

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-K

March 10, 2017

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2016**

**or**

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

**American National Insurance Company**

**(Exact name of registrant as specified in its charter)**

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

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

**One Moody Plaza**  
**Galveston, Texas 77550-7999**

**(Address of principal executive offices) (Zip Code)**

**(409) 763-4661**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value on June 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter) of the voting stock held by non-affiliates of the registrant was approximately \$824.6 million. For purposes of the determination of the above-stated amount, only directors, executive officers and 10% shareholders are presumed to be affiliates, but neither the registrant nor any such person concedes that they are affiliates of registrant.

As of February 15, 2017, there were 26,914,516 shares of the registrant's voting common stock, \$1.00 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information called for in Part III of this Form 10-K is incorporated by reference to the registrant's Definitive Proxy Statement to be filed within 120 days of the close of the registrant's fiscal year in conjunction with the registrant's annual meeting of shareholders.

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**PART I**

**ITEM 1. BUSINESS**

**Company Overview**

American National Insurance Company has over 110 years of experience. We have maintained our corporate headquarters in Galveston, Texas since our founding in 1905. Our core businesses are life insurance, annuities and property and casualty insurance. We also offer limited health insurance. We provide personalized service to approximately six million policyholders throughout the United States, the District of Columbia, and Puerto Rico.

In this document, we refer to American National Insurance Company and its subsidiaries as the Company, we, our, and us.

Our vision is to be a leading provider of financial products and services for current and future generations. For more than a century, we have maintained a conservative business approach and corporate culture. We have an unwavering commitment to serve our policyholders, agents, and shareholders by providing excellent customer service and competitively priced and diversified products. We are committed to profitable growth, which enables us to remain financially strong. Acquisitions that are strategic and offer synergies may be considered, but they are not our primary source of growth. We invest regularly in our distribution channels and markets to fuel internal growth.

We are committed to excellence and maintaining high ethical standards in all our business dealings. Disciplined adherence to our values has allowed us to deliver consistently high levels of customer service through talented people, who are at the heart of our business.

**Business Segments**

Our family of companies includes six life insurance companies, eight property and casualty insurance companies, and numerous non-insurance subsidiaries. The business segments and the principal products they offer or manage follow.

***Life Segment***

*Whole Life.* Whole life products provide a guaranteed benefit upon the death of the insured in return for the periodic payment of a fixed premium over a predetermined period. Premium payments may be required for the entire life of the contract, to a specified age or a fixed number of years, and may be level or change in accordance with a predetermined schedule. Whole life insurance includes some policies that provide a participation feature in the form of dividends. Policyholders may receive dividends in cash or apply them to increase death benefits or cash values available upon surrender, or reduce the premiums required to maintain the contract in-force.

*Term Life.* Term life products provide a guaranteed benefit upon the death of the insured for a specified time period in return for the periodic payment of premiums. Coverage periods typically range from one to thirty years, but in no event longer than the period over which premiums are paid.

*Universal Life.* Universal life insurance products provide coverage through a contract that gives the policyholder flexibility in premium payments and coverage amounts. Universal life products may allow the policyholder, within

certain limits, to increase or decrease the amount of death benefit coverage over the term of the contract and to adjust the frequency and amount of premium payments. Universal life products are interest rate sensitive, and we determine the interest crediting rates, subject to policy specific minimums.

Equity-indexed universal life products have the same features as the universal life products, but also provide an opportunity for policyholders to earn additional return through credited interest tied to the performance of a particular stock index, such as the S&P 500.

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*Variable Universal Life.* Variable universal life products provide insurance coverage on a similar basis as universal life, except that the policyholder bears the investment risk because the value of the policyholder's account balance varies with the investment experience of the securities held in the separate account investment options selected by the policyholder.

*Credit Life Insurance.* Credit life insurance products are sold in connection with a loan or other credit account. Credit life insurance products are designed to pay to the lender the borrower's remaining debt on a loan or credit account if the borrower dies during the coverage period.

### ***Annuity Segment***

*Deferred Annuity.* A deferred annuity is an asset accumulation product. Deposits are received as a single premium deferred annuity or in a series of payments for a flexible premium deferred annuity. Deposits are credited with interest at our determined rates subject to policy minimums. For certain limited periods of time, usually from one to ten years, interest rates are guaranteed not to change. Deferred annuities usually have surrender charges that begin at issue and reduce over time and may have market value adjustments that can increase or decrease any surrender value.

An equity-indexed deferred annuity is credited with interest using a return that is based on changes in an index, such as the S&P 500 Composite Stock Price Index, subject to a specified minimum.

*Single Premium Immediate Annuity ( SPIA ).* A SPIA is purchased with one premium payment, providing periodic (usually monthly or annual) payments to the annuitant for a specified period, such as for the remainder of the annuitant's life. Return of the original deposit may or may not be guaranteed, depending on the terms of the annuity contract.

*Variable Annuity.* With a variable annuity the policyholder bears the investment risk because the value of the policyholder's account balance varies with the investment experience of the securities held in the separate account investment options selected by the policyholder. Our variable annuity products have no guaranteed minimum withdrawal benefits.

### ***Health Segment***

*Medicare Supplement.* Medicare Supplement insurance is a type of private health insurance designed to supplement or pay the costs of certain medical services not covered by Medicare.

*Supplemental Insurance.* Supplemental insurance is designed to provide supplemental coverage for specific events or illnesses such as cancer and accidental injury or death.

*Stop-Loss.* Stop-loss coverage is used by employers to limit their exposure under self-insured medical plans. Two coverages, which are usually offered concurrently, are available. Specific Stop-Loss provides coverage when claims for an individual reach a threshold; after the threshold is reached, the policy reimburses claims paid by the employer up to a coverage limit for each individual. Aggregate Stop-Loss reimburses the employer once the group's total paid claims reach a threshold.

*Credit Disability.* Credit disability (also called credit accident and health) insurance pays a limited number of monthly payments on a loan or credit account if the borrower becomes disabled during the coverage period.

*Medical Expense.* Medical expense insurance covers most health expenses including hospitalization, surgery and outpatient services (excluding dental and vision costs). We no longer market these products and existing contracts are in run-off.



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#### ***Property and Casualty Segment***

*Personal Lines.* Personal lines include insurance policies sold to individuals for auto, homeowners and other exposures. Auto insurance covers specific risks involved in owning and operating an automobile. Homeowner insurance provides coverage that protects the insured owner's or renter's property against loss from perils. Other personal insurance provides coverage for property such as boats, motorcycles and recreational vehicles.

*Commercial Lines.* Agricultural business insurance is the majority of our commercial lines. This includes property and casualty coverage tailored for a farm, ranch, vineyard or other agricultural business, contractors, and business within rural and suburban markets. Commercial auto insurance is typically issued in conjunction with the sale of our Agricultural business insurance and covers specific risks involved in owning and operating vehicles. Other commercial insurance is offered along with our Agricultural business and encompasses property, liability and workers compensation coverages.

*Credit-Related Property Insurance Products.* We primarily offer the following credit insurance products:

*Collateral or Creditor Protection Insurance ( CPI ).* CPI provides insurance against loss, expense to recover, or damage to personal property pledged as collateral (typically automobiles and homes) resulting from fire, burglary, collision, or other loss occurrence that would either impair a creditor's interest or adversely affect the value of the collateral. The coverage is purchased from us by the lender according to the terms of the credit obligation and charged to the borrower by the lender when the borrower fails to provide the required insurance.

*Guaranteed Auto Protection or Guaranteed Asset Protection ( GAP ).* GAP insures the excess outstanding indebtedness over the primary property insurance benefits that may occur when there is a total loss to or an unrecovered theft of the collateral. GAP can be written on a variety of assets that are used as collateral to secure credit; however, it is most commonly written on automobiles.

*Mortgage Security Insurance ( MSI ).* MSI program insures a lender's interest in residential or commercial mortgaged property by providing coverage when the mortgagor fails to insure the property subject to the mortgage, or for property that has been foreclosed by the lender. The Named Insured, i.e. Lender, may choose to purchase this coverage in their entire portfolio or specific segments of their portfolio meeting eligibility criteria under this program. Optional liability coverage is also available for real estate owned property.

***Corporate and Other Segment*** Our Corporate and Other segment is primarily our invested assets not matched with our insurance activities. It also includes our non-insurance subsidiaries, such as our limited investment advisory services.

#### **Marketing Channels**

Product distribution is managed to satisfy specific markets, maintain brand identities and minimize channel conflict across our marketing channels described below. When possible, products are cross-sold to maximize product offerings and return on investment in products and distribution.

***Independent Marketing Group ( IMG )*** distributes life insurance and annuities through independent agents serving middle and affluent markets, as well as niche markets such as the small pension plan sponsor. IMG provides products and services to clients in need of wealth protection, accumulation, distribution, and transfer. Products are marketed through financial institutions, large marketing organizations, employee benefit firms, broker-dealers, and independent

insurance agents and brokers.

IMG also markets to individuals who favor purchasing insurance directly from an insurance company. It offers life insurance to middle-income customers through channels including direct mail, internet and call centers.

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**Career Sales and Service Divisions** ( CSSD ) can be traced to the Company's founding in 1905, and offers life insurance, annuities, and limited benefit health insurance products through exclusive employee agents primarily to the middle-income market. CSSD's business model is structured to distribute new products as well as provide personalized service to the customer by agents located throughout much of the United States. CSSD has evolved its operations to offer a wider variety of products and alternative payment options to meet the changing needs of the customer.

**Multiple-line** offers life insurance, health insurance, annuities, and property and casualty insurance primarily through dedicated agents. Multiple-line serves individuals, families, agricultural clients, and small business owners at all income levels. Policyholders can generally do all their insurance business with a single agent, which has been identified as an important driver to client satisfaction.

**Health Insurance Division** through independent agents and managing general underwriters ( MGU ), serves the needs of a variety of markets including middle-income seniors, self-insured employers, and the special needs of individuals through supplemental products. The Health Division offers an array of life and health insurance products for these growing segments of the population, including group life products, supplemental health insurance products, and health reinsurance. It remains committed to traditional Medicare Supplement products. The Health Division also administers the health insurance products sold by other marketing channels.

**Credit Insurance Division** offers products that provide protection to borrowers and the lenders that extend credit to them. Products offer coverage against unpaid indebtedness as a result of death, disability, involuntary unemployment or untimely loss to the collateral securing a personal or mortgage loan. Distribution includes general agents who market to financial institutions, automobile dealers, and furniture dealers. These general agents are given non-exclusive authority to solicit insurance within a specified geographic area and to appoint and supervise subagents.

### **Policyholder Liabilities**

We record the amounts for policyholder liabilities in accordance with U.S. generally accepted accounting principles ( GAAP ) and the standards of practice of the American Academy of Actuaries. We carry liabilities for future policy benefits associated with base policies and riders, unearned mortality charges and future disability benefits, for other policyholder liabilities associated with unearned premiums and claims payable, and for unearned revenue and the unamortized portion of front-end fees. We also establish liabilities for unpaid claims and claim adjustment expenses, including those that have been incurred but not yet reported. In addition, we carry liabilities for secondary guarantees relating to certain life policies, and fair value reserves associated with embedded derivatives on equity indexed products.

Pursuant to state insurance laws, we establish statutory reserves, which are reported as liabilities, and which generally differ from future policy benefits determined using GAAP on our respective policies. These statutory reserves are established in amounts sufficient to meet policy and contract obligations, when taken together with expected future premiums and interest at assumed rates.

Additional information regarding our policyholder liabilities may be found in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Reserves section.



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## **Risk Management**

A conservative operating philosophy was a founding principle for our Company. We manage risks throughout the Company by employing controls in our insurance and investment functions. These controls are designed to both place limits on activities and provide reporting information that helps shape adjustments to existing controls. The Company Board of Directors oversees a formal enterprise risk management program to coordinate risk management efforts and to provide reasonable assurance that risk taking activities are aligned with strategic objectives. The Board Audit Committee assists the Board in its risk management oversight. The risk management program includes a corporate risk officer who chairs a Management Risk Committee to ensure consistent application of the enterprise risk management process across all business segments. We also use several other senior management committees to support the discussion and enforcement of risk controls in the management of the Company.

Our insurance products are designed to balance features desired by the marketplace with provisions that mitigate our risk exposures across our insurance portfolio. We employ underwriting standards to ensure proper rates are charged to different classes of risks. In our life insurance and annuity products, we mitigate the risk of disintermediation through the use of surrender charges and market value adjustment features.

The process of linking the timing and the amount of paying obligations related to our insurance and annuity contracts and the cash flows and valuations of the invested assets supporting those obligations is commonly referred to as asset-liability management ( ALM ). Our ALM Committee regularly monitors the level of risk in the interaction of assets and liabilities and helps shape actions intended to attain our desired risk-return profile. Investment allocations and duration targets are also intended to manage the risk exposure in our annuity products by setting the credited rate within a range supported by these investments. Tools which help shape investment decisions include deterministic and stochastic interest rate scenario analyses using a licensed, third party economic scenario generator and detailed insurance ALM models. These models also use experience related to surrenders and death claims.

We also manage risk by purchasing reinsurance to limit exposure on any one insurance contract or any single event or series of events. Our reinsurance program provides coverage for some individual risks with exposures above certain amounts as well as exposure to catastrophes including hurricanes, tornadoes, wind and hail events, earthquakes, fires following earthquakes, winter storms, and wildfires. We purchase reinsurance from many providers and we are not dependent on any single reinsurer. We believe that our reinsurers are currently reputable and financially secure, and we regularly review the financial strength ratings of our reinsurers with the goal of ensuring they meet established thresholds. Reinsurance does not remove our liability to pay our policyholders, and we remain liable to our policyholders for the risks we insure. The operating and financial condition of our reinsurers can change between the time reinsurance is purchased and when claims become payable, which can increase our risk.

In our Property and Casualty segment, the use of catastrophic event models is an important element of risk management. These models assist us in the measurement and management of exposure concentrations and the amount and structure of reinsurance purchases. In addition to reinsurance, we manage exposure to catastrophic risk by limiting homeowners business in coastal areas, implementing hurricane, wind and hail deductible requirements where appropriate, and not renewing coverage in regions where exposure to risky events exceeds our risk appetite.

## **Pricing**

We establish premium rates for life and health insurance products using assumptions as to future mortality, morbidity, persistency, and expenses, all of which are estimates generally based on our experience, industry data, projected

investment earnings, competition, regulation and legislation. Premium rates for property and casualty insurance are influenced by many factors, including the estimated frequency and severity of claims, expenses, state regulation and legislation, and general business and economic conditions, including market interest rates and inflation. Profitability is affected to the extent actual experience deviates from our pricing assumptions.

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Payments for certain annuity and life products are not recognized as revenues, but are deposits added to policyholder account balances. Revenues from these products are charges to the account balances for the cost of insurance risk and administrative fees and, in some cases surrender fees. Profits are earned to the extent these revenues exceed actual costs. Profits are also earned from investment income on assets invested from the deposits in excess of the amounts credited to policyholders.

Premiums for accident and health policies with medical expense components must take into account the rising utilization and cost of medical care. The annual rate of medical cost inflation has historically been higher than the general rate of inflation, requiring frequent rate increases, most of which are subject to approval by state regulatory agencies.

Credit Life and Health rates are set by each state. These rates are the maximum amounts that may be charged. We may charge a lower rate to reflect a variety of factors including better than expected experience, compensation adjustments, and competitive forces. In the event that an account experiences poor experience, we may request a rate increase from the applicable state.

### **Competition**

We compete principally on the breadth of our product offerings, reputation, marketing expertise and support, the scope of our distribution systems, financial strength and ratings, product features and prices, customer service, claims handling, and in the case of producers, compensation. The market for insurance, retirement and investment products continues to be highly fragmented and competitive. We compete with a large number of domestic and foreign insurance companies, many of which offer one or more similar products. In addition, for products that include an asset accumulation component, our competition includes domestic and foreign securities firms, investment advisors, mutual funds, banks and other financial institutions.

Several competing insurance carriers are larger than we are, and have brands that are more commonly known and spend significantly more on advertising than we do. We remain competitive with these commonly known brands by managing costs, providing attractive coverage and service, maintaining positive relationships with our agents, and maintaining our financial strength ratings.

### **Ratings**

Rating agencies provide independent opinions or ratings regarding the capacity of an insurance company to meet the contractual obligations of its insurance policies and contracts. These ratings are based on each rating agencies quantitative and qualitative evaluation of a company and its management strategy. The rating agencies do not provide ratings as a recommendation to purchase insurance or annuities, nor as a guarantee of an insurer's current or future ability to meet contractual obligations. Each agency's rating should be evaluated independently of any other rating. Ratings may be changed, suspended, or withdrawn at any time.

Our current insurer financial strength rating from two of the most widely referenced rating organizations as of the date of this filing are as follows:

A.M. Best Company: A <sup>(1)</sup>

Standard & Poor's (S&P)<sup>(2)</sup>A

- (1) A.M. Best's active company rating scale consists of thirteen ratings ranging from A++ (Superior) to D (poor).
- (2) S&P's active company ratings scale AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.



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**Regulation Applicable to Our Business**

Our insurance operations are subject to extensive regulation, primarily at the state level. Such regulation varies by state but generally has its source in statutes that establish requirements for the business of insurance and that grant broad regulatory authority to a state agency. Insurance regulation has a substantial effect and governs a wide variety of matters, such as insurance company licensing, agent and adjuster licensing, policy benefits, price setting, accounting practices, product suitability, the payment of dividends, the nature and amount of investments, underwriting practices, reserve requirements, marketing and advertising practices, privacy, policy forms, reinsurance reserve requirements, risk and solvency assessments, mergers and acquisitions, capital adequacy, transactions with affiliates, participation in shared markets and guaranty associations, claims practices, the remittance of unclaimed property, and enterprise risk requirements. The models for state laws and regulations often emanate from the National Association of Insurance Commissioners ( NAIC ).

State insurance departments monitor compliance with regulations through periodic reporting procedures and examinations. At any given time, financial, market conduct or other examinations of our insurance companies may be occurring.

The U.S. federal government presence in insurance oversight was expanded by the Dodd Frank Wall Street Reform and Consumer Protection Act ( Dodd Frank ). Dodd-Frank s requirements include streamlining the state-based regulation of reinsurance and non-admitted insurance. Dodd-Frank also established the Federal Insurance Office ( FIO ) within the U.S. Department of the Treasury, which is authorized to, among other things, gather data and information to monitor aspects of the insurance industry, identify certain issues in the regulation of insurers, and preempt state insurance measures under certain circumstances. Although President Trump s administration has announced a desire to repeal or scale back Dodd-Frank, it remains uncertain at this time when and to what extent any such changes to Dodd-Frank will ultimately be implemented. Whether or not Dodd-Frank is repealed or amended, it is possible that there may be further federal incursion into the business of insurance, which may add significant legal complexity and associated costs to our business.

Regulatory matters having the most significant effects on our insurance operations and financial reporting are described further below. In addition, Item 1A, Risk Factors, Litigation and Regulation Risk Factors, below discusses significant risks presented to our business by extensive regulation and describes certain other laws and regulations that are or may become applicable to us.

*Limitations on Dividends by Insurance Subsidiaries.* Dividends received from our insurance subsidiaries represent one source of cash for us. Our insurance subsidiaries ability to pay dividends is restricted by state law and impacted by federal income tax considerations.

*Holding Company Regulation.* We are an insurance holding company system under the insurance laws of the states where we do business. Our insurance companies are organized under the laws of Texas, Missouri, New York, Louisiana, and California. Insurance holding company system laws and regulations in such states generally require periodic reporting to state insurance regulators of various business, risk management and financial matters and advance notice to, or in some cases approval by, such regulators prior to certain transactions between insurers and their affiliates. These laws also generally require regulatory approval prior to the acquisition of a controlling interest in an insurance company. These requirements may deter or delay certain transactions considered desirable by management or our stockholders.

*Price Regulation.* Nearly all states have laws requiring property and casualty and health insurers to file price schedules and most insurers to file policy or coverage forms, and other information with the state's regulatory authority. In many cases these must be approved prior to use. The objectives of pricing laws vary, but generally a price cannot be excessive, inadequate or unfairly discriminatory. Prohibitions on discriminatory pricing apply in the context of certain products as well.

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Our ability to adjust prices is often dependent on the applicable pricing law and our ability to demonstrate to the particular regulator that current or proposed pricing complies with such law. In states that significantly restrict underwriting selectivity, we can manage our risk of loss by charging a price that reflects the cost and expense of providing insurance products. In states that significantly restrict price-setting ability, we can manage our risk of loss by being more selective in underwriting. When a state has significant underwriting and pricing restrictions, it becomes more difficult to manage our risk of loss, which can impact our willingness and ability to market products in such states.

*Guaranty Associations and Involuntary Markets.* State laws allow insurers to be assessed, subject to prescribed limits, insurance guaranty fund fees to pay certain obligations of insolvent insurance companies. In addition, to maintain our licenses to write property and casualty insurance in various states, we are required to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations that provide various insurance coverages to purchasers that otherwise are unable to obtain coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have not been material to our results of operations.

*Investment Regulation.* Insurance company investment regulations require investment portfolio diversification and limit the amount of investment in certain asset categories. Failure to comply with these regulations leads to the treatment of non-conforming investments as non-admitted assets for measuring statutory surplus. In some instances, these rules require sale of non-conforming investments.

*Exiting Geographic Markets, Canceling and Non-Renewing Policies.* Most states regulate an insurer's ability to exit a market by limiting the ability to cancel and non-renew policies. Some states prohibit an insurer from withdrawing one or more types of insurance business from the state, except pursuant to an approved plan. These regulations could restrict our ability to exit unprofitable markets.

*Statutory Accounting.* Financial reports to state insurance regulators utilize statutory accounting practices as defined in the Accounting Practices and Procedures Manual of the NAIC, which are different from GAAP. Statutory accounting practices, in keeping with the intent to assure the protection of policyholders, are generally based on a solvency concept, while GAAP is based on a going-concern concept. While not a substitute for GAAP performance measures, statutory information is used by industry analysts and reporting sources to compare the performance of insurance companies. Maintaining both GAAP and Statutory financial records increases our business costs.

*Insurance Reserves.* State insurance laws require life and property and casualty insurers to annually analyze the adequacy of statutory reserves. Our appointed actuaries must submit an opinion that policyholder and claim reserves are adequate.

*Risk-Based Capital and Solvency Requirements.* The NAIC has a formula for analyzing capital levels of insurance companies called risk-based capital ( RBC ). The RBC formula has minimum capital thresholds that vary with the size and mix of a company's business and assets. It is designed to identify companies with capital levels that may require regulatory attention. At December 31, 2016, American National Insurance Company and each of its insurance subsidiaries were more than adequately capitalized and exceeded the minimum RBC requirements.

*Securities Regulation.* The sale and administration of variable life insurance and variable annuities are subject to extensive regulation at the federal and state level, including by the Securities and Exchange Commission ( SEC ) and the Financial Industry Regulatory Authority ( FINRA ). Our variable annuity contracts and variable life insurance policies are issued through separate accounts that are registered with the SEC as investment companies under the

Investment Company Act of 1940. Each registered separate account is generally divided into sub-accounts, each of which invests in an underlying mutual fund that is itself a registered investment company under such act. In addition, the variable annuity contracts and variable life insurance policies issued by the separate accounts are registered with the SEC under the Securities Act of 1933. The U.S. federal and state regulatory authorities and FINRA from time to time make inquiries and conduct examinations regarding our compliance with securities and other laws and regulations.

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In addition, our periodic reports and proxy statements to stockholders are subject to the requirements of the Securities Exchange Act of 1934 and corresponding rules of the SEC, and our corporate governance processes are subject to regulation by the SEC and the NASDAQ Stock Market. Our registered wholesale broker-dealer and registered investment adviser subsidiaries are subject to regulation and supervision by the SEC, FINRA and, in some cases, state securities administrators.

*Suitability.* FINRA rules require broker-dealers selling variable insurance products to determine that transactions in such products are suitable to the circumstances of the particular customer. In addition, most states have enacted the NAIC's Suitability in Annuity Transactions Model Regulation that, in adopting states, places suitability responsibilities on insurance companies in the sale of fixed and indexed annuities, including responsibilities for training agents.

*Protection of Consumer Information.* U.S. federal laws, such as the Gramm-Leach-Bliley Act, and the laws and regulations of some states regulate disclosures of certain customer information and require us to protect the security and confidentiality of such information. Such laws also require us to notify customers about our policies and practices relating to the collection, protection and disclosure of confidential customer information. State and federal laws, such as the federal Health Insurance Portability and Accountability Act regulate our use, protection and disclosure of certain personal health information.

In addition, the Fair Credit Reporting Act (the FCRA) is a federal law that governs the use and sharing of consumer credit information provided by a consumer reporting agency. Requirements under the FCRA apply to an insurer if such insurer obtains and uses consumer credit information to underwrite insurance. Such requirements may include obtaining the consumer's consent and providing various notices to the consumer. While the use of consumer credit information in the underwriting process is expressly authorized by the FCRA, various states have issued regulations that limit or prohibit the use of consumer credit information by insurers.

*Cybersecurity.* The NAIC is working to develop a state model law to establish standards for data security, which includes overseeing third-party service providers, establishing standards for investigating a data breach, and providing requirements for notifying regulators and consumers. While it is not mandatory for insurers to comply with an NAIC model law, nor for states to adopt the model law, state and federal legislators and regulators are likely to look to the model law for guidance in proposing new legislation and as a standard to which insurance companies could be held in decisions on whether to bring enforcement actions. In addition, the New York Department of Financial Services has adopted a regulation that will require us to establish and maintain a cybersecurity program that meets the requirements of such regulation.

*Anti-Money Laundering.* Federal law and regulation requires us to take certain steps to help prevent and detect money laundering activities. The USA PATRIOT Act of 2001 contains anti-money laundering and financial transparency requirements applicable to certain financial services companies, including insurance companies. The Bank Secrecy Act requires insurers to implement a risk-based compliance program to detect, deter and (in some cases) report financial or other illicit crimes including, but not limited to, money laundering and terrorist financing. The Office of Foreign Assets Control (OFAC), a division of the U.S. Treasury Department, administers and enforces economic and trade sanctions. For certain transactions, an insurer may be required to search policyholder, agent, vendor and employee databases for specially designated nationals or suspected terrorists, in order to comply with OFAC obligations.

*Environmental Considerations.* As an owner and operator of real property, we are subject to extensive federal, state and local environmental laws and regulations. Inherent in such ownership and operation is the risk that there may be

potential environmental liabilities and costs in connection with any required remediation of such properties. We routinely have environmental assessments performed with respect to real estate being acquired for investment or through foreclosure, but we cannot provide assurance that unexpected environmental liabilities will not arise. In addition, we hold equity interests in companies that could potentially be subject to environmental liabilities. Based on information currently available to us, management believes that any costs associated with compliance with environmental laws and regulations or any required remediation will not have a material adverse effect on our business, results of operations or financial condition.

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Other types of regulations that affect us include insurable interest laws, employee benefit plan laws, antitrust laws, employment and labor laws, and federal and state tax laws. Failure to comply with federal and state laws and regulations may result in censure; the issuance of cease-and-desist orders; suspension, termination or limitation of the activities of our operations and/or our employees and agents; or the obligation to pay fines, penalties, assessments, interest, or additional taxes and wages. In some cases, severe penalties may be imposed for breach of these laws. We cannot predict the impact of these actions on our businesses, results of operations or financial condition.

### **Employees**

As of December 31, 2016, we had approximately 4,597 employees. We consider our employee relations to be good.

### **Available Information**

We file periodic and current reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington D.C. 20549 or by calling the SEC at 1-800-SEC-0330. The SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy statements, and other information regarding issuers that file electronically with the SEC.

Our press releases, financial information and reports filed with the SEC (for example, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those forms) are available online at [www.americannational.com](http://www.americannational.com). The reference to our website does not constitute the incorporation by reference of information contained at such website into this, or any other, report. Copies of any documents on our website are available without charge, and reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC.

## **ITEM 1A. RISK FACTORS**

Our performance is dependent on our ability to manage complex operational, financial, legal, and regulatory risks and uncertainties throughout our operations. The most significant of these risks and uncertainties are described below. Any of these, individually or in the aggregate, could materially adversely impair our business, financial condition or results of operations, particularly if our actual experience differs from our estimates and assumptions. While our enterprise risk management framework contains various strategies, processes, policies and procedures to address these risks and uncertainties, we cannot be certain that these measures will be implemented successfully in all circumstances. In addition, we could experience risks that we failed to identify, or risks of a magnitude greater than expected.

### ***Economic and Investment Market Risk Factors***

**Our results of operations are materially affected by economic and political conditions in the U.S. and elsewhere.** The strength and sustainability of economic activity is inherently uncertain. Factors such as continuing unemployment, declining workforce participation, consumer prices, geopolitical issues, energy prices, stagnant family incomes, consumer confidence and spending, and increased student and consumer debt can adversely affect the economy and demand for our products. For example, difficult credit conditions may adversely affect purchases of credit-related insurance products, or our policyholders may choose to defer or stop paying insurance premiums, resulting in higher lapses or surrenders of policies.





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Interest rates have a significant impact on our business and on consumer demand for our products. Some of our products, principally interest-sensitive life insurance and fixed annuities, expose us to the risk that changes in interest rates may reduce our spread, or the difference between the amounts we earn on investment and the amount we must pay under our contracts. Persistently low (or lower) interest rates, compound this spread compression. When market interest rates decrease or remain at relatively low levels, prepayments and redemptions affecting our investment securities and mortgage loan investments may increase as issuers and borrowers seek to refinance at a lower rate. Proceeds from maturing, prepaid or sold bonds or mortgage loan investments may be reinvested at lower yields, reducing our spread. Our ability to decrease product crediting rates in response may be limited by market and competitive conditions and by regulatory or contractual minimum rate guarantees. Conversely, increases in market interest rates can also have negative effects. For example, increasing rates on other insurance or investment products offered to our customers by competitors can lead to higher surrenders at a time when fixed maturity investment asset values are lower. We may react to market conditions by increasing crediting rates, which narrows spreads. In addition, when interest rates rise, the value of our investment portfolio may decline due to decreases in the fair value of our securities. While we use ALM processes to mitigate the effect on our spreads of changes in interest rates, they may not be fully effective. See the Risk Management discussion in Item 1 above and the General Trends discussion in Part II, Item 7 below for further details about interest rates and our ALM processes. Recently, the Board of Governors of the Federal Reserve System has moved towards normalizing monetary policy from the programs of recent years that have fostered a historically low interest rate environment. In addition to resulting in higher interest rates, this move could generate volatility in debt and equity markets and could hamper continued economic recovery.

**Fluctuations in the markets for fixed maturity securities, equity securities, and commercial real estate could adversely affect our business.** Investment returns are an important part of our profitability. Substantially all investments, including our fixed income, equity, real estate and mortgage loan investment portfolios, are subject to market and credit risks, including market volatility and deterioration in the credit or prospects of companies or governmental entities in which we invest. We could incur significant losses from such risks, particularly during extreme market events. The concentration of our investments in any particular industry, group of related industries or government issuers, or geographic sector can compound these risks.

In addition to negatively affecting investment returns, equity market downturns and volatility can have other adverse effects on us. First, equity market downturns and volatility may discourage new purchases of our products that have returns linked to the performance of the equity market and may cause some existing customers to withdraw cash values or reduce investments in such products, in turn reducing our fee revenues. Second, the guarantees that certain products provide, may cost more than expected in volatile or declining equity market conditions, which could negatively affect our earnings. Third, our estimates of liabilities and expenses for pension and other postretirement benefits incorporate assumptions regarding the rate used to discount estimated future liabilities and the long-term rate of return on plan assets. Declines in the discount rate or the rate of return on plan assets, both of which are influenced by potential investment returns, could increase our required cash contributions or pension-related expenses in future periods.

**Some of our investments are relatively illiquid.** Investments in privately placed securities, mortgage loans, and real estate, including real estate joint ventures and other equity interests, are relatively illiquid. If we suddenly require significant amounts of cash in excess of ordinary cash requirements, it may be difficult or not possible to sell these investments in an orderly manner for a favorable price.

***Operational Risk Factors***

**Our actual experience could differ from our estimates and assumptions regarding product pricing, the fair value and future performance of our investments, and the realization of deferred tax assets.** Our product pricing includes long-term assumptions such as investment returns, mortality, morbidity (the rate of incidence of illness), persistency (the rate at which policies remain in-force), and operating expenses. Our profitability substantially depends on actual experience being consistent with or better than these assumptions. If we fail to appropriately price our insured risks, or if claims experience is more severe than we assumed, our earnings and financial condition may be negatively affected. Conversely, significantly overpriced risks may negatively impact new business sales and retention of existing business.

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Our loss reserves are estimates of amounts needed to pay and administer incurred claims and, as such, are inherently uncertain; they do not and cannot represent exact measures of liability. Inflationary events, especially events outside of historical norms, or regulatory changes that affect the assumptions underlying our estimates can cause variability. For example, increases in costs for auto parts and repair services, construction costs, and commodities result in higher losses for property damage claims. Accordingly, our loss reserves could prove to be inadequate to cover our actual losses and related expenses. See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates *Reserves* for additional information.

With respect to our investments, the determination of estimates for allowances and impairments varies by investment type and is based upon our periodic evaluation of known and inherent risks associated with the respective asset class. Historical trends and assumed changes may not be indicative of future impairments or allowances. See Note 2, Summary of Significant Accounting Policies and Practices, of the Notes to the Consolidated Financial Statements for further description of our evaluation of impairments.

Assumptions regarding the future realization of deferred tax assets are dependent upon estimating the generation of sufficient future taxable income, including capital gains. If future events differ from our current forecasts and it is determined that deferred tax assets cannot be realized, a deferred tax valuation allowance must be established, with a charge to expenses.

**Interest rate fluctuations and other events may require us to accelerate the amortization of deferred policy acquisition costs ( DAC ).** When interest rates rise, life and annuity surrenders and withdrawals may increase as policyholders seek to buy products with higher or perceived higher returns, impacting estimates of future profits. Significantly lower future profits may cause us to accelerate DAC amortization, and such acceleration could adversely affect our results of operations to the extent such amortization exceeds any surrender or other charges earned as income upon surrender and withdrawal. See also Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates, and Part II, Item 8, Financial Statements and Supplementary Data Note 2, Summary of Significant Accounting Policies and Practices, and Note 10, Deferred Policy Acquisition Costs, of the Notes to the Consolidated Financial Statements for additional information.

**We may be unable to maintain the availability and performance of our systems and safeguard our data.** We rely on the availability, reliability, and security of our information-processing infrastructure, system platforms, and business applications to store, process, retrieve, calculate and evaluate customer and company information. In certain lines of our business, our information technology and telecommunication systems interface with and rely upon third-party services. We are highly dependent on the ability to access these external services for necessary business functions, such as acquiring new business, managing existing business, paying claims, and ensuring timely and accurate financial reporting. Furthermore, we have developed or evolved strategies and processes to maintain and enhance our existing technology and processing infrastructure and information systems and to replace certain information systems to keep pace with changes in technology, changing customer preferences and expectations, and evolving industry and regulatory standards. However, system failures, extended outages, or damage or destruction to systems, whether caused by intentional or unintentional acts or events, as well as difficulties arising from the implementation of security-threat system patches, third party system upgrades, and new systems and technologies, could compromise our ability to perform critical functions on a timely basis. If these systems were inaccessible or inoperable due to natural or man-made disasters, or if they fail to function effectively or as designed, the resulting disruptions may impede or interrupt our business operations.



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We receive and transmit confidential data with and among customers, agents, financial institutions and selected third party vendors and service providers. We have invested significant time and resources towards preventing and mitigating data security risks through several layers of data intrusion and detection protection technologies, designs and authentication capabilities. Our efforts may not be effective against all security threats and breach attempts in light of increasingly complex and persistent threat techniques and the evolving sophistication of cyber-attacks. A breach, whether from external or internal sources, could result in access, viewing, misappropriation, altering or deleting information in ours or a third party's systems on which we rely, including customers' and employees' personal and financial information and our proprietary business information. Like other companies, we have experienced threats to our data and systems, including malware, seeking to gain unauthorized access to systems and data or to cause disruptions; however, to date, these have not been material to our operations. Any significant attacks, unauthorized access or disclosures, disruptions or other security breaches, whether affecting us or third parties, could result in substantial business disruption, costs and consequences, including repairing systems, increased security costs, customer notifications, lost revenues, litigation, regulatory action, fines and penalties, and reputational damage.

**Employee and agent error and misconduct may be difficult to detect and prevent and may result in significant losses.** The actions or inaction of our employees, agents, producers, managing general agents, managing general underwriters and third party administrators could result in losses arising from, among other things, fraud, errors, failure to document transactions properly, failure to obtain proper internal authorization, failure to maintain effective internal controls, or failure to comply with underwriting guidelines or regulatory requirements. It is not always possible to deter or prevent misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

**Our business operations depend on our ability to appropriately distribute, execute and administer our policies and claims.** Our primary business is writing and servicing life, annuity, property and casualty, and health insurance for individuals, families and business. Any problems or discrepancies that arise in our pricing, underwriting, billing, processing, claims handling or other practices, whether as a result of employee error, vendor error, or technological problems, could have a negative effect on operations and reputation, particularly if such problems or discrepancies are replicated through multiple policies.

**The material weaknesses in our internal control over financial reporting may adversely impact our Company.** As discussed below in Part II Item 9A Controls and Procedures, we concluded that our internal control over financial reporting was not effective as of December 31, 2016, because of material weaknesses in our internal controls over income taxes and over collateral relating to our use of option derivatives. We are currently working to remediate these material weaknesses. While we have performed additional analyses and other procedures, and either implemented or plan to implement and test remediation measures as of the filing date of this Form 10-K, these material weaknesses have not been fully remediated. Moreover, we cannot be sure when we will fully remediate these material weaknesses or whether compensating controls will be effective before then in preventing or detecting material errors.

It is necessary for us to maintain effective internal control over financial reporting to prevent fraud and errors and to maintain effective disclosure controls and procedures to provide timely and reliable financial and other information. A failure to maintain adequate internal controls may adversely affect our ability to provide information that accurately reflects our financial condition on a timely basis. This could cause an adverse effect on our business, results of operations and the market price of our stock if investors, customers, rating agencies, regulators or others lose confidence in our reported financial and other information, if we become subject to SEC or other regulatory review and sanctions, or if we become subject to litigation that results in substantial fines, penalties or liabilities.

We have devoted significant resources to remediate these weaknesses, and we have been monitoring the effectiveness of our improved procedures. We also intend to continue reviewing our procedures and implementing further improvements to our internal control procedures as necessary or warranted. However, we cannot be certain that these measures will ensure the adequacy of our controls over our financial processes and reporting in the future, or that there are no additional existing, but as yet undiscovered, weaknesses that we need to address.

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***Catastrophic Event Risk Factors***

**We may incur significant losses resulting from catastrophic events.** Our property and casualty operations are exposed to catastrophes caused by natural events, such as hurricanes, tornadoes, wildfires, droughts, earthquakes, snow, hail and windstorms, and manmade events, such as terrorism, riots, explosions, hazardous material releases, and utility outages. Our life and health insurance operations are exposed to the risk of catastrophic mortality or illness, such as a pandemic, an outbreak of an easily communicable disease, or another event that causes a large number of deaths or high morbidity. Our investment operations are exposed to catastrophes as a result of direct investments and mortgages related to real estate. Our operating results may vary significantly from one period to the next since the likelihood, timing, severity, number or type of catastrophe events cannot be accurately predicted. Our losses in connection with catastrophic events are primarily a function of the severity of the event and the amount of policyholder exposure in the affected area.

Some scientists believe climate change has added to the unpredictability, severity and frequency of extreme weather and loss events. To the extent climate change increases the frequency and severity of such events, we may face increased claims. Moreover, we cannot predict how legal, regulatory and social responses to concerns about global climate change will impact our business or the value of our investments.

**The occurrence of events that are unanticipated in our business continuity and disaster recovery planning could impair our ability to conduct business effectively.** Our corporate headquarters is located in Galveston, Texas, on the coast of the Gulf of Mexico and in the past has been impacted by hurricanes. Our League City, Texas offices are designed to support our operations and service our policyholders in the event of a hurricane or other natural disaster affecting Galveston. The primary offices of our property and casualty insurance companies are in Springfield, Missouri and Glenmont, New York, which helps to insulate these facilities and their operations from coastal catastrophes. However, the severity, timing, duration or extent of an event may be unanticipated by our business continuity planning, which could result in an adverse impact on our ability to conduct business. In the event a significant number of our employees or agents were unavailable following such a disaster, or if our computer-based data processing, transmission, storage and retrieval systems were affected, our ability to effectively conduct our business could be compromised.

***Marketplace Risk Factors***

**Our future results are dependent in part on successfully operating in the insurance and annuity industries that are highly competitive with regard to customers and producers.** Strong competition for customers has led to increased marketing and advertising by our competitors, many of whom have well-established national reputations and greater financial and marketing resources, as well as the introduction of new insurance products and aggressive pricing. In particular, our Medicare Supplement business is subject to intense price competition, which could negatively impact future sales of these products and affect our ability to offer this product. In addition, product development and life-cycles have shortened in many product segments, leading to intense competition with respect to product features.

We compete for customers' funds with a variety of investment products offered by financial services companies other than insurance companies, such as banks, investment advisors, mutual fund companies and other financial institutions. Moreover, customer expectations are evolving as technology advances and consumers become accustomed to enjoying tailored, easy-to-use services and products from various industries. This is reshaping and raising consumer expectations when dealing with insurance. We are addressing these changing consumer expectations by investing in

technology with a particular focus on consumer-facing sales and service platforms, by internally promoting a strategically-focused innovative culture initiative, and by creating internal forums to drive next generation solutions based on consumer insights. However, if we cannot effectively respond to increased competition and such increased consumer expectations, we may not be able to grow our business or we may lose market share.

We compete with other insurers for producers primarily on the basis of our financial position, reputation, stable ownership, support services, compensation, product features and pricing. We may be unable to compete with insurers that adopt more aggressive pricing or compensation, that offer a broader array of products or packages of products, or that have extensive promotional and advertising campaigns.



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**Our supplemental health business could be negatively affected by alternative healthcare providers or changes in federal healthcare policy.** Our Medicare Supplement business is impacted by market trends in the senior-aged healthcare industry that provide alternatives to traditional Medicare, such as health maintenance organizations and other managed care or private plans. The success of these alternative healthcare solutions for seniors could negatively affect the sales and premium growth of traditional Medicare Supplement insurance and could impact our ability to offer such products. In addition, Congress or the U.S. Department of Health and Human Services ( HHS ) could make changes in federal healthcare policy, including Medicare that could adversely impact our supplemental health business.

***Litigation and Regulation Risk Factors***

**Litigation may result in significant financial losses and harm our reputation.** Plaintiffs may bring lawsuits, including class actions, against us relating to, among other things, sales or underwriting practices, agent misconduct, product design, product disclosure, product administration, fees charged, denial or delay of benefits, product suitability, claims-handling practices (including the permitted use of aftermarket, non-original equipment manufacturer auto parts), loss valuation methodology, refund practices, and breaches of duties to customers. Plaintiffs may seek very large or indeterminate amounts, including punitive and treble damages. The damages claimed and the amount of any probable and estimable liability, if any, may remain unknown for substantial periods of time. Even when successful in the defense of such actions, we could incur significant attorneys' fees, direct litigation costs and substantial amounts of management time that otherwise would be devoted to our business, and our reputation could be harmed.

**We are subject to extensive regulation, and potential further regulation may increase our operating costs and limit our growth.** We are subject to extensive insurance laws and regulations that affect nearly every aspect of our business. We are also subject to additional laws and regulations administered and enforced by a number of different governmental authorities, such as state securities and workforce regulators, the SEC, the Internal Revenue Service ( IRS ), FINRA, the U.S. Department of Justice, the U.S. Department of Labor ( DOL ), the U.S. Department of Housing and Urban Development ( HUD ), HHS, the Federal Trade Commission and state attorneys general, each of which exercises a degree of interpretive latitude. We face the risks that any particular regulator's or enforcement authority's interpretation of a legal issue may conflict with that of another regulator or enforcement authority or may change over time to our detriment. Regulatory investigations, which can be broad and unpredictable, may raise issues not identified previously and could result in new legal actions against us and industry-wide regulations that could adversely affect us. Further, we are experiencing increasing information requests from regulators without corresponding direct regulation being applicable to us, on issues such as climate change and our investments in certain companies or industries. Responding to such requests adds to our compliance burden.

The laws and regulations applicable to us are complex and subject to change, and compliance is time consuming and personnel-intensive. Changes in these laws and regulations, or interpretations by courts or regulators, may materially increase our costs of doing business and may result in changes to our practices that may limit our ability to grow and improve our profitability. Regulatory developments or actions against us could have material adverse financial effects and could cause harm to our reputation. Among other things, we could be fined, prohibited from engaging in some or all of our business activities, or made subject to limitations or conditions on our business activities.

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As insurance industry practices and legal, judicial, social, and other conditions outside of our control change, unexpected issues related to claims and coverage may emerge. These changes may include modifications to long established business practices or policy interpretations, which may adversely affect us by extending coverage beyond our underwriting intent or by increasing the type, number, or size of claims. For example, a growing number of states have adopted legislation that is similar to the Model Unclaimed Life Insurance Benefits Act. Such legislation imposes new requirements on insurers to periodically compare their life insurance and annuity contracts and retained asset accounts against the U.S. Social Security Administration's Death Master File, investigate any potential matches, determine whether benefits are payable, and attempt to locate beneficiaries. Some states are attempting to apply these laws retroactively to existing policies. A number of states have aggressively audited life insurance companies, including us and some of our subsidiaries, for compliance with such laws, and more states could do so. Such audits have sought to identify unreported insured deaths and to determine whether any unpaid benefits, proceeds or other payments under life insurance or annuity contracts should be treated as unclaimed property to be escheated to the state. We have modified our claims process to stay current with emerging trends. It is possible that such audits or additional enactment of similar legislation may result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, regulatory actions, litigation, administrative fines and penalties, interest, and additional changes to our procedures.

Federal regulatory changes and initiatives have a growing impact on us. For example, Dodd-Frank provides for enhanced federal oversight of the financial services industry through multiple initiatives. Provisions of Dodd-Frank are or may become applicable to us, our competitors, or certain entities with which we do business. For example, it is possible that regulations issued by the Consumer Financial Protection Bureau (CFPB) may extend, or be interpreted to extend, to the sale of certain insurance products by covered financial institutions, which could adversely affect sales of such products. The Federal Insurance Office, as a result of various studies it conducts, may also recommend changes in laws or regulations that affect our business.

We are subject to various conditions and requirements of the Patient Protection and Affordable Care Act of 2010 (the Healthcare Act). The Healthcare Act may affect the small blocks of business we have offered or acquired over the years that are, or deemed to be, health insurance. The Healthcare Act also influences the design of products sold by our Health segment, which may influence consumer acceptance of such products and the cost of monitoring compliance with the Healthcare Act. Moreover, the Healthcare Act affects the benefit plans we sponsor for employees or retirees and their dependents, our expense to provide such benefits, our tax liabilities in connection with the provision of such benefits, and our ability to attract or retain employees.

Certain federal regulation may impact our property and casualty operations. In 2013, HUD finalized a disparate impact regulation that may adversely impact our ability to differentiate pricing for homeowners policies using traditional risk selection analysis. Various legal challenges to this regulation are being pursued by the industry. If this regulation is implemented, whether or not modified by HUD, it is uncertain to what extent it may impact the property and casualty industry underwriting practices. Such regulation could increase litigation costs, force changes in underwriting practices, and impair our ability to write homeowners business profitably. In addition, Congress or states may enact legislation affecting insurers' ability to use credit-based insurance scores as part of the property and casualty underwriting or rating process, which could force changes in underwriting practices and impair our property and casualty operations' ability to write homeowners business profitably.

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There have been federal efforts to change the standards of care applicable to broker-dealers and investment advisers. The U.S. Department of Labor ( DOL ) has issued a regulation that will significantly expand the range of activities considered to be fiduciary investment advice under the Employee Retirement and Income Security Act of 1974 and the Internal Revenue Code of 1986. The DOL regulation is scheduled to be implemented beginning in April 2017, and it will impact individuals and entities that offer investment advice to those who purchase qualified retirement products, such as IRA s and qualified retirement plans. This regulation applies ERISA s fiduciary standard to many insurance agents, broker-dealers, advisers and others not currently subject to the standard, when they sell annuities to IRA s and qualified retirement plans. Further, it prohibits such individuals from receiving commission-based compensation from such sales unless they comply with a prohibited transaction exemption under the rule. It is possible that the rule, or its implementation date, could be affected by pending litigation or by the change in Presidential administrations. We will be following any such developments, but we expect to be ready to comply if the rule goes into effect as currently scheduled. Compliance with the rule may result in decreased premium on certain life and annuity products as a result of more limited sales opportunities through our current distribution arrangements. We may also experience a loss of some in-force business, as well as increased regulatory burdens and litigation risk. In addition, following a study required by Dodd-Frank, the staff of the SEC recommended a uniform fiduciary duty standard applicable to both broker-dealers and investment advisers when providing personalized investment advice to retail customers. It is not clear at the present time whether or when the SEC will ultimately implement this change. However, if implemented, it would apply a different standard of care than is currently applicable to broker-dealers and would affect how our variable insurance products are designed and sold.

International standards continue to emerge in response to the globalization of the insurance industry and evolving standards of regulation, solvency measurement and risk management. Any international conventions or mandates that directly or indirectly impact or influence the nature of U.S. regulation or industry operations could negatively affect us.

For further discussions of the kinds of regulation applicable to us, see Item 1, Business, Regulation Applicable to Our Business section.

**Changes in tax laws could decrease sales and profitability of certain products and increase our tax cost.** Under current U.S. federal and state income tax laws, certain products we offer, primarily life insurance and annuities, receive tax treatment designed to encourage consumers to purchase these products. This treatment may encourage some consumers to select our products over non-insurance products. The U.S. Congress from time to time may consider legislation that would change the taxation of insurance products and/or reduce the taxation of competing products. Such legislation, if adopted, could materially change consumer behavior, which may harm our ability to sell such products and result in the surrender of some existing contracts and policies. In addition, changes in the U.S. federal and state estate tax laws could negatively affect the demand for the types of life insurance used in estate planning. Uncertainty regarding the tax structure in the future may also cause some current or future purchasers to delay or indefinitely postpone the purchase of products we offer. Lastly, changes to the tax laws, administrative rulings or court decisions affecting U.S. corporations or the insurance industry could increase our effective tax rate and lower our net income.

**New accounting rules or changes to existing accounting rules could negatively impact our business.** We are required to comply with GAAP. A number of organizations are instrumental in the development and interpretation of GAAP, such as the SEC, the Financial Accounting Standards Board ( FASB ), and the American Institute of Certified Public Accountants. GAAP is subject to review by these organizations and others and is, therefore, subject to change in ways that could change the current accounting treatments we apply.

We also must comply with statutory accounting principles ( SAP ) in our insurance operations. SAP and various components of SAP (such as actuarial reserving methodology) are subject to review by the NAIC and its taskforces and committees, as well as state insurance departments.

Future changes to GAAP or SAP could impact our product mix, product profitability, reserve and capital requirements, financial condition or results of operations. See Note 3, Recently Issued Accounting Pronouncements, of the Notes to Consolidated Financial Statements for a detailed discussion regarding the impact of the recently issued accounting pronouncements and the future adoption of new accounting standards on the Company.

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***Reinsurance and Counterparty Risk Factors***

**Reinsurance may not be available, affordable, adequate or collectible to protect us against losses.** As part of our risk management strategy, we purchase reinsurance for certain risks that we underwrite. Market conditions and geo-political events beyond our control, including the continued threat of terrorism, influence the availability and cost of reinsurance for new business. In certain circumstances, the price of existing reinsurance contracts may also increase. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Our reinsurers may not pay the reinsurance recoverables owed to us or they may not pay these balances on a timely basis.

**The counterparties to derivative instruments we use to hedge our business risks could default or fail to perform.** We enter into derivative contracts, such as options, with a number of counterparties to hedge various business risks. If our counterparties fail or refuse to honor their obligations, our economic hedges of the related risks will be ineffective. Such counterparty failures could have a material adverse effect on us. See Note 7, Derivative Instruments, of the Notes to the Consolidated Financial Statements for additional details.

***Other Risk Factors***

**Our financial strength ratings could be downgraded.** Various Nationally Recognized Statistical Rating Organizations ( NRSROs ) publish financial strength ratings as their opinion of an insurance company's creditworthiness and ability to meet policyholder and contractholder obligations. As with other rated companies, our ratings could be downgraded at any time and without any notices by any NRSRO. A downgrade or an announced potential downgrade of our financial strength ratings could have multiple adverse effects on us including:

reducing new sales of insurance and annuity products or increasing the number or amount of surrenders and withdrawals;

affecting our relationships with our sales force, independent sales intermediaries and credit counterparties;

requiring us to offer higher crediting rates or greater policyholder guarantees on our insurance products in order to remain competitive; and

affecting our ability to obtain reinsurance at reasonable prices.

It is likely that the NRSROs will continue to apply a high level of scrutiny to financial institutions, including us and our competitors, and may adjust the capital, risk management and other requirements employed in the NRSRO models for maintenance of certain ratings levels.

**We are controlled by a small number of stockholders.** As of December 31, 2016, the Moody Foundation, a charitable trust, beneficially owned approximately 22.7% of our common stock. In addition, Moody National Bank, in its capacity as trustee or agent of various accounts, had the power to vote approximately 49.1% of our common stock as of such date. As a result, subject to applicable legal and regulatory requirements, these stockholders have the ability

to exercise a controlling influence over matters submitted for stockholder approval, including the composition of our Board of Directors, and through the Board of Directors any determination with respect to our business direction and policies. This concentration of voting power could deter a change of control or other business combination that might be beneficial or preferable to other stockholders. It may also adversely affect the trading price of our common stock if controlling stockholders sell a significant number of shares or if investors perceive disadvantages in owning stock in a company controlled by a small number of stockholders.

See also Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, for additional details regarding certain risks that we face.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

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We own and occupy our corporate headquarters in Galveston, Texas. We also own and occupy the following properties that are materially important to our operations:

Three buildings in League City, Texas which are used by our Life, Health, and Corporate and Other business segments.

Two buildings, one in Springfield, Missouri and the other in Glenmont, New York, which are used by our Property and Casualty segment.

We believe our properties are adequate and suitable for our business as currently conducted and are adequately maintained. The above does not include properties we own only for investment purposes.

**ITEM 3. LEGAL PROCEEDINGS**

Information required for Item 3 is incorporated by reference to the discussion under the heading **Litigation** in Note 19, Commitments and Contingencies, of the Notes to the Consolidated Financial Statements.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Stockholder Information**

Our common stock is traded on the NASDAQ Global Select Market under the symbol ANAT. The following table presents the high and low prices for our common stock and the quarterly dividends declared per share.

	Stock Price Per Share		Dividend Per Share
	High	Low	
<b>2016</b>			
Fourth quarter	\$ 131.99	\$ 111.98	\$ 0.82
Third quarter	122.95	108.88	0.82
Second quarter	120.67	107.44	0.82

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First quarter	118.50	91.20	0.80
			\$ 3.26
<b>2015</b>			
Fourth quarter	\$ 108.60	\$ 94.01	\$ 0.80
Third quarter	109.81	95.29	0.80
Second quarter	107.02	97.29	0.77
First quarter	114.99	92.04	0.77
			\$ 3.14

We expect to continue to pay regular cash dividends, although there is no assurance as to future dividends because they depend on future earnings, capital requirements and financial conditions. The payment of dividends is subject to restrictions described in Note 16, Stockholders' Equity and Noncontrolling Interests, of the Notes to the Consolidated Financial Statements and as discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources.

On December 31, 2016, our closing stock price was \$124.61 per share, and there were 723 holders of record of our issued and outstanding shares of common stock.



[Table of Contents](#)[Index to Financial Statements](#)**Securities Authorized for Issuance under Equity Compensation Plans**

The following table provides information regarding our common stock that is authorized for issuance under American National's 1999 Stock and Incentive Plan as of December 31, 2016:

**Equity Compensation Plan Information**

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans			
Approved by security holders	\$	110.73	2,237,792
Not approved by security holders			
<b>Total</b>	\$	110.73	2,237,792

**Performance Graph**

The following graph compares the cumulative stockholder return for our common stock for the last five years with the performance of the NASDAQ Stock Market and a NASDAQ Insurance Stock index using NASDAQ OMX Global Indexes. It shows the cumulative changes in value of an initial \$100 investment on December 31, 2011, with all dividends reinvested.

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Value at each year-end of a \$100 initial investment made on December 31, 2011:

	<b>December 31,</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
American National	\$ 100.00	\$ 97.89	\$ 167.27	\$ 173.11	\$ 163.15	\$ 200.68
NASDAQ Total OMX	100.00	116.43	155.42	174.78	175.62	198.47
NASDAQ Insurance OMX	100.00	118.33	167.61	190.34	188.94	227.55

This performance graph shall not be deemed to be incorporated by reference into our SEC filings or to constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

**ITEM 6. SELECTED FINANCIAL DATA****American National Insurance Company**

**(and its subsidiaries)**

<i>(dollar amounts in millions, except per share amounts)</i>	<b>Years ended December 31,</b>					
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	
Total premiums and other revenues	\$ 3,228	\$ 3,017	\$ 3,051	\$ 3,119	\$ 2,987	
Income from continuing operations, net of tax	183	242	247	270	193	
Net income	183	242	247	270	193	
Net income attributable to American National	181	243	245	266	192	
<b>Per common share</b>						
Income from continuing operations, net of tax						
Basic	6.79	9.02	9.21	10.09	7.20	
Diluted	6.77	8.99	9.17	10.05	7.16	
Net income attributable to American National						
Basic	6.73	9.04	9.15	9.95	7.19	
Diluted	6.71	9.02	9.11	9.90	7.15	
Cash dividends per share	3.26	3.14	3.08	3.08	3.08	

	<b>December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
		(As Revised)	(As Revised)	(As Revised)	(As Revised)
Total assets	\$ 24,533	\$ 23,766	\$ 23,566	\$ 23,330	\$ 23,105
Total American National stockholders equity	4,652	4,452	4,428	4,188	3,827
Total equity	4,661	4,462	4,440	4,200	3,838

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

Certain statements made in this report include forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are indicated by words such as expects, intends, anticipates, plans, believes, estimates, will or words of similar meaning and include, without limitation, statements regarding the outlook of our business and expected financial performance. These forward-looking statements are subject to changes and uncertainties which are, in many instances, beyond our control and have been made based upon our assumptions, expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations, or that the effect of future developments on us will be as anticipated. It is not a matter of corporate policy for us to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. Additionally, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable events. Forward-looking statements are not guarantees of future performance and involve various risks and uncertainties. There are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including without limitations risks, uncertainties and other factors discussed in Item 1A, Risk Factors and elsewhere in this report.

Management's discussion and analysis ( MD&A ) of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in Item 8, Financial Statements and Supplementary Data.

**Revision to Previously Reported Amounts**

*Immaterial Correction of an Error.* During the fourth quarter of 2016, the Company revised previously reported amounts to include cash held in a bank custody account representing collateral provided to us by third parties for equity-option derivative transactions. In accordance with Staff Accounting Bulletin ( SAB ) No. 99, *Materiality*, and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, management evaluated the materiality of the error from qualitative and quantitative perspectives, and concluded the error was immaterial to the current and prior periods. The correction revised only the consolidated statements of financial position and statements of cash flows . There was no revision to the consolidated statements of operations, comprehensive income or changes in equity. Detail regarding the revision amounts is included in Part II, Item 8, Note 2 Summary of Significant Accounting Policies and Practices, of the Notes to the Consolidated Financial Statements.

Consequently, the Company revised its historical financial statements for fiscal 2015, fiscal 2014 herein, and will revise the quarters within fiscal 2016, when they are published in future filings.

**Overview**

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

Our business has been and will continue to be influenced by a number of industry-wide, segment or product-specific trends and conditions. In our discussion below, we first outline the broad macro-economic or industry trends (General Trends) that we expect to impact our overall business. Second, we discuss certain segment-specific trends we believe may impact individual segments or specific products within these segments.

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**Segments**

The insurance segments do not directly own assets. Rather, assets are allocated to support the liabilities and capital allocated to each segment. The mix of assets allocated to each of the insurance segments is intended to support the characteristics of the insurance liabilities within each segment including expected cash flows and pricing assumptions, and is intended to be sufficient to support each segment's business activities. We have utilized this methodology consistently over all periods presented.

The Corporate and Other business segment acts as the owner of all of the invested assets of the Company. The investment income from the invested assets is allocated to the insurance segments in accordance with the assets allocated to each insurance segment. Earnings of the Corporate and Other business segment are derived from income related to invested assets not allocated to the insurance segments and from our non-insurance businesses. All realized investment gains and losses, which includes other-than-temporary impairments ( OTTI ), are recorded in this segment.

**General Trends**

Our business, financial condition and results of operations are materially affected by economic and financial market conditions. The U.S. and global economies, as well as the capital markets, continue to show mixed signals, and uncertainties continue to be significant factors in the markets in which we operate. Factors such as consumer spending, business investment, the volatility of the capital markets, the level of interest rates, unemployment, the level of participation in the workforce and the risk of inflation or deflation will affect the business and economic environment and, in turn, impact the demand for the type of financial and insurance products we offer. Adverse changes in the economy could have a material adverse effect on us. However, we believe those risks are somewhat mitigated by our financial strength, active enterprise risk management and disciplined underwriting for our products. Our diverse product mix across insurance segments is a strength that we expect will help us adapt to the volatile economic environment and give us the ability to serve the changing needs of our customers. Additionally, through our long-term business approach, we believe we remain financially strong, and we are committed to providing a steady and reliable source of financial protection for policyholders.

*Interest Rates:* The low-interest rate environment is a challenge for life insurers as the spreads on deposit-type contracts remain narrow, especially as interest rates have approached minimum crediting rates. Low market interest rates reduce the spreads between the amounts we credit to fixed annuity and individual life policyholders and the amounts we earn on the investments that support these obligations. Our ALM Committee actively manages the profitability of our in-force contracts. In previous years, we reduced the guaranteed minimum crediting rates on new fixed annuity contracts and new business, which has afforded us the flexibility to respond to the unusually low-interest rate environment. In previous years, we also reduced crediting rates on in-force contracts, where permitted to do so. These actions help mitigate the adverse impact of low interest rates on the profitability of these products, although sales volume may be negatively impacted as a result. We also maintain assets with various maturities to support product liabilities and ensure liquidity. A gradual increase in longer-term interest rates relative to short-term rates generally will have a favorable effect on the profitability of our products. Rapidly rising interest rates could result in reduced persistency of our spread-based products, if contract holders shift assets into higher yielding investments. We believe our ability to react quickly to the changing marketplace will help us manage this risk.

The interest rate environment affects estimated future profit projections, which could impact the amortization of our DAC assets and the estimates of policyholder liabilities. Significantly lower future estimated profits may cause us to accelerate the amortization of DAC or require us to establish additional policyholder liabilities, thereby reducing

earnings. We periodically review assumptions with respect to future earnings to make sure that they remain appropriate considering the current interest rate environment.

Low interest rates are also challenging for property and casualty insurers. Investment income is an important element in earning an acceptable return on capital. Lower interest rates resulting in lower investment income require us to achieve better underwriting results. We have adjusted policy prices to help mitigate the adverse impact of low interest rates on our property and casualty business.

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*Changing Regulatory Environment:* The insurance industry is primarily regulated at the state level, although some life and annuity products and services are also subject to U.S. federal regulation. We are regularly subjected to additional or changing regulation that requires us to update systems, change product structure, increase the amount of reporting or adopt changes to distribution. These changes may increase the capital requirements for us and the industry, increase operating costs, change our operating practices and change our ability to provide products with pricing attractive to the marketplace.

*Importance of Operating Efficiencies:* The volatile economic environment and costs associated with greater regulation create a further need for operating efficiencies. We manage our cost base while maintaining our commitment to provide superior customer service to policyholders and agents. Investments in technology are coordinated through a disciplined project management process. We anticipate continually improving our use of technology to enhance our policyholders and agents experience and increase efficiency of our employees.

*Increased Role of Advanced Technology:* The use of mobile technology has changed the way consumers want to conduct their business, including real-time access to information. Many customers expect to complete transactions in a digital format instead of traditional methods that require a phone call or submission of paper forms. Social media and other customer-facing technologies also reshape the way companies communicate and collaborate with key stakeholders, and new tools exist to better collect and analyze information for potential business opportunities and better manage risks. For example, American National has mobile-enabled all of its Internet-based access and leverages social media channels to reach out to potential customers to promote awareness of the company, including the products and services offered. We expect that technology will continue to evolve, offering new and more effective ways to reach and service our customers and shareholders. We evaluate available and evolving technologies and incorporate those that we believe offer appropriate benefits to the company and its customers.

*Increased Challenges of Talent Attraction and Retention:* Attracting individuals with the right skills and retaining employees for the longer term remains a business challenge. These challenges may become more difficult as the working population ages, causing loss of valuable work knowledge and experience through attrition. The cost of higher education may result in fewer people attending college or a university, thus leaving a potential workforce that is less prepared for the higher thinking challenges of the new workplace. Competitors who develop stronger appeal to applicants who seek innovative and paradigm shifting companies will have an edge. We are increasing our talent development efforts so that we can promote from within. In addition, we are expanding the use of technology to broaden our candidate base when recruiting and to deliver targeted training to augment the current skill level of our employees.

***Life and Annuity***

Life insurance and annuity are mainstay segments, as they have been during our long history. We believe that the combination of predictable and decreasing mortality rates, positive cash flow generation for many years after policy issue and favorable persistency characteristics suggest a viable and profitable future for these lines of business.

Effective management of invested assets and associated liabilities using crediting rates and, where applicable, financial hedging instruments (which we use as economic hedges of equity-indexed life and annuity products), is important to the success of our life and annuity segments. Asset disintermediation, the risk of large outflows of cash at times when it is disadvantageous to us to dispose of invested assets, is a risk associated with these segments.

*Demographics:* We believe a key driver shaping the actions of the life insurance industry is the rising income protection, wealth accumulation and insurance needs of retiring Baby Boomers (those born between 1946 and 1964). As a result of increasing longevity and uncertainty regarding the Social Security System and an ongoing transition from defined benefit pension plans to 401(k) type retirement plans, retirees will need to accumulate sufficient savings to support retirement income requirements.



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We believe we are well positioned to address the Baby Boomers' increasing need for savings tools and income protection. We believe that our overall financial strength and broad distribution channels position us to respond with a variety of products for individuals approaching retirement age, who seek information to plan for and manage their retirement needs. We believe our products that offer guaranteed income flows for life, including single premium immediate annuities, are well positioned to serve this market.

*Competitive Pressures:* In recent years, the competitive landscape of the U.S. life insurance industry has shifted. Established insurers are competing against each other and also against new market entrants that are developing products to attract the interest of the growing number of retirees. Competition exists in terms of retaining and acquiring consumers' business and also in terms of access to producers and distributors. Consolidation among distributors coupled with the aging sales force remains a challenge among insurers. In addition, the increased technological sophistication of consumers necessitates that insurers and distributors invest significant resources in technology to adapt to consumer expectations. We believe we possess sufficient scale, financial strength, resources and flexibility to compete effectively.

The annuity market is also highly competitive. In addition to aggressive interest crediting rates and new product features on annuities, there is competition from other financial service firms. Insurers continue to evaluate their distribution channels and the way they deliver products to consumers.

We believe we will continue to be competitive in the life and annuity markets through our broad line of products, diverse distribution channels, and consistent high level of customer service. We modify our products to meet customer needs and to expand our reach where we believe we can obtain profitable growth.

### ***Health***

Most of the major provisions of the Patient Protection and Affordable Care Act, and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively, the Healthcare Acts), phased in effective January 1, 2014. The Healthcare Acts mandate broad changes in the delivery of health care benefits that have impacted our current business model including our relationships with current and future customers, producers, and health care providers, as well as our products, services and processes. As a result, the Healthcare Acts generated new opportunities in the limited benefit and supplemental product markets. In recent years, we built a portfolio of such products to be sold in the worksite market as well as to individuals. We had some success with the individual products in 2014 and 2015 although these products were restricted somewhat in 2015 and 2016 due to regulatory changes. We are now expanding our presence in the worksite market to generate new opportunities in the broker market, as well as designing and implementing a captive sales force. With the recent changes in the Presidency and Congress, the future of the Healthcare Acts is questionable. We continue to monitor possible changes and maintain a wait and see attitude, allowing us to be opportunistic to new markets.

We expect our Managing General Underwriter (MGU) business to remain stable during 2017. We generally retain only 10% of the MGU premium and risk. The majority of the revenue generated from this business is fee income included in Other income of the Health segment's operating results.

### ***Property and Casualty***

We remain committed to offering our personal and commercial property and casualty lines of business primarily through exclusive independent multiple line agents. We favor a balanced, focused and collaborative approach to both

growth and profitability through the development of successful agencies. In 2013, we launched a revised Agent Career Program to enhance recruiting, selection, on-boarding and training of new agent candidates. In 2017, a New Agent Development Program for newly appointed multiple line agents was introduced to support multiple line distribution growth goals. The new program is designed to enhance the development and retention of new multiple line agents across the country.

Our primary focus is to acquire and retain profitable business. To accomplish this objective, we use sophisticated pricing models and risk segmentation, along with a focused distribution force. We believe this approach allows us to make product enhancements and offer programs that are tailored to our target markets while charging an appropriate premium for the risk.

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Demand for property and casualty credit-related insurance products continues to increase. Credit markets have improved in recent years, which is increasing sales in the auto dealer market and, in turn, demand for our GAP products. We continue to update credit-related insurance product offerings and pricing to meet changing market needs, as well as adding new agents to expand market share in the credit-related insurance market. We are reviewing and implementing procedures to enhance customer service while, at the same time, looking for efficiencies to reduce administrative costs.

*Competition:* The property and casualty insurance industry remains highly competitive. Despite the competitive environment, we expect to identify profitable opportunities through our strong distribution channels, expanding geographic coverage, marketing efforts, new product development and pricing sophistication.

### ***Critical Accounting Estimates***

The preparation of financial statements in accordance with GAAP requires estimates and assumptions that often involve a significant degree of judgment. These estimates and judgments include expectations of current and future mortality, morbidity, persistency, claims and claim adjustment expenses, recoverability of receivables, investment returns and interest rates which extend well into the future. In developing these estimates, there is inherent uncertainty and material changes to facts and circumstances may develop. Although variability is inherent in these estimates, we believe the amounts as reported are appropriate, based upon the facts available upon compilation of the consolidated financial statements.

On an ongoing basis, management reviews the estimates and assumptions used in preparing the financial statements. If current facts and circumstances warrant modifications in estimates and assumptions, our financial position and results of operations as reported in the consolidated financial statements could change significantly.

A description of these critical accounting estimates is presented below. Also, see the Notes to the Consolidated Financial Statements for additional information.

### ***Reserves***

#### ***Life and Annuity Reserves***

**Life Reserving** Principal assumptions used in the determination of the reserves for future policy benefits are mortality, policy lapse rates, investment return, inflation, expenses and other contingent events as appropriate to the respective product type. Reserves for incurred but not reported ( IBNR ) claims on life policies are calculated using historical claims information. Reserves for interest-sensitive and variable universal life insurance policies are equal to the current account value calculated for the policyholder. Some of our universal life policies contain secondary guarantees, for which additional reserves are recorded based on the term of the policy.

**Annuity Reserving** Reserves for payout annuities with more than insignificant amounts of mortality risk are calculated in accordance with the applicable accounting guidance for limited pay insurance contracts. Benefit and maintenance expense reserves are calculated by using assumptions reflecting our expectations of future costs, including an appropriate margin for adverse deviation. Payout annuity reserves are calculated using standard industry mortality tables specified for statutory reporting. If the resulting reserve would otherwise cause profits to be recognized at the issue date, additional reserves are recorded. The resulting recognition of profits would be gradual over the expected life of the contract.

Reserves for deferred annuities are established equivalent to the account value held on behalf of the policyholder. Additional reserves for guaranteed minimum death benefits are determined as needed in accordance with the applicable accounting guidance. The profit recognition on deferred annuity contracts is gradual over the expected life of the contract. No immediate profit is recognized on the sale of the contract.

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Key Assumptions The following assumptions reflect our best estimates and may impact our life and annuity reserves:

Future lapse rates will remain reasonably consistent with our current expectations;

Mortality rates will remain reasonably consistent within standard industry mortality table ranges; and

Future interest spreads will remain reasonably consistent with our current expectations.

Recoverability At least annually, we test the adequacy of the net benefit reserves (policy benefit reserves less DAC) recorded for life insurance and annuity products. To perform the tests, we use our current best-estimate assumptions as to policyholder mortality, persistency, maintenance expenses and invested asset returns.

For interest-sensitive business, best-estimate assumptions are updated to reflect observed changes based on experience studies and current economic conditions. We reflect the effect of such assumption changes in DAC and reserve balances accordingly. Due to the long-term nature of many of the liabilities, small changes in certain assumptions may cause large changes in profitability. In particular, changes in estimates of the future invested asset return have a large effect on the degree of reserve adequacy and DAC recoverability.

For traditional business, a lock-in principle applies, whereby the assumptions used to calculate the benefit reserves and DAC are set when a policy is issued and do not change with changes in actual experience. These include margins for adverse deviation in the event that actual experience differs from the original assumptions.

*Health Reserves*

Health reserves are established using the following methods:

Completion Factor Approach This method assumes that the historical claim patterns will be an accurate representation of unpaid claim liabilities. An estimate of the unpaid claims is calculated by subtracting period-to-date paid claims from an estimate of the ultimate complete payment for all incurred claims in the period. Completion factors are calculated which complete the current period-to-date payment totals for each incurred month to estimate the ultimate expected payout.

Tabular Claims Reserves This method is used to calculate the reserves for disability income blocks of business. These reserves rely on published valuation continuance tables created using industry experience regarding assumptions of continued morbidity and subsequent recovery. Reserves are calculated by applying these continuance tables, along with appropriate company experience adjustments, to the stream of contractual benefit payments. These expected benefit payments are discounted at the required interest rate.

Future Policy Benefits Reserves are equal to the aggregate of the present value of expected future benefit payments, less the present value of expected future premiums. Morbidity and termination assumptions are based on our experience or published valuation tables when available and appropriate.

**Premium Deficiency Reserves** Deficiency reserves are established when the expected future claim payments and expenses for a classification of policies are in excess of the expected premiums for these policies. The determination of a deficiency reserve takes into consideration the likelihood of premium rate increases, the timing of these increases, and the expected benefit utilization patterns. We have established premium deficiency reserves for portions of the major medical business and the long-term care business that are in run-off. The assumptions and methods used to determine the deficiency reserves are reviewed periodically for reasonableness, and the reserve amount is monitored against emerging losses.

**Table of Contents****Index to Financial Statements***Property and Casualty Reserves*

Reserves for Claims and Claim Adjustment Expense ( CAE ) Property and casualty reserves are established to provide for the estimated cost of settling and paying both reported ( case ) as well as incurred but not reported ( IBNR ) claims. The two major categories of CAE are defense and cost containment expense, and adjusting and other expense. The details of property and casualty reserves are shown below (in thousands):

	December 31, 2016			December 31, 2015		
	Gross	Ceded	Net	Gross	Ceded	Net
Case	\$ 501,222	\$ 59,442	\$ 441,780	\$ 487,154	\$ 30,439	\$ 456,715
IBNR	402,961	20,052	382,909	383,429	10,751	372,678
<b>Total</b>	<b>\$ 904,183</b>	<b>\$ 79,494</b>	<b>\$ 824,689</b>	<b>\$ 870,583</b>	<b>\$ 41,190</b>	<b>\$ 829,393</b>

**Case Reserves** Reserves for reported losses are determined on either a judgment or a formula basis, depending on the timing and type of the loss. The formula reserve is a fixed amount for each claim of a given type based on historical paid loss data for similar claims with provisions for trend changes, such as those caused by inflation. Judgment reserve amounts generally replace initial formula reserves and are set for each loss based on facts and circumstances of each case and the expectation of damages. We regularly monitor the adequacy of reserves on a case-by-case basis and change the amount of such reserves as necessary.

**IBNR** IBNR reserves are estimated based on many variables, including historical statistical information, inflation, legal developments, economic conditions, and general trends in claim severity, frequency and other factors that could affect the adequacy of claims reserves. Loss and premium data is aggregated by exposure class and by accident year. IBNR reserves are estimated by projecting ultimate losses on each class of business and subtracting paid losses and case reserves. Our overall reserve practice provides for ongoing claims evaluation and adjustment based on the development of related data and other relevant information pertaining to claims. Adjustments in aggregate reserves, if any, are included in the results of operations of the period during which such adjustments are made.

We believe we conservatively reflect the potential uncertainty generated by volatility in our loss development profiles when selecting loss development factor patterns for each line of business. See Note 12, Liability for Unpaid Claims and Claim Adjustment Expenses, of the Notes to the Consolidated Financial Statements for additional information.

The evaluation process to determine reserves involves the collaboration of underwriting, claims and actuarial departments. The process also includes consultation with independent actuarial firms as part of our process of gaining reinsurance that claims and CAE reserves estimate sufficiently, all obligations arising from all losses incurred as of year-end. The independent actuarial firm completes the Statements of Actuarial Opinion required by individual state insurance regulations at each year-end, opining that the recorded statutory claims and CAE reserves are reasonable.

**Premium Deficiency Reserve** Deficiency reserves are recorded when the expected claims payments and policy maintenance costs for a product line exceed the expected premiums for that product line. The estimation of a deficiency reserve considers the current profitability of a product line using anticipated claims, CAE, and policy maintenance costs. The assumptions and methods used to determine the need for deficiency reserves are reviewed periodically for reasonableness. There were no reserves of this type at December 31, 2016 and December 31, 2015,

respectively.



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Property and Casualty Reserving Methodology The following methods are utilized:

**Initial Expected Loss Ratio** This method calculates an estimate of ultimate losses by applying an estimated loss ratio to actual earned premium for each calendar/accident year. This method is appropriate for classes of business where the actual paid or reported loss experience is not yet mature enough to influence initial expectations of the ultimate loss ratios.

**Bornhuetter-Ferguson** This method uses as a starting point an assumed initial expected loss ratio method and blends in the loss ratio implied by the claims experience to date by using loss development patterns based on our historical experience. This method is generally appropriate where there are few reported claims and a relatively less stable pattern of reported losses.

**Loss or Expense Development (Chain Ladder)** This method uses actual loss or defense and cost containment expense data and the historical development profiles on older accident periods to project more recent, less developed periods to their ultimate total. This method is appropriate when there is a relatively stable pattern of loss and expense emergence and a relatively large number of reported claims.

**Ratio of Paid Defense and Cost Containment Expense to Paid Loss Development** This method uses the ratio of paid defense and cost containment expense to paid loss data and the historical development profiles on older accident periods to project more recent, less developed periods to their ultimate total. In this method, an ultimate ratio of paid defense and cost containment expense to paid loss is selected for each accident period. The selected paid defense and cost containment expense to paid loss ratio is then applied to the selected ultimate loss for each accident period to estimate the ultimate defense and cost containment expense. Paid defense and cost containment expense is then subtracted from the ultimate defense and cost containment expense to calculate the unpaid defense and cost containment expense for that accident period.

**Calendar Year Paid Adjusting and Other Expense to Paid Loss** This method uses a selected prior calendar years paid expense to paid loss ratio to project ultimate loss adjustment expenses for adjusting and other expense. A percentage of the selected ratio is applied to the case reserves (depending on the line of insurance) and 100% to the indicated IBNR reserves. These ratios assume that a percentage of the expense is incurred when a claim is opened and the remaining percentage is paid throughout the claim's life.

The basis of our selected single point best estimate on a particular line of business is often a blended result from two or more methods (e.g. weighted averages). Our estimate is highly dependent on actuarial and management judgment as to which method(s) is most appropriate for a particular accident year and class of business. Our methodology changes over time, as new information emerges regarding underlying loss activity and other factors.

**Key Assumptions** The following assumptions may impact our property and casualty reserves:

Stability of future inflation rates and consistency with historical inflation norms;

The expected loss development patterns;

Consistent claims handling, reserving and payment processes;

No unusual growth patterns or unexpected changes in the mix of business; and

No significant prospective changes in laws that would significantly affect future payouts.

The loss ratio selections and development profiles are developed primarily using our historical claims and loss experience. These development patterns reflect prior inflation rates, and could be impacted by future changes in inflation rates, particularly those relating to medical care costs, automobile repair parts and building or home material costs. These assumptions have not been modified from the preceding periods and are consistent with historical loss reserve development patterns.

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For non-credit lines of business, future inflation rates could vary from our assumption of relatively stable rates. Unexpected changes in future inflation rates could impact our financial position and liquidity, and we measure the sensitivity of our reserve levels to unexpected changes in inflation. The impacts of future inflation for a 1.0% decrease and 3.0% increase over the implied inflation rate in the December 31, 2016 gross loss reserve balance are as follows (amounts in thousands):

<b>Cumulative Increase (Decrease) in Reserves</b>	<b>1.0% Decrease</b>	<b>3.0% Increase</b>
<b>Personal</b>		
Automobile	\$ (3,995)	\$ 12,533
Homeowner	(859)	3,290
<b>Commercial</b>		
Agricultural Business	(8,341)	23,299
Automobile	(2,191)	6,659

The analysis of our credit insurance line of business quantifies the estimated impact on gross loss reserves of a reasonably likely scenario of varying the ratio applied to the earned premium to determine the IBNR reserves at December 31, 2016. IBNR reserving methodology for this line of business focuses primarily on the use of a ratio applied to the unearned premium for each credit insurance product. The selected ratios are based on historical loss and claim data. In our analysis, we varied this ratio by +/- 5% across all credit insurance products combined. The results of our analysis show an increase or decrease in gross reserves across all accident years combined of approximately \$8.3 million.

It is not appropriate to aggregate the impacts shown in our sensitivity analysis, as our lines of business are not directly correlated. The variations are not meant to be a best-case or worst-case scenario, and it is possible that future variations will be more or less than the amounts in the sensitivity analysis. While these are possible scenarios based on the information available to us at this time, we do not believe the reader should consider our sensitivity analysis an actual reserve range.

Management believes our reserves at December 31, 2016 are adequate. New information, regulation, events or circumstances unknown at the original valuation date, however, may result in future development resulting in ultimate losses being significantly greater or less than the recorded reserves at December 31, 2016.

***Deferred Policy Acquisition Costs***

We had a DAC asset of approximately \$1.29 billion and \$1.32 billion at December 31, 2016 and 2015, respectively. See Note 10, Deferred Policy Acquisition Costs, of the Notes to the Consolidated Financial Statements for additional details.

We believe the estimates used in our DAC calculations provide an example of how variations in assumptions and estimates would affect our business. The following table displays the sensitivity of reasonably likely changes in assumptions in the DAC amortization for our long-tail business at December 31, 2016 (in thousands):

	<b>Increase (Decrease) in DAC</b>	
Increase in future investment margins of 25 basis points	\$	37,360
Decrease in future investment margins of 25 basis points		(40,178)
Decrease in future life mortality by 1%		1,276
Increase in future life mortality by 1%		(1,255)

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***Reinsurance***

We manage our insurance underwriting risk exposures by purchasing reinsurance. We manage counterparty risk by entering into agreements with reinsurers we consider creditworthy, generally measured by the individual entity or entities' financial strength rating. However, we do not require a specified minimum rating. We monitor the concentrations of the reinsurers and reduce the participation percentage of lower-rated and unrated companies when appropriate in our judgment. In the third quarter of 2015, we recognized a loss related to a reinsurer being unable to fulfill its obligations. While we believe we currently have no significant credit risk related to reinsurance counterparties, we continue to monitor their financial condition.

Some of our reinsurance contracts contain clauses that allow us to terminate the participation with reinsurers whose ratings are downgraded. Information used in our risk assessment is comprised of industry ratings, recent news and reports, and a limited review of financial statements. We also may require reinsurers not licensed in our state of domicile or with whom we have limited experience, to provide letters of credit, trust agreements, or cash advances to fund their share of reserves.

***Other-Than-Temporary Impairment***

A decline in the fair value of investment securities below their cost basis is evaluated on an ongoing basis to determine if the decline is other-than-temporary. A number of assumptions and estimates inherent in evaluating impairments are used to determine if they are other-than-temporary, which include 1) our ability and intent to hold the investment securities for a period of time sufficient to allow for an anticipated recovery in value; 2) the expected recoverability of principal and interest; 3) the length of time and extent to which the fair value has been less than cost basis; 4) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry conditions and trends and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions, which could affect liquidity.

***Valuation of Financial Instruments***

The fair value of available-for-sale securities (equity and fixed maturity securities) is determined by management using one of the three primary sources of information: the quoted prices in active markets; third-party pricing services; or independent broker quotations. Estimated fair value of securities based on quoted prices in active markets is readily and regularly available; therefore, valuation of these securities generally does not involve management judgment. For securities without quoted prices, fair value measurement is determined using third-party pricing services' proprietary pricing applications. Typical inputs used by the models are relevant market information, benchmark curves, benchmark pricing of like securities, sector groupings and matrix pricing. Any securities remaining unpriced after utilizing the first two pricing methods are submitted to independent brokers for prices. We have analyzed the third-party pricing services and independent brokers' valuation methodologies and related inputs, and have evaluated the various types of securities in our investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Management completes certain tests throughout the year and at year-end to determine that prices provided by our pricing services are reasonable.

We utilize over-the-counter equity options to hedge our exposure to equity-indexed universal life and equity-indexed deferred annuity benefits, and the fair values for these options are sourced from broker quotations. Accounting guidance requires a fair value calculation as part of equity-indexed policy reserves. This is called the value of embedded derivative (or VED) and the other part of the indexed policy reserve is called the host reserve. The

embedded derivative represents future benefit cash flows in excess of minimum guarantee cash flows. The host covers the minimum guarantee cash flows. Both the VED and the host reserve are calculated by a vendor-sourced reserve valuation system. The VED calculation model incorporates assumptions related to current option pricing (such as implied volatility and LIBOR/swap curve), future policyholder behavior (such as surrenders and withdrawals), and factors affecting the value of future indexed interest periods (such as option budgets).

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***Pension and Postretirement Benefit Plans***

The Company has frozen each of its defined benefit pension plans. Our pension and postretirement benefit obligations and related costs covering our employees are estimated using actuarial concepts in accordance with the relevant accounting guidance. The discount rate and the expected return on plan assets are important elements of expense and/or liability measurements. Each year, these key assumptions are reevaluated to determine whether they reflect the best estimates for the current period. Changes in the methodology used to determine the best estimates are made when facts or circumstances change. Other assumptions involve demographic factors such as retirement age, mortality and turnover. The expected long-term rate of return on plan assets is determined using the building-block method which is described further in Note 18, Pension and Postretirement Benefits, of the Consolidated Financial Statements. Early in 2017, the Company commenced a one time window offering to terminated, vested participants of our qualified defined benefit pension plans. The offer allows participants to take a lump sum or annuity payout which will be funded from pension plan assets.

***Litigation Contingencies***

Based on information currently available, we believe that amounts ultimately paid, if any, arising from existing and currently potential litigation would not have a material effect on our results of operations and financial condition. However, it should be noted that the frequency of large damage awards, which bear little or no relation to the economic damages incurred by plaintiffs, continues to create the potential for an unpredictable judgment in any given lawsuit. It is possible that, if the defenses in these lawsuits are not successful, and the judgments are greater than we anticipate, the resulting liability could have a material impact on the consolidated financial statements.

***Federal Income Taxes***

Our effective tax rate is based on income, non-taxable and non-deductible items, statutory tax rates and tax credits. Also, management's best estimate of future events and their impact is included in our accounting estimates. Certain changes or future events, such as changes in tax legislation, and completion of tax audits could have an impact on our estimates and effective tax rate. Audit periods remain open for review until the statute of limitations has passed.

GAAP requires us to evaluate the recoverability of our deferred tax assets and establish a valuation allowance, if necessary, to reduce our deferred tax asset to an amount that is more-likely-than-not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. Although realization is not assured, management believes it is more-likely-than-not that the deferred tax assets will be realized and that no valuation allowance is necessary at this time.

**Table of Contents****Index to Financial Statements****Consolidated Results of Operations**

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

	Years ended December 31,			Change over prior year	
	2016	2015	2014	2016	2015
<b>Premiums and other revenues</b>					
Premiums	\$ 1,996,648	\$ 1,838,519	\$ 1,815,971	\$ 158,129	\$ 22,548
Other policy revenues	306,880	250,265	224,254	56,615	26,011
Net investment income	860,235	834,831	932,858	25,404	(98,027)
Realized investments gains (losses), net	28,940	59,443	41,422	(30,503)	18,021
Other income	35,248	34,397	36,085	851	(1,688)
<b>Total premiums and other revenues</b>	<b>3,227,951</b>	<b>3,017,455</b>	<b>3,050,590</b>	<b>210,496</b>	<b>(33,135)</b>
<b>Benefits, losses and expenses</b>					
Policyholder benefits	711,384	617,006	542,015	94,378	74,991
Claims incurred	1,015,047	923,367	933,768	91,680	(10,401)
Interest credited to policyholders' account balances	331,770	293,464	353,492	38,306	(60,028)
Commissions for acquiring and servicing policies	465,962	425,338	397,126	40,624	28,212
Other operating expenses	503,459	501,377	485,865	2,082	15,512
Change in deferred policy acquisition costs <sup>(1)</sup>	1,152	(11,785)	9,578	12,937	(21,363)
<b>Total benefits and expenses</b>	<b>3,028,774</b>	<b>2,748,767</b>	<b>2,721,844</b>	<b>280,007</b>	<b>26,923</b>
<b>Income before other items and federal income taxes</b>	<b>\$ 199,177</b>	<b>\$ 268,688</b>	<b>\$ 328,746</b>	<b>\$ (69,511)</b>	<b>\$ (60,058)</b>

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

Consolidated earnings decreased during 2016 compared to 2015 primarily due to a decrease in property and casualty earnings and lower realized capital gains. Property and casualty earnings decreased as continued premium growth was outpaced by the increase in personal auto claims and as catastrophe losses reverted to what we believe is a normal level. The decrease in realized capital gains was attributable to a decrease in sales of certain real estate holdings compared to 2015. Consolidated earnings decreased during 2015 compared to 2014 primarily due to a decrease in margins earned on investment income.

**Life**



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

	Years ended December 31,			Change over prior year	
	2016	2015	2014	2016	2015
<b>Premiums and other revenues</b>					
Premiums	\$ 318,953	\$ 305,350	\$ 307,771	\$ 13,603	\$ (2,421)
Other policy revenues	295,289	237,797	209,192	57,492	28,605
Net investment income	227,923	226,076	232,389	1,847	(6,313)
Other income	2,067	1,709	1,427	358	282
<b>Total premiums and other revenues</b>	<b>844,232</b>	<b>770,932</b>	<b>750,779</b>	<b>73,300</b>	<b>20,153</b>
<b>Benefits, losses and expenses</b>					
Policyholder benefits	416,467	386,785	351,271	29,682	35,514
Interest credited to policyholders' account balances	63,565	59,148	68,796	4,417	(9,648)
Commissions for acquiring and servicing policies	132,428	121,482	124,447	10,946	(2,965)
Other operating expenses	199,769	201,112	194,927	(1,343)	6,185
Change in deferred policy acquisition costs <sup>(1)</sup>	3,887	(31,048)	(32,014)	34,935	966
<b>Total benefits and expenses</b>	<b>816,116</b>	<b>737,479</b>	<b>707,427</b>	<b>78,637</b>	<b>30,052</b>
<b>Income before other items and federal income taxes</b>	<b>\$ 28,116</b>	<b>\$ 33,453</b>	<b>\$ 43,352</b>	<b>\$ (5,337)</b>	<b>\$ (9,899)</b>

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

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Earnings decreased during 2016 compared to 2015 primarily due to a change in estimate which resulted in a net decrease in earnings of \$3.7 million. Additional non-recurring expense was incurred in 2016 relating to certain policies that lapsed with insufficient value to cover their outstanding policy loan balance. Earnings decreased during 2015 compared to 2014 primarily due to the increase in policyholders benefits partially offset by an increase in other policy revenues.

***Premiums and other revenues***

Premiums increased during 2016 compared to 2015 primarily due to continued growth in renewal premium on our term products. Premiums were relatively flat during 2015 compared to 2014.

Other policy revenues include mortality charges, earned policy service fees and surrender charges on interest-sensitive life insurance policies. The increase in other policy revenues during 2016 compared to 2015 is due to an increase in mortality charges and the above-mentioned change in estimate. The increase in other policy revenues during 2015 compared to 2014 is attributable to an increase in mortality charges and an assumption change for universal life products.

**Life insurance sales**

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

	Years ended December 31,			Change over prior year	
	2016	2015	2014	2016	2015
Traditional Life	\$ 52,596	\$ 55,280	\$ 55,391	\$ (2,684)	\$ (111)
Universal Life	19,519	14,355	15,276	5,164	(921)
Indexed UL	24,606	22,888	22,458	1,718	430
Variable UL	24	25	39	(1)	(14)
<b>Total Recurring</b>	<b>\$ 96,745</b>	<b>\$ 92,548</b>	<b>\$ 93,164</b>	<b>\$ 4,197</b>	<b>\$ (616)</b>
Single and excess	\$ 1,932	\$ 2,163	\$ 2,173	\$ (231)	\$ (10)
Credit life	4,372	3,984	3,940	388	44

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, and includes deposits received related to interest sensitive life and universal life-type products. Whereas GAAP premium revenues are associated with policies sold in current and prior periods, and deposits received related to interest sensitive life and universal life-type products are recorded in a policyholder account which is reflected as a liability. Therefore, a reconciliation of premium revenues and insurance sales is not meaningful.

Life insurance sales increased during 2016 compared to 2015 primarily driven by an increase in universal life policy sales. Life insurance sales were relatively flat during 2015 compared to 2014.

***Benefits, losses and expenses***

Policyholder benefits increased during 2016 compared to 2015 primarily due to the above-mentioned change in estimate. Policyholder benefits increased during 2015 compared to 2014 primarily due to an increase in claims although claims were within our product pricing measures.

Commissions increased during 2016 compared to 2015 primarily due to an increase in universal life policy sales. Commissions were relatively flat during 2015 compared to 2014.

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

	December 31,			Change over prior year	
	2016	2015	2014	2016	2015
Acquisition capitalized	\$ 108,825	\$ 108,615	\$ 110,195	\$ 210	\$ (1,580)
Amortization	(112,712)	(77,567)	(78,181)	(35,145)	614
<b>Change in DAC</b>	<b>\$ (3,887)</b>	<b>\$ 31,048</b>	<b>\$ 32,014</b>	<b>\$ (34,935)</b>	<b>\$ (966)</b>

The decrease in DAC is primarily due to the change in estimate mentioned above. DAC was relatively flat during 2015 compared to 2014.

***Policy in-force information***

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

	December 31,			Change over prior year	
	2016	2015	2014	2016	2015
<b>Life insurance in-force</b>					
Traditional life	\$ 67,649,433	\$ 63,336,601	\$ 59,409,750	\$ 4,312,832	\$ 3,926,851
Interest-sensitive life	27,971,646	26,858,051	26,166,314	1,113,595	691,737
<b>Total life insurance in-force</b>	<b>\$ 95,621,079</b>	<b>\$ 90,194,652</b>	<b>\$ 85,576,064</b>	<b>\$ 5,426,427</b>	<b>\$ 4,618,588</b>

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

	December 31,			Change over prior year	
	2016	2015	2014	2016	2015
<b>Number of policies in-force</b>					
Traditional life	\$ 1,841,359	\$ 1,890,600	\$ 1,949,119	\$ (49,241)	\$ (58,519)
Interest-sensitive life	222,845	212,851	205,805	9,994	7,046
<b>Total number of policies</b>	<b>\$ 2,064,204</b>	<b>\$ 2,103,451</b>	<b>\$ 2,154,924</b>	<b>\$ (39,247)</b>	<b>\$ (51,473)</b>

Total life insurance in-force increased during 2016 compared to 2015 and 2015 compared to 2014, while the total number of policies decreased for the same periods, reflecting the transition to fewer but higher face amount policies.



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The table below summarizes reinsurance reserves and premium amounts assumed and ceded (in thousands):

	Reserves			Premiums		
	Years ended December 31,			Years ended December 31,		
	2016	2015	2014	2016	2015	2014
Reinsurance assumed	\$ 1,716	\$ 48	\$ 117	\$ 2,188	\$ (20)	\$ 137
Reinsurance ceded	(219,375)	(219,272)	(209,853)	(104,128)	(101,636)	(96,577)
<b>Total</b>	<b>\$ (217,659)</b>	<b>\$ (219,224)</b>	<b>\$ (209,736)</b>	<b>\$ (101,940)</b>	<b>\$ (101,656)</b>	<b>\$ (96,440)</b>

We use reinsurance to mitigate risk to the Life segment. During 2016, our retention limits were \$1.5 million for issue ages 65 and under, and \$700,000 million for issue ages 66 and older for traditional and universal life. Accidental death and premium waiver benefits are mostly retained on new business. Increases in reserves and premium amounts ceded primarily reflect increased use of reinsurance in conjunction with treaties related to universal life products.

Consistent with our corporate risk management strategy, we periodically adjust our reinsurance program and retention limits as market conditions warrant. While, in the past, we have reinsured up to 90% of new business, we are currently reinsuring newly developed permanent products on a modified excess retention basis, in which we reinsure mortality risk on a yearly renewable term basis, ceding a 75% quota share of policies with a face value of at least \$500,000 up to our retention and then 100% in excess of retention. Current traditionally marketed term products are reinsured on a modified excess retention basis, in which we reinsure mortality risk on a yearly renewable term basis, ceding 50% quota share of face amounts in excess of \$250,000 up to our retention and then 100% in excess of retention.

Reinsurance is used in the credit life business primarily to provide producers of credit-related insurance products the opportunity to participate in the underwriting risk through producer-owned captive reinsurance companies often domiciled outside of the United States. A majority of the treaties entered into by our Credit Insurance Division are written on a 100% coinsurance basis with benefit limits of \$125,000 on credit life. We have entered into funds withheld reinsurance treaties, which provide for cessions to the reinsurer on a written basis.

For 2016, the companies to whom we have ceded reinsurance for the Life segment are shown below (in thousands, except percentages):

Reinsurer	A.M. Best Rating <sup>(1)</sup>	Ceded Premium	Percentage of Gross Premium
Swiss Re Life & Health of America Inc.	A+	\$ 26,402	6.2%
SCOR Global Life Reinsurance Company of Delaware	A	18,041	4.3
Munich American Reassurance Company	A+	15,155	3.6
Reinsurance Group Of America	A+	6,094	1.4
		38,436	9.1

Other Reinsurers with no single company  
greater than 5% of the total ceded premium

<b>Total life reinsurance ceded</b>	<b>\$ 104,128</b>	<b>24.6%</b>
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(1) A.M. Best rating as of the most current information available January 05, 2017.

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

	Years ended December 31,			Change over prior year	
	2016	2015	2014	2016	2015
<b>Premiums and other revenues</b>					
Premiums	\$ 248,714	\$ 183,125	\$ 190,357	\$ 65,589	\$ (7,232)
Other policy revenues	11,591	12,468	15,062	(877)	(2,594)
Net investment income	500,726	459,458	545,887	41,268	(86,429)
Other income	3,161	3,464	(1)	(303)	3,465
<b>Total premiums and other revenues</b>	<b>764,192</b>	<b>658,515</b>	<b>751,305</b>	<b>105,677</b>	<b>(92,790)</b>
<b>Benefits, losses and expenses</b>					
Policyholder benefits	294,917	230,221	234,173	64,696	(3,952)
Interest credited to policyholders account balances	268,205	234,316	284,696	33,889	(50,380)
Commissions for acquiring and servicing policies	78,177	62,917	48,478	15,260	14,439
Other operating expenses	53,054	54,037	56,487	(983)	(2,450)
Change in deferred policy acquisition costs <sup>(1)</sup>	(5,780)	17,069	31,735	(22,849)	(14,666)
<b>Total benefits and expenses</b>	<b>688,573</b>	<b>598,560</b>	<b>655,569</b>	<b>90,013</b>	<b>(57,009)</b>
<b>Income before other items and federal income taxes</b>	<b>\$ 75,619</b>	<b>\$ 59,955</b>	<b>\$ 95,736</b>	<b>\$ 15,664</b>	<b>\$ (35,781)</b>

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

Earnings increased during 2016 compared to 2015 primarily due to increased assets, as measured by account value and reserves, leading to an increase in margins earned on net investment income. The favorable decrease in DAC for 2016 was related to lower surrenders. Earnings decreased during 2015 compared to 2014 primarily due to the decrease in investment margins. Net investment income declined in 2015 primarily due to unrealized losses in income on over-the-counter-equity-indexed option derivatives and a decrease in investment income.

***Premiums and other revenues***

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



	Years ended December 31,			Change over prior year	
	2016	2015	2014	2016	2015
Fixed deferred annuity	\$ 508,894	\$ 528,623	\$ 316,265	\$ (19,729)	\$ 212,358
Single premium immediate annuity	281,521	213,341	215,871	68,180	(2,530)
Equity-indexed deferred annuity	572,473	432,517	245,574	139,956	186,943
Variable deferred annuity	76,012	93,898	110,854	(17,886)	(16,956)
<b>Total premium and deposits</b>	<b>1,438,900</b>	<b>1,268,379</b>	<b>888,564</b>	<b>170,521</b>	<b>379,815</b>
Less: Policy deposits	1,190,186	1,085,254	698,207	104,932	387,047
<b>Total earned premiums</b>	<b>\$ 248,714</b>	<b>\$ 183,125</b>	<b>\$ 190,357</b>	<b>\$ 65,589</b>	<b>\$ (7,232)</b>

Beginning in the third quarter of 2015, the Company enhanced crediting rates on certain annuity products resulting in increased sales through 2016.

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

	<b>Years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Fixed deferred and equity-indexed annuity</b>			
Account value, beginning of period	\$ 8,880,448	\$ 8,873,397	\$ 9,355,946
Net inflows	766,895	686,312	408,615
Surrenders	(784,666)	(893,986)	(1,158,463)
Fees	(5,821)	(6,301)	(9,007)
Interest credited	261,494	221,026	276,306
<b>Account value, end of period</b>	<b>9,118,350</b>	<b>8,880,448</b>	<b>8,873,397</b>
<b>Single premium immediate annuity</b>			
Reserve, beginning of period	1,398,481	1,274,664	1,144,616
Net inflows	117,840	68,355	82,820
Interest and mortality	50,119	55,462	47,228
<b>Reserve, end of period</b>	<b>1,566,440</b>	<b>1,398,481</b>	<b>1,274,664</b>
<b>Variable deferred annuity</b>			
Account value, beginning of period	417,821	494,516	489,305
Net inflows	71,982	91,276	108,094
Surrenders	(114,543)	(163,677)	(129,577)
Fees	(4,745)	(5,507)	(5,763)
Change in market value and other	21,830	1,213	32,457
<b>Account value, end of period</b>	<b>392,345</b>	<b>417,821</b>	<b>494,516</b>
<b>Total account value, end of period</b>	<b>\$ 11,077,135</b>	<b>\$ 10,696,750</b>	<b>\$ 10,642,577</b>

***Benefits, losses and expenses***

Policyholder benefits consist of annuity payments and reserve increases for SPIA contracts. Reserve increases are highly correlated to the sales volume of SPIA contracts. The level of benefits for 2016, 2015, and 2014 was commensurate with increases in SPIA premium during these periods.

Commissions increased during 2016 compared to 2015 driven by the mix of business and the increase in sales of higher commissionable products, such as equity-indexed and single premium immediate annuities. Commissions increased during 2015 compared to 2014 driven by the increase in fixed deferred and equity-indexed annuity sales.

Other operating expenses were relatively flat during 2016 compared to 2015 despite the increase in annuity volume. Other operating expenses also decreased during 2015 compared to 2014.



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

	Years ended December 31,			Change over prior year	
	2016	2015	2014	2016	2015
Acquisition cost capitalized	\$ 77,161	\$ 64,724	\$ 47,400	\$ 12,437	\$ 17,324
Amortization of DAC	(71,381)	(81,793)	(79,135)	10,412	(2,658)
<b>Change in DAC</b>	<b>\$ 5,780</b>	<b>\$ (17,069)</b>	<b>\$ (31,735)</b>	<b>\$ 22,849</b>	<b>\$ 14,666</b>

The change in DAC increased during 2016 compared to 2015, and 2015 compared to 2014, due to an increase in capitalization which is primarily driven by the increase in commissions.

The amortization of DAC as a percentage of gross profits is an important ratio for the Annuity segment. Changes in this ratio reflect the impact of emerging experience. The ratios for the years ended December 31, 2016, 2015, and 2014 were 35.5%, 42.2%, and 34.0%, respectively. The favorable decrease in the 2016 ratio was directly related to lower surrenders. The 2015 ratio is at a relatively normal level. The lower 2014 ratio also reflects lower than estimated surrenders.

***Options and Derivatives***

Net investment income without equity-indexed options or option return increased during 2016 compared to 2015 primarily due to higher account values and reserves as a result of increased sales. Net investment income without option return decreased during 2015 compared to 2014 primarily due to a lower net investment portfolio yield.

The S&P 500 Index increased by approximately 9.5% in 2016 and decreased by approximately 0.7% in 2015. This change in index performance led to an increase in the option return of \$33.3 million during 2016 compared to 2015, partially offset by a \$27.9 million increase in the related equity-indexed embedded derivative for a net increase in earnings of \$5.4 million.

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

	Years ended December 31,			Change over prior year	
	2016	2015	2014	2016	2015
<b>Net investment income</b>					
Without option return	\$ 474,627	\$ 466,660	\$ 496,652	\$ 7,967	\$ (29,992)
Option return	26,099	(7,202)	49,235	33,301	(56,437)
<b>Interest credited to policy account balances</b>					
Without embedded derivatives	244,701	238,702	255,383	5,999	(16,681)
Equity-indexed annuity embedded derivatives	23,504	(4,386)	29,313	27,890	(33,699)



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

	Years ended December 31,			Change over prior year	
	2016	2015	2014	2016	2015
<b>Premiums and other revenues</b>					
Premiums	\$ 175,589	\$ 196,777	\$ 216,868	\$ (21,188)	\$ (20,091)
Net investment income	9,942	10,135	11,692	(193)	(1,557)
Other income	17,488	17,714	20,391	(226)	(2,677)
<b>Total premiums and other revenues</b>	<b>203,019</b>	<b>224,626</b>	<b>248,951</b>	<b>(21,607)</b>	<b>(24,325)</b>
<b>Benefits, losses and expenses</b>					
Claims incurred	131,828	146,805	144,799	(14,977)	2,006
Commissions for acquiring and servicing policies	22,846	27,455	35,896	(4,609)	(8,441)
Other operating expenses	43,263	45,047	43,261	(1,784)	1,786
Change in deferred policy acquisition costs <sup>(1)</sup>	3,770	3,394	(564)	376	3,958
<b>Total benefits and expenses</b>	<b>201,707</b>	<b>222,701</b>	<b>223,392</b>	<b>(20,994)</b>	<b>(691)</b>
<b>Income before other items and federal income taxes</b>	<b>\$ 1,312</b>	<b>\$ 1,925</b>	<b>\$ 25,559</b>	<b>\$ (613)</b>	<b>\$ (23,634)</b>

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

Earnings remained relatively constant during 2016 and 2015 and decreased from 2014 relating to separate items that reduced earnings below levels of prior years. In 2016, the Company decreased the estimate of losses that would be ceded to and paid by reinsurers on claims incurred primarily in 2001. In 2015, earnings were negatively impacted due to an increase in claims retained by the Company from a reinsurer that was unable to meet its contractual obligations.

***Premiums and other revenues***

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

	Years ended December 31,					
	2016		2015		2014	
Medicare Supplement	\$ 68,376	38.9%	\$ 76,090	38.6%	\$ 85,099	39.2%
Credit accident and health	15,124	8.6	13,106	6.7	13,736	6.3

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MGU	17,611	10.0	23,798	12.1	24,230	11.2
Supplemental insurance	23,876	13.6	26,546	13.5	31,769	14.7
Medical expense	14,021	8.0	16,910	8.6	21,919	10.1
Group	30,974	17.6	34,361	17.5	33,835	15.6
All other	5,607	3.3	5,966	3.0	6,280	2.9
<b>Total</b>	<b>\$ 175,589</b>	<b>100.0%</b>	<b>\$ 196,777</b>	<b>100.0%</b>	<b>\$ 216,868</b>	<b>100.0%</b>

Earned premiums decreased during 2016 compared to 2015, primarily due to a decline in Medicare Supplement and MGU premiums. Medicare Supplement earned premiums decreased due to lapses that were greater than new sales, compounded by the continuing shift in sales from comprehensive higher premium plans to the lower premium high deductible plan. MGU premiums decreased due to the removal of lesser performing groups by several MGUs. New sources of business have originated during the current year and it is intended that premiums written for these groups will replace portions of the cancelled groups. Medical expense premiums continued to decline due to lapsation of this closed block of business. Supplemental insurance declined during 2016 compared to 2015, due to lapsation, which more than offset the increase in sales relative to 2015. Earned premiums decreased during 2015 compared to 2014 primarily due to the continued contraction of the closed medical expense blocks of business, and a decrease in Medicare Supplement sales.

Effective January 1, 2017, the majority of the Group premium, which is in runoff, did not renew. Consequently, 2017 earned premium for this component of business will be significantly lower than in prior periods.

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

	<b>2016</b>		<b>December 31, 2015</b>		<b>2014</b>	
Medicare Supplement	33,815	6.3%	35,586	6.8%	38,245	6.0%
Credit accident and health	194,194	36.1	204,080	39.0	227,790	35.8
MGU	195,936	36.4	164,626	31.4	239,537	37.6
Supplemental insurance	60,261	11.2	62,384	11.9	70,207	11.0
Medical expense	2,228	0.4	2,717	0.5	3,313	0.5
Group	17,485	3.3	16,988	3.2	16,877	2.6
All other	33,820	6.3	37,335	7.2	41,417	6.5