exercised	(2,667)	95.62	(40,000)	109.54	(57,640)	75.94
Forfeited					50	113.49
Expired	(14,729)	115.92				
Outstanding at June 30, 2014	**57,039**	**$ 114.46**	**150,667**	**$ 107.01**	**130,162**	**95.82**

	SAR	RS Shares	RS Units
Weighted-average contractual remaining life (in years)	2.3	4.2	2.2
Exercisable shares			
Weighted-average exercise price	$ 114.46	$ 107.01	$ 95.82
Weighted-average exercise price exercisable shares	$ 114.58	N/A	N/A
Compensation expense (credits)			
Three months ended June 30, 2014	$ (4,000)	$ 1,576,000	$ 465,000
Three months ended June 30, 2013	42,000	524,000	1,906,000
Six months ended June 30, 2014	(13,000)	2,081,000	668,000
Six months ended June 30, 2013	73,000	1,029,000	3,610,000
Fair value of liability award			
June 30, 2014	$ 177,000	N/A	$ 14,529,000
December 31, 2013	376,000	N/A	15,018,000

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

Effective December 31, 2012, the settlement provision within outstanding RSU awards was modified to allow the recipient of the awards to settle the vested RSUs in either cash or American National s common stock. This change in the settlement provision is expected to apply to all future issuance of RSU awards. Prior to the modification, vested RSUs were converted to American National s common stock on a one-for-one basis. This modification changes the award classification from equity to liability award. At the date of modification, American National recorded a liability of $7,974,000 with a corresponding reduction in additional paid-in capital. The liability will be remeasured and adjusted for changes in the fair value each reporting period through the vesting date. RSU generally vest after a three-year graded vesting requirement. Certain awards vest over a shorter period as a result of retirement provisions. The modification, which was applied consistently to all participants, resulted in an incremental cost of $5,448,000 for the six months ended June 30, 2014 and added an incremental cost of $3,031,000 during the six months ended June 30, 2013.

RS Awards entitle the participant to full dividend and voting rights. Each award has the value of one share of restricted stock and vests 10 years from the grant date. Unvested shares are restricted as to disposition, and are subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. The restrictions on these awards lapse after 10 years and these awards feature a graded vesting schedule in the case of the retirement of an award holder. Restricted stock for 350,334 shares has been granted at an exercise price of zero, of which 150,667 shares are unvested.

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Earnings per share

Basic earnings per share were calculated using a weighted average number of shares outstanding. The Restricted Stock awards and units resulted in diluted earnings per share as follows (in thousands, except for share and per share data):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Weighted average shares outstanding	26,802,896	26,779,969	26,799,648	26,777,029
Incremental shares from RS awards and RSUs	123,455	121,378	124,981	117,769
Total shares for diluted calculations	**26,926,351**	**26,901,347**	**26,924,629**	**26,894,798**
Net income (loss) attributable to American National	$ 57,261	$ 58,169	$ 110,139	$ 118,140
Basic earnings per share	$ 2.14	$ 2.17	$ 4.11	$ 4.41
Diluted earnings per share	2.12	2.16	4.09	4.39

Statutory Capital and Surplus

Risk Based Capital (RBC) requirements are measures 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, risks related to the type and quality of the invested assets, insurance risks associated with an insurer s products and liabilities, interest rate risks and general business risks. Insurance companies that do not maintain capital and surplus at a level at least 200% of the authorized control level RBC are required to take certain actions. At June 30, 2014 and December 31, 2013, American National Insurance Company s statutory capital and surplus was $ 2,780,280,000 and $2,667,858,000, respectively. Additionally, each of the insurance subsidiaries had statutory capital and surplus at June 30, 2014 and December 31, 2013, substantially above each subsidiary s authorized control level RBC.

American National s 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 $ 58,560,000 and $ 58,207,000 at June 30, 2014 and 2013, respectively. The statutory capital and surplus of both American National Insurance Company and the Missouri domiciled insurance subsidiary would have remained substantially above the company action level RBC had it not used the permitted practice.

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

	June 30, 2014	December 31, 2013
Statutory capital and surplus		
Life insurance entities	$ 1,858,161	$ 1,771,999
Property and casualty insurance entities	931,100	904,557

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Statutory net income				
Life insurance entities	$ 41,064	$ 57,412	$ 96,118	$ 99,684
Property and casualty insurance entities	(1,045)	(4,431)	22,134	5,945

Dividends

American National Insurance Company s payment of dividends to stockholders is restricted by state laws. 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 prior year statutory net income from operations on an annual, non-cumulative basis, or 10% of prior year statutory surplus. Under Texas insurance law, American National Insurance Company is permitted to pay total dividends of $ 266,786,000 during 2014 without prior approval of the Texas Department of Insurance. Similar restrictions on amounts that can transfer in the form of dividends, loans, or advances to American National Insurance Company apply to its insurance subsidiaries.

Noncontrolling interests

American National County Mutual Insurance Company (County Mutual) is a mutual insurance company that is owned by its policyholders. American National has a management agreement that effectively gives it control of County Mutual. As a result, County Mutual is included in the consolidated financial statements of American National. Policyholder interests in the financial position of County Mutual are reflected as noncontrolling interest of $6,750,000 at June 30, 2014 and December 31, 2013.

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 $4,756,000 and $6,007,000 at June 30, 2014 and December 31, 2013, respectively.

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 and multiple-line agents, independent agents and direct marketing channels.

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

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

Property and Casualty writes personal and commercial coverages and credit-related property insurance. These products are 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.

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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 revenue and expense amounts 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 within the respective operating segments.

The following summarizes results of operations by operating segments (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Income (loss) from continuing operations before federal income taxes, and equity in earnings/losses of unconsolidated affiliates				
Life	$ 13,104	$ 8,411	$ 11,282	$ 14,415
Annuity	28,344	23,668	46,049	51,002
Health	10,821	9,680	10,275	8,994
Property and casualty	190	(4,345)	29,702	8,564
Corporate and other	13,463	46,796	43,082	63,383
Total	**$ 65,922**	**$ 84,210**	**$ 140,390**	**$ 146,358**

16. COMMITMENTS AND CONTINGENCIES

Commitments

American National had aggregate commitments at June 30, 2014, to purchase, expand or improve real estate, to fund fixed interest rate mortgage loans, and to purchase other invested assets of $412,437,000 of which $200,841,000 is expected to be funded in 2014. The remaining $211,596,000 will be funded in 2015 and beyond.

American National has a $100,000,000 short-term variable rate borrowing facility containing a $55,000,000 sub-feature for the issuance of letters of credit. Borrowings under the facility are at the discretion of the lender and would be used only for funding working capital requirements. The combination of borrowings and outstanding letters of credit cannot exceed $100,000,000 at any time. As of June 30, 2014 and December 31, 2013, the outstanding letters of credit were $14,277,000 and $15,560,000, respectively, and there were no borrowings on this facility. This facility expires on September 30, 2014. 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, American National would be obligated to pay off the loans. As the cash values of the life insurance policies always equal or exceed the balance of the loans, management does not foresee any loss on these guarantees. The total amount of the guarantees outstanding as of June 30, 2014, was approximately $206,376,000, while the total cash values of the related life insurance policies was approximately $210,615,000.

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Litigation

American National Insurance Company 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 s 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.

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 the significant related party transactions is shown below (in thousands):

		Dollar Amount of Transactions		Amount due to/(from) American National	
		Six months ended June 30,		June 30,	December 31,
Related Party	**Financial Statement Line Impacted**	**2014**	**2013**	**2014**	**2013**
Gal-Tex Hotel Corporation	Mortgage loan on real estate	$ 606	$ 564	$ 7,136	$ 7,742
Gal-Tex Hotel Corporation	Net investment income	272	314	43	47
Greer, Herz and Adams, LLP	Other operating expenses	5,709	4,872	(460)	(284)

Mortgage Loans to Gal-Tex Hotel Corporation (Gal-Tex): The Moody Foundation and the Libbie Shearn Moody Trust own 34.0% and 50.2%, respectively, of Gal-Tex Hotel Corporation. The Moody Foundation and the Libbie Shearn Moody Trust also own approximately 22.9% and 37.1%, respectively, of American National. American National holds a first mortgage loan originated in 1999, with an interest rate of 7.30% 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, L.L.P.: Irwin M. Herz, Jr. is an American National advisory director and a Partner with Greer, Herz Adams, L.L.P., 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 six months ended June 30, 2014 and 2013 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 inclu 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 2013 Annual Report on Form 10-K filed with the SEC on February 28th, 2014, and they include among others:

Economic 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;

Operational Risk Factors

differences between actual experience regarding mortality, morbidity, persistency, expense, surrenders and investment returns, and our assumptions for 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;

Investment and Financial Market Risk Factors

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;

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 Medicare Supplement business;

Litigation and Regulation Risk Factors

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

the effects of extensive government regulation;

changes in tax law;

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

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Reinsurance and Counterparty Risk Factors

- potential changes in the availability, affordability and adequacy 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

We are a diversified insurance and financial services company, offering a broad spectrum of insurance products. Chartered in 1905, we are headquartered in Galveston, Texas. We operate in all 50 states, the District of Columbia, Guam, American Samoa and Puerto Rico.

General Trends

American National had no material changes to the general trends, as discussed in the MD&A included in our 2013 Annual Report on Form 10-K filed with the SEC on February 28, 2014.

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 in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. 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 2013 Annual Report on Form 10-K filed with the SEC on February 28, 2014. There have been no material changes in accounting policies since December 31, 2013.

Recently Issued Accounting Pronouncements

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

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Consolidated Results of Operations

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

	Three months ended June 30,			Six months ended June 30,		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Premiums and other revenues						
Premiums	$ 445,626	$ 422,850	$ 22,776	$ 910,501	$ 842,619	$ 67,882
Other policy revenues	55,859	49,937	5,922	111,786	99,935	11,851
Net investment income	242,292	246,786	(4,494)	461,115	498,152	(37,037)
Realized investments gains (losses), net	1,289	43,536	(42,247)	26,760	60,487	(33,727)
Other income	9,720	10,551	(831)	17,060	17,512	(452)
Total premiums and other revenues	**754,786**	**773,660**	**(18,874)**	**1,527,222**	**1,518,705**	**8,517**
Benefits, losses and expenses						
Policyholder benefits	141,512	124,173	17,339	310,244	246,370	63,874
Claims incurred	237,462	241,645	(4,183)	459,903	470,207	(10,304)
Interest credited to policyholders account balances	91,794	99,770	(7,976)	175,206	210,876	(35,670)
Commissions for acquiring and servicing policies	103,949	93,733	10,216	202,384	178,856	23,528
Other operating expenses	120,517	129,160	(8,643)	239,041	253,735	(14,694)
Change in deferred policy acquisition costs (1)	(6,370)	969	(7,339)	54	12,303	(12,249)
Total benefits and expenses	**688,864**	**689,450**	**(586)**	**1,386,832**	**1,372,347**	**14,485**
Income (loss) before other items and federal income taxes	**$ 65,922**	**$ 84,210**	**$ (18,288)**	**$ 140,390**	**$ 146,358**	**$ (5,968)**

(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.

Consolidated earnings decreased during the quarter and year-to-date ended June 30, 2014 compared to 2013 primarily as a result of a decrease in realized investments gains. Increases in premiums and decreases in claims incurred and other operating expenses resulted in increased earnings from our insurance segments during the same periods.

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Life

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

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	2014	2013	Change
Premiums and other revenues						
Premiums	$ 72,678	$ 71,546	$ 1,132	$ 144,673	$ 140,201	$ 4,472
Other policy revenues	51,995	46,518	5,477	103,604	92,876	10,728
Net investment income	57,677	59,238	(1,561)	115,035	116,187	(1,152)
Other income	352	878	(526)	689	1,385	(696)
Total premiums and other revenues	**182,702**	**178,180**	**4,522**	**364,001**	**350,649**	**13,352**
Benefits, losses and expenses						
Policyholder benefits	82,485	81,573	912	173,765	163,075	10,690
Interest credited to policyholders account balances	15,871	14,310	1,561	31,616	27,097	4,519
Commissions for acquiring and servicing policies	32,269	30,561	1,708	61,732	56,150	5,582
Other operating expenses	49,698	51,691	(1,993)	101,514	104,227	(2,713)
Change in deferred policy acquisition costs (1)	(10,725)	(8,366)	(2,359)	(15,908)	(14,315)	(1,593)
Total benefits and expenses	**169,598**	**169,769**	**(171)**	**352,719**	**336,234**	**16,485**
Income before other items and federal income taxes	**$ 13,104**	**$ 8,411**	**$ 4,693**	**$ 11,282**	**$ 14,415**	**$ (3,133)**

(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 increased during the quarter ended June 30, 2014 compared to 2013 primarily due to increases in premiums on traditional products and other policy revenues on interest-sensitive products. Earnings decreased during the six months ended June 30, 2014 compared to 2013 due to an increase in claims.

Premiums and other policy revenues

Premiums increased during the quarter and year-to-date ended June 30, 2014 compared to 2013. The increases were primarily driven by the continued growth of the in-force block of business of term products.

Other policy revenues include mortality charges, earned policy service fees and surrender charges on interest-sensitive life insurance policies. An increase in interest-sensitive life policies contributed to the increases in these charges during the quarter and year-to-date ended June 30, 2014 compared to 2013.

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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 written by an insurance company during the period (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	2014	2013	Change
Whole life	$ 6,689	$ 6,720	$ (31)	$ 13,417	$ 13,400	$ 17
Term life	7,626	9,279	(1,653)	15,147	16,680	(1,533)
Universal life	9,002	9,715	(713)	17,981	17,839	142
Total recurring	$ 23,317	$ 25,714	$ (2,397)	$ 46,545	$ 47,919	$ (1,374)
Single and excess [(1)]	$ 506	$ 459	$ 47	$ 962	$ 1,092	$ (130)
Credit life [(1)]	1,029	1,082	(54)	1,932	2,002	(70)

(1) These are weighted amounts representing 10% of single and excess premiums and 15% of credit life premuims. 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 decreased during the quarter and year-to date ended June 30, 2014 compared to 2013 driven primarily by a decline in term life sales. Marketing activities at financial institutions with whom The Company markets life insurance have been curtailed at the financial institutions to ensure compliance with Consumer Financial Protection Bureau views on appropriate marketing practices.

Benefits, losses and expenses

Policyholder benefits increased during the six months ended June 30, 2014 compared to 2013 primarily due to an increase in the number of large claims. The maximum benefits that would be payable is limited, through the effects of reinsurance, to $1.5 million.

The increase in commissions during the quarter and year-to-date ended June 30, 2014 compared to 2013 is primarily due to an increase in first year premiums on term and equity-indexed universal life products.

Other operating expenses were down slightly during the quarter and year-to-date ended June 30, 2014 compared to 2013.

The following table presents the components of the change in DAC (in thousands), which decreased expenses due to an increase in acquisition cost capitalized.

	Three months ended June 30, 2014	2013	Change	Six months ended June 30, 2014	2013	Change
Acquisition cost capitalized	$ 27,702	$ 23,319	$ 4,383	$ 50,990	$ 49,227	$ 1,763
Amortization of DAC	(16,977)	(14,953)	(2,024)	(35,082)	(34,912)	(170)
Net change in DAC [1]	**$ 10,725**	**$ 8,366**	**$ 2,359**	**$ 15,908**	**$ 14,315**	**$ 1,593**

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

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Policy in-force information

The following table summarizes changes in the Life insurance in-force amounts (in thousands) and number of policies in-force:

	June 30, 2014	December 31, 2013	Change
Life insurance in-force			
Traditional life	$ 57,334,893	$ 54,788,898	$ 2,545,995
Interest-sensitive life	25,638,466	25,281,391	357,075
Total life insurance in-force	**$ 82,973,359**	**$ 80,070,289**	**$ 2,903,070**
Number of policies in-force			
Traditional life	1,973,831	2,002,602	(28,771)
Interest-sensitive life	201,104	196,949	4,155
Total number of policies	**2,174,935**	**2,199,551**	**(24,616)**

Total life insurance in-force increased during 2014 compared to 2013, while the total number of policies decreased reflecting the transition to larger face amount policies.

Annuity

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

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	2014	2013	Change
Premiums and other revenues						
Premiums	$ 46,653	$ 33,625	$ 13,028	$ 113,589	$ 66,321	$ 47,268
Other policy revenues	3,864	3,419	445	8,182	7,059	1,123
Net investment income	145,143	151,163	(6,020)	275,457	315,208	(39,751)
Other income		95	(95)		145	(145)
Total premiums and other revenues	**195,660**	**188,302**	**7,358**	**397,228**	**388,733**	**8,495**
Benefits, losses and expenses						
Policyholder benefits	59,027	42,600	16,427	136,479	83,295	53,184
Interest credited to policyholders account balances	75,923	85,460	(9,537)	143,590	183,779	(40,189)
Commissions for acquiring and servicing policies	13,007	11,194	1,813	26,571	21,587	4,984
Other operating expenses	13,145	17,544	(4,399)	30,929	31,811	(882)

Change in deferred policy acquisition costs [(1)]	6,214	7,836	(1,622)	13,610	17,259	(3,649)
Total benefits and expenses	**167,316**	**164,634**	**2,682**	**351,179**	**337,731**	**13,448**
Income before other items and federal income taxes	**$ 28,344**	**$ 23,668**	**$ 4,676**	**$ 46,049**	**$ 51,002**	**$ (4,953)**

(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 increased during the quarter ended June 30, 2014 compared to 2013, primarily due to lower operating expenses. Earnings decreased during the year-to-date ended June 30, 2014 compared to 2013 primarily due to a decrease in investment income resulting from lower account balances and lower option and derivative investing results.

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Premiums and other policy revenues

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

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	2014	2013	Change
Fixed deferred annuity	$ 95,533	$ 66,367	$ 29,166	$ 193,709	$ 133,515	$ 60,194
Single premium immediate annuity	54,440	47,648	6,792	130,248	94,901	35,347
Equity-indexed deferred annuity	67,342	42,301	25,041	118,078	79,493	38,585
Variable deferred annuity	25,906	34,902	(8,996)	60,446	64,068	(3,622)
Total premium and deposits	**243,221**	**191,218**	**52,003**	**502,481**	**371,977**	**130,504**
Less: Policy deposits	196,568	157,593	38,975	388,892	305,656	83,236
Total earned premiums	**$ 46,653**	**$ 33,625**	**$ 13,028**	**$ 113,589**	**$ 66,321**	**$ 47,268**

We monitor account values and changes in those values (shown below in thousands) as key indicators of performance in our Annuity segment. Changes in account values are mainly the result of net inflows, surrenders, policy fees, interest credited and market value changes:

	Six months ended June 30,	
	2014	2013
Fixed deferred and equity-indexed annuity		
Account value, beginning of period	$ 9,355,946	$ 9,803,197
Net inflows	229,045	136,213
Surrenders	(687,317)	(635,095)
Fees	(5,234)	(4,361)
Interest credited	140,103	180,614
Account value, end of period	**$ 9,032,543**	**$ 9,480,568**
Single premium immediate annuity		
Reserve, beginning of period	$ 1,199,276	$ 1,075,638
Net inflows	67,856	34,452
Interest and mortality	23,330	19,517
Reserve, end of period	**$ 1,290,462**	**$ 1,129,607**
Variable deferred annuity		
Account value, beginning of period	$ 489,305	$ 417,645
Net inflows	59,974	61,873
Surrenders	(71,185)	(60,070)
Fees	(2,842)	(2,573)
Change in market value and other	23,602	22,778

Account value, end of period	**$ 498,854**	**$ 439,653**

Deferred and immediate annuity sales increased compared to last year, which resulted in the increase in fund inflows to these products. The Company has increased its focus on the annuity channel, expanding distribution through the introduction of additional marketing programs and the development of new accounts. The Company also introduced a new indexed annuity.

Variable deferred annuity net inflows were relatively flat during the year-to-date ended June 30, 2014 compared to 2013. These products have no guaranteed minimum withdrawal benefits. Our total direct exposure on the guaranteed minimum death benefits associated with these products was $1.1 million and $1.5 million as of June 30, 2014 and 2013, respectively. After reinsurance, which is with reinsurers rated A or higher by A.M. Best, the net exposure was $0.2 million and $0.4 million, as of June 30, 2014 and 2013, respectively.

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Benefits, losses and expenses

Benefits are highly correlated to the sales volume of Single Premium Immediate Annuity (SPIA) contracts and increased for 2014 compared to 2013. Policyholder benefits consist of annuity payments and reserve increases for annuity contracts.

Commissions increased for the year-to-date ended June 30, 2014 compared to 2013 primarily due to increased annuity sales.

Other operating expenses decreased during the quarter ended June 30, 2014 compared to 2013 primarily due to lower account values. Other operating expenses were relatively flat during the year-to-date ended June 30, 2014 compared to 2013.

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

	Three months ended June 30,			Six months ended June 30,		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Acquisition cost capitalized	$ 11,673	$ 11,486	$ 187	$ 24,194	$ 23,055	$ 1,139
Amortization of DAC	(17,887)	(19,322)	1,435	(37,804)	(40,314)	2,510
Net change in DAC (1)	**$ (6,214)**	**$ (7,836)**	**$ 1,622**	**$ (13,610)**	**$ (17,259)**	**$ 3,649**

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

The amortization of DAC as a percentage of gross profits is an important ratio for the Annuity segment. The ratios for the year-to-date ended June 30, 2014 and 2013 were 32.3% and 33.1%, respectively.

Options and Derivatives

Shown below is the incremental impact of option return to net investment income, and the impact of the equity-indexed annuity embedded derivative to interest credited to policyholders account balances (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Net investment income						
Without option return	$ 127,430	$ 140,650	$ (13,220)	$ 254,157	$ 280,828	$ (26,671)
Option return	17,713	10,513	7,200	21,300	34,380	(13,080)
Interest credited to policy account balances						
Without embedded derivative	64,360	77,520	(13,160)	129,544	155,420	(25,876)

Equity-indexed annuity embedded derivative	11,563	7,940	3,623	14,046	28,359	(14,313)

Net investment income without option return decreased for the quarter and year-to-date ended June 30, 2014 compared to 2013 primarily due to lower aggregate account values and portfolio yield. Fixed interest credited to policyholders account balances without embedded derivative decreased during the quarter and year-to-date ended June 30, 2014 compared to 2013 due to lower account values coupled with a decrease in rates.

The option return, as well as the related equity-indexed embedded derivative return, increased during the quarter ended and decreased during the year-to-date ended June 30, 2014 compared to the same period in 2013, primarily due to the relative change in the S&P 500 Index during the respective periods. These option returns correlate to the 4.7%, and 2.4% change in the S&P 500 Index during the quarter ended June 30, 2014 and 2013, respectively. The year-to-date decrease correlates to the 6.1% and 12.6% return in the S&P 500 for 2014 and 2013, respectively.

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Health

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Change	Six months ended June 30, 2014	Six months ended June 30, 2013	Change
Premiums and other revenues						
Premiums	$ 55,379	$ 53,532	$ 1,847	$ 110,715	$ 106,261	$ 4,454
Net investment income	2,897	2,839	58	5,835	5,704	131
Other income	5,642	4,610	1,032	10,255	8,816	1,439
Total premiums and other revenues	**63,918**	**60,981**	**2,937**	**126,805**	**120,781**	**6,024**
Benefits, losses and expenses						
Claims incurred	32,737	33,006	(269)	76,666	71,974	4,692
Commissions for acquiring and servicing policies	9,270	6,680	2,590	17,343	13,252	4,091
Other operating expenses	11,492	11,191	301	22,692	24,588	(1,896)
Change in deferred policy acquisition costs (1)	(402)	424	(826)	(171)	1,973	(2,144)
Total benefits and expenses	**53,097**	**51,301**	**1,796**	**116,530**	**111,787**	**4,743**
Income before other items and federal income taxes	**$ 10,821**	**$ 9,680**	**$ 1,141**	**$ 10,275**	**$ 8,994**	**$ 1,281**

(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 increased during the quarter and year-to-date ended June 30, 2014 compared to 2013 due to an increase in premiums as well as an increase in other income primarily from continued growth in the MGU business block.

Premiums and other revenues

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

	Three months ended June 30, 2014		Three months ended June 30, 2013		Six months ended June 30, 2014		Six months ended June 30, 2013	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Medicare Supplement	$ 21,360	38.6%	$ 22,457	42.0%	$ 43,353	39.2%	$ 45,917	43.2%
Medical expense	5,534	10.0	7,486	14.0	11,765	10.6	15,705	14.8

Group health	8,522	15.4	10,198	19.1	18,761	16.9	18,265	17.2
Credit accident and health	3,574	6.5	3,725	7.0	7,311	6.6	7,717	7.3
MGU	6,634	12.0	5,241	9.8	11,882	10.7	9,928	9.3
Supplemental insurance	8,167	14.7	2,738	5.1	14,325	12.9	5,162	4.9
All other	1,588	2.8	1,687	3.2	3,318	3.1	3,567	3.3
Total	**$ 55,379**	**100.0%**	**$ 53,532**	**100.0%**	**$ 110,715**	**100.0%**	**$ 106,261**	**100.0%**

Premiums increased during the quarter ended June 30, 2014 compared to 2013, primarily from the sales of individual limited benefit supplemental insurance products. Medicare Supplement premiums declined due to policy lapses outpacing new sales which have a lower average premium per policy.

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

	June 30, 2014		December 31, 2013	
	Number of Policies	Percentage of Total Policies	Number of Policies	Percentage of Total Policies
Medicare Supplement	38,526	5.9%	40,064	6.4%
Medical expense	3,690	0.6	4,633	0.7
Group	16,107	2.5	19,679	3.1
Credit accident and health	225,048	34.5	235,014	37.5
MGU	254,882	39.0	221,811	35.3
Supplemental insurance	70,921	10.8	61,342	9.8
All other	43,252	6.7	45,369	7.2
Total	**652,426**	**100.0%**	**627,912**	**100.0%**

Total in-force policies increased during the quarter ended June 30, 2014 compared to 2013 primarily due to an increase in the MGU line. The MGU line increased as a result of our continued expansion in the MGU market as employers are using the stop loss market to manage the cost of providing health insurance for employees.

Benefits, losses and expenses

Claims incurred decreased during the quarter ended June 30, 2014 compared to 2013 primarily as a result of the continued decline in the closed medical expense block and a decrease in group claim submissions.

Claims incurred increased during the six months ended June 30, 2014 compared to 2013 primarily due to a judicial determination that The Company could not rescind a reinsurance agreement in dispute. Although The Company is appealing the determination, it has accrued for claims which the reinsurer has asserted are due under the agreement.

Other operating expenses increased during the quarter ended June 30, 2014 compared to 2013 due to a non recurring accrual in 2013, for expenses associated with a state insurance guaranty pool.

Change in Deferred Policy Acquisition Costs

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

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	2014	2013	Change
Acquisition cost capitalized	$ 5,175	$ 2,865	$ 2,310	$ 9,463	$ 5,440	$ 4,023
Amortization of DAC	(4,773)	(3,289)	(1,484)	(9,292)	(7,413)	(1,879)
Net change in DAC (1)	**$ 402**	**$ (424)**	**$ 826**	**$ 171**	**$ (1,973)**	**$ 2,144**

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

The net change in DAC increased for the quarter and year- to- date June 30, 2014 compared to 2013 primarily from commissions from increased sales of individual limited benefit supplemental insurance products.

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Property and Casualty

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

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	2014	2013	Change
Net premiums written	$ 295,538	$ 282,543	$ 12,995	$ 572,536	$ 550,760	$ 21,776
Premiums and other revenues						
Net premiums earned	$ 270,916	$ 264,147	$ 6,769	$ 541,524	$ 529,836	$ 11,688
Net investment income	14,746	16,818	(2,072)	29,929	33,118	(3,189)
Other income	1,391	2,397	(1,006)	2,645	2,650	(5)
Total premiums and other revenues	**287,053**	**283,362**	**3,691**	**574,098**	**565,604**	**8,494**
Benefits, losses and expenses						
Claims incurred	204,725	208,639	(3,914)	383,237	398,233	(14,996)
Commissions for acquiring and servicing policies	49,405	45,110	4,295	96,738	87,657	9,081
Other operating expenses	34,190	32,883	1,307	61,898	63,764	(1,866)
Change in deferred policy acquisition costs (1)	(1,457)	1,075	(2,532)	2,523	7,386	(4,863)
Total benefits and expenses	**286,863**	**287,707**	**(844)**	**544,396**	**557,040**	**(12,644)**
Income (loss) before other items and federal income taxes	**$ 190**	**$ (4,345)**	**$ 4,535**	**$ 29,702**	**$ 8,564**	**$ 21,138**
Loss ratio	75.6%	79.0%	(3.4)	70.8%	75.2%	(4.4)
Underwriting expense ratio	30.4	29.9	0.5	29.9	30.0	(0.1)
Combined ratio	106.0%	108.9%	(2.9)	100.8%	105.2%	(4.5)
Impact of catastrophe events on combined ratio	10.8	16.7	(5.9)	8.1	12.5	(4.4)
Combined ratio without impact of catastrophe events	**95.2%**	**92.2%**	**3.0**	**92.7%**	**92.7%**	
Gross catastrophe losses	$ 28,046	$ 47,076	$ (19,030)	$ 41,106	$ 73,873	$ (32,767)
Net catastrophe losses	28,504	43,254	(14,750)	42,143	64,942	(22,799)

(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 for the quarter improved compared to 2013 due to a decrease in catastrophe losses partially offset by increases in non-catastrophe claims and commissions. Results improved during the year ended

June 30, 2014 compared to 2013, due to improvement in the loss ratio, primarily as a result of decreases in catastrophe losses and improved rate adequacy.

Benefits, losses and expenses

Claims incurred decreased during the quarter and year-to-date ended June 30, 2014 compared to 2013, as a result of decreases in catastrophe losses.

Net catastrophes losses for the quarter and year-to-date ended June 30, 2014 were $28.5 million and $42.1 million, respectively, compared to $43.3 million and $64.9 million for 2013. The decrease is due primarily to the decreases in the severity of catastrophes in 2014 compared to 2013.

Commissions increased for the quarter and year-to-date ended June 30, 2014 compared to 2013, primarily due to an increase in premium as well as an increase in certain variable commissions driven by the improvement in the loss ratio.

Products

Our Property and Casualty segment consists of: (i) Personal products, which we market primarily to individuals, representing 57.7% of net premiums written, (ii) Commercial products, which focus primarily on agricultural and other commercial markets, representing 34.5% of net premiums written, and (iii) Credit-related property insurance products, which are marketed to and through financial institutions and retailers, representing 7.8% of net premiums written.

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Personal Products

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

	Three months ended June 30, 2014	2013	Change	Six months ended June 30, 2014	2013	Change
Net premiums written						
Auto	$ 99,988	$ 100,390	$ (402)	$ 202,098	$ 203,997	$ (1,899)
Homeowner	60,722	57,435	3,287	109,221	104,146	5,075
Other Personal	9,696	9,651	45	19,280	19,156	124
Total net premiums written	**$ 170,406**	**$ 167,476**	**$ 2,930**	**$ 330,599**	**$ 327,299**	**$ 3,300**
Net premiums earned						
Auto	$ 99,799	$ 100,824	$ (1,025)	$ 198,655	$ 201,233	$ (2,578)
Homeowner	53,739	49,890	3,849	108,079	101,401	6,678
Other Personal	8,960	8,970	(10)	17,752	17,872	(120)
Total net premiums earned	**$ 162,498**	**$ 159,684**	**$ 2,814**	**$ 324,486**	**$ 320,506**	**$ 3,980**
Loss ratio						
Auto	79.1%	75.4%	3.7	74.5%	78.6%	(4.1)
Homeowner	97.2	127.8	(30.6)	82.8	105.6	(22.8)
Other Personal	16.5	57.2	(40.7)	28.1	52.0	(23.9)
Personal line loss ratio	**81.6%**	**90.8%**	(9.2)	**74.7%**	**85.7%**	(11.0)
Combined Ratio						
Auto	103.8%	98.0%	5.8	96.7%	101.2%	(4.5)
Homeowner	125.5	152.5	(27.0)	107.4	130.2	(22.8)
Other Personal	36.3	79.8	(43.5)	45.7	74.5	(28.8)
Personal line combined ratio	**107.5%**	**114.0%**	(6.5)	**97.5%**	**108.9%**	(11.4)

Personal Automobile: Net premiums written and earned decreased in our personal automobile line during the quarter and year-to-date ended June 30, 2014 compared to 2013, primarily due to a decline in policies in-force. The loss and combined ratios improved year-to-date during 2014 compared to 2013 due to a decline in catastrophe losses.

Homeowners: Net premiums written and earned increased during the quarter and year-to-date ended June 30, 2014 compared to 2013 primarily due to increasing premium rates over the time period. The loss and combined ratios improved during the quarter and year-to-date ended June 30, 2014 compared to 2013 due to a decline in both catastrophe and non-catastrophe weather-related losses and improved rate adequacy.

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 homeowner and auto policies. The loss and combined ratios decreased for the year-to-date ended June 30, 2014 compared to 2013 tracking with the general trends on the auto and homeowners lines. The decrease in the loss and combined ratios for the quarter ended June 30, 2014 compared to 2013 followed the general trend for the homeowners line.

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Commercial Products

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Change	Six months ended June 30, 2014	Six months ended June 30, 2013	Change
Net premiums written						
Other Commercial	$ 44,018	$ 40,728	$ 3,290	$ 84,522	$ 78,321	$ 6,201
Agribusiness	33,560	29,977	3,583	62,796	55,679	7,117
Auto	24,978	23,239	1,739	50,151	47,164	2,987
Total net premiums written	**$ 102,556**	**$ 93,944**	**$ 8,612**	**$ 197,469**	**$ 181,164**	**$ 16,305**
Net premiums earned						
Other Commercial	$ 34,813	$ 31,443	$ 3,370	$ 68,206	$ 62,232	$ 5,974
Agribusiness	29,865	27,193	2,672	58,863	53,686	5,177
Auto	19,734	19,363	371	38,782	38,545	237
Total net premiums earned	**$ 84,412**	**$ 77,999**	**$ 6,413**	**$ 165,851**	**$ 154,463**	**$ 11,388**
Loss ratio						
Other Commercial	104.7%	84.7%	20.0	90.4%	66.9%	23.5
Agribusiness	46.8	62.0	(15.2)	62.4	79.2	(16.8)
Auto	74.0	72.5	1.5	70.8	71.5	(0.7)
Commercial line loss ratio	**77.0%**	**73.7%**	3.3	**75.9%**	**72.3%**	3.6
Combined ratio						
Other Commercial	127.9%	113.7%	14.2	118.9%	96.0%	22.9
Agribusiness	77.2	100.1	(22.9)	98.5	115.8	(17.3)
Auto	106.0	96.9	9.1	96.4	96.0	0.4
Commercial line combined ratio	**104.8%**	**104.8%**		**106.4%**	**102.9%**	3.5

Other Commercial: Net premiums written and earned increased during the quarter and year-to-date ended June 30, 2014 compared to 2013, primarily due to increases in sales related to the workers compensation and business owners lines. The loss and combined ratios for the quarter and year-to-date ended June 30, 2014 increased due to reserve increases on workers compensation claims.

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 quarter and year-to-date ended June 30, 2014 compared to 2013, primarily as a result of rate increases and a decrease in ceded premiums. The loss and combined ratio improved in both periods primarily due to a decline in net catastrophe losses, as well as a combination of rate and underwriting actions.

Commercial Automobile: Net premiums written and earned increased primarily due to rate increases over the quarter and year-to-date ended June 30, 2014 compared to 2013.

Credit Products

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

	Three months ended June 30,			Six months ended June 30,		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Net premiums written	$ 22,586	$ 21,123	$ 1,463	$ 44,468	$ 42,297	$ 2,171
Net premiums earned	24,007	26,464	(2,457)	51,187	54,867	(3,680)
Loss ratio	29.3%	23.5%	5.8	29.2%	21.8%	7.4
Combined ratio	101.2%	93.8%	7.4	102.5%	95.9%	6.6

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.

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Net premiums written increased during the quarter and year-to-date ended June 30, 2014 compared to 2013 primarily due to an increase in our Guaranteed Auto Protection business. Net premiums earned decreased as premiums shifted from Guaranteed Auto Protection Insurance to Guaranteed Auto Protection Waiver, a lower premium debt protection product.

The loss and combined ratios increased during the quarter and year-to-date ended 2014 compared to 2013 primarily due to an increase in claims in our collateral protection business.

Corporate and Other

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

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	2014	2013	Change
Premiums and other revenues						
Net investment income	$ 21,829	$ 16,728	$ 5,101	$ 34,859	$ 27,935	$ 6,924
Realized investments gains, net	1,289	43,536	(42,247)	26,760	60,487	(33,727)
Other Income	2,335	2,571	(236)	3,471	4,516	(1,045)
Total premiums and other revenues	**25,453**	**62,835**	**(37,382)**	**65,090**	**92,938**	**(27,848)**
Benefits, losses and expenses						
Commissions	(2)	188	(190)		210	(210)
Other operating expenses	11,992	15,851	(3,859)	22,008	29,345	(7,337)
Total benefits, losses and expenses	**11,990**	**16,039**	**(4,049)**	**22,008**	**29,555**	**(7,547)**
Income before other items and federal income taxes	**$ 13,463**	**$ 46,796**	**$ (33,333)**	**$ 43,082**	**$ 63,383**	**$ (20,301)**

Earnings decreased during the quarter ended June 30, 2014 compared to 2013 primarily due to decreases in realized gains. The decrease in realized gains is attributable to lower gains in equity securities and less real estate sale activity.

The Corporate and Other business segment recorded other-than-temporary impairments of $1,437,000 and $3,191,000 in the six months ended June 30, 2014 and 2013, respectively, which are included in Realized investment gains, net.

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 we or our insurance subsidiaries are domiciled. Investment activities, including setting investment policies and defining acceptable risk levels, are subject to review and approval 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. 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 invest in real estate and equity securities based on a risk and reward analysis where we believe there are opportunities for enhanced returns.

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

	June 30, 2014		December 31, 2013	
	Amount	Percent	Amount	Percent
Bonds held-to-maturity, at amortized cost	$ 8,320,345	42.7%	$ 8,491,347	43.8%
Bonds available-for-sale, at fair value	4,927,864	25.3	4,599,673	23.7
Equity securities, at fair value	1,501,863	7.7	1,410,608	7.3
Mortgage loans on real estate, net of allowance	3,311,380	17.0	3,299,242	17.0
Policy loans	399,927	2.0	397,407	2.0
Investment real estate, net of accumulated depreciation	492,407	2.5	507,142	2.6
Short-term investments	341,508	1.8	495,386	2.6
Other invested assets	196,433	1.0	201,442	1.0
Total investments	**$ 19,491,727**	**100.0%**	**$ 19,402,247**	**100.0%**

The increase in our total investments at June 30, 2014 as compared to December 31, 2013 was primarily a result of an increase in bonds and the market value of equity securities partially offset by decreases in short term investments.

Each component of our invested assets and their related revenues are described further in the Notes to the Unaudited Consolidated Financial Statements. Additionally, Note 2, Summary of Significant Accounting Policies and Practices, of the Notes to the Consolidated Financial Statements within our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 28, 2014 contains a detailed description of the Company s methodology for evaluating other-than-temporary impairment losses on its investments.

Bonds: We allocate most of our fixed maturity securities to support our insurance business. As of June 30, 2014, our fixed maturity securities had an estimated fair value of $13.8 billion, which was $0.8 billion, or 6.1%, above amortized cost. At December 31, 2013, our fixed maturity securities had an estimated fair value of $13.4 billion, which was $0.5 billion, or 3.7%, above amortized cost. Fixed maturity securities estimated fair value, due in one year or less, remained relatively unchanged compared to December 31, 2013.

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

	June 30, 2014			December 31, 2013		
	Amortized Cost	**Estimated Fair Value**	**% of Fair Value**	**Amortized Cost**	**Estimated Fair Value**	**% of Fair Value**
AAA	$ 624,569	$ 663,188	4.8%	$ 621,527	$ 649,161	4.9%
AA	1,610,789	1,691,483	12.3	1,472,221	1,511,517	11.3
A	5,199,549	5,527,777	40.1	5,260,435	5,466,136	40.7
BBB	5,079,433	5,404,072	39.2	5,094,589	5,272,246	39.2
BB and below	475,312	495,114	3.6	498,966	523,681	3.9

Total	**$ 12,989,652**	**$ 13,781,634**	**100.0%**	**$ 12,947,738**	**$ 13,422,741**	**100.0%**

We expect the exposure to below investment grade securities to decrease as these bonds approach maturity. We do not own direct investments in sovereign debt issued by Greece, Ireland, Italy, Portugal or Spain.

Mortgage Loans: We invest in commercial mortgage loans that are diversified by property-type and geography to support our insurance business. 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 held-for-investment 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 5.5% and 5.2% at June 30, 2014 and December 31, 2013, 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: Our equity portfolio is 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):

	June 30, 2014				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	% of Fair Value
Common stock	$ 719,331	$ 741,190	$ (1,736)	$ 1,458,785	97.1
Preferred stock	23,718	19,364	(4)	43,078	2.9
Total	**$ 743,049**	**$ 760,554**	**$ (1,740)**	**$ 1,501,863**	**100.0**

	December 31, 2013				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	% of Fair Value
Common stock	$ 717,390	$ 653,967	$ (2,362)	$ 1,368,995	97.0
Preferred stock	23,690	18,301	(378)	41,613	3.0
Total	**$ 741,080**	**$ 672,268**	**$ (2,740)**	**$ 1,410,608**	**100.0**

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 prior impairments, 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/P2 or better by Standard & Poor s and Moody s, respectively. The amount fluctuates depending on 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 and the number of years since policy origination. As of June 30, 2014, we had $399.9 million in policy loans with a loan to surrender value of 56.7%, and at December 31, 2013, we had $397.4 million in policy loans with a loan to surrender value of 67.9%. 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 Realized Gains (Losses)

Net investment income decreased $37.0 million during the six months ended June 30, 2014 primarily due to a decrease in income from options and bonds. Net investment income from options decreased $12.3 million during 2014 due to a smaller change during 2014 in the S&P 500 index from which our option values are derived. Net investment income from bonds decreased $20.0 million during the six months ended June 30, 2014 primarily due to bonds with lower interest yields making up a larger percentage of our portfolio as older bonds, which were purchased when interest rates were higher, matured.

Realized gains decreased $30.2 million during the six months ended June 30, 2014 compared to 2013 primarily as a result of decrease in realized gains on sales of investment real estate. Other-than-temporary impairment on investment securities decreased $1.8 million during the six months ended June 30, 2014 compared to 2013.

Net Unrealized Gains and Losses

The net unrealized gains on available-for-sale securities at June 30, 2014 and December 31, 2013 were $1,017.4 million and $812.8 million, 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 $151.0 million to $1,035.5 million during the 2014 resulting from increases in the value of bonds and equity securities. The gross unrealized losses of available-for-sale securities decreased to $18.1 million at June 30, 2014 from $71.6 million at December 31, 2013. The gross unrealized gains of held-to-maturity securities increased $116.4 million to $568.2 million and gross unrealized losses decreased from $120.1 million in 2013 to $34.8 million in 2014. The decrease in gross unrealized losses of available-for-sale and held-to-maturity securities during 2014 is primarily attributable to corporate debt securities and the impact changes in interest rates have on fixed income securities.

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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 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 2014 and market expectations for potentially higher rates through 2015 will likely lead to increases in the volume of annuity contracts, which may be partially offset by increases in surrenders. Freezing our defined benefit pension plans effective December 31, 2013, will lessen the impact of changes in interest rates on our contributions to these plans and future contributions to our defined benefit plans may be smaller than historical contributions. A portion of the contributions will be used for the employer contributions to defined contribution retirement plans, which will provide employees with the potential to accumulate assets for retirement. There are no other known trends or uncertainties regarding product pricing, changes in product lines or rising costs, which would have a significant impact to cash flows from operations. No unusually large capital expenditures are expected in the next 12-24 months. Additionally, we have paid dividends to stockholders for over 100 consecutive years and expect to continue this trend.

To ensure we will be able to continue to pay future commitments, the funds received as premium payments and deposits are 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 was $476.2 million at June 30, 2014 compared to $613.3 million at December 31, 2013. 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 Consolidated Financial Statements.

Capital Resources

Our capital resources are summarized below (in thousands):

	June 30, 2014	December 31, 2013
American National stockholders equity, excluding accumulated other comprehensive income (loss), net of	$ 3,844,928	$ 3,776,862

tax (AOCI)		
AOCI	521,804	413,712
Total American National stockholders equity	**$ 4,366,732**	**$ 4,190,574**

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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 $16.5 million at June 30, 2014 and $12.8 million at December 31, 2013, respectively.

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

	Six months ended June 30, 2014
Net income	$ 110,139
Increase in net unrealized gains	106,759
Defined benefit pension plan adjustment	1,434
Dividends to shareholders	(41,421)
Other	(753)
Total	**$ 176,158**

During June 30, 2014, our capital resources increased substantially compared to June 30, 2013 primarily due to net income and increases in unrealized gains from our equity investment portfolio partially offset by dividends to stockholders.

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, risks related to the type and quality of the invested assets, insurance risks associated with an insurer s products and liabilities, interest rate risks and general business risks. Insurance companies that do not maintain capital and surplus at a level at least 200% of the authorized control level RBC are required to take certain actions. At June 30, 2014 and December 31, 2013, American National Insurance Company s statutory capital and surplus was $2,780,280,000 and $2,667,858,000, respectively. Additionally, each of the insurance subsidiaries had statutory capital and surplus at June 30, 2014 and December 31, 2013, substantially above its authorized control level RBC.

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. As of December 31, 2013, the levels of our and our insurance subsidiaries capital and surplus exceeded the minimum RBC requirements.

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, 2013. We expect to have the capacity to pay our obligations as they come due.

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.

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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 2013 Annual Report on Form 10-K filed with the SEC on February 28, 2014.

ITEM 4. 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 ensure 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 Corporate Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company s management, with the participation of the Company s Chief Executive Officer and Corporate Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of June 30, 2014. Based upon that evaluation and subject to the foregoing, the Company s Chief Executive Officer and Corporate Chief Financial Officer concluded that, as of June 30, 2014, 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 quarter ended June 30, 2014 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 2013 Annual Report on Form 10-K filed with the SEC on February 28, 2014.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Basic Documents
3.1	Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit No. 3.1 to the registrant s Registration Statement on Form 10-12B filed April 10, 2009).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit No. 3.2 to the registrant s Current Report on Form 8-K filed May 2, 2012).
31.1	Certification of the principal executive officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002 (filed herewith).
31.2	Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following unaudited financial information from American National Insurance Company s Quarterly Report on Form 10-Q for Six months ended June 30, 2014 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Position, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (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/ Robert L. Moody
Name: Robert L. Moody
Title: *Chairman of the Board,*
Chief Executive Officer

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

Date: August 8, 2014