

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

November 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2017

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated under _____
the Laws of Ohio 03-0483872

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2201 4th Avenue North, Birmingham, Alabama 35203

(Address of principal executive offices and zip code)

(205) 870-4000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

Emerging growth company

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

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

As of October 31, 2017, there were 10,926,700 shares of the registrant's common stock outstanding.

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PART I

FINANCIAL INFORMATION

ITEM 1

Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

(unaudited)

	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Revenues:						
Earned premium	\$344,964	\$342,171	0.8 %	\$1,025,480	\$1,019,070	0.6 %
Installment and other fee income	26,022	26,297	(1.0)%	79,432	77,200	2.9 %
Net investment income	9,771	8,125	20.3 %	27,467	25,115	9.4 %
Net realized (losses) gains on investments ⁽¹⁾	(431)	1,282	(133.6)%	1,964	1,257	56.2 %
Other income	376	249	50.7 %	1,041	727	43.2 %
Total revenues	380,701	378,124	0.7 %	1,135,385	1,123,370	1.1 %
Costs and Expenses:						
Losses and loss adjustment expenses	263,186	280,866	(6.3)%	807,482	809,664	(0.3)%
Commissions and other underwriting expenses	89,321	88,412	1.0 %	265,501	266,183	(0.3)%
Interest expense	3,510	3,507	0.1 %	10,533	10,524	0.1 %
Corporate general and administrative expenses	2,158	1,768	22.0 %	6,876	5,532	24.3 %
Other expenses	844	375	125.1 %	1,673	1,455	15.0 %
Total costs and expenses	359,019	374,929	(4.2)%	1,092,065	1,093,358	(0.1)%
Earnings before income taxes	21,683	3,196	578.5 %	43,320	30,012	44.3 %
Provision for income taxes	6,704	442	NM	12,649	8,536	48.2 %
Net Earnings	\$14,978	\$2,753	444.0 %	\$30,671	\$21,476	42.8 %
Net Earnings per Common Share:						
Basic	\$1.36	\$0.25	444.0 %	\$2.79	\$1.95	43.1 %
Diluted	1.35	0.25	440.0 %	2.76	1.93	43.0 %
Average Number of Common Shares:						
Basic	10,993	11,018	(0.2)%	11,004	11,022	(0.2)%
Diluted	11,062	11,084	(0.2)%	11,095	11,105	(0.1)%
Cash Dividends per Common Share	\$0.58	\$0.52	11.5 %	\$1.74	\$1.56	11.5 %
⁽¹⁾ Net realized (losses) gains on sales	\$(410)	\$1,282	(132.0)%	\$1,996	\$1,573	26.9 %
Total other-than-temporary impairment (OTTI) losses	(57)	0	NM	(102)	(316)	(67.6)%
Non-credit portion in other comprehensive income	35	0	NM	71	0	NM
Net impairment losses recognized in earnings	(22)	0	NM	(31)	(316)	(90.0)%
Total net realized (losses) gains on investments	\$(431)	\$1,282	(133.6)%	\$1,964	\$1,257	56.2 %

NM = Not Meaningful

See Condensed Notes to Consolidated Financial Statements.

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Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in thousands)

(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net earnings	\$14,978	\$2,753	\$30,671	\$21,476
Other comprehensive income before tax:				
Net change in post-retirement benefit liability	(13)	(11)	(38)	(32)
Unrealized gains on investments:				
Unrealized holding gains arising during the period	6,310	4,702	26,030	30,989
Less: Reclassification adjustments for losses (gains) included in net earnings	431	(1,282)	(1,964)	(1,257)
Unrealized gains on investments, net	6,742	3,420	24,066	29,731
Other comprehensive income, before tax	6,729	3,409	24,028	29,699
Income tax expense related to components of other comprehensive income	(2,355)	(1,193)	(8,410)	(10,395)
Other comprehensive income, net of tax	4,374	2,216	15,618	19,304
Comprehensive income	\$19,352	\$4,969	\$46,289	\$40,780

See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts in line descriptions)

	September 30, 2017	December 31, 2016
	(unaudited)	
Assets		
Investments:		
Fixed maturities – at fair value (amortized cost \$1,439,204 and \$1,392,660)	\$ 1,448,709	\$ 1,390,167
Equity securities – at fair value (cost \$74,347 and \$77,013)	100,042	90,640
Short-term investments – at fair value (amortized cost \$2,574 and \$2,909)	2,572	2,907
Total investments	1,551,323	1,483,714
Cash and cash equivalents	102,356	92,800
Accrued investment income	12,411	12,485
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$13,884 and \$14,207	509,210	495,157
Property and equipment, net of accumulated depreciation of \$81,411 and \$70,559	84,485	96,166
Prepaid reinsurance premium	2,976	3,410
Recoverables from reinsurers (includes \$3,288 and \$121 on paid losses and LAE)	36,368	17,251
Deferred policy acquisition costs	91,418	91,136
Current and deferred income taxes	20,050	21,635
Receivable for securities sold	2,025	795
Other assets	19,968	12,777
Goodwill	75,275	75,275
Total assets	\$ 2,507,866	\$ 2,402,601
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 729,280	\$ 685,455
Unearned premium	637,506	614,347
Long-term debt (fair value \$292,782 and \$278,726)	273,753	273,591
Commissions payable	15,035	16,176
Payable for securities purchased	10,167	13,922
Other liabilities	123,513	99,924
Total liabilities	1,789,254	1,703,414
Commitments and contingencies (See Note 9)		
Shareholders' equity:		
Common stock, no par value (50,000,000 shares authorized; 21,852,037 and 21,809,954 shares issued)	21,868	21,829
Additional paid-in capital	381,928	378,745
Retained earnings	789,175	777,695
Accumulated other comprehensive income, net of tax	23,526	7,907
Treasury stock, at cost (10,883,839 and 10,766,211 shares)	(497,885)	(486,990)
Total shareholders' equity	718,612	699,187
Total liabilities and shareholders' equity	\$ 2,507,866	\$ 2,402,601

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Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(\$ in thousands)

(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Treasury Stock	Total
Balance at December 31, 2015	\$ 21,794	\$ 376,025	\$ 757,604	\$ 7,811	\$(475,638)	\$ 687,595
Net earnings	—	—	21,476	—	—	21,476
Net change in post-retirement benefit liability	—	—	—	(21)	(21)
Change in unrealized gain on investments	—	—	—	19,109	—	19,109
Change in non-credit component of impairment losses on fixed maturities	—	—	—	216	—	216
Comprehensive income						40,780
Dividends paid to common shareholders	—	—	(17,249)	—	(17,249)
Shares issued and share-based compensation expense, including tax benefit	22	1,731	—	—	—	1,753
Acquisition of treasury stock	—	—	—	—	(10,079) (10,079)
Balance at September 30, 2016	\$ 21,816	\$ 377,757	\$ 761,831	\$ 27,115	\$(485,717)	\$ 702,801
Net earnings	—	—	21,609	—	—	21,609
Net change in post-retirement benefit liability	—	—	—	78	—	78
Change in unrealized gain on investments	—	—	—	(19,347)	(19,347)
Change in non-credit component of impairment losses on fixed maturities	—	—	—	61	—	61
Comprehensive income						2,401
Dividends paid to common shareholders	—	—	(5,744)	—	(5,744)
Shares issued and share-based compensation expense, including tax benefit	13	989	—	—	—	1,002
Acquisition of treasury stock	—	—	—	—	(1,273) (1,273)
Balance at December 31, 2016	\$ 21,829	\$ 378,745	\$ 777,695	\$ 7,907	\$(486,990)	\$ 699,187
Net earnings	—	—	30,671	—	—	30,671
Net change in post-retirement benefit liability	—	—	—	(24)	(24)
Change in unrealized gain on investments	—	—	—	15,539	—	15,539
Change in non-credit component of impairment losses on fixed maturities	—	—	—	103	—	103
Comprehensive income						46,289
Dividends paid to common shareholders	—	—	(19,191)	—	(19,191)
Shares issued and share-based compensation expense	39	3,183	—	—	—	3,222
Acquisition of treasury stock	—	—	—	—	(10,895) (10,895)
Balance at September 30, 2017	\$ 21,868	\$ 381,928	\$ 789,175	\$ 23,526	\$(497,885)	\$ 718,612

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INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands, unaudited)

	Three months ended	
	September 30,	
	2017	2016
Operating Activities:		
Net earnings	\$14,978	\$2,753
Adjustments:		
Depreciation	4,008	3,930
Amortization	5,436	5,643
Net realized losses (gains) on investments	431	(1,282)
Loss on disposal of property and equipment	1	143
Share-based compensation expense	390	1,060
Activity related to rabbi trust	55	46
Change in accrued investment income	1,060	482
Change in agents' balances and premium receivable	(11,155)	(15,356)
Change in reinsurance receivables	(18,295)	465
Change in deferred policy acquisition costs	(1,016)	(1,627)
Change in other assets	295	(2,363)
Change in unpaid losses and loss adjustment expenses	28,182	10,316
Change in unearned premium	14,040	14,911
Change in other liabilities	12,068	(3,179)
Net cash provided by operating activities	50,479	15,943
Investing Activities:		
Purchases of fixed maturities	(136,834)	(117,638)
Purchases of short-term investments	(2,594)	(3,110)
Purchases of property and equipment	(987)	(253)
Maturities and redemptions of fixed maturities	73,361	39,703
Maturities and redemptions of short-term investments	425	1,300
Proceeds from sale of fixed maturities	44,201	62,429
Proceeds from sale of equity securities	0	2,000
Proceeds from sale of short-term investments	0	3,592
Proceeds from sale of property and equipment	1	0
Net cash used in investing activities	(22,428)	(11,977)
Financing Activities:		
Proceeds from stock options exercised and employee stock purchases	66	60
Principal payments under capital lease obligations	(135)	(131)
Acquisition of treasury stock	(6,857)	(543)
Dividends paid to shareholders	(6,378)	(5,751)
Net cash used in financing activities	(13,303)	(6,366)
Net increase (decrease) in cash and cash equivalents	14,748	(2,400)
Cash and cash equivalents at beginning of period	87,608	76,016
Cash and cash equivalents at end of period	\$102,356	\$73,616

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Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands, unaudited)

	Nine months ended September 30,	
	2017	2016
Operating Activities:		
Net earnings	\$30,671	\$21,476
Adjustments:		
Depreciation	12,304	10,451
Amortization	16,459	16,482
Net realized gains on investments	(1,964)	(1,257)
(Gain) loss on disposal of property and equipment	(7)	544
Share-based compensation expense	3,012	1,411
Excess tax benefits from share-based payment arrangements	0	157
Activity related to rabbi trust	183	112
Change in accrued investment income	74	992
Change in agents' balances and premium receivable	(14,053)	(40,372)
Change in reinsurance receivables	(18,684)	(1,602)
Change in deferred policy acquisition costs	(283)	(4,292)
Change in other assets	(12,925)	940
Change in unpaid losses and loss adjustment expenses	43,825	6,562
Change in unearned premium	23,158	43,657
Change in other liabilities	22,388	(6,924)
Net cash provided by operating activities	104,159	48,339
Investing Activities:		
Purchases of fixed maturities	(412,675)	(379,135)
Purchases of equity securities	(1,900)	0
Purchases of short-term investments	(3,019)	(8,250)
Purchases of property and equipment	(2,571)	(15,648)
Maturities and redemptions of fixed maturities	181,839	115,848
Maturities and redemptions of short-term investments	925	1,300
Proceeds from sale of fixed maturities	163,359	265,544
Proceeds from sale of equity securities	7,002	2,000
Proceeds from sale of short-term investments	2,400	9,258
Proceeds from sale of property and equipment	26	2
Net cash used in investing activities	(64,614)	(9,081)
Financing Activities:		
Proceeds from stock options exercised and employee stock purchases	210	185
Principal payments under capital lease obligations	(403)	(380)
Acquisition of treasury stock	(10,603)	(10,681)
Dividends paid to shareholders	(19,191)	(17,249)
Net cash used in financing activities	(29,988)	(28,125)
Net increase in cash and cash equivalents	9,556	11,133
Cash and cash equivalents at beginning of period	92,800	62,483
Cash and cash equivalents at end of period	\$102,356	\$73,616

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

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Note 1 Significant Reporting and Accounting Policies

Nature of Operations

We are a holding company that provides insurance through our subsidiaries for personal auto with a concentration on nonstandard risks, commercial auto and classic collectors. Although licensed to write insurance in all 50 states and the District of Columbia, we focus on select states that we believe offer the greatest opportunity for premium growth and profitability.

Basis of Consolidation and Reporting

The accompanying consolidated financial statements are unaudited and should be read in conjunction with our Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2016. This Quarterly Report on Form 10-Q, including the Condensed Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, focuses on our financial performance since the beginning of the year. These financial statements reflect certain adjustments necessary for a fair presentation of our results of operations and financial position. Such adjustments consist of normal, recurring accruals recorded to accurately match expenses with their related revenue streams and the elimination of all significant intercompany transactions and balances.

We have evaluated events that occurred after September 30, 2017, for recognition or disclosure in our financial statements and the notes to the financial statements.

Schedules may not foot due to rounding.

Estimates

We based certain accounts and balances within these financial statements upon our estimates and assumptions. The amount of reserves for claims not yet paid, for example, is an item that we can only record by estimation. Unrealized capital gains and losses on investments are subject to market fluctuations, and we use judgment in the determination of whether unrealized losses on certain securities are temporary or other-than-temporary. Should actual results differ significantly from these estimates, the effect on our results of operations could be material. The results of operations for the periods presented may not be indicative of our results for the entire year.

Recently Adopted Accounting Standards

In March 2016 the FASB issued an ASU related to the accounting for employee share-based payments. The guidance addresses the recognition, presentation and classification of awards, forfeitures and shares withheld for tax purposes. We adopted the change to the presentation of excess tax benefits on the consolidated statements of cash flow retrospectively and all other portions of the standard prospectively as of January 1, 2017. We reclassified \$0.2 million of excess tax benefits from financing activities to operating activities for the nine months ended September 30, 2016. The adoption of this standard did not have a material impact on our financial condition or results of operations.

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Recently Issued Accounting Standards

In March 2017 the FASB issued an ASU related to the amortization of premium on purchased callable debt securities. The guidance amends the amortization period for certain purchased callable debt securities held at a premium.

Securities that contain explicit, noncontingent call features that are callable at fixed prices and on preset dates should shorten the amortization period for the premium to the earliest call date (and if the call option is not exercised, the effective yield is reset using the payment terms of the debt security). The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

In October 2016 the FASB issued an ASU related to the recognition of income tax on intra-entity transfers of assets other than inventory. The guidance requires the income tax to be recognized when the transfer occurs rather than when the asset is sold to an outside party. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within the year of adoption, and is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

In June 2016 the FASB issued an ASU related to the accounting for credit losses. The guidance generally requires credit losses on available-for-sale debt securities to be recognized as an allowance rather than as a reduction to the amortized cost of a security. The standard is effective for fiscal periods beginning after December 15, 2019, and interim periods within the year of adoption, with prospective application of the ASU required for debt securities for which an other-than-temporary impairment has been recognized before the implementation date. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

In February 2016 the FASB issued an ASU related to the accounting for leases. The guidance requires lessees to recognize lease assets and liabilities on the balance sheet. The standard is effective for fiscal years beginning after December 15, 2018, and is to be applied retrospectively, with an option to use a modified retrospective approach for leases which commenced prior to the effective date of this ASU. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

In January 2016 the FASB issued an ASU amending the guidance on classifying and measuring financial instruments. The guidance requires equity securities to be measured at fair value and changes in that fair value to be recognized through net income. The standard is effective for fiscal years beginning after December 15, 2017, with a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We currently record equity securities at fair value and as of September 30, 2017, we have \$16.7 million net unrealized gains, net of tax, recognized as a component of other comprehensive income.

In May 2014 the FASB issued an ASU related to the accounting for revenue from contracts with customers. Insurance contracts have been excluded from the scope of the guidance. In August 2015 the FASB issued an ASU to defer the effective date from fiscal years beginning after December 15, 2016, to fiscal years beginning after December 15, 2017. As an insurance-entity, we are largely exempt from the provisions of this standard, with only fee income subject to this new standard. Processing and policy fees, which totaled \$19.7 million for the year ended December 31, 2016, and are largely earned at the inception of the policy under current guidance, will be earned over the life of the policy under the new revenue recognition guidance. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Note 2 Computation of Net Earnings per Share

The following table illustrates our computations of basic and diluted net earnings per common share (\$ in thousands, except per share figures):

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Net earnings	\$14,978	\$2,753	\$30,671	\$21,476
Average basic shares outstanding	10,993	11,018	11,004	11,022
Basic net earnings per share	\$1.36	\$0.25	\$2.79	\$1.95
Average basic shares outstanding	10,993	11,018	11,004	11,022
Restricted stock not vested	17	27	28	24
Dilutive effect of Performance Share Plan	52	39	63	59
Average diluted shares outstanding	11,062	11,084	11,095	11,105
Diluted net earnings per share	\$1.35	\$0.25	\$2.76	\$1.93

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Note 3 Fair Value

Fair values of instruments are based on:

(i) quoted prices in active markets for identical assets (Level 1);

quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in
(ii) markets that are not active and model-derived valuations in which all significant inputs are observable in active
markets (Level 2); or

(iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the
marketplace (Level 3).

The following tables present, for each of the fair value hierarchy levels, our assets and liabilities for which we report fair value on a recurring basis (\$ in thousands):

	Fair Value				Total
	Level 1	Level 2	Level 3		
September 30, 2017					
Cash and cash equivalents	\$102,356	\$0	\$0		\$102,356
Fixed maturity securities:					
U.S. government	61,894	0	0		61,894
State and municipal	0	498,849	3,537		502,386
Mortgage-backed securities:					
Residential	0	355,257	0		355,257
Commercial	0	34,890	0		34,890
Total mortgage-backed securities	0	390,148	0		390,148
Asset-backed securities	0	55,906	200		56,106
Corporates	0	437,962	213		438,175
Total fixed maturities	61,894	1,382,865	3,950		1,448,709
Equity securities	100,042	0	0		100,042
Short-term investments	0	2,572	0		2,572
Total cash and investments	\$264,292	\$1,385,437	\$3,950		\$1,653,679
Percentage of total cash and investments	16.0	% 83.8	% 0.2	% 100.0	%
December 31, 2016					
Cash and cash equivalents	\$92,800	\$0	\$0		\$92,800
Fixed maturity securities:					
U.S. government	62,480	5	0		62,485
State and municipal	0	472,471	3,860		476,331
Mortgage-backed securities:					
Residential	0	340,367	0		340,367
Commercial	0	69,801	0		69,801
Total mortgage-backed securities	0	410,169	0		410,169
Asset-backed securities	0	37,196	412		37,608
Corporates	0	402,909	666		403,575
Total fixed maturities	62,480	1,322,749	4,938		1,390,167
Equity securities	90,640	0	0		90,640
Short-term investments	769	2,139	0		2,907
Total cash and investments	\$246,689	\$1,324,888	\$4,938		\$1,576,514
Percentage of total cash and investments	15.6	% 84.0	% 0.3	% 100.0	%

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We do not report our long-term debt at fair value in the Consolidated Balance Sheets. The \$292.8 million and \$278.7 million fair value of our long-term debt at September 30, 2017, and December 31, 2016, respectively, would be included in Level 2 of the fair value hierarchy if it were reported at fair value.

Level 1 includes cash and cash equivalents, U.S. Treasury securities, an exchange-traded fund and equities held in a rabbi trust which funds our Supplemental Employee Retirement Plan (SERP). Level 2 includes securities whose fair value was determined using observable market inputs. Level 3 securities are comprised of (i) securities for which there is no active or inactive market for similar instruments; (ii) securities whose fair value is determined based on unobservable inputs; and (iii) securities, other than those backed by the U.S. Government, that are not rated by a nationally recognized statistical rating organization (NRSRO). We recognize transfers between levels at the beginning of the reporting period.

A third party nationally recognized pricing service provides the fair value of securities in Level 2. A summary of the significant valuation techniques and market inputs for each class of security follows:

U.S. Government: In determining the fair value for U.S. Government securities we use the market approach. The primary inputs to the valuation include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.

State and municipal: In determining the fair value for state and municipal securities we use the market approach. The primary inputs to the valuation include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.

Mortgage-backed securities: In determining the fair value for mortgage-backed securities we use the market approach and to a lesser extent the income approach. The primary inputs to the valuation include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data, industry and economic events and monthly payment information.

Asset-backed securities: In determining the fair value for asset-backed securities we use the market approach and to a lesser extent the income approach. The primary inputs to the valuation include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data, industry and economic events, monthly payment information and collateral performance.

Corporate: In determining the fair value for corporate securities we use the market approach. The primary inputs to the valuation include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads (for investment grade securities), observations of equity and credit default swap curves (for high-yield corporates), reference data and industry and economic events.

We review the third party pricing methodologies quarterly and test for significant differences between the market price used to value the security and recent sales activity.

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The following tables present the progression in the Level 3 fair value category (\$ in thousands):

Three months ended September 30, 2017	State and Municipal	Asset-Backed Securities	Corporates	Total
Balance at beginning of period	\$ 3,447	\$ 249	\$ 215	\$3,910
Total (losses) gains, unrealized or realized				
Included in net earnings	(30)	0	(0)	(30)
Included in other comprehensive income	2	(1)	(1)	(0)
Settlements	0	(48)	0	(48)
Transfers in	118	0	0	118
Balance at end of period	\$ 3,537	\$ 200	\$ 213	\$3,950

Three months ended September 30, 2016	State and Municipal	Asset-Backed Securities	Corporates	Total
Balance at beginning of period	\$ 626	\$ 1,959	\$ 1,107	\$3,692
Total (losses) gains, unrealized or realized				
Included in net earnings	(6)	(0)	2	(4)
Included in other comprehensive income	(1)	1	(16)	(17)
Purchases	0	0	0	0
Settlements	0	(125)	(89)	(214)
Transfers in	0	0	0	0
Transfers out	0	(1,339)	0	(1,339)
Balance at end of period	\$ 618	\$ 495	\$ 1,005	\$2,118

Nine months ended September 30, 2017	State and Municipal	Asset-Backed Securities	Corporates	Total
Balance at beginning of period	\$ 3,860	\$ 412	\$ 666	\$4,938
Total (losses) gains, unrealized or realized				
Included in net earnings	(90)	0	2	(89)
Included in other comprehensive income	14	25	(28)	11
Purchases	0	4,259	2,000	6,259
Sales	(694)	0	0	(694)
Settlements	0	(213)	(427)	(640)
Transfers in	447	0	0	447
Transfers out	0	(4,283)	(2,000)	(6,283)
Balance at end of period	\$ 3,537	\$ 200	\$ 213	\$3,950

Nine months ended September 30, 2016	State and Municipal	Asset-Backed Securities	Corporates	Total
Balance at beginning of period	\$ 10	\$ 0	\$ 1,524	\$1,534
Total (losses) gains, unrealized or realized				
Included in net earnings	(10)	0	9	(1)
Included in other comprehensive income	(0)	2	(42)	(40)
Purchases	0	620	0	620
Settlements	(10)	(125)	(487)	(622)
Transfers in	628	1,338	0	1,966
Transfers out	0	(1,339)	0	(1,339)
Balance at end of period	\$ 618	\$ 495	\$ 1,005	\$2,118

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Of the \$4.0 million fair value of securities in Level 3 at September 30, 2017, which consisted of six securities, we priced two based on non-binding broker quotes and four securities, which were included in Level 3 because they were not rated by a nationally recognized statistical rating organization, were priced by a nationally recognized pricing service.

During the nine months ended September 30, 2017, one security, which was an exchange of a rated municipal bond for an unrated refunded bond, was transferred from Level 2 into Level 3, and zero security was transferred from Level 2 into Level 3 because it was not rated by a recognized statistical rating organization. There were no transfers of securities between Levels 1 and 2. Zero security was transferred from Level 2 into Level 3 during the first quarter of 2016 because a price could not be determined using observable market inputs. However, during the third quarter of 2016, a price was obtained using market observable inputs and the security was transferred back into Level 2.

The gains or losses included in net earnings are included in the line item "Net realized (losses) gains on investments" in the Consolidated Statements of Earnings. We recognize the net gains or losses included in other comprehensive income in the line item "Unrealized gains on investments, net" in the Consolidated Statements of Comprehensive Income and the line item "Change in unrealized gain on investments" or the line item "Change in non-credit component of impairment losses on fixed maturities" in the Consolidated Statements of Changes in Shareholders' Equity.

The following table presents the carrying value and estimated fair value of our financial instruments (\$ in thousands):

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$ 102,356	\$ 102,356	\$ 92,800	\$ 92,800
Available-for-sale securities:				
Fixed maturities	1,448,709	1,448,709	1,390,167	1,390,167
Equity securities	100,042	100,042	90,640	90,640
Short-term investments	2,572	2,572	2,907	2,907
Total cash and investments	\$ 1,653,679	\$ 1,653,679	\$ 1,576,514	\$ 1,576,514
Liabilities:				
Long-term debt	\$ 273,753	\$ 292,782	\$ 273,591	\$ 278,726

Refer to Note 4 – Investments to the Consolidated Financial Statements for additional information on investments and Note 5 – Long-Term Debt to the Consolidated Financial Statements for additional information on long-term debt.

Note 4 Investments

We consider all fixed maturity and equity securities to be available-for-sale and report them at fair value with the net unrealized gains or losses reported after-tax (net of any valuation allowance) as a component of other comprehensive income. The proceeds from sales of securities for the three and nine months ended September 30, 2017, were \$44.2 million and \$172.8 million respectively, while the proceeds from sales of securities for the three and nine months ended September 30, 2016, were \$68.0 million and \$276.8 million, respectively. The proceeds for the nine months ended September 30, 2017, were net of \$2.0 million of receivable for unsettled sales as of September 30, 2017. The proceeds for the nine months ended September 30, 2016, were net of \$1.7 million of receivable for securities sold during the third quarter of 2016 that had not settled as of September 30, 2016.

Gross gains of \$0.3 million and gross losses of \$0.7 million were realized on sales of available-for-sale securities during the three months ended September 30, 2017, compared with gross gains of \$1.3 million and gross losses of \$42.0 thousand realized on sales during the three months ended September 30, 2016. Gross gains of \$3.3 million and gross losses of \$1.3 million were realized on sales of available-for-sale securities during the nine months ended September 30, 2017, compared with gross gains of \$3.5 million and gross losses of \$1.9 million realized on sales during the nine months ended September 30, 2016. Gains or losses on securities are determined on a specific

identification basis.

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Summarized information for the major categories of our investment portfolio follows (\$ in thousands):

September 30, 2017	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Recognized in Accumulated OCI ⁽¹⁾
Fixed maturities:					
U.S. government	\$62,099	\$ 49	\$(254)	\$61,894	\$ 0
State and municipal	497,868	5,336	(818)	502,386	(46)
Mortgage-backed securities:					
Residential	356,172	2,592	(3,507)	355,257	(1,823)
Commercial	35,292	38	(440)	34,890	0
Total mortgage-backed securities	391,463	2,631	(3,946)	390,148	(1,823)
Asset-backed securities	56,031	114	(39)	56,106	(8)
Corporates	431,742	6,922	(490)	438,175	(31)
Total fixed maturities	1,439,204	15,053	(5,548)	1,448,709	(1,909)
Equity securities	74,347	25,695	0	100,042	0
Short-term investments	2,574	0	(2)	2,572	0
Total	\$1,516,125	\$ 40,748	\$(5,550)	\$1,551,323	\$ (1,909)
December 31, 2016					
Fixed maturities:					
U.S. government	\$62,808	\$ 55	\$(377)	\$62,485	\$ 0
State and municipal	477,834	2,313	(3,816)	476,331	(51)
Mortgage-backed securities:					
Residential	343,095	2,306	(5,034)	340,367	(1,967)
Commercial	70,676	63	(939)	69,801	0
Total mortgage-backed securities	413,772	2,369	(5,972)	410,169	(1,967)
Asset-backed securities	37,562	93	(47)	37,608	(8)
Corporates	400,685	4,389	(1,499)	403,575	(41)
Total fixed maturities	1,392,660	9,219	(11,711)	1,390,167	(2,068)
Equity securities	77,013	13,627	0	90,640	0
Short-term investments	2,909	0	(2)	2,907	0
Total	\$1,472,582	\$ 22,846	\$(11,713)	\$1,483,714	\$ (2,068)

(1) The total non-credit portion of OTTI recognized in Accumulated OCI reflecting the original non-credit loss at the time the credit impairment was determined.

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The following tables set forth the amount of unrealized loss by investment category and length of time that individual securities have been in a continuous unrealized loss position (\$ in thousands):

September 30, 2017	Less than 12 Months					12 Months or More				
	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Losses as % of Cost		Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Losses as % of Cost	
Fixed maturities:										
U.S. government	23	\$44,656	\$(162)	0.4	%	9	\$4,489	\$(93)	2.0	%
State and municipal	60	119,086	(491)	0.4	%	16	35,590	(328)	0.9	%
Mortgage-backed securities:										
Residential	315	158,772	(2,004)	1.2	%	94	50,661	(1,503)	2.9	%
Commercial	3	7,719	(87)	1.1	%	7	19,659	(353)	1.8	%
Total mortgage-backed securities	318	166,491	(2,091)	1.2	%	101	70,320	(1,855)	2.6	%
Asset-backed securities	19	21,159	(32)	0.1	%	3	2,534	(7)	0.3	%
Corporates	48	67,708	(306)	0.4	%	19	20,627	(184)	0.9	%
Total fixed maturities	468	419,100	(3,081)	0.7	%	148	133,560	(2,467)	1.8	%
Short-term investments	2	2,572	(2)	0.5	%	0	0	0	0.0	%
Total	470	\$421,672	\$(3,083)	0.7	%	148	\$133,560	\$(2,467)	1.8	%
December 31, 2016										
Fixed maturities:										
U.S. government	31	\$47,640	\$(377)	0.8	%	0	\$0	\$0	0.0	%
State and municipal	146	303,428	(3,816)	1.2	%	0	0	0	0.0	%
Mortgage-backed securities:										
Residential	381	225,117	(4,559)	2.0	%	40	11,891	(474)	3.8	%
Commercial	14	38,002	(788)	2.0	%	7	26,537	(150)	0.6	%
Total mortgage-backed securities	395	263,119	(5,347)	2.0	%	47	38,428	(625)	1.6	%
Asset-backed securities	9	7,836	(46)	0.6	%	1	519	(1)	0.1	%
Corporates	98	145,089	(1,272)	0.9	%	7	7,745	(227)	2.8	%
Total fixed maturities	679	767,112	(10,859)	1.4	%	55	46,693	(852)	1.8	%
Short-term investments	3	2,907	(2)	0.1	%	0	0	0	0.0	%
Total	682	\$770,019	\$(10,861)	1.4	%	55	\$46,693	\$(852)	1.8	%

The determination of whether unrealized losses are “other-than-temporary” requires judgment based on subjective as well as objective factors. Factors we considered and resources we used in our determination include:

- whether the unrealized loss is credit-driven or a result of changes in market interest rates;
- the length of time the security’s market value has been below its cost;
- the extent to which fair value is less than cost basis;
- the intent to sell the security;
- whether it is more likely than not that there will be a requirement to sell the security before its anticipated recovery;
- historical operating, balance sheet and cash flow data contained in issuer SEC filings;
- issuer news releases;
- near-term prospects for improvement in the issuer and/or its industry;
- industry research and communications with industry specialists; and
- third-party research and credit rating reports.

We regularly evaluate for potential impairment each security position that has either of the following: a fair value of less than 95% of its book value or an unrealized loss that equals or exceeds \$100,000.

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The following table summarizes those securities, excluding the rabbi trust, with unrealized gains or losses:

	September 30, 2017		December 31, 2016	
Number of positions held with unrealized:				
Gains	728		527	
Losses	618		737	
Number of positions held that individually exceed unrealized:				
Gains of \$500,000	2		1	
Losses of \$500,000	0		0	
Percentage of positions held with unrealized:				
Gains that were investment grade	85	%	85	%
Losses that were investment grade	97	%	97	%
Percentage of fair value held with unrealized:				
Gains that were investment grade	86	%	84	%
Losses that were investment grade	97	%	97	%

The following table sets forth the amount of unrealized losses, excluding the rabbi trust, by age and severity at September 30, 2017 (\$ in thousands):

Age of Unrealized Losses	Fair Value of Securities with Unrealized Losses	Total Gross Unrealized Losses	Less Than 5%*	5% - 10%*	Total Gross Greater Than 10%*
Three months or less	\$ 262,514	\$ (943)	\$ (943)	\$ 0	\$ 0
Four months through six months	13,342	(46)	(46)	0	0
Seven months through nine months	4,313	(24)	(18)	(6)	0
Ten months through twelve months	186,054	(2,999)	(2,999)	0	0
Greater than twelve months	89,009	(1,537)	(1,408)	(129)	(0)
Total	\$ 555,232	\$ (5,550)	\$ (5,415)	\$ (135)	\$ (0)

* As a percentage of amortized cost or cost.

The change in unrealized gains (losses) on marketable securities included the following (\$ in thousands):

	Pre-tax				Net
	Fixed Maturities	Equity Securities	Short-Term Investments	Tax Effects	
Nine months ended September 30, 2017					
Unrealized holding gains on securities arising during the period	\$11,805	\$14,223	\$ 1	\$(9,110)	\$16,919
Realized losses (gains) on securities sold	161	(2,155)	(1)	698	(1,297)
Impairment loss recognized in earnings	31	0	0	(11)	20
Change in unrealized, net	\$11,998	\$12,068	\$ (0)	\$(8,423)	\$15,643
Nine months ended September 30, 2016					
Unrealized holding gains on securities arising during the period	\$25,941	\$5,047	\$ 0	\$(10,846)	\$20,143
Realized (gains) losses on securities sold	(1,106)	(470)	3	551	(1,023)
Impairment loss recognized in earnings	316	0	0	(111)	205
Change in unrealized, net	\$25,151	\$4,577	\$ 3	\$(10,406)	\$19,325

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For fixed maturity securities that are other-than-temporarily impaired, we assess our intent to sell and the likelihood that we will be required to sell the security before recovery of our amortized cost. If a fixed maturity security is considered other-than-temporarily impaired but we do not intend to and are not more than likely to be required to sell the security before our recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors ("non-credit component"). The excess of the amortized cost over the present value of the expected cash flows determines the credit loss component of an impairment charge on a fixed maturity security. The present value is determined using the best estimate of cash flows discounted at (i) the effective interest rate implicit at the date of acquisition for non-structured securities; or (ii) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows vary depending on the type of security. We recognize the credit loss component of an impairment charge in net earnings and the non-credit component in accumulated other comprehensive income. If we intend to sell or will, more likely than not, be required to sell a security, the entire amount of the impairment is treated as a credit loss.

For our securities held with unrealized losses, we believe, based on our analysis, that we will recover our cost basis in these securities and we do not intend to sell the securities nor is it more likely than not that there will be a requirement to sell the securities before they recover in value.

The following table is a progression of credit losses on fixed maturity securities that were bifurcated between a credit and non-credit component (\$ in thousands):

	Nine months ended September 30, 2017 2016	
Beginning balance	\$557	\$683
Additions for:		
Newly impaired securities	13	0
Reductions for:		
Securities sold and paid down	(98)	(105)
Ending balance	\$472	\$579

The table below sets forth the scheduled maturities of fixed maturity securities at September 30, 2017, based on their fair values (\$ in thousands). We report securities that do not have a single maturity date at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

Maturity	Fair Value			Amortized Cost	
	Securities with Unrealized Gains	Securities with Unrealized Losses	Securities with No Unrealized Gains or Losses	All Fixed Maturity Securities	All Fixed Maturity Securities
One year or less	\$36,440	\$24,407	\$5,699	\$66,545	\$66,395
After one year through five years	477,237	211,513	1,656	690,405	684,589
After five years through ten years	186,952	56,236	0	243,188	238,518
After ten years	2,317	0	0	2,317	2,207
Mortgage- and asset-backed securities	185,749	260,504	0	446,253	447,494
Total	\$888,695	\$552,659	\$7,354	\$1,448,709	\$1,439,204

Note 5 Long-Term Debt
(\$ in thousands)

	September	December 31,
	30, 2017	2016
Principal	\$ 275,000	\$ 275,000
Unamortized debt issuance costs	1,247	1,409
Long-term debt less unamortized debt issuance costs	\$ 273,753	\$ 273,591

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In September 2012 we issued \$275 million principal of senior notes due September 2022 (the “5.0% Senior Notes”). The 5.0% Senior Notes accrue interest at 5.0%, payable semiannually. At the time we issued the 5.0% Senior Notes, we capitalized \$2.2 million of debt issuance costs, which we are amortizing over the term of the 5.0% Senior Notes. We calculated the September 30, 2017, fair value of \$292.8 million using a 123 basis point spread to the 10-year U.S. Treasury Note Yield of 2.335%.

In August 2017 we renewed our agreement for a \$50 million three-year revolving credit facility (the “Credit Agreement”) that requires us to meet certain financial and other covenants. We are currently in compliance with all covenants under the Credit Agreement, and as of September 30, 2017, there were no borrowings outstanding against it.

Note 6 Income Taxes

The following is a reconciliation of income taxes at the statutory rate of 35.0% to the effective provision for income taxes as shown in the Consolidated Statements of Earnings (\$ in thousands):

	Three months ended September 30,		Nine months ended September 30,		
	2017	2016	2017	2016	
Earnings before income taxes	\$21,683	\$3,196	\$43,320	\$30,012	
Income taxes at statutory rate	7,589	1,119	15,162	10,504	
Effect of:					
Dividends-received deduction	(104)	(101)	(318)	(322)	
Tax-exempt interest	(595)	(600)	(1,844)	(1,858)	
Other	(185)	24	(350)	212	
Provision for income taxes as shown on the Consolidated Statements of Earnings	\$6,704	\$442	\$12,649	\$8,536	
GAAP effective tax rate	30.9	% 13.8	% 29.2	% 28.4	%

Note 7 Additional Information

Supplemental Cash Flow Information

We made the following payments that we do not separately disclose in the Consolidated Statements of Cash Flows (\$ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Income tax payments	\$6,575	\$3,100	\$19,475	\$6,651
Interest payments on debt	6,875	6,875	13,750	13,750
Interest payments on capital leases	18	18	58	57

Negative Cash Book Balances

Negative cash book balances, included in the line item “Other liabilities” in the Consolidated Balance Sheets, were \$63.5 million and \$40.6 million at September 30, 2017, and December 31, 2016, respectively.

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Note 8 Insurance Reserves

Insurance reserves include liabilities for unpaid losses, both known and estimated for incurred but not reported (IBNR), and unpaid loss adjustment expenses (LAE). The following table provides an analysis of changes in the liability for unpaid losses and LAE on a GAAP basis (\$ in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Balance at Beginning of Period				
Unpaid losses on known claims	\$235,400	\$236,947	\$238,412	\$237,660
IBNR losses	323,184	290,767	306,641	290,097
LAE	142,513	138,496	140,402	142,207
Total unpaid losses and LAE	701,097	666,210	685,455	669,965
Reinsurance recoverables	(17,425)	(18,487)	(17,130)	(14,694)
Unpaid losses and LAE, net of reinsurance recoverables	683,673	647,723	668,325	655,271
Current Activity				
Loss and LAE incurred:				
Current accident year	267,319	281,456	824,719	828,310
Prior accident years	(4,134)	(590)	(17,237)	(18,646)
Total loss and LAE incurred	263,186	280,866	807,482	809,664
Loss and LAE payments:				
Current accident year	(186,335)	(197,437)	(447,115)	(461,020)
Prior accident years	(64,324)	(72,205)	(332,493)	(344,969)
Total loss and LAE payments	(250,659)	(269,642)	(779,608)	(805,989)
Balance at End of Period				
Unpaid losses and LAE, net of reinsurance recoverables	696,199	658,946	696,199	658,946
Add back reinsurance recoverables	33,080	17,580	33,080	17,580
Total unpaid losses and LAE	729,280	676,526	729,280	676,526
Unpaid losses on known claims	255,368	240,935	255,368	240,935
IBNR losses	330,553	299,143	330,553	299,143
LAE	143,359	136,449	143,359	136,449
Total unpaid losses and LAE	\$729,280	\$676,526	\$729,280	\$676,526

Contributing to the \$4.1 million and \$17.2 million of favorable reserve development during the three and nine months ended September 30, 2017, respectively, was a decrease in ultimate severity estimates in California related to bodily injury and material damage coverages for accident year 2016. Also contributing to the \$17.2 million of favorable reserve development for the nine months ended September 30, 2017 was a decrease in ultimate frequency estimates in Florida related to material damage and uninsured motorist bodily injury coverage for accident year 2016. This favorable development was partially offset by increases in ultimate severity estimates in bodily injury coverages in our commercial auto product.

The \$0.6 million and \$18.6 million of favorable reserve development during the three and nine months ended September 30, 2016, respectively, was primarily due to decreases in severity estimates related to Florida personal injury protection and bodily injury coverages related to accident years 2015 and prior, partially offset by unfavorable development from accident year 2015 in California material damage coverages and in bodily injury coverages in our commercial auto product, driven by an increase in severity.

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Note 9 Commitments and Contingencies

Commitments

There have been no material changes from the commitments discussed on Form 10-K for the year ended December 31, 2016. For a description of our previously reported commitments, refer to Note 14 Commitments and Contingencies of our Form 10-K for the year ended December 31, 2016.

Contingencies

From time to time, we and our subsidiaries are named as defendants in various lawsuits incidental to our insurance operations. We consider legal actions relating to claims made in the ordinary course of seeking indemnification for a loss covered by the insurance policy in establishing loss and LAE reserves.

We also face in the ordinary course of business lawsuits that seek damages beyond policy limits, commonly known as extra-contractual claims, as well as class action and individual lawsuits that involve issues not unlike those facing other insurance companies and employers.

We continually evaluate potential liabilities and reserves for litigation of these types using the criteria established by the Contingencies topic of the FASB Accounting Standards Codification. Under this guidance, we may only record reserves for a loss if the likelihood of occurrence is probable and we can reasonably estimate the amount or range of the loss. When disclosing litigation or claims where a material loss is judged to be reasonably possible, we will disclose an estimated range of loss or state that an estimate cannot be made. We consider each legal action using this guidance and record reserves for losses as warranted by establishing a reserve captured within our Consolidated Balance Sheets line-items "Unpaid losses and loss adjustment expenses" for extra-contractual claims and "Other liabilities" for class action and other non-claims related lawsuits. We record amounts incurred on the Consolidated Statements of Earnings within "Losses and loss adjustment expenses" for extra-contractual claims and "Other expenses" for class action and other non-claims related lawsuits.

The following legal actions have been brought against us for which we have accrued no loss, and for which an estimate of a possible range of loss cannot be made under the above rules. While it is not possible to predict the ultimate outcome of these lawsuits, we do not believe they are likely to have a material effect on our financial condition or liquidity. However, losses incurred because of these cases could have a material adverse impact on net earnings in a given period.

In *Reyes v. Infinity Indemnity Insurance Company* (Circuit Court of Miami-Dade County, Florida), which was initially filed on June 4, 2014, a third-party claimant is attempting to recover from Infinity a \$30 million consent judgment obtained against an Infinity policyholder for personal injuries suffered by the claimant. In December 2014 the trial court granted Infinity's motion for partial summary judgment, finding the consent judgment unenforceable and that no bad faith claim could exist as a matter of law. The plaintiff successfully appealed that ruling. Petitions for Rehearing and for Certiorari Review by the Florida Supreme Court were denied on March 10, 2017 and June 14, 2017, respectively sending the matter back to the trial court, where resumed litigation is expected to focus next on the issues of coverage and duty to defend. We will continue to vigorously defend against all claims in this case.

As of September 30, 2017, pending putative (i.e., not certified) class action lawsuits that challenge certain of Infinity's business operations and practices included the following:

- allegations we sold a lessor liability endorsement affording only illusory coverage.
- a challenge to denial of personal injury protection benefits to a class of injured third parties in vehicle accidents.
- a challenge to our payment of a percentage of arbitration awards to collection agencies in successful intercompany arbitrations.
- allegations that we are obligated to reimburse Medicare or secondary payers for accident-related medical payments in which personal injury protection benefits were denied.

In addition to lawsuits, regulatory bodies, including state insurance departments and the Securities and Exchange Commission, among others, may make inquiries, investigate consumer complaints or conduct on-site examinations concerning specific business practices or compliance more generally. Such inquiries, investigations or examinations

have in the past and may in the future directly or indirectly result in regulatory orders requiring remedial, injunctive or other actions or the assessment of substantial fines or other penalties.

During the first quarter of 2017, as a result of our review of certain business practices surrounding a California consumer complaint to the California Department of Insurance (CDI), a \$3.8 million adjustment was made to written and earned premium, reflecting premium to be returned to policyholders.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

During the second quarter, the CDI inquired about how we estimate and adjust an insured's annual mileage driven. Under California's auto insurance regulations, annual miles driven is one of three mandatory factors used to determine insurance premium rates. Although we believe we are in compliance with applicable regulations, we opted to revise the methodology we employ during the renewal process for estimating changes in annual miles. This change resulted in lowering mileage on approximately 200,000 policies renewed predominately in years 2016 and 2017, and correspondingly lowering rates on those policies. Any excess premiums collected were returned to policyholders, which resulted in premium adjustments to written and earned premium for the second quarter of \$18.3 million and \$12.4 million, respectively. While we believe our policies fully comply with all state regulations, given the broad administrative and interpretative powers of state insurance departments, future and unanticipated judicial, regulatory or legislative changes may raise challenges over established rate, underwriting or claims practices.

For a description of previously reported contingencies, refer to Note 14 Commitments and Contingencies in the Form 10-K for the year ended December 31, 2016.

Note 10 Accumulated Other Comprehensive Income

The components of other comprehensive income before and after tax are as follows (\$ in thousands):

	Three months ended September 30,					
	2017			2016		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
Accumulated change in post-retirement benefit liability, beginning of period	\$ 1,007	\$(353)	\$ 655	\$ 923	\$(323)	\$ 600
Effect on other comprehensive income	(13)	4	(8)	(11)	4	(7)
Accumulated change in post-retirement benefit liability, end of period	995	(348)	647	912	(319)	593
Accumulated unrealized gains on investments, net, beginning of period	28,457	(9,960)	18,497	37,383	(13,084)	24,299
Other comprehensive income before reclassification	6,310	(2,209)	4,102	4,702	(1,646)	3,056
Reclassification adjustment for other-than-temporary impairments included in net income	22	(8)	14	0	0	0
Reclassification adjustment for realized losses (gains) included in net income	410	(143)	266	(1,282)	449	(833)
Effect on other comprehensive income	6,742	(2,360)	4,382	3,420	(1,197)	2,223
Accumulated unrealized gains on investments, net, end of period	35,198	(12,319)	22,879	40,803	(14,281)	26,522
Accumulated other comprehensive income, beginning of period	29,464	(10,312)	19,152	38,306	(13,407)	24,899
Change in post-retirement benefit liability	(13)	4	(8)	(11)	4	(7)
Change in unrealized gains on investments, net	6,742	(2,360)	4,382	3,420	(1,197)	2,223
Effect on other comprehensive income	6,729	(2,355)	4,374	3,409	(1,193)	2,216
Accumulated other comprehensive income, end of period	\$ 36,193	\$(12,668)	\$ 23,526	\$ 41,715	\$(14,600)	\$ 27,115

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

	Nine months ended September 30,					
	2017			2016		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
Accumulated change in post-retirement benefit liability, beginning of period	\$1,033	\$(361)	\$671	\$944	\$(331)	\$614
Effect on other comprehensive income	(38)	13	(24)	(32)	11	(21)
Accumulated change in post-retirement benefit liability, end of period	995	(348)	647	912	(319)	593
Accumulated unrealized gains on investments, net, beginning of period	11,133	(3,896)	7,236	11,072	(3,875)	7,197
Other comprehensive income before reclassification	26,030	(9,110)	16,919	30,989	(10,846)	20,143
Reclassification adjustment for other-than-temporary impairments included in net income	31	(11)	20	316	(111)	205
Reclassification adjustment for realized gains included in net income	(1,996)	698	(1,297)	(1,573)	551	(1,023)
Effect on other comprehensive income	24,066	(8,423)	15,643	29,731	(10,406)	19,325
Accumulated unrealized gains on investments, net, end of period	35,198	(12,319)	22,879	40,803	(14,281)	26,522
Accumulated other comprehensive income, beginning of period	12,165	(4,258)	7,907	12,016	(4,206)	7,811
Change in post-retirement benefit liability	(38)	13	(24)	(32)	11	(21)
Change in unrealized gains on investments, net	24,066	(8,423)	15,643	29,731	(10,406)	19,325
Effect on other comprehensive income	24,028	(8,410)	15,618	29,699	(10,395)	19,304
Accumulated other comprehensive income, end of period	\$36,193	\$(12,668)	\$23,526	\$41,715	\$(14,600)	\$27,115

Note 11 Segment Information

We manage our business based on product line and have three operating segments: Personal Auto, Commercial Auto and Classic Collector (our reportable segments are Personal Auto and Commercial Auto).

Our Personal Auto product provides coverage to individuals for liability to others for bodily injury and property damage and for physical damage to an insured's own vehicle from collision and various other perils. In addition, some states require policies to provide for first party personal injury protection, frequently referred to as no-fault coverage. Our Commercial Auto product provides coverage to businesses for liability to others for bodily injury and property damage and for physical damage to vehicles from collision and various other perils. We primarily target businesses with fleets of 20 or fewer vehicles and average 1.9 vehicles per policy. We avoid businesses that are involved in what we consider to be hazardous operations or interstate commerce.

Our Classic Collector product provides coverage to individuals with classic or antique automobiles for liability to others for bodily injury and property damage and for physical damage to an insured's own vehicle from collision and various other perils.

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Condensed Notes to Consolidated Financial Statements

All segment revenues are generated from external customers. The following table provides revenues by segment and a reconciliation to "Total revenues" as reported on the Consolidated Statements of Earnings (\$ in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Gross written premium:				
Personal Auto	\$319,242	\$319,771	\$920,522	\$951,925
Commercial Auto	38,617	35,326	123,207	107,975
Classic Collector	4,358	4,280	12,979	12,406
Total gross written premium	362,217	359,377	1,056,709	1,072,306
Ceded reinsurance:				
Personal Auto	(1,627)	(977)	(3,615)	(2,989)
Commercial Auto ⁽¹⁾	(1,311)	(1,137)	(1,470)	(2,887)
Classic Collector	(275)	(198)	(696)	(635)
Total ceded reinsurance	(3,213)	(2,312)	(5,782)	(6,511)
Net written premium:				
Personal Auto	317,615	318,794	916,907	948,936
Commercial Auto	37,306	34,190	121,737	105,088
Classic Collector	4,084	4,081	12,283	11,771
Total net written premium	359,004	357,065	1,050,927	1,065,795
Change in unearned premium:				
Personal Auto	(14,075)	(13,652)	(12,532)	(34,081)
Commercial Auto	307	(881)	(12,071)	(11,869)
Classic Collector	(272)	(362)	(844)	(775)
Total change in unearned premium	(14,040)	(14,895)	(25,447)	(46,725)
Earned premium:				
Personal Auto	303,540	305,142	904,375	914,855
Commercial Auto	37,612	33,309	109,666	93,219
Classic Collector	3,812	3,720	11,439	10,996
Total earned premium	344,964	342,171	1,025,480	1,019,070
Installment and other fee income:				
Personal Auto	23,133	23,760	70,839	69,783
Commercial Auto	2,889	2,537	8,593	7,417
Classic Collector	0	0	0	0
Total installment and other fee income	26,022	26,297	79,432	77,200
Net investment income	9,771	8,125	27,467	25,115
Net realized gains on investments	(431)	1,282	1,964	1,257
Other income	376	249	1,041	727
Total revenues	\$380,701	\$378,124	\$1,135,385	\$1,123,370

(1) Effective June 1, 2017, the premium paid for our excess of loss reinsurance contract for our commercial auto business is now based on earned premium rather than written premium. Premium ceded during the nine months ended September 30, 2017 includes the return of \$2.6 million of unearned premium due to the termination of the previous excess of loss contract.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Our management uses underwriting income and combined ratios calculated on a statutory accident year basis as primary measures of profitability. Statutory accident year underwriting income is calculated by subtracting losses and loss adjustment expenses and commissions and other underwriting expenses (including bad debt charge-offs on agents' balances and premium receivables) from the total of earned premium and installment and other fee income. The statutory accident year combined ratio represents the sum of the following ratios: (i) losses and LAE incurred, excluding development from prior accident years, as a percentage of net earned premium; and (ii) underwriting expenses incurred, including bad debt and net of fees, as a percentage of net written premium.

The primary differences between the calculation of the statutory accident year used by management and the statutory calendar year combined ratios is the exclusion of bad debt charge-offs and the inclusion of development on prior accident year loss and LAE reserves.

Certain expenses are treated differently under statutory accounting principles. Under GAAP, commissions, premium taxes and other variable costs incurred in connection with successfully writing new and renewal business are capitalized as deferred policy acquisition costs and amortized on a pro rata basis over the period in which the related premium is earned. On a statutory basis, these items are expensed as incurred. Additionally, bad debt charge-offs on agents' balances and premium receivables are included in the GAAP combined ratios.

The following tables present the underwriting income and combined ratio on a statutory accident year basis with reconciliations to "Earnings before income taxes" as presented on the Consolidated Statements of Earnings (\$ in thousands). We do not allocate assets or "Provision for income taxes" to operating segments.

Three months ended September 30, 2017

	Personal Auto		Commercial Auto		Classic Collector		Total	
	Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾	Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾	Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾	Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾
Statutory accident year underwriting income	\$ 14,571	94.4 %	\$ 156	99.7 %	\$(1,268)	130.9 %	\$ 13,459	95.4 %
Bad debt charge-offs	3,302		588		9		3,900	
Favorable (unfavorable) development on prior accident years	4,803		(907)		237		4,134	
Statutory calendar year underwriting income	22,676	91.7 %	(162)	100.6 %	(1,022)	124.4 %	21,492	93.1 %
Statutory-to-GAAP underwriting income differences							(3,013)	
GAAP calendar year underwriting income							18,479	94.6 %
Net investment income							9,771	
Net realized gains on investments							(431)	
Other income							376	
Interest expense							(3,510)	
Corporate general and administrative expenses							(2,158)	
Other expenses							(844)	
Earnings before income taxes							\$ 21,683	

(1) Management includes the provision for uncollectible accounts in the underwriting income and combined ratio on both statutory accident year and GAAP calendar year bases.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

	Three months ended September 30, 2016									
	Personal Auto			Commercial Auto			Classic Collector		Total	
	Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾		Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾		Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾	Pre-tax Profit (Loss)	
Statutory accident year underwriting income	\$ (2,394)	100.0 %		\$ (336)	100.5 %		\$ (87)	99.0 %	\$ (2,817)	100.1 %
Bad debt charge-offs	3,682			509			21		4,212	
Favorable (unfavorable) development on prior accident years	5,997			(5,315)			(92)		590	
Statutory calendar year underwriting income	7,285	96.8 %		(5,142)	115.0 %		(157)	100.9 %	1,985	98.7 %
Statutory-to-GAAP underwriting income differences									(2,795)	
GAAP calendar year underwriting income									(810)	100.2 %
Net investment income									8,125	
Net realized gains on investments									1,282	
Other income									249	
Interest expense									(3,507)	
Corporate general and administrative expenses									(1,768)	
Other expenses									(375)	
Earnings before income taxes									\$3,196	

(1) Management includes the provision for uncollectible accounts in the underwriting income and combined ratio on both statutory accident year and GAAP calendar year bases.

	Nine months ended September 30, 2017									
	Personal Auto			Commercial Auto			Classic Collector		Total	
	Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾		Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾		Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾	Pre-tax Profit (Loss)	
Statutory accident year underwriting income	\$ 13,780	98.2 %		\$ 1,992	96.3 %		\$ (990)	106.1 %	\$ 14,782	98.1 %
Bad debt charge-offs	9,225			1,345			20		10,590	
Favorable (unfavorable) development on prior accident years	20,849			(4,015)			404		17,237	
Statutory calendar year underwriting income	43,854	94.9 %		(679)	98.9 %		(566)	102.4 %	42,610	95.4 %
Statutory-to-GAAP underwriting income differences									(10,681)	
GAAP calendar year underwriting income									31,929	96.9 %
Net investment income									27,467	

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Net realized gains on investments	1,964
Other income	1,041
Interest expense	(10,533)
Corporate general and administrative expenses	(6,876)
Other expenses	(1,673)
Earnings before income taxes	\$43,320

(1) Management includes the provision for uncollectible accounts in the underwriting income and combined ratio on both statutory accident year and GAAP calendar year bases.

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Condensed Notes to Consolidated Financial Statements

	Nine months ended September 30, 2016										
	Personal Auto			Commercial Auto			Classic Collector		Total		
	Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾		Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾		Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾	Pre-tax Profit (Loss)	Combined Ratio ⁽¹⁾	
Statutory accident year underwriting income	\$(978)	99.5 %		\$(1,816)	99.6 %		\$731	91.1 %		\$(2,063)	99.4 %
Bad debt charge-offs	11,048			1,322			39			12,409	
Favorable (unfavorable) development on prior accident years	21,077			(2,393)			(39)			18,646	
Statutory calendar year underwriting income	31,148	95.9 %		(2,887)	100.9 %		731	91.1 %		28,992	96.4 %
Statutory-to-GAAP underwriting income differences										(8,568)	
GAAP calendar year underwriting income										20,424	98.0 %
Net investment income										25,115	
Net realized gains on investments										1,257	
Other income										727	
Interest expense										(10,524)	
Corporate general and administrative expenses										(5,532)	
Other expenses										(1,455)	
Earnings before income taxes										\$30,012	

(1) Management includes the provision for uncollectible accounts in the underwriting income and combined ratio on both statutory accident year and GAAP calendar year bases.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 2

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" which anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. We make these statements subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in this report not dealing with historical results or current facts are forward-looking and we base them on estimates, assumptions and projections. Statements which include the words "assumes," "believes," "seeks," "expects," "may," "should," "intends," "likely," "targets," "plans," "anticipates," "estimates" or the negative version of those words and similar statements of a future or forward-looking nature identify forward-looking statements. Examples of such forward-looking statements include statements relating to expectations concerning market conditions, premium growth, earnings, investment performance, expected losses, rate changes and loss experience.

The primary events or circumstances that could cause actual results to differ materially from what we expect include determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio (including other-than-temporary impairments for credit losses), loss cost trends, and competitive conditions in our key focus states. We undertake no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements refer to Part I, Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2016.

OVERVIEW

During the third quarter of 2017, premium growth in Texas, Arizona and Commercial Auto was mostly offset by reductions in new business in Florida and California. Refer to Results of Operations – Underwriting – Premium for a more detailed discussion of our gross written premium.

Net catastrophe losses during the third quarter of 2017 were \$15.1 million compared to net recoveries of \$0.3 million during the third quarter of 2016.

Net earnings and diluted earnings per share for the three months ended September 30, 2017, were \$15.0 million and \$1.35, respectively, compared with \$2.8 million and \$0.25, respectively, for the same periods of 2016. Net earnings and diluted earnings per share for the nine months ended September 30, 2017, were \$30.7 million and \$2.76, respectively, compared with \$21.5 million and \$1.93, respectively, for the same periods of 2016. The increase in net earnings and diluted earnings per share for the three and nine months ended September 30, 2017, was primarily due to a decrease in the accident year combined ratio from 99.8% at September 30, 2016, to 98.6% at September 30, 2017. Included in net earnings for the three and nine months ended September 30, 2017, was \$2.7 million (\$4.1 million pre-tax) and \$11.2 million (\$17.2 million pre-tax), respectively, of favorable development on prior accident year loss and LAE reserves. Contributing to the \$4.1 million and \$17.2 million of favorable reserve development during the three and nine months ended September 30, 2017, respectively, was a decrease in ultimate severity estimates in California related to bodily injury and material damage coverages for accident year 2016. Also contributing to the \$17.2 million of favorable reserve development for the nine months ended September 30, 2017 was a decrease in ultimate frequency estimates in Florida related to material damage and uninsured motorist bodily injury coverage for accident year 2016. This favorable development was partially offset by increases in ultimate severity estimates in bodily injury coverages in our commercial auto product.

Included in net earnings for the three and nine months ended September 30, 2016, was \$0.4 million (\$0.6 million pre-tax) and \$12.1 million (\$18.6 million pre-tax), respectively, of favorable development on prior accident year loss and LAE reserves. This development was primarily due to decreases in severity estimates related to Florida personal injury protection and bodily injury coverages related to accident years 2015 and prior, partially offset by unfavorable development from accident year 2015 in California material damage coverages and in bodily injury coverages in our commercial auto product, driven by an increase in severity.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table displays combined ratio results by accident year developed through September 30, 2017:

Accident Year	Accident Year Combined Ratio Developed Through						Prior Accident Year (Favorable) / Unfavorable Development (\$ in millions)			
	Dec 2015	Sept 2016	Dec 2016	Mar 2017	June 2017	Sept 2017	Q3 2017		YTD 2017	
Prior							\$ (0.1)		\$ 0.3	
2009	92.4 %	92.4 %	92.4 %	92.4 %	92.5 %	92.5 %	0.0 %	0.2	0.1 %	0.4
2010	99.4 %	99.3 %	99.3 %	99.3 %	99.3 %	99.3 %	0.0 %	0.2	0.1 %	0.5
2011	100.2 %	100.0 %	99.8 %	99.9 %	99.9 %	99.9 %	0.0 %	0.0	0.1 %	0.6
2012	100.1 %	99.8 %	99.6 %	99.5 %	99.4 %	99.4 %	0.0 %	0.3	(0.2) %	(2.4)
2013	95.5 %	94.9 %	94.8 %	94.9 %	94.9 %	94.8 %	(0.1) %	(1.5)	(0.1) %	(0.7)
2014	95.4 %	94.3 %	94.4 %	94.4 %	94.5 %	94.5 %	0.5 %	0.6	0.1 %	1.8
2015	97.8 %	98.4 %	98.3 %	98.4 %	98.3 %	98.5 %	0.2 %	2.2	0.2 %	2.3
2016		99.8 %	98.4 %	97.8 %	97.4 %	97.0 %	(0.4) %	(6.1)	(1.4) %	(20.1)
2017 YTD				98.4 %	99.9 %	98.6 %				
							\$ (4.1)		\$ (17.2)	

Refer to Results of Operations – Underwriting – Profitability for a more detailed discussion of our underwriting results. Pre-tax net investment income for the three and nine months ended September 30, 2017, was \$9.8 million and \$27.5 million respectively, compared with \$8.1 million and \$25.1 million, respectively, for the same periods of 2016. The increase for the three and nine months ended September 30, 2017, was primarily due to lower premium amortization on mortgage-backed securities and an increase in both make whole interest and bond issuer tender offers during 2017. Our book value per share increased 3.5% from \$63.31 at December 31, 2016, to \$65.52 at September 30, 2017. This increase was primarily due to earnings and an increase in unrealized gains, partially offset by shareholder dividends and share repurchases during the year.

RESULTS OF OPERATIONS**Underwriting****Premium**

Our insurance subsidiaries provide personal automobile insurance products with a concentration on nonstandard auto insurance. While there is no industry-recognized definition of nonstandard auto insurance, we believe that it is generally understood to mean coverage for drivers who, due to factors such as their driving record, driving experience, lapse in (or the absence of) prior insurance, or credit history, represent a higher than normal risk. Customers in the market for nonstandard auto insurance generally seek minimum required liability limits and are willing to accept restrictive coverages in exchange for more affordable insurance, given their risk profile. We also write commercial auto insurance and insurance for classic collectible automobiles (Classic Collector).

We are licensed to write insurance in all 50 states and the District of Columbia, but we focus our operations in targeted urban areas that we believe offer the greatest opportunity for premium growth and profitability.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Our net earned premium was as follows (\$ in thousands):

	Three months ended September 30,			
	2017	2016	Change	% Change
Gross written premium:				
Personal Auto	\$319,242	\$319,771	\$(529)	(0.2)%
Commercial Auto	38,617	35,326	3,290	9.3%
Classic Collector	4,358	4,280	79	1.8%
Total gross written premium	362,217	359,377	2,840	0.8%
Ceded reinsurance	(3,213)	(2,312)	(901)	39.0%
Net written premium	359,004	357,065	1,939	0.5%
Change in unearned premium	(14,040)	(14,895)	855	(5.7)%
Net earned premium	\$344,964	\$342,171	\$2,793	0.8%

	Nine months ended September 30,			
	2017	2016	Change	% Change
Gross written premium:				
Personal Auto	\$920,522	\$951,925	\$(31,403)	(3.3)%
Commercial Auto	123,207	107,975	15,232	14.1%
Classic Collector	12,979	12,406	573	4.6%
Total gross written premium	1,056,709	1,072,306	(15,598)	(1.5)%
Ceded reinsurance	(5,782)	(6,511)	729	(11.2)%
Net written premium	1,050,927	1,065,795	(14,868)	(1.4)%
Change in unearned premium	(25,447)	(46,725)	21,278	(45.5)%
Net earned premium	\$1,025,480	\$1,019,070	\$6,410	0.6%

The following table summarizes our policies in force:

	At September 30,			
	2017	2016	Change	% Change
Personal Auto	687,251	729,686	(42,435)	(5.8)%
Commercial Auto	55,935	51,849	4,086	7.9%
Classic Collector	41,268	41,511	(243)	(0.6)%
Total policies in force	784,454	823,046	(38,592)	(4.7)%

During the first nine months of 2017, we implemented rate revisions in various states with an overall rate increase of 3.0%. Policies in force at September 30, 2017, decreased 4.7% compared with the same period in 2016.

Gross written premium in Personal Auto was relatively flat during the third quarter of 2017 primarily due to premium declines in California and Florida, offset by growth in Texas and Arizona. The decrease in gross written premium in Personal Auto during the first nine months of 2017 was primarily due to premium adjustments in California of \$22.2 million during the first six months of 2017. Refer to Note 9 - Commitments and Contingencies for a more detailed discussion of the premium adjustments. Excluding the premium adjustments, gross written premium increased 0.6% during the first nine months of 2017 driven by growth in Texas, Arizona and Commercial Auto, partially offset by reductions in new business in Florida and California. Growth during the first nine months in Texas and Arizona was primarily due to new business growth and higher average premium in both states as well as renewal premium growth in Texas.

The gross written premium growth during the third quarter and first nine months of 2017 in our Commercial Auto product was primarily due to new and renewal business growth and higher average premium.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Management's Discussion and Analysis of Financial Condition and Results of Operations

Profitability

A key operating performance measure of insurance companies is underwriting profitability, as opposed to overall profitability or net earnings. We measure underwriting profitability by the combined ratio. When the combined ratio is under 100%, we consider underwriting results profitable; when the ratio is over 100%, we consider underwriting results unprofitable. The combined ratio does not reflect investment income, other income, interest expense, corporate general and administrative expenses, other expenses or federal income taxes.

In addition to reporting financial results in accordance with GAAP, we report results on a statutory basis for insurance regulatory purposes. We evaluate underwriting profitability based on a combined ratio calculated using statutory accounting principles. The statutory combined ratio represents the sum of the following ratios: (i) losses and LAE incurred as a percentage of net earned premium; and (ii) underwriting expenses incurred, net of installment and other fees, as a percentage of net written premium. Certain expenses are treated differently under statutory and GAAP accounting principles. Under GAAP, commissions, premium taxes and other variable costs incurred in connection with writing new and renewal business are capitalized as deferred policy acquisition costs and amortized on a pro rata basis over the period in which the related premium is earned. On a statutory basis, these items are expensed as incurred. Additionally, bad debt charge-offs on agent balances and premium receivables are included only in the GAAP combined ratios.

The discussion of underwriting results that follows focuses on statutory ratios and the components thereof, unless otherwise indicated.

The following table presents statutory and GAAP combined ratios:

	Three months ended September 30,								
	2017			2016			% Point Change		
	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio
Personal Auto	75.5%	16.3 %	91.7 %	80.7%	16.2 %	96.8 %	(5.2)%	0.1 %	(5.1)%
Commercial Auto	84.0%	16.6 %	100.6 %	98.3%	16.7 %	115.0 %	(14.3)%	(0.1)%	(14.4)%
Classic Collector	91.4%	33.0 %	124.4 %	67.1%	33.8 %	100.9 %	24.3 %	(0.8)%	23.5 %
Total statutory ratios	76.5%	16.6 %	93.1 %	82.3%	16.4 %	98.7 %	(5.8)%	0.1 %	(5.6)%
Total statutory ratios excluding development	81.9%	16.6 %	98.4 %	80.7%	16.4 %	97.1 %	1.2 %	0.1 %	1.3 %
GAAP ratios	76.3%	18.3 %	94.6 %	82.1%	18.2 %	100.2 %	(5.8)%		