

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

November 06, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018**

or

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

American National Insurance Company

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

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

One Moody Plaza

Galveston, Texas 77550-7999

(Address of principal executive offices) (Zip Code)

(409) 763-4661

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically if any, every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Smaller reporting company

Non-accelerated filer

Accelerated filer

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 01, 2018, there were 26,885,449 shares of the registrant's voting common stock, \$1.00 par value per share, outstanding.

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AMERICAN NATIONAL INSURANCE COMPANY

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Table of Contents**AMERICAN NATIONAL INSURANCE COMPANY****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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

	September 30, 2018	December 31, 2017
ASSETS		
Fixed maturity, bonds held-to-maturity, at amortized cost (Fair value \$7,941,606 and \$7,774,353)	\$ 8,010,576	\$ 7,552,959
Fixed maturity, bonds available-for-sale, at fair value (Amortized cost \$6,119,694 and \$5,957,901)	6,074,668	6,145,308
Equity securities, at fair value (Cost \$696,474 and \$757,583)	1,810,647	1,784,226
Mortgage loans on real estate, net of allowance	5,139,758	4,749,999
Policy loans	374,256	377,103
Investment real estate, net of accumulated depreciation of \$268,559 and \$260,904	543,440	532,346
Short-term investments	217,221	658,765
Other invested assets	74,956	80,165
Total investments	22,245,522	21,880,871
Cash and cash equivalents	606,775	375,837
Investments in unconsolidated affiliates	535,729	484,207
Accrued investment income	186,421	187,670
Reinsurance recoverables	460,125	418,589
Prepaid reinsurance premiums	56,038	63,625
Premiums due and other receivables	377,618	314,345
Deferred policy acquisition costs	1,458,591	1,373,844
Property and equipment, net of accumulated depreciation of \$233,635 and \$217,076	111,495	115,818
Current tax receivable	42,717	44,170
Prepaid pension	32,118	
Other assets	147,078	158,024
Separate account assets	1,043,688	969,764
Total assets	\$ 27,303,915	\$ 26,386,764
LIABILITIES		
Future policy benefits		
Life	\$ 3,023,872	\$ 2,997,353
Annuity	1,501,035	1,400,150
Health	54,967	57,104
Policyholders' account balances	12,522,225	12,060,045
Policy and contract claims	1,472,040	1,390,561
Unearned premium reserve	941,180	875,294

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Other policyholder funds	329,489	334,501
Liability for retirement benefits	78,355	114,538
Notes payable	137,504	137,458
Deferred tax liabilities, net	345,235	316,370
Other liabilities	472,655	477,855
Separate account liabilities	1,043,688	969,764
Total liabilities	21,922,245	21,130,993
EQUITY		
American National stockholders' equity:		
Common stock, \$1.00 par value, Authorized 50,000,000, Issued 30,832,449 and 30,832,449 Outstanding 26,885,449 and 26,931,884 shares	30,832	30,832
Additional paid-in capital	20,673	19,193
Accumulated other comprehensive income (loss)	(123,709)	642,216
Retained earnings	5,553,383	4,656,134
Treasury stock, at cost	(108,492)	(101,616)
Total American National stockholders' equity	5,372,687	5,246,759
Noncontrolling interest	8,983	9,012
Total equity	5,381,670	5,255,771
Total liabilities and equity	\$ 27,303,915	\$ 26,386,764

See accompanying notes to the unaudited consolidated financial statements.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
PREMIUMS AND OTHER REVENUE				
Premiums				
Life	\$ 91,176	\$ 84,862	\$ 257,147	\$ 241,623
Annuity	47,296	65,007	185,140	160,205
Health	45,154	41,832	135,039	115,464
Property and casualty	374,842	345,816	1,086,862	1,006,516
Other policy revenues	70,840	54,030	213,317	183,558
Net investment income	285,532	241,205	740,942	704,326
Net realized investment gains (losses)	(8,606)	33,929	9,575	59,338
Other-than-temporary impairments		(3,485)		(11,737)
Net unrealized gains on equity securities	133,825		145,687	
Other income	12,177	9,554	33,973	27,347
Total premiums and other revenues	1,052,236	872,750	2,807,682	2,486,640
BENEFITS, LOSSES AND EXPENSES				
Policyholder benefits				
Life	119,816	106,904	315,320	309,530
Annuity	64,153	79,090	231,002	201,568
Claims incurred				
Health	29,751	28,546	90,201	76,124
Property and casualty	272,885	238,178	795,501	719,888
Interest credited to policyholders' account balances	133,418	104,699	309,694	295,255
Commissions for acquiring and servicing policies	138,979	141,645	433,412	408,582
Other operating expenses	118,761	112,969	373,102	365,000
Change in deferred policy acquisition costs	(8,794)	(32,225)	(45,876)	(69,407)
Total benefits, losses and expenses	868,969	779,806	2,502,356	2,306,540
Income before federal income tax and other items	183,267	92,944	305,326	180,100
Less: Provision (benefit) for federal income taxes				
Current	(39,937)	22,980	(26,404)	26,924
Deferred	59,156	14,203	68,769	37,518
Total provision for federal income taxes	19,219	37,183	42,365	64,442

Income after federal income tax	164,048	55,761	262,961	115,658
Equity in earnings of unconsolidated affiliates	13,029	22,387	18,905	44,200
Other components of net periodic pension costs, net of tax	(1,236)	(1,545)	(3,705)	(8,365)
Net income	175,841	76,603	278,161	151,493
Less : Net income attributable to noncontrolling interest, net of tax	2,377	3,334	1,781	2,425
Net income attributable to American National	\$ 173,464	\$ 73,269	\$ 276,380	\$ 149,068

Amounts available to American National common stockholders

Earnings per share				
Basic	\$ 6.45	\$ 2.72	\$ 10.28	\$ 5.54
Diluted	6.44	2.72	10.26	5.53
Cash dividends to common stockholders	0.82	0.82	2.46	2.46
Weighted average common shares outstanding	26,886,498	26,894,538	26,886,299	26,895,952
Weighted average common shares outstanding and dilutive potential common shares	26,893,013	26,958,664	26,923,540	26,959,227

See accompanying notes to the unaudited consolidated financial statements.

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

(Unaudited and in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	\$ 175,841	\$ 76,603	\$ 278,161	\$ 151,493
Other comprehensive income (loss), net of tax				
Change in net unrealized gains (losses) on securities	(14,395)	29,774	(142,116)	126,362
Foreign currency transaction and translation adjustments	(181)	411	(681)	694
Defined benefit pension plan adjustment	1,601	1,535	3,991	9,276
Other comprehensive income (loss), net of tax	(12,975)	31,720	(138,806)	136,332
Total comprehensive income	162,866	108,323	139,355	287,825
Less: Comprehensive income attributable to noncontrolling interest	2,377	3,334	1,781	2,425
Total comprehensive income attributable to American National	\$ 160,489	\$ 104,989	\$ 137,574	\$ 285,400

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

(Unaudited and in thousands)

	Nine months ended September 30,	
	2018	2017
Common Stock		
Balance at beginning and end of the period	\$ 30,832	\$ 30,832
Additional Paid-In Capital		
Balance as of January 1,	19,193	16,406
Reissuance of treasury shares	1,172	1,964
Amortization of restricted stock	308	618
Balance at end of the period	20,673	18,988

Accumulated Other Comprehensive Income (Loss)

Balance as of January 1,	642,216	455,899
Cumulative effect of accounting change	(627,119)	
Other comprehensive income (loss)	(138,806)	136,332
Balance at end of the period	(123,709)	592,231

Retained Earnings

Balance as of January 1,	4,656,134	4,250,818
Cumulative effect of accounting changes	687,051	
Net income attributable to American National	276,380	149,068
Cash dividends to common stockholders	(66,182)	(66,249)
Balance at end of the period	5,553,383	4,333,637

Treasury Stock

Balance as of January 1,	(101,616)	(101,777)
Reissuance (purchase) of treasury shares	(6,876)	161
Balance at end of the period	(108,492)	(101,616)

Noncontrolling Interest

Balance as of January 1,	9,012	9,317
Contributions		224
Distributions	(1,810)	(2,492)
Net income attributable to noncontrolling interest	1,781	2,425
Balance at end of the period	8,983	9,474

Total Equity	\$ 5,381,670	\$ 4,883,546
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See accompanying notes to the unaudited consolidated financial statements.

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AMERICAN NATIONAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Nine months ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	\$ 278,161	\$ 151,493
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized investment gains	(9,575)	(59,338)
Other-than-temporary impairments		11,737
Accretion of premiums, discounts and loan origination fees	(4,303)	(4,233)
Net capitalized interest on policy loans and mortgage loans	(29,250)	(25,218)
Depreciation	39,241	41,131
Interest credited to policyholders' account balances	309,694	295,255
Charges to policyholders' account balances	(213,317)	(183,558)
Deferred federal income tax expense	68,769	37,518
Equity in earnings of unconsolidated affiliates	(18,905)	(44,200)
Distributions from equity method investments	16,375	1,133
Changes in		
Policyholder liabilities	281,596	273,411
Deferred policy acquisition costs	(45,876)	(69,407)
Reinsurance recoverables	(41,536)	(7,063)
Premiums due and other receivables	(63,272)	(38,499)
Prepaid reinsurance premiums	7,587	(2,500)
Accrued investment income	1,249	(3,596)
Current tax receivable/payable	1,454	21,571
Liability for retirement benefits	(63,249)	(7,934)
Fair value of option securities	(58,396)	(56,920)
Fair value of equity securities	(145,687)	
Other, net	53,782	40,578
Net cash provided by operating activities	364,542	371,361
INVESTING ACTIVITIES		
Proceeds from sale/maturity/prepayment of		
Held-to-maturity securities	492,160	599,202
Available-for-sale securities	348,149	327,424
Equity securities	164,413	106,090
Investment real estate	11,577	46,745
Mortgage loans	467,040	431,702
Policy loans	42,071	39,003
Other invested assets	84,846	62,815

Disposals of property and equipment	93	554
Distributions from unconsolidated affiliates	35,684	12,561
Payment for the purchase/origination of		
Held-to-maturity securities	(1,011,398)	(690,190)
Available-for-sale securities	(436,877)	(438,798)
Equity securities	(40,981)	(96,819)
Investment real estate	(35,583)	(27,527)
Mortgage loans	(834,877)	(848,263)
Policy loans	(18,268)	(18,953)
Other invested assets	(61,407)	(33,062)
Additions to property and equipment	(13,527)	(19,162)
Contributions to unconsolidated affiliates	(100,567)	(23,267)
Change in short-term investments	441,544	(369,547)
Change in collateral held for derivatives	40,243	29,797
Other, net	(5,795)	19,055
Net cash used in investing activities	(431,460)	(890,640)
FINANCING ACTIVITIES		
Policyholders' account deposits	1,378,325	1,607,263
Policyholders' account withdrawals	(1,012,522)	(960,161)
Change in notes payable	45	2,084
Dividends to stockholders	(66,182)	(66,249)
Payments to noncontrolling interest	(1,810)	(2,268)
Net cash provided by financing activities	297,856	580,669
NET INCREASE IN CASH AND CASH EQUIVALENTS	230,938	61,390
Beginning of the period	375,837	289,338
End of the period	\$ 606,775	\$ 350,728

See accompanying notes to the unaudited consolidated financial statements.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

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

Note 2 Summary of Significant Accounting Policies and Practices

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

The interim consolidated financial statements and notes herein are unaudited and reflect all adjustments which management considers necessary for the fair presentation of the interim consolidated statements of financial position, operations, comprehensive income, changes in 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, 2017. 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.

Table of Contents**Note 3 Recently Issued Accounting Pronouncements****Adoption of New Accounting Standards**

In May 2014, the FASB issued guidance that superseded most existing revenue recognition requirements in GAAP. Insurance contracts generally are excluded from the scope of the guidance. For those contracts which are impacted, the transaction price is attributed to the underlying performance obligations in the contract and revenue is recognized as the entity satisfies the performance obligations and transfers control of a good or service to the customer. The Company's revenues include premium, other policy revenue, net investment income, realized investment gains, and other income. Other income includes fee income which is recognized when obligations under the terms specified within a contract with a customer are either (1) satisfied at a point in time or (2) the progress of completion is measured over a period of time as the obligation is performed using the input method. The Company adopted the standard on its required effective date of January 1, 2018 using the modified retrospective approach. The majority of our revenue sources are insurance related and not in the scope of the guidance. The adoption of the standard did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the nine months ended September 30, 2018.

In January 2016, the FASB issued guidance that changed certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The new guidance requires that equity investments, other than those accounted for under the equity method or those that result in consolidation of the investee, be measured at fair value and the changes in fair value are recognized through earnings. When the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. The guidance also simplifies the impairment assessment of equity investments and eliminates the disclosure requirements for methods and significant assumptions used to estimate fair value of financial instruments that are measured at amortized cost on the statement of financial position. The Company adopted the standard on its required effective date of January 1, 2018 using a modified retrospective approach. Upon adoption, cumulative unrealized gains and losses on equity securities of \$667.7 million, partially offset by \$30.4 million participating policyholders' interest, net of tax, related to unrealized gains and losses on equity securities, were reclassified from accumulated other comprehensive income to retained earnings. In April 2018, an additional \$10.2 million deferred policy acquisition cost adjustment, net of tax, related to net unrealized gains and losses on equity securities, was reclassified from accumulated other comprehensive income to retained earnings. Earnings increased \$105.7 million and \$115.1 million, net of tax, for the three and nine months ended September 30, 2018, respectively from the change in net unrealized gains and losses on equity securities.

In October of 2016, the FASB issued guidance requiring an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Whereas, prior guidance prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset was sold to an outside party. The Company adopted the standard on its required effective date of January 1, 2018 using a modified retrospective approach. Upon adoption, an other liability was released and retained earnings increased by \$59.9 million. The adoption of the standard did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows for the nine months ended September 30, 2018.

In March 2017, the FASB issued guidance on the presentation of net periodic pension and postretirement benefit costs. The guidance requires the service cost component to be reported in the same line item as other compensation costs. All other components of net periodic pension cost are required to be presented in the income statement separately from the service cost component and outside of income from operations. The Company adopted the standard on its required effective date of January 1, 2018 using a retrospective approach. Upon adoption, other components of net periodic pension costs of \$1.5 million and \$8.4 million, net of tax, for the three and nine months

ended September 30, 2017, respectively, were reclassified from other operating expenses. The guidance changed presentation only and did not have an impact on the Company's consolidated financial position, results of operations, equity or cash flows. Since the Company's defined benefit pension plans have been frozen, the components of net periodic benefit costs have not materially changed from year-end 2017.

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Note 3 Recently Issued Accounting Pronouncements (Continued)

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

In February 2016, the FASB issued guidance that will require significant changes to the statement of financial position of lessees. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases today. Lessor accounting is less affected by the standard, but has been updated to align with certain changes in the lessee model and the new revenue recognition standard. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018 and will be implemented using the effective date method, which requires a cumulative-effect adjustment to the opening balance of retained earnings on the effective date. We have identified and analyzed the majority of the lease contracts and do not expect the adoption of the standard to be material to the Company's results of operations or financial position.

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

In February 2018, the FASB issued guidance that allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company plans to adopt the standard effective January 1, 2019. The guidance changes equity presentation only and will not have an impact on the Company's results of operations or financials position.

In August 2018, the FASB issued guidance that seeks to improve financial reporting for insurance companies that issue long duration contracts. The guidance improves the timeliness of recognizing changes in the liability for future policy benefits and modifies the rate used to discount future cash flows. The guidance will simplify and improve accounting for certain market-based options or guarantees associated with deposit type contracts, simplify the amortization of deferred acquisition costs and provide users of the financial statements with enhanced disclosures. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2020. The Company is in the process of evaluating the impact of the adoption of this standard.

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

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

	Cost or Amortized Cost	September 30, 2018 Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 247,206	\$ 5,328	\$ (487)	\$ 252,047
Foreign governments	3,974	392		4,366
Corporate debt securities	7,472,207	60,834	(136,329)	7,396,712
Residential mortgage-backed securities	285,878	5,323	(4,059)	287,142
Collateralized debt securities	594	11		605
Other debt securities	717	17		734
Total bonds held-to-maturity	8,010,576	71,905	(140,875)	7,941,606
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	28,306	305	(453)	28,158
U.S. states and political subdivisions	855,782	10,930	(7,683)	859,029
Foreign governments	5,000	1,120		6,120
Corporate debt securities	5,195,655	44,841	(94,229)	5,146,267
Residential mortgage-backed securities	32,080	312	(865)	31,527
Collateralized debt securities	2,871	701	(5)	3,567
Total bonds available-for-sale	6,119,694	58,209	(103,235)	6,074,668
Equity securities				
Common stock	678,992	1,119,395	(7,175)	1,791,212
Preferred stock	17,482	1,953		19,435
Total equity securities	696,474	1,121,348	(7,175)	1,810,647
Total investments in securities	\$ 14,826,744	\$ 1,251,462	\$ (251,285)	\$ 15,826,921

	Cost or Amortized Cost	December 31, 2017 Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Fixed maturity securities, bonds held-to-maturity				
U.S. states and political subdivisions	\$ 266,966	\$ 12,466	\$ (37)	\$ 279,395

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Foreign governments	4,011	582		4,593
Corporate debt securities	7,032,464	217,883	(18,020)	7,232,327
Residential mortgage-backed securities	246,803	9,702	(1,262)	255,243
Collateralized debt securities	923	31		954
Other debt securities	1,792	49		1,841
Total bonds held-to-maturity	7,552,959	240,713	(19,319)	7,774,353
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and government	27,569	475	(146)	27,898
U.S. states and political subdivisions	866,250	31,621	(824)	897,047
Foreign governments	5,000	1,460		