

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

August 03, 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 June 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 July 28, 2017, there were 11,037,459 shares of the registrant's common stock outstanding.

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Condensed Notes to Consolidated Financial Statements

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Condensed Notes to Consolidated Financial Statements

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 June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|-----------|-------------|---------------------------|-----------|-------------|
| | 2017 | 2016 | % Change | 2017 | 2016 | % Change |
| Revenues: | | | | | | |
| Earned premium | \$339,147 | \$340,715 | (0.5)% | \$680,516 | \$676,899 | 0.5 % |
| Installment and other fee income | 26,461 | 25,385 | 4.2 % | 53,410 | 50,903 | 4.9 % |
| Net investment income | 9,001 | 8,927 | 0.8 % | 17,696 | 16,990 | 4.2 % |
| Net realized gains (losses) on investments ⁽¹⁾ | 1,886 | (164) | NM | 2,396 | (25) | NM |
| Other income | 391 | 220 | 77.3 % | 666 | 478 | 39.2 % |
| Total revenues | 376,886 | 375,084 | 0.5 % | 754,683 | 745,246 | 1.3 % |
| Costs and Expenses: | | | | | | |
| Losses and loss adjustment expenses | 273,621 | 263,514 | 3.8 % | 544,296 | 528,798 | 2.9 % |
| Commissions and other underwriting expenses | 90,241 | 89,164 | 1.2 % | 176,180 | 177,771 | (0.9)% |
| Interest expense | 3,511 | 3,508 | 0.1 % | 7,023 | 7,017 | 0.1 % |
| Corporate general and administrative expenses | 2,447 | 2,060 | 18.8 % | 4,718 | 3,764 | 25.4 % |
| Other expenses | 507 | 797 | (36.4)% | 829 | 1,080 | (23.2)% |
| Total costs and expenses | 370,327 | 359,043 | 3.1 % | 733,046 | 718,429 | 2.0 % |
| Earnings before income taxes | 6,559 | 16,040 | (59.1)% | 21,637 | 26,816 | (19.3)% |
| Provision for income taxes | 1,513 | 5,026 | (69.9)% | 5,945 | 8,094 | (26.5)% |
| Net Earnings | \$5,046 | \$11,015 | (54.2)% | \$15,692 | \$18,723 | (16.2)% |
| Net Earnings per Common Share: | | | | | | |
| Basic | \$0.46 | \$1.00 | (54.0)% | \$1.43 | \$1.70 | (15.9)% |
| Diluted | 0.46 | 0.99 | (53.5)% | 1.41 | 1.68 | (16.1)% |
| Average Number of Common Shares: | | | | | | |
| Basic | 11,006 | 11,012 | (0.1)% | 11,002 | 11,024 | (0.2)% |
| Diluted | 11,082 | 11,096 | (0.1)% | 11,105 | 11,115 | (0.1)% |
| Cash Dividends per Common Share | \$0.58 | \$0.52 | 11.5 % | \$1.16 | \$1.04 | 11.5 % |
| ⁽¹⁾ Net realized gains on sales | \$1,886 | \$34 | NM | \$2,406 | \$291 | 726.3 % |
| Total other-than-temporary impairment (OTTI) losses | 0 | (198) | NM | (46) | (316) | (85.6)% |
| Non-credit portion in other comprehensive income | 0 | 0 | 0.0 % | 36 | 0 | NM |
| Net impairment losses recognized in earnings | 0 | (198) | NM | (10) | (316) | (96.9)% |
| Total net realized gains (losses) on investments | \$1,886 | \$(164) | NM | \$2,396 | \$(25) | NM |

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 STATEMENTS OF COMPREHENSIVE INCOME

(\$ in thousands)

(unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net earnings | \$5,046 | \$11,015 | \$15,692 | \$18,723 |
| Other comprehensive income before tax: | | | | |
| Net change in post-retirement benefit liability | (13) | (11) | (25) | (22) |
| Unrealized gains on investments: | | | | |
| Unrealized holding gains arising during the period | 9,055 | 10,828 | 19,720 | 26,287 |
| Less: Reclassification adjustments for (gains) losses included in net earnings | (1,886) | 164 | (2,396) | 25 |
| Unrealized gains on investments, net | 7,169 | 10,992 | 17,324 | 26,311 |
| Other comprehensive income, before tax | 7,156 | 10,981 | 17,299 | 26,290 |
| Income tax expense related to components of other comprehensive income | (2,505) | (3,843) | (6,055) | (9,201) |
| Other comprehensive income, net of tax | 4,652 | 7,137 | 11,244 | 17,088 |
| Comprehensive income | \$9,698 | \$18,152 | \$26,937 | \$35,811 |

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)

| | June 30, 2017 (unaudited) | December 31, 2016 |
|---|---------------------------------|----------------------|
| Assets | | |
| Investments: | | |
| Fixed maturities – at fair value (amortized cost \$1,431,815 and \$1,392,660) | \$ 1,439,034 | \$ 1,390,167 |
| Equity securities – at fair value (cost \$74,270 and \$77,013) | 95,508 | 90,640 |
| Short-term investments – at fair value (amortized cost \$425 and \$2,909) | 425 | 2,907 |
| Total investments | 1,534,967 | 1,483,714 |
| Cash and cash equivalents | 87,608 | 92,800 |
| Accrued investment income | 13,471 | 12,485 |
| Agents' balances and premium receivable, net of allowances for doubtful accounts of \$13,216 and \$14,207 | 498,055 | 495,157 |
| Property and equipment, net of accumulated depreciation of \$77,591 and \$70,559 | 87,507 | 96,166 |
| Prepaid reinsurance premium | 3,186 | 3,410 |
| Recoverables from reinsurers (includes \$439 and \$121 on paid losses and LAE) | 17,864 | 17,251 |
| Deferred policy acquisition costs | 90,403 | 91,136 |
| Current and deferred income taxes | 22,536 | 21,635 |
| Receivable for securities sold | 0 | 795 |
| Other assets | 20,523 | 12,777 |
| Goodwill | 75,275 | 75,275 |
| Total assets | \$2,451,396 | \$ 2,402,601 |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Unpaid losses and loss adjustment expenses | \$701,097 | \$ 685,455 |
| Unearned premium | 623,466 | 614,347 |
| Long-term debt (fair value \$294,132 and \$278,726) | 273,699 | 273,591 |
| Commissions payable | 13,836 | 16,176 |
| Payable for securities purchased | 14,525 | 13,922 |
| Other liabilities | 112,648 | 99,924 |
| Total liabilities | 1,739,271 | 1,703,414 |
| Commitments and contingencies (See Note 9) | | |
| Shareholders' equity: | | |
| Common stock, no par value (50,000,000 shares authorized; 21,851,207 and 21,809,954 shares issued) | 21,862 | 21,829 |
| Additional paid-in capital | 381,477 | 378,745 |
| Retained earnings | 780,575 | 777,695 |
| Accumulated other comprehensive income, net of tax | 19,152 | 7,907 |
| Treasury stock, at cost (10,807,816 and 10,766,211 shares) | (490,941) | (486,990) |
| Total shareholders' equity | 712,125 | 699,187 |
| Total liabilities and shareholders' equity | \$2,451,396 | \$ 2,402,601 |
| See <u>Condensed Notes to Consolidated Financial Statements</u> . | | |

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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 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 | — | — | 18,723 | — | — | 18,723 |
| Net change in post-retirement benefit liability | — | — | — | (14 |) — | (14) |
| Change in unrealized gain on investments | — | — | — | 16,960 | — | 16,960 |
| Change in non-credit component of impairment losses on fixed maturities | — | — | — | 142 | — | 142 |
| Comprehensive income | | | | | | 35,811 |
| Dividends paid to common shareholders | — | — | (11,497) | — | — | (11,497) |
| Shares issued and share-based compensation expense, including tax benefit | 7 | 627 | — | — | — | 633 |
| Acquisition of treasury stock | — | — | — | — | (9,486) | (9,486) |
| Balance at June 30, 2016 | \$ 21,801 | \$ 376,652 | \$ 764,829 | \$ 24,899 | \$(485,124) | \$ 703,057 |
| Net earnings | — | — | 24,362 | — | — | 24,362 |
| Net change in post-retirement benefit liability | — | — | — | 71 | — | 71 |
| Change in unrealized gain on investments | — | — | — | (17,198) | — | (17,198) |
| Change in non-credit component of impairment losses on fixed maturities | — | — | — | 135 | — | 135 |
| Comprehensive income | | | | | | 7,371 |
| Dividends paid to common shareholders | — | — | (11,496) | — | — | (11,496) |
| Shares issued and share-based compensation expense, including tax benefit | 29 | 2,093 | — | — | — | 2,122 |
| Acquisition of treasury stock | — | — | — | — | (1,866) | (1,866) |
| Balance at December 31, 2016 | \$ 21,829 | \$ 378,745 | \$ 777,695 | \$ 7,907 | \$(486,990) | \$ 699,187 |
| Net earnings | — | — | 15,692 | — | — | 15,692 |
| Net change in post-retirement benefit liability | — | — | — | (16 |) — | (16) |
| Change in unrealized gain on investments | — | — | — | 11,179 | — | 11,179 |
| Change in non-credit component of impairment losses on fixed maturities | — | — | — | 82 | — | 82 |
| Comprehensive income | | | | | | 26,937 |
| Dividends paid to common shareholders | — | — | (12,813) | — | — | (12,813) |
| Shares issued and share-based compensation expense | 33 | 2,732 | — | — | — | 2,765 |
| Acquisition of treasury stock | — | — | — | — | (3,951) | (3,951) |
| Balance at June 30, 2017 | \$ 21,862 | \$ 381,477 | \$ 780,575 | \$ 19,152 | \$(490,941) | \$ 712,125 |

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 STATEMENTS OF CASH FLOWS

(\$ in thousands, unaudited)

| | Three months ended June 30, | |
|--|--------------------------------|-----------|
| | 2017 | 2016 |
| Operating Activities: | | |
| Net earnings | \$5,046 | \$11,015 |
| Adjustments: | | |
| Depreciation | 4,120 | 3,438 |
| Amortization | 5,695 | 5,037 |
| Net realized (gains) losses on investments | (1,886) | 164 |
| (Gain) loss on disposal of property and equipment | (5) | 399 |
| Share-based compensation expense | 1,238 | 28 |
| Excess tax benefits from share-based payment arrangements | 0 | 157 |
| Activity related to rabbi trust | 59 | 48 |
| Change in accrued investment income | (1,233) | (314) |
| Change in agents' balances and premium receivable | 14,207 | 6,044 |
| Change in reinsurance receivables | (1,307) | 1,663 |
| Change in deferred policy acquisition costs | 3,690 | 1,392 |
| Change in other assets | (8,789) | 6,433 |
| Change in unpaid losses and loss adjustment expenses | 22,151 | (7,265) |
| Change in unearned premium | (17,825) | (7,103) |
| Change in other liabilities | 4,980 | 295 |
| Net cash provided by operating activities | 30,141 | 21,431 |
| Investing Activities: | | |
| Purchases of fixed maturities | (155,009) | (103,611) |
| Purchases of short-term investments | (425) | (5,140) |
| Purchases of property and equipment | (695) | (10,450) |
| Maturities and redemptions of fixed maturities | 65,159 | 36,847 |
| Maturities and redemptions of short-term investments | 500 | 0 |
| Proceeds from sale of fixed maturities | 81,487 | 99,180 |
| Proceeds from sale of equity securities | 5,000 | 0 |
| Proceeds from sale of short-term investments | 0 | 1,064 |
| Proceeds from sale of property and equipment | 6 | 2 |
| Net cash (used in) provided by investing activities | (3,978) | 17,892 |
| Financing Activities: | | |
| Proceeds from stock options exercised and employee stock purchases | 78 | 68 |
| Principal payments under capital lease obligations | (134) | (129) |
| Acquisition of treasury stock | (1,450) | (1,116) |
| Dividends paid to shareholders | (6,411) | (5,753) |
| Net cash used in financing activities | (7,916) | (6,930) |
| Net increase in cash and cash equivalents | 18,247 | 32,393 |
| Cash and cash equivalents at beginning of period | 69,361 | 43,623 |
| Cash and cash equivalents at end of period | \$87,608 | \$76,016 |

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 STATEMENTS OF CASH FLOWS

(\$ in thousands, unaudited)

| | Six months ended | |
|--|------------------|------------|
| | June 30, | |
| | 2017 | 2016 |
| Operating Activities: | | |
| Net earnings | \$15,692 | \$18,723 |
| Adjustments: | | |
| Depreciation | 8,296 | 6,521 |
| Amortization | 11,023 | 10,839 |
| Net realized (gains) losses on investments | (2,396) |) 25 |
| (Gain) loss on disposal of property and equipment | (8) |) 401 |
| Share-based compensation expense | 2,622 | 351 |
| Excess tax benefits from share-based payment arrangements | 0 | 157 |
| Activity related to rabbi trust | 128 | 66 |
| Change in accrued investment income | (986) |) 509 |
| Change in agents' balances and premium receivable | (2,898) |) (25,016) |
| Change in reinsurance receivables | (389) |) (2,067) |
| Change in deferred policy acquisition costs | 733 | (2,664) |
| Change in other assets | (13,220) |) 3,303 |
| Change in unpaid losses and loss adjustment expenses | 15,643 | (3,755) |
| Change in unearned premium | 9,118 | 28,747 |
| Change in other liabilities | 10,321 | (3,745) |
| Net cash provided by operating activities | 53,679 | 32,396 |
| Investing Activities: | | |
| Purchases of fixed maturities | (275,840) | (261,498) |
| Purchases of equity securities | (1,900) |) 0 |
| Purchases of short-term investments | (425) |) (5,140) |
| Purchases of property and equipment | (1,584) |) (15,395) |
| Maturities and redemptions of fixed maturities | 108,478 | 76,145 |
| Maturities and redemptions of short-term investments | 500 | 0 |
| Proceeds from sale of fixed maturities | 119,158 | 203,115 |
| Proceeds from sale of equity securities | 7,002 | 0 |
| Proceeds from sale of short-term investments | 2,400 | 5,666 |
| Proceeds from sale of property and equipment | 25 | 2 |
| Net cash (used in) provided by investing activities | (42,187) |) 2,896 |
| Financing Activities: | | |
| Proceeds from stock options exercised and employee stock purchases | 143 | 126 |
| Principal payments under capital lease obligations | (269) |) (249) |
| Acquisition of treasury stock | (3,746) |) (10,137) |
| Dividends paid to shareholders | (12,813) |) (11,497) |
| Net cash used in financing activities | (16,684) |) (21,759) |
| Net (decrease) increase in cash and cash equivalents | (5,192) |) 13,533 |
| Cash and cash equivalents at beginning of period | 92,800 | 62,483 |
| Cash and cash equivalents at end of period | \$87,608 | \$76,016 |

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

June 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 June 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 both the three and six months ended June 30, 2016, respectively. The adoption of this standard did not 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

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 period 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 June 30, 2017, we have \$13.8 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. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations. As an insurance-entity, we are largely exempt from the provisions of this standard, with only fee income totaling \$107.4 million for the year ended December 31, 2016, subject to this new standard.

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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 June 30, | | Six months ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net earnings | \$5,046 | \$11,015 | \$15,692 | \$18,723 |
| Average basic shares outstanding | 11,006 | 11,012 | 11,002 | 11,024 |
| Basic net earnings per share | \$0.46 | \$1.00 | \$1.43 | \$1.70 |
| Average basic shares outstanding | 11,006 | 11,012 | 11,002 | 11,024 |
| Restricted stock not vested | 36 | 24 | 34 | 22 |
| Dilutive effect of Performance Share Plan | 41 | 60 | 68 | 69 |
| Average diluted shares outstanding | 11,082 | 11,096 | 11,105 | 11,115 |
| Diluted net earnings per share | \$0.46 | \$0.99 | \$1.41 | \$1.68 |

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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 | | |
| June 30, 2017 | | | | | |
| Cash and cash equivalents | \$87,608 | \$0 | \$0 | | \$87,608 |
| Fixed maturity securities: | | | | | |
| U.S. government | 64,025 | 0 | 0 | | 64,025 |
| State and municipal | 0 | 498,709 | 3,447 | | 502,156 |
| Mortgage-backed securities: | | | | | |
| Residential | 0 | 351,766 | 0 | | 351,766 |
| Commercial | 0 | 42,060 | 0 | | 42,060 |
| Total mortgage-backed securities | 0 | 393,826 | 0 | | 393,826 |
| Asset-backed securities | 0 | 51,527 | 249 | | 51,775 |
| Corporates | 0 | 427,038 | 215 | | 427,252 |
| Total fixed maturities | 64,025 | 1,371,099 | 3,910 | | 1,439,034 |
| Equity securities | 95,508 | 0 | 0 | | 95,508 |
| Short-term investments | 0 | 425 | 0 | | 425 |
| Total cash and investments | \$247,141 | \$1,371,524 | \$3,910 | | \$1,622,575 |
| Percentage of total cash and investments | 15.2 | % 84.5 | % 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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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

We do not report our long-term debt at fair value in the Consolidated Balance Sheets. The \$294.1 million and \$278.7 million fair value of our long-term debt at June 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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Condensed Notes to Consolidated Financial Statements

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

| Three months ended June 30, 2017 | State and Municipal | Asset-Backed Securities | Corporates | Total |
|--|------------------------|----------------------------|------------|-----------|
| Balance at beginning of period | \$ 3,479 | \$ 4,584 | \$ 2,553 | \$ 10,616 |
| Total (losses) gains, unrealized or realized | | | | |
| Included in net earnings | (29) | 0 | 0 | (29) |
| Included in other comprehensive income | (3) | 1 | (4) | (6) |
| Settlements | 0 | (76) | (335) | (411) |
| Transfers out | 0 | (4,259) | (2,000) | (6,259) |
| Balance at end of period | \$ 3,447 | \$ 249 | \$ 215 | \$ 3,910 |

| Three months ended June 30, 2016 | State and Municipal | Asset-Backed Securities | Corporates | Total |
|--|------------------------|----------------------------|------------|----------|
| Balance at beginning of period | \$ 0 | \$ 1,338 | \$ 1,442 | \$ 2,781 |
| Total (losses) gains, unrealized or realized | | | | |
| Included in net earnings | (4) | 0 | 4 | (0) |
| Included in other comprehensive income | 1 | 1 | (26) | (24) |
| Purchases | 0 | 620 | 0 | 620 |
| Settlements | 0 | 0 | (312) | (312) |
| Transfers in | 628 | 0 | 0 | 628 |
| Balance at end of period | \$ 626 | \$ 1,959 | \$ 1,107 | \$ 3,692 |

| Six months ended June 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 | (60) | 0 | 2 | (59) |
| Included in other comprehensive income | 12 | 1 | (26) | (12) |
| Purchases | 0 | 4,259 | 2,000 | 6,259 |
| Sales | (694) | 0 | 0 | (694) |
| Settlements | 0 | (165) | (427) | (591) |
| Transfers in | 329 | 0 | 0 | 329 |
| Transfers out | 0 | (4,259) | (2,000) | (6,259) |
| Balance at end of period | \$ 3,447 | \$ 249 | \$ 215 | \$ 3,910 |

| Six months ended June 30, 2016 | State and Municipal | Asset-Backed Securities | Corporates | Total |
|--|------------------------|----------------------------|------------|----------|
| Balance at beginning of period | \$ 10 | \$ 0 | \$ 1,524 | \$ 1,534 |
| Total losses, unrealized or realized | | | | |
| Included in net earnings | (4) | 0 | 7 | 3 |
| Included in other comprehensive income | 1 | 1 | (25) | (23) |
| Purchases | 0 | 620 | 0 | 620 |
| Sales | 0 | 0 | 0 | 0 |
| Settlements | (10) | 0 | (398) | (408) |
| Transfers in | 628 | 1,338 | 0 | 1,966 |
| Transfers out | 0 | 0 | 0 | 0 |
| Balance at end of period | \$ 626 | \$ 1,959 | \$ 1,107 | \$ 3,692 |

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Of the \$3.9 million fair value of securities in Level 3 at June 30, 2017, which consisted of five securities, we priced two based on non-binding broker quotes and three 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 six months ended June 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. There were no transfers of securities between Levels 1 and 2.

The gains or losses included in net earnings are included in the line item "Net realized gains (losses) 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):

| | June 30, 2017 | | December 31, 2016 | |
|---------------------------------------|----------------|-------------|-------------------|-------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | \$87,608 | \$87,608 | \$92,800 | \$92,800 |
| Available-for-sale securities: | | | | |
| Fixed maturities | 1,439,034 | 1,439,034 | 1,390,167 | 1,390,167 |
| Equity securities | 95,508 | 95,508 | 90,640 | 90,640 |
| Short-term investments | 425 | 425 | 2,907 | 2,907 |
| Total cash and investments | \$1,622,575 | \$1,622,575 | \$1,576,514 | \$1,576,514 |
| Liabilities: | | | | |
| Long-term debt | \$273,699 | \$294,132 | \$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 six months ended June 30, 2017, were \$86.5 million and \$128.6 million respectively, while the proceeds from sales of securities for the three and six months ended June 30, 2016, were \$100.2 million and \$208.8 million, respectively. There was no receivable for unsettled sales as of June 30, 2017, or June 30, 2016.

Gross gains of \$2.3 million and gross losses of \$0.4 million were realized on sales of available-for-sale securities during the three months ended June 30, 2017, compared with gross gains of \$0.9 million and gross losses of \$0.9 million realized on sales during the three months ended June 30, 2016. Gross gains of \$3.0 million and gross losses of \$0.6 million were realized on sales of available-for-sale securities during the six months ended June 30, 2017, compared with gross gains of \$2.2 million and gross losses of \$1.9 million realized on sales during the six months ended June 30, 2016. Gains or losses on securities are determined on a specific identification basis.

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Condensed Notes to Consolidated Financial Statements

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

| | Amortized | Gross | Gross | Fair Value | OTTI Recognized in Accumulated OCI ⁽¹⁾ |
|----------------------------------|-------------|------------|-------------|-------------|---|
| June 30, 2017 | Cost or | Unrealized | Unrealized | | |
| | Cost | Gains | Losses | | |
| Fixed maturities: | | | | | |
| U.S. government | \$64,192 | \$ 66 | \$(234) | \$64,025 | \$ 0 |
| State and municipal | 497,850 | 5,085 | (778) | 502,156 | (47) |
| Mortgage-backed securities: | | | | | |
| Residential | 353,813 | 2,264 | (4,311) | 351,766 | (1,856) |
| Commercial | 42,609 | 65 | (614) | 42,060 | 0 |
| Total mortgage-backed securities | 396,422 | 2,328 | (4,924) | 393,826 | (1,856) |
| Asset-backed securities | 51,668 | 130 | (22) | 51,775 | (8) |
| Corporates | 421,684 | 6,476 | (908) | 427,252 | (31) |
| Total fixed maturities | 1,431,815 | 14,085 | (6,866) | 1,439,034 | (1,942) |
| Equity securities | 74,270 | 21,238 | 0 | 95,508 | 0 |
| Short-term investments | 425 | 0 | (0) | 425 | 0 |
| Total | \$1,506,511 | \$ 35,323 | \$(6,866) | \$1,534,967 | \$(1,942) |
| 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):

| June 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 | 30 | \$48,093 | \$(233) | 0.5 % | | 1 | \$765 | \$(1) | 0.1 % | |
| State and municipal | 81 | 157,706 | (713) | 0.4 % | | 1 | 3,743 | (66) | 1.7 % | |
| Mortgage-backed securities: | | | | | | | | | | |
| Residential | 382 | 220,947 | (3,790) | 1.7 % | | 46 | 13,071 | (520) | 3.8 % | |
| Commercial | 11 | 28,392 | (602) | 2.1 % | | 3 | 5,027 | (12) | 0.2 % | |
| Total mortgage-backed securities | 393 | 249,339 | (4,392) | 1.7 % | | 49 | 18,098 | (532) | 2.9 % | |
| Asset-backed securities | 9 | 8,653 | (17) | 0.2 % | | 1 | 1,455 | (5) | 0.3 % | |
| Corporates | 74 | 98,429 | (756) | 0.8 % | | 6 | 5,975 | (152) | 2.5 % | |
| Total fixed maturities | 587 | 562,220 | (6,111) | 1.1 % | | 58 | 30,036 | (755) | 2.5 % | |
| Short-term investments | 1 | 425 | (0) | 0.0 % | | 0 | 0 | 0 | 0.0 % | |
| Total | 588 | \$562,645 | \$(6,111) | 1.1 % | | 58 | \$30,036 | \$(755) | 2.5 % | |
| 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:

| | June 30, 2017 | | December 31, 2016 | |
|---|---------------|---|-------------------|---|
| Number of positions held with unrealized: | | | | |
| Gains | 677 | | 527 | |
| Losses | 646 | | 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 | 86 | % | 85 | % |
| Losses that were investment grade | 96 | % | 97 | % |
| Percentage of fair value held with unrealized: | | | | |
| Gains that were investment grade | 87 | % | 84 | % |
| Losses that were investment grade | 96 | % | 97 | % |

The following table sets forth the amount of unrealized losses, excluding the rabbi trust, by age and severity at June 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 | \$ 203,738 | \$ (638) | \$ (638) | \$ 0 | \$ 0 |
| Four months through six months | 18,639 | (53) | (53) | 0 | 0 |
| Seven months through nine months | 249,433 | (4,058) | (4,058) | 0 | 0 |
| Ten months through twelve months | 96,024 | (1,447) | (1,447) | 0 | 0 |
| Greater than twelve months | 24,847 | (669) | (543) | (127) | (0) |
| Total | \$ 592,681 | \$ (6,866) | \$ (6,740) | \$ (127) | \$ (0) |

* As a percentage of amortized cost or cost.

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

| Six months ended June 30, 2017 | Pre-tax | | | | | Net |
|--|------------------|-------------------|------------------------|-------------|--|----------|
| | Fixed Maturities | Equity Securities | Short-Term Investments | Tax Effects | | |
| Unrealized holding gains on securities arising during the period | \$9,950 | \$ 9,766 | \$ 3 | \$(6,902) | | \$12,818 |
| Realized gains on securities sold | (249) | (2,155) | (1) | 842 | | (1,564) |
| Impairment loss recognized in earnings | 10 | 0 | 0 | (3) | | 6 |
| Change in unrealized, net | \$9,711 | \$ 7,611 | \$ 2 | \$(6,063) | | \$11,261 |

Six months ended June 30, 2016

| | | | | | | |
|--|----------|--------|------|-----------|--|----------|
| Unrealized holding gains on securities arising during the period | \$25,531 | \$ 753 | \$ 3 | \$(9,200) | | \$17,086 |
| Realized (gains) losses on securities sold | (293) | (0) | 2 | 102 | | (189) |
| Impairment loss recognized in earnings | 316 | 0 | 0 | (111) | | 205 |
| Change in unrealized, net | \$25,553 | \$ 753 | \$ 5 | \$(9,209) | | \$17,102 |

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

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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):

| | Six months ended June 30, | |
|-------------------------------|---------------------------------|-------|
| | 2017 | 2016 |
| Beginning balance | \$557 | \$683 |
| Additions for: | | |
| Newly impaired securities | 10 | 0 |
| Reductions for: | | |
| Securities sold and paid down | (57) | (65) |
| Ending balance | \$509 | \$618 |

The table below sets forth the scheduled maturities of fixed maturity securities at June 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 | \$36,678 | \$41,079 | \$11,151 | \$88,909 | \$88,803 |
| After one year through five years | 438,388 | 209,919 | 0 | 648,308 | 643,656 |
| After five years through ten years | 190,801 | 57,673 | 0 | 248,474 | 243,611 |
| After ten years | 1,703 | 6,040 | 0 | 7,742 | 7,655 |
| Mortgage- and asset-backed securities | 168,056 | 277,545 | 0 | 445,602 | 448,090 |
| Total | \$835,627 | \$592,256 | \$11,151 | \$1,439,034 | \$1,431,815 |

Note 5 Long-Term Debt

| (\$ in thousands) | June 30, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| Principal | \$275,000 | \$275,000 |
| Unamortized debt issuance costs | 1,301 | 1,409 |
| Long-term debt less unamortized debt issuance costs | \$273,699 | \$273,591 |

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 June 30, 2017, fair value of \$294.1 million using a 122 basis point spread to the 10-year U.S. Treasury Note Yield of 2.305%.

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In August 2014 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 June 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 June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Earnings before income taxes | \$6,559 | \$16,040 | \$21,637 | \$26,816 |
| Income taxes at statutory rate | 2,296 | 5,614 | 7,573 | 9,386 |
| Effect of: | | | | |
| Dividends-received deduction | (136) | (150) | (214) | (222) |
| Tax-exempt interest | (616) | (619) | (1,248) | (1,258) |
| Other | (31) | 180 | (165) | 188 |
| Provision for income taxes as shown on the Consolidated Statements of Earnings | \$1,513 | \$5,026 | \$5,945 | \$8,094 |
| GAAP effective tax rate | 23.1 % | 31.3 % | 27.5 % | 30.2 % |

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 June 30, | | Six months ended June 30, | |
|-------------------------------------|--------------------------------|---------|------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Income tax payments | \$9,800 | \$3,551 | \$12,900 | \$3,551 |
| Interest payments on debt | 0 | 0 | 6,875 | 6,875 |
| Interest payments on capital leases | 19 | 19 | 40 | 40 |

Negative Cash Book Balances

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

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Condensed Notes to Consolidated Financial Statements

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 | | Six months ended | |
|--|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Balance at Beginning of Period | | | | |
| Unpaid losses on known claims | \$233,303 | \$236,701 | \$238,412 | \$237,660 |
| IBNR losses | 307,932 | 295,281 | 306,641 | 290,097 |
| LAE | 137,712 | 141,493 | 140,402 | 142,207 |
| Total unpaid losses and LAE | 678,947 | 673,475 | 685,455 | 669,965 |
| Reinsurance recoverables | (16,133) | (17,724) | (17,130) | (14,694) |
| Unpaid losses and LAE, net of reinsurance recoverables | 662,814 | 655,751 | 668,325 | 655,271 |
| Current Activity | | | | |
| Loss and LAE incurred: | | | | |
| Current accident year | 280,356 | 275,687 | 557,400 | 546,854 |
| Prior accident years | (6,736) | (12,173) | (13,104) | (18,056) |
| Total loss and LAE incurred | 273,621 | 263,514 | 544,296 | 528,798 |
| Loss and LAE payments: | | | | |
| Current accident year | (163,911) | (174,138) | (260,780) | (263,582) |
| Prior accident years | (88,850) | (97,405) | (268,169) | (272,764) |
| Total loss and LAE payments | (252,761) | (271,543) | (528,948) | (536,347) |
| Balance at End of Period | | | | |
| Unpaid losses and LAE, net of reinsurance recoverables | 683,673 | 647,723 | 683,673 | 647,723 |
| Add back reinsurance recoverables | 17,425 | 18,487 | 17,425 | 18,487 |
| Total unpaid losses and LAE | 701,097 | 666,210 | 701,097 | 666,210 |
| Unpaid losses on known claims | 235,400 | 236,947 | 235,400 | 236,947 |
| IBNR losses | 323,184 | 290,767 | 323,184 | 290,767 |
| LAE | 142,513 | 138,496 | 142,513 | 138,496 |
| Total unpaid losses and LAE | \$701,097 | \$666,210 | \$701,097 | \$666,210 |

The \$6.7 million and \$13.1 million of favorable reserve development during the three and six months ended June 30, 2017, respectively, was primarily due to decreases in ultimate frequency and severity estimates in California along with lower ultimate frequency estimates in Florida related to material damage and uninsured motorists bodily injury coverages for accident year 2016. This favorable development was partially offset by increases in ultimate severity estimates in bodily injury and personal injury protection coverages in our commercial auto product as well as from personal injury protection in our personal auto product.

The \$12.2 million and \$18.1 million of favorable reserve development during the three and six months ended June 30, 2016, respectively, was primarily due to decreases in severity estimates related to Florida personal injury protection and bodily injury coverages and a decrease in California bodily injury loss adjustment expenses, and primarily related to accident years 2014 and prior. The favorable development for the six months ended June 30, 2016, was partially offset by unfavorable development from accident year 2015 in California material damage coverages, driven by an increase in severity.

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Condensed Notes to Consolidated Financial Statements

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 June 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.

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Condensed Notes to Consolidated Financial Statements

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.

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 are being 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 June 30, | | | | | |
|---|-----------------------------|---------------|----------|---------------|---------------|----------|
| | 2017 | | | 2016 | | |
| | Before Tax | Income Tax | Net | Before Tax | Income Tax | Net |
| Accumulated change in post-retirement benefit liability, beginning of period | \$1,020 | \$(357) | \$663 | \$934 | \$(327) | \$607 |
| Effect on other comprehensive income | (13) | 4 | (8) | (11) | 4 | (7) |
| Accumulated change in post-retirement benefit liability, end of period | 1,007 | (353) | 655 | 923 | (323) | 600 |
| Accumulated unrealized gains on investments, net, beginning of period | 21,288 | (7,451) | 13,837 | 26,392 | (9,237) | 17,155 |
| Other comprehensive income before reclassification | 9,055 | (3,169) | 5,886 | 10,828 | (3,790) | 7,038 |
| Reclassification adjustment for other-than-temporary impairments included in net income | 0 | 0 | 0 | 198 | (69) | 129 |
| Reclassification adjustment for realized gains included in net income | (1,886) | 660 | (1,226) | (34) | 12 | (22) |
| Effect on other comprehensive income | 7,169 | (2,509) | 4,660 | 10,992 | (3,847) | 7,144 |
| Accumulated unrealized gains on investments, net, end of period | 28,457 | (9,960) | 18,497 | 37,383 | (13,084) | 24,299 |
| Accumulated other comprehensive income, beginning of period | 22,308 | (7,808) | 14,500 | 27,326 | (9,564) | 17,762 |
| Change in post-retirement benefit liability | (13) | 4 | (8) | (11) | 4 | (7) |
| Change in unrealized gains on investments, net | 7,169 | (2,509) | 4,660 | 10,992 | (3,847) | 7,144 |
| Effect on other comprehensive income | 7,156 | (2,505) | 4,652 | 10,981 | (3,843) | 7,137 |
| Accumulated other comprehensive income, end of period | \$29,464 | \$(10,312) | \$19,152 | \$38,306 | \$(13,407) | \$24,899 |

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Condensed Notes to Consolidated Financial Statements

| | Six months ended June 30, | | | 2016 | | |
|---|---------------------------|---------------|----------|---------------|---------------|----------|
| | 2017 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 | (25) |) 9 | (16) |) (22) |) 8 | (14) |
| Accumulated change in post-retirement benefit liability, end of period | 1,007 | (353) |) 655 | 923 | (323) |) 600 |
| 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 | 19,720 | (6,902) |) 12,818 | 26,287 | (9,200) |) 17,086 |
| Reclassification adjustment for other-than-temporary impairments included in net income | 10 | (3) |) 6 | 316 | (111) |) 205 |
| Reclassification adjustment for realized gains included in net income | (2,406) |) 842 | (1,564) |) (291) |) 102 | (189) |
| Effect on other comprehensive income | 17,324 | (6,063) |) 11,261 | 26,311 | (9,209) |) 17,102 |
| Accumulated unrealized gains on investments, net, end of period | 28,457 | (9,960) |) 18,497 | 37,383 | (13,084) |) 24,299 |
| 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 | (25) |) 9 | (16) |) (22) |) 8 | (14) |
| Change in unrealized gains on investments, net | 17,324 | (6,063) |) 11,261 | 26,311 | (9,209) |) 17,102 |
| Effect on other comprehensive income | 17,299 | (6,055) |) 11,244 | 26,290 | (9,201) |) 17,088 |
| Accumulated other comprehensive income, end of period | \$29,464 | \$(10,312) | \$19,152 | \$38,306 | \$(13,407) | \$24,899 |

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 | | Six months ended | |
|--|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Gross written premium: | | | | |
| Personal Auto | \$276,928 | \$294,654 | \$601,280 | \$632,154 |
| Commercial Auto | 41,806 | 37,409 | 84,591 | 72,649 |
| Classic Collector | 5,056 | 4,898 | 8,621 | 8,126 |
| Total gross written premium | 323,790 | 336,961 | 694,491 | 712,929 |
| Ceded reinsurance: | | | | |
| Personal Auto | (1,005) | (1,000) | (1,988) | (2,012) |
| Commercial Auto ⁽¹⁾ | 1,253 | 1,244 | (159) | (1,750) |
| Classic Collector | (209) | (187) | (422) | (437) |
| Total ceded reinsurance | 39 | 57 | (2,569) | (4,199) |
| Net written premium: | | | | |
| Personal Auto | 275,923 | 293,654 | 599,292 | 630,142 |
| Commercial Auto | 43,059 | 38,653 | 84,432 | 70,899 |
| Classic Collector | 4,848 | 4,711 | 8,199 | 7,689 |
| Total net written premium | 323,829 | 337,018 | 691,923 | 708,730 |
| Change in unearned premium: | | | | |
| Personal Auto | 22,526 | 12,270 | 1,543 | (20,429) |
| Commercial Auto | (6,208) | (7,555) | (12,378) | (10,988) |
| Classic Collector | (1,000) | (1,019) | (572) | (413) |
| Total change in unearned premium | 15,318 | 3,697 | (11,407) | (31,830) |
| Earned premium: | | | | |
| Personal Auto | 298,449 | 305,925 | 600,835 | 609,713 |
| Commercial Auto | 36,851 | 31,098 | 72,054 | 59,911 |
| Classic Collector | 3,848 | 3,692 | 7,627 | 7,276 |
| Total earned premium | 339,147 | 340,715 | 680,516 | 676,899 |
| Installment and other fee income: | | | | |
| Personal Auto | 23,558 | 22,851 | 47,706 | 46,023 |
| Commercial Auto | 2,903 | 2,534 | 5,705 | 4,880 |
| Classic Collector | 0 | 0 | 0 | 0 |
| Total installment and other fee income | 26,461 | 25,385 | 53,410 | 50,903 |
| Net investment income | 9,001 | 8,927 | 17,696 | 16,990 |
| Net realized gains on investments | 1,886 | (164) | 2,396 | (25) |
| Other income | 391 | 220 | 666 | 478 |
| Total revenues | \$376,886 | \$375,084 | \$754,683 | \$745,246 |

(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 three and six months ended June 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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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 June 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 | \$(2,384) | 102.2 % | \$1,207 | 94.0 % | \$(57) | 92.6 % | \$(1,235) | 101.2 % |
| Bad debt charge-offs | 3,672 | | 466 | | 1 | | 4,138 | |
| Favorable (unfavorable) development on prior accident years | 9,060 | | (2,234) | | (90) | | 6,736 | |
| Statutory calendar year underwriting income | 10,347 | 97.8 % | (561) | 99.0 % | (146) | 95.0 % | 9,639 | 97.9 % |
| Statutory-to-GAAP underwriting income differences | | | | | | | (7,892) | |
| GAAP calendar year underwriting income | | | | | | | 1,747 | 99.5 % |
| Net investment income | | | | | | | 9,001 | |
| Net realized gains on investments | | | | | | | 1,886 | |
| Other income | | | | | | | 391 | |
| Interest expense | | | | | | | (3,511) | |
| Corporate general and administrative expenses | | | | | | | (2,447) | |
| Other expenses | | | | | | | (507) | |
| Earnings before income taxes | | | | | | | \$6,559 | |

(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

| | Three months ended June 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 | \$3,467 | 99.6 % | \$(765) | 97.6 % | \$28 | 90.6 % | \$2,730 | 99.4 % |
| Bad debt charge-offs | 4,334 | | 459 | | 7 | | 4,800 | |
| Favorable (unfavorable) development on prior accident years | 11,426 | | 1,042 | | (295) | | 12,173 | |
| Statutory calendar year underwriting income | 19,227 | 94.4 % | 736 | 93.0 % | (261) | 98.5 % | 19,703 | 94.4 % |
| Statutory-to-GAAP underwriting income differences | | | | | | | (6,280) | |
| GAAP calendar year underwriting income | | | | | | | 13,422 | 96.1 % |
| Net investment income | | | | | | | 8,927 | |
| Net realized gains on investments | | | | | | | (164) | |
| Other income | | | | | | | 220 | |
| Interest expense | | | | | | | (3,508) | |
| Corporate general and administrative expenses | | | | | | | (2,060) | |
| Other expenses | | | | | | | (797) | |
| Earnings before income taxes | | | | | | | \$16,040 | |

(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.

| | Six months ended June 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 | \$(790) | 100.2 % | \$1,836 | 94.6 % | \$278 | 93.7 % | \$1,323 | 99.5 % |
| Bad debt charge-offs | 5,923 | | 756 | | 11 | | 6,690 | |
| Favorable (unfavorable) development on prior accident years | 16,046 | | (3,108) | | 166 | | 13,104 | |
| Statutory calendar year underwriting income | 21,178 | 96.4 % | (517) | 98.0 % | 456 | 91.4 % | 21,117 | 96.6 % |
| Statutory-to-GAAP underwriting income differences | | | | | | | (7,667) | |
| GAAP calendar year underwriting income | | | | | | | 13,450 | 98.0 % |
| Net investment income | | | | | | | 17,696 | |
| Net realized gains on investments | | | | | | | 2,396 | |
| Other income | | | | | | | 666 | |
| Interest expense | | | | | | | (7,023) | |

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| | |
|---|----------|
| Corporate general and administrative expenses | (4,718) |
| Other expenses | (829) |
| Earnings before income taxes | \$21,637 |

(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

| | Six months ended June 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 | \$1,417 | 99.2 | % | \$(1,480) | 99.1 | % | \$818 | 87.0 | % | \$754 | 99.0 | % |
| Bad debt charge-offs | 7,366 | | | 813 | | | 17 | | | 8,197 | | |
| Favorable (unfavorable) development on prior accident years | 15,080 | | | 2,922 | | | 53 | | | 18,056 | | |
| Statutory calendar year underwriting income | 23,863 | 95.4 | % | 2,255 | 93.0 | % | 888 | 86.0 | % | 27,007 | 95.2 | % |
| Statutory-to-GAAP underwriting income differences | | | | | | | | | | (5,773) | | |
| GAAP calendar year underwriting income | | | | | | | | | | 21,234 | 96.9 | % |
| Net investment income | | | | | | | | | | 16,990 | | |
| Net realized gains on investments | | | | | | | | | | (25) | | |
| Other income | | | | | | | | | | 478 | | |
| Interest expense | | | | | | | | | | (7,017) | | |
| Corporate general and administrative expenses | | | | | | | | | | (3,764) | | |
| Other expenses | | | | | | | | | | (1,080) | | |
| Earnings before income taxes | | | | | | | | | | \$26,816 | | |

(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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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

Gross written premium declined during the quarter driven by an \$18.3 million premium adjustment in California. Excluding the adjustment, gross written premium increased 1.5% as a result of new business growth and higher average premium in Texas and Arizona and renewal business growth and higher average premium in Commercial Auto, partially offset by declines in new business in Florida and renewal business in California. Refer to Results of Operations – Underwriting – Premium for a more detailed discussion of our gross written premium and Note 9 - Commitments and Contingencies for a more detailed discussion of the premium adjustment.

Net earnings and diluted earnings per share for the three months ended June 30, 2017, were \$5.0 million and \$0.46, respectively, compared with \$11.0 million and \$0.99, respectively, for the same periods of 2016. Net earnings and diluted earnings per share for the six months ended June 30, 2017, were \$15.7 million and \$1.41, respectively, compared with \$18.7 million and \$1.68, respectively, for the same periods of 2016. The decrease in net earnings and diluted earnings per share for the three and six months ended June 30, 2017, was primarily due to the premium adjustments recorded during the first six months of 2017.

Included in net earnings for the three and six months ended June 30, 2017, was \$4.4 million (\$6.7 million pre-tax) and \$8.5 million (\$13.1 million pre-tax), respectively, of favorable development on prior accident year loss and LAE reserves. The development during the three and six months ended June 30, 2017, was primarily due to decreases in ultimate frequency and severity estimates in California along with lower ultimate frequency estimates in Florida related to material damage and uninsured motorists bodily injury coverages for accident year 2016. This favorable development was partially offset by increases in ultimate severity estimates in bodily injury and personal injury protection coverages in our commercial auto product as well as from personal injury protection in our personal auto product.

Included in net earnings for the three and six months ended June 30, 2016, was \$7.9 million (\$12.2 million pre-tax) and \$11.7 million (\$18.1 million pre-tax), respectively, of favorable development on prior accident year loss and LAE reserves. The development was primarily due to decreases in severity estimates related to Florida personal injury protection and bodily injury coverages and a decrease in California bodily injury loss adjustment expenses, and primarily related to accident years 2014 and prior. The favorable development for the six months ended June 30, 2016, was partially offset by unfavorable development from accident year 2015 in California material damage coverages, driven by an increase in severity.

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

| Accident Year | Accident Year Combined Ratio Developed Through | | | | | Prior Accident Year (Favorable) / Unfavorable Development (\$ in millions) | |
|---------------|---|--------------|-------------|-------------|--------------|---|----------------|
| | Dec 2015 | June 2016 | Dec 2016 | Mar 2017 | June 2017 | Q2 2017 | YTD 2017 |
| Prior | | | | | | \$0.1 | \$0.4 |
| 2009 | 92.4 % | 92.4 % | 92.4 % | 92.4 % | 92.5 % | 0.0 % 0.2 | 0.0 % 0.3 |
| 2010 | 99.4 % | 99.3 % | 99.3 % | 99.3 % | 99.3 % | 0.0 % 0.2 | 0.0 % 0.3 |
| 2011 | 100.2 % | 100.0 % | 99.8 % | 99.9 % | 99.9 % | 0.0 % 0.3 | 0.1 % 0.5 |
| 2012 | 100.1 % | 99.8 % | 99.6 % | 99.5 % | 99.4 % | (0.1)% (1.1) | (0.2)% (2.6) |
| 2013 | 95.5 % | 95.1 % | 94.8 % | 94.9 % | 94.9 % | (0.0)% (0.6) | 0.1 % 0.8 |
| 2014 | 95.4 % | 94.6 % | 94.4 % | 94.4 % | 94.5 % | 0.0 % 0.3 | 0.1 % 1.1 |
| 2015 | 97.8 % | 98.0 % | 98.3 % | 98.4 % | 98.3 % | (0.0)% (0.2) | 0.0 % 0.1 |
| 2016 | | 99.5 % | 98.4 % | 97.8 % | 97.4 % | (0.4)% (6.0) | (1.0)% (14.0) |
| 2017 YTD | | | | 98.4 % | 99.9 % | | |
| | | | | | | \$(6.7) | \$(13.1) |

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 six months ended June 30, 2017, was \$9.0 million and \$17.7 million respectively, compared with \$8.9 million and \$17.0 million, respectively, for the same periods of 2016. The increase for the six months ended June 30, 2017, was primarily due to lower premium amortization on mortgage-backed securities and an increase in bond issuer tender offers during 2017.

Our book value per share increased 1.8% from \$63.31 at December 31, 2016, to \$64.48 at June 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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Our net earned premium was as follows (\$ in thousands):

| | Three months ended June 30, | | | |
|-----------------------------|-----------------------------|-----------|------------|----------|
| | 2017 | 2016 | Change | % Change |
| Gross written premium: | | | | |
| Personal Auto | \$276,928 | \$294,654 | \$(17,726) | (6.0)% |
| Commercial Auto | 41,806 | 37,409 | 4,396 | 11.8% |
| Classic Collector | 5,056 | 4,898 | 159 | 3.2% |
| Total gross written premium | 323,790 | 336,961 | (13,171) | (3.9)% |
| Ceded reinsurance | 39 | 57 | (18) | (31.0)% |
| Net written premium | 323,829 | 337,018 | (13,189) | (3.9)% |
| Change in unearned premium | 15,318 | 3,697 | 11,621 | 314.3% |
| Net earned premium | \$339,147 | \$340,715 | \$(1,568) | (0.5)% |

| | Six months ended June 30, | | | |
|-----------------------------|---------------------------|-----------|------------|----------|
| | 2017 | 2016 | Change | % Change |
| Gross written premium: | | | | |
| Personal Auto | \$601,280 | \$632,154 | \$(30,874) | (4.9)% |
| Commercial Auto | 84,591 | 72,649 | 11,942 | 16.4% |
| Classic Collector | 8,621 | 8,126 | 495 | 6.1% |
| Total gross written premium | 694,491 | 712,929 | (18,438) | (2.6)% |
| Ceded reinsurance | (2,569) | (4,199) | 1,631 | (38.8)% |
| Net written premium | 691,923 | 708,730 | (16,807) | (2.4)% |
| Change in unearned premium | (11,407) | (31,830) | 20,423 | (64.2)% |
| Net earned premium | \$680,516 | \$676,899 | \$3,616 | 0.5% |

The following table summarizes our policies in force:

| | At June 30, | | | |
|-------------------------|-------------|---------|----------|----------|
| | 2017 | 2016 | Change | % Change |
| Personal Auto | 697,005 | 737,983 | (40,978) | (5.6)% |
| Commercial Auto | 55,214 | 51,862 | 3,352 | 6.5% |
| Classic Collector | 41,442 | 41,354 | 88 | 0.2% |
| Total policies in force | 793,661 | 831,199 | (37,538) | (4.5)% |

During the first six months of 2017, we implemented rate revisions in various states with an overall rate increase of 2.9%. Policies in force at June 30, 2017, decreased 4.5% compared with the same period in 2016.

The decrease in gross written premium in Personal Auto during the second quarter and first six months of 2017 was primarily due to premium adjustments in California of \$18.3 million and \$22.2 million, respectively. Refer to Note 9 - Commitments and Contingencies for a more detailed discussion of the premium adjustments. Excluding the premium adjustments, gross written premium increased 1.5% during the quarter and 0.5% during the first six months of 2017 driven by growth in Texas, Arizona and Commercial Auto, partially offset by reductions in new business in Florida and renewal business in California. Growth during the first six months in Texas and Arizona was primarily due to new business growth and higher average premium.

The gross written premium growth during the second quarter and first six months of 2017 in our Commercial Auto product was primarily due to renewal policy growth and higher average premium.

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

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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 June 30, | | | | | | | | | % Point Change | | |
|--|-----------------------------|--------------------|----------------|------------------|--------------------|----------------|------------------------------|--------------------|----------------|------------------------------|--|--|
| | 2017 | | | 2016 | | | Loss & Underwriting Combined | | | Loss & Underwriting Combined | | |
| | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | | | |
| Personal Auto | 80.8% | 17.0 % | 97.8 % | 78.0% | 16.4 % | 94.4 % | 2.8 % | 0.6 % | 3.4 % | | | |
| Commercial Auto | 84.0% | 15.0 % | 99.0 % | 74.2% | 18.9 % | 93.0 % | 9.8 % | (3.9)% | 5.9 % | | | |
| Classic Collector | 61.1% | 33.9 % | 95.0 % | 67.6% | 30.9 % | 98.5 % | (6.6)% | 3.0 % | (3.6)% | | | |
| Total statutory ratios | 80.9% | 17.0 % | 97.9 % | 77.6% | 16.8 % | 94.4 % | 3.4 % | 0.2 % | 3.5 % | | | |
| Total statutory ratios excluding development | 83.5% | 17.0 % | 100.5 % | 79.1% | 16.8 % | 95.9 % | 4.4 % | 0.2 % | 4.6 % | | | |
| GAAP ratios | 80.7% | 18.8 % | 99.5 % | 77.3% | 18.7 % | 96.1 % | 3.3 % | 0.1 % | 3.4 % | | | |
| GAAP ratios excluding development | 83.2% | 18.8 % | 102.0 % | 78.8% | 18.7 % | 97.6 % | 4.4 % | 0.1 % | 4.5 % | | | |

| | Six months ended June 30, | | | | | | | | | % Point Change | | |
|--|---------------------------|--------------------|----------------|------------------|--------------------|----------------|------------------------------|--------------------|----------------|------------------------------|--|--|
| | 2017 | | | 2016 | | | Loss & Underwriting Combined | | | Loss & Underwriting Combined | | |
| | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | | | |
| Personal Auto | 80.2% | 16.2 % | 96.4 % | 78.8% | 16.6 % | 95.4 % | 1.4 % | (0.4)% | 1.0 % | | | |
| Commercial Auto | 82.5% | 15.5 % | 98.0 % | 75.7% | 17.4 % | 93.0 % | 6.9 % | (1.9)% | 5.0 % | | | |
| Classic Collector | 56.1% | 35.3 % | 91.4 % | 54.7% | 31.3 % | 86.0 % | 1.4 % | 3.9 % | 5.4 % | | | |
| Total statutory ratios | 80.2% | 16.4 % | 96.6 % | 78.3% | 16.9 % | 95.2 % | 1.9 % | (0.5)% | 1.4 % | | | |
| Total statutory ratios excluding development | 82.1% | 16.4 % | 98.5 % | 81.0% | 16.9 % | 97.9 % | 1.2 % | (0.5)% | 0.7 % | | | |
| GAAP ratios | 80.0% | 18.0 % | 98.0 % | 78.1% | 18.7 % | 96.9 % | 1.9 % | (0.7)% | 1.2 % | | | |
| GAAP ratios excluding development | 81.9% | 18.0 % | 99.9 % | 80.8% | 18.7 % | 99.5 % | 1.1 % | (0.7)% | 0.4 % | | | |

During the first six months of 2017, adjustments were made to written and earned premium as a result of premium to be returned to policyholders in California. Refer to Note 9 - Commitments and Contingencies for a more detailed discussion of the premium adjustments. For the three months ended June 30, 2017, written and earned premiums were reduced by \$18.3 million and \$12.4 million, respectively. For the six months ended June 30, 2017, written and earned premiums were reduced by \$22.1 million and \$16.2 million, respectively. Excluding the adjustments, the statutory combined ratios for the three and six months ended June 30, 2017 would have both been 94.3%. The GAAP combined ratios for the same periods would have been 95.8% and 95.7%, respectively.

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The statutory combined ratio for the three and six months ended June 30, 2017, increased by 3.5 points and 1.4 points, respectively, from the same periods of 2016. The second quarter of 2017 included \$2.0 million of favorable development from the first accident quarter of 2017 compared with \$7.0 million of unfavorable development from the first accident quarter of 2016. The second quarter and six months ended June 30, 2017 included \$6.7 million and \$13.1 million of favorable reserve development on prior accident year loss and LAE reserves primarily due to decreases in ultimate frequency and severity estimates in California along with lower ultimate frequency estimates in Florida related to material damage and uninsured motorists bodily injury coverages for accident year 2016. This favorable development was partially offset by increases in ultimate severity estimates in bodily injury and personal injury protection coverages in our commercial auto product as well as from personal injury protection in our personal auto product.

The second quarter and first six months of 2016 included \$12.2 million and \$18.1 million, respectively, of favorable development on prior accident year loss and LAE reserves primarily due to decreases in severity estimates related to Florida personal injury protection and bodily injury coverages and a decrease in California bodily injury loss adjustment expenses, and primarily related to accident years 2014 and prior. The favorable development for the six months ended June 30, 2016, was partially offset by unfavorable development from accident year 2015 in California material damage coverages, driven by an increase in severity.

The GAAP combined ratio for the three and six months ended June 30, 2017, increased by 3.4 points and 1.2 points, respectively, from the same periods of 2016. Excluding the effect of development, the GAAP combined ratio increased by 4.5 points and 0.4 point, respectively, during the second quarter and first six months of 2017, respectively, primarily due to the premium adjustments.

Losses from catastrophes were \$1.7 million and \$3.2 million for the three and six months ended June 30, 2017, respectively, compared with \$5.2 million and \$6.3 million for the same periods of 2016.

The 3.4 points and 1.0 point increase in the Personal Auto combined ratio for the three and six months ended June 30, 2017, compared with the same periods of 2016, was primarily due to the premium adjustments in California. Partially offsetting this increase for the six months ending June 30, 2017, was a reduction in commission expense in Florida and Texas and an increase in fee income in Texas.

The 5.9 points and 5.0 points increase in the Commercial Auto combined ratio for the three and six months ended June 30, 2017, was primarily due to an increase in large losses paid during the first six months of 2017.

Installment and Other Fee Income

| | Three months ended June 30, | | Six months ended June 30, | |
|----------------------------------|--------------------------------|----------|------------------------------|----------|
| (\$ in thousands) | 2017 | 2016 | 2017 | 2016 |
| Installment and other fee income | \$26,461 | \$25,385 | \$53,410 | \$50,903 |

The increase in installment and other fee income charged to policyholders during the first six months of 2017 was primarily related to an increase in installment fees.

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Net Investment Income

Net investment income is comprised of gross investment income less investment management fees and expenses, as shown in the following table (\$ in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|-------------|---------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Gross investment income: | | | | |
| Interest income on fixed maturities, cash and cash equivalents | \$8,888 | \$8,766 | \$17,777 | \$17,047 |
| Dividends on equity securities | 651 | 718 | 1,027 | 1,063 |
| Gross investment income | 9,539 | 9,484 | 18,804 | 18,110 |
| Investment expenses | (538) | (557) | \$(1,108) | \$(1,120) |
| Net investment income | 9,001 | 8,927 | 17,696 | 16,990 |
| Average investment balance, at cost | \$1,556,705 | \$1,498,837 | \$1,550,929 | \$1,502,468 |
| Annualized returns excluding realized gains and losses | 2.3% | 2.4% | 2.3% | 2.3% |
| Annualized returns including realized gains and losses | 2.8% | 2.3% | 2.6% | 2.3% |

The increase in pre-tax net investment income for the three and six months ended June 30, 2017, was primarily due to lower premium amortization on mortgage-backed securities and an increase in bond issuer tender offers during 2017. The following table provides information about our fixed maturity investments at June 30, 2017, which are sensitive to interest rate risk. The table shows expected principal cash flows by expected maturity date for each of the five subsequent years and collectively for all years thereafter. Callable bonds and notes are included based on call date or maturity date depending upon which date produces the most conservative yield. Mortgage Backed Securities (MBS) and sinking fund issues are included based on maturity year adjusted for expected payment patterns.

| (\$ in thousands) | Expected Principal Cash Flows | | | Maturing Book Yield |
|------------------------------------|-------------------------------|-----------------------|-------------|---------------------|
| | ABS only | MBS and Excluding ABS | Total | |
| For the period ending December 31, | | | | |
| 2017 | \$33,977 | \$65,982 | \$99,959 | 2.4% |
| 2018 | 58,836 | 116,538 | 175,374 | 2.3% |
| 2019 | 53,140 | 184,791 | 237,931 | 2.0% |
| 2020 | 44,827 | 194,145 | 238,972 | 2.5% |
| 2021 | 37,449 | 133,246 | 170,695 | 2.8% |
| Thereafter | 203,922 | 236,934 | 440,855 | 2.7% |
| Total | \$432,152 | \$931,635 | \$1,363,787 | 2.5% |

The cash flows presented take into consideration historical relationships of market yields and prepayment rates. However, the actual prepayment rate may differ from historical trends, resulting in actual principal cash flows that differ from those presented above.

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Net Realized Gains (Losses) on Investments

We recorded net realized gains (losses) on sales and impairments for unrealized losses deemed other-than-temporary as follows (before tax, \$ in thousands):

| | Three months ended June 30, 2017 | | | Three months ended June 30, 2016 | | |
|------------------------|--------------------------------------|--|--|--------------------------------------|--|--|
| | Net Realized Gains (Losses) on Sales | Net Impairment Losses Recognized in Earnings | Total Net Realized Gains (Losses) on Investments | Net Realized Gains (Losses) on Sales | Net Impairment Losses Recognized in Earnings | Total Net Realized Losses on Investments |
| Fixed maturities | \$301 | \$ 0 | \$ 301 | \$34 | \$ (198) | \$ (164) |
| Equity securities | 1,586 | 0 | 1,586 | 0 | 0 | 0 |
| Short-term investments | (0) | 0 | (0) | (0) | 0 | (0) |
| Total | \$1,886 | \$ 0 | \$ 1,886 | \$34 | \$ (198) | \$ (164) |

| | Six months ended June 30, 2017 | | | Six months ended June 30, 2016 | | |
|------------------------|--------------------------------|--|---|--------------------------------------|--|--|
| | Net Realized Gains on Sales | Net Impairment Losses Recognized in Earnings | Total Net Realized Gains on Investments | Net Realized Gains (Losses) on Sales | Net Impairment Losses Recognized in Earnings | Total Net Realized Losses on Investments |
| Fixed maturities | \$249 | \$ (10) | \$ 239 | \$293 | \$ (316) | \$ (23) |
| Equity securities | 2,155 | 0 | 2,155 | 0 | 0 | 0 |
| Short-term investments | 1 | 0 | 1 | (2) | 0 | (2) |
| Total | \$2,406 | \$ (10) | \$ 2,396 | \$291 | \$ (316) | \$ (25) |

For our securities held with unrealized losses, we believe, based on our analysis, that (i) we will recover our cost basis in these securities; and (ii) 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. Should either of these beliefs change with regard to a particular security, a charge for impairment would likely be required. While it is not possible to predict accurately if or when a specific security will become impaired, charges for other-than-temporary impairments could be material to results of operations in a future period.

Interest Expense

| (\$ in thousands) | Three months ended June 30, | | Six months ended June 30, | |
|-------------------------------------|-----------------------------|---------|---------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| 5.0% Senior Notes | \$3,438 | \$3,438 | \$6,875 | \$6,875 |
| Amortization of debt issuance costs | 54 | 52 | 108 | 102 |
| Capital leases | 19 | 19 | 40 | 40 |
| Total | \$3,511 | \$3,508 | \$7,023 | \$7,017 |

At June 30, 2017, we had \$275 million principal outstanding of senior notes. These notes carry a coupon rate of 5.0% and require no principal payment until maturity in September 2022. Refer to Note 5 – Long-Term Debt to the Consolidated Financial Statements for additional information on the 5.0% Senior Notes.

Income Taxes

Our GAAP effective tax rate was 23.1% and 27.5% for the three and six months ended June 30, 2017, respectively, compared with 31.3% and 30.2%, respectively, for the same periods of 2016. The GAAP effective tax rate has decreased in 2017 primarily as a result of a decrease in pre-tax income. Refer to Note 6 – Income Taxes to the Consolidated Financial Statements for additional information on income taxes.

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LIQUIDITY AND CAPITAL RESOURCES

Sources of Funds

We are a holding company and our insurance subsidiaries conduct our operations. Accordingly, we will have continuing cash needs for administrative expenses, the payment of interest on borrowings, shareholder dividends, share repurchases and taxes.

Funds to meet expenditures at the holding company level come primarily from dividends and tax payments from the insurance subsidiaries, as well as cash and investments held by the holding company. As of June 30, 2017, the holding company had \$163.9 million of cash and investments. In 2017 our insurance subsidiaries may pay us up to \$66.2 million in ordinary dividends without prior regulatory approval. For the six months ended June 30, 2017, our insurance subsidiaries have paid us ordinary dividends of \$29.0 million.

Our insurance subsidiaries generate liquidity to satisfy their obligations primarily by collecting and investing premiums in advance of paying claims and generating investment income on their \$1.4 billion investment portfolio. Our insurance subsidiaries generated positive cash flows from operations of \$28.8 million and \$57.1 million during the three and six months ended June 30, 2017, respectively, compared with positive operating cash flows of \$14.3 million and \$37.4 million during the same periods of 2016.

At June 30, 2017, we had \$275 million principal outstanding of 5.0% Senior Notes. The 5.0% Senior Notes accrue interest at 5.0%, payable semiannually each March and September. Refer to Note 5 – Long-Term Debt to the Consolidated Financial Statements for more information on our long-term debt.

In August 2014 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 June 30, 2017, there were no borrowings outstanding against it. We intend to renew our line of credit in August 2017.

On February 29, 2016, we filed a "shelf" registration statement with the Securities and Exchange Commission registering securities, and as long as it remains effective, it will allow us to sell any combination of senior or subordinated debt securities, common stock, preferred stock, warrants, depositary shares, purchase contracts and units in one or more offerings should we choose to do so in the future. This shelf registration statement expires March 1, 2019.

Uses of Funds

In February 2017 we increased our quarterly dividend to \$0.58 per share from \$0.52 per share. At this current amount, our 2017 annualized dividend payments would be approximately \$25.6 million.

On November 4, 2014, our Board of Directors increased the authority of our share and debt repurchase program to a total of \$75 million and extended the date to execute the program to December 31, 2016, from December 31, 2014.

On November 1, 2016, our Board approved the extension of the date to execute the program from December 31, 2016, to December 31, 2017. As of June 30, 2017, we had \$32.4 million of authority remaining under this program. Share repurchases during the first six months of 2017 were as follows:

| | Total Number of Shares Purchased | Average Price Paid per Share (Excluding Commissions) |
|----------------|--|---|
| First quarter | 8,756 | \$ 89.58 |
| Second quarter | 17,401 | 94.52 |
| Total | 26,157 | \$ 92.86 |

We believe that cash balances, cash flows generated from operations or borrowings, and maturities and sales of investments are adequate to meet our future liquidity needs and those of our insurance subsidiaries.

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Reinsurance

Premium ceded under all reinsurance agreements for the three and six months ended June 30, 2017, was (\$0.0) million and \$2.6 million, respectively, compared with (\$0.1) million and \$4.2 million, respectively, for the same periods of 2016. 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 for the three and six months ended June 30, 2017, includes the return of \$2.6 million of unearned premium due to the termination of the previous excess of loss contract. Refer to Note 11 - Reinsurance to the Consolidated Financial Statements of our Form 10-K for the year ended December 31, 2016, for more information on our reinsurance contracts.

Investments

Our consolidated investment portfolio at June 30, 2017, contained approximately \$1.4 billion in fixed maturity securities, \$95.5 million in equity securities and \$0.4 million of short-term investments. All of these are carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income, a separate component of shareholders' equity, on an after-tax basis. At June 30, 2017, we had pre-tax net unrealized gains of \$7.2 million on fixed maturities and pre-tax net unrealized gains of \$21.2 million on equity securities. Combined, the pre-tax net unrealized gain increased by \$17.3 million for the six months ended June 30, 2017. This increase occurred as a result of lower market interest rates and a rise in global equity markets. The average option adjusted duration of our fixed maturity portfolio was 3.3 years at June 30, 2017, and December 31, 2016.

Since we carry all of these securities at fair value in our balance sheet, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses.

Approximately 90.8% of our fixed maturity investments at June 30, 2017, were rated "investment grade," and, as of the same date, the average credit rating of our fixed maturity portfolio was AA-. Investment grade securities generally bear lower yields and have lower degrees of risk than those that are unrated or non-investment grade. We believe that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1); (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in 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).

Our Level 1 securities are U.S. Treasury securities, an exchange-traded fund and equity securities held in a rabbi trust. Our Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Our 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 that nationally recognized statistical rating organizations do not rate.

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

Summarized information for our investment portfolio at June 30, 2017, was as follows (\$ in thousands):

| | Amortized Cost | Fair Value | % of Total Fair Value |
|--|-------------------|-------------|--------------------------------|
| Fixed Maturities: | | | |
| U.S. government | \$64,192 | \$64,025 | 4.2 % |
| State and municipal | 497,850 | 502,156 | 32.7 % |
| Mortgage- and asset-backed: | | | |
| Residential mortgage-backed securities | 353,813 | 351,766 | 22.9 % |
| Commercial mortgage-backed securities | 42,609 | 42,060 | 2.7 % |
| Asset-backed securities (ABS): | | | |
| Auto loans | 29,566 | 29,611 | 1.9 % |
| Equipment leases | 7,405 | 7,424 | 0.5 % |
| Credit card | 10,364 | 10,380 | 0.7 % |
| All other | 4,333 | 4,360 | 0.3 % |
| Total ABS | 51,668 | 51,775 | 3.4 % |
| Total mortgage- and asset-backed | 448,090 | 445,602 | 29.0 % |
| Corporates | | | |
| Investment grade | 296,122 | 298,439 | 19.4 % |
| Non-investment grade | 125,562 | 128,813 | 8.4 % |
| Total corporates | 421,684 | 427,252 | 27.8 % |
| Total fixed maturities | 1,431,815 | 1,439,034 | 93.8 % |
| Equity securities | 74,270 | 95,508 | 6.2 % |
| Short-term investments | 425 | 425 | 0.0 % |
| Total investments | \$1,506,511 | \$1,534,967 | 100.0 % |

We categorize securities by rating based upon available ratings issued by Moody's, Standard & Poor's or Fitch. If all three ratings are available but not equivalent, we exclude the lowest rating and the lower of the remaining ratings is used. If ratings are only available from two agencies, the lowest is used. This methodology is consistent with that used by the major bond indices.

The following table presents the credit rating and fair value of our fixed maturity portfolio by major security type at June 30, 2017 (\$ in thousands):

| | Rating | | | | Non-investment Grade | Total Fair Value | % of Total Exposure |
|----------------------------|-----------|-----------|-----------|-----------|-------------------------|---------------------|---------------------------|
| | AAA | AA | A | BBB | | | |
| U.S. government | \$64,025 | \$0 | \$0 | \$0 | \$ 0 | \$64,025 | 4.4 % |
| State and municipal | 144,884 | 266,002 | 87,823 | 0 | 3,447 | 502,156 | 34.9 % |
| Mortgage- and asset-backed | 425,276 | 15,588 | 1,636 | 3,102 | 0 | 445,602 | 31.0 % |
| Corporates | 1,704 | 28,801 | 134,874 | 133,060 | 128,813 | 427,252 | 29.7 % |
| Total fair value | \$635,889 | \$310,391 | \$224,333 | \$136,163 | \$132,260 | \$1,439,034 | 100.0 % |
| % of total fair value | 44.2% | 21.6% | 15.6% | 9.5% | 9.2% | 100.0% | |

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ITEM 3

Quantitative and Qualitative Disclosures about Market Risk

As of June 30, 2017, there were no material changes to the information provided on Form 10-K for the year ended December 31, 2016, under the caption “Exposure to Market Risk” in Management’s Discussion and Analysis of Financial Condition and Results of Operations. Refer to Item 2 Management’s Discussion and Analysis under the caption “Investments” for updates to disclosures made under the subcaption “Credit Risk” of our Form 10-K for the year ended December 31, 2016.

ITEM 4

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of the Company’s management, including its principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2017. Based on that evaluation, we concluded that the controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission (SEC) under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended June 30, 2017, there have been no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1

Legal Proceedings

Refer to Note 9 - Commitments and Contingencies to the Consolidated Financial Statements for a discussion of developments in legal proceedings during the second quarter of 2017. For a description of our previously reported legal proceedings, refer to Part I, Item 3, Legal Proceedings of our Form 10-K for the year ended December 31, 2016.

ITEM 1A

Risk Factors

There have been no material changes in our risk factors as disclosed on Form 10-K for the year ended December 31, 2016. For a description of our previously reported risk factors, refer to Part I, Item 1A, Risk Factors of our Form 10-K for the year ended December 31, 2016.

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ITEM 2

Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share (a) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs (b) |
|--------------------------------|----------------------------------|----------------------------------|--|--|
| April 1, 2017 - April 30, 2017 | 3,100 | \$ 93.60 | 3,100 | \$ 33,801,367 |
| May 1, 2017 - May 31, 2017 | 3,001 | 95.57 | 3,001 | 33,513,356 |
| June 1, 2017 - June 30, 2017 | 11,300 | 94.49 | 11,300 | 32,444,051 |
| Total | 17,401 | \$ 94.52 | 17,401 | \$ 32,444,051 |

(a) Average price paid per share excludes commissions.

On November 4, 2014, our Board of Directors increased the authority under our current share and debt repurchase plan to a total of \$75.0 million and extended the date to execute the program to December 31, 2016, from December 31, 2014. On November 1, 2016, our Board approved the extension of the date to execute the program from December 31, 2016, to December 31, 2017.

ITEM 6

Exhibit 31.1 Certification of the Chief Executive Officer under Exchange Act Rule 13a-14(a)

Exhibit 31.2 Certification of the Chief Financial Officer under Exchange Act Rule 13a-14(a)

Exhibit 32 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCHXBRL Taxonomy Extension Schema Document ⁽¹⁾

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document ⁽¹⁾

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document ⁽¹⁾

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document ⁽¹⁾

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document ⁽¹⁾

(1) Furnished with this report, in accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, Infinity Property and Casualty Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Infinity Property and Casualty Corporation

BY: /s/ ROBERT H. BATEMAN

August 3, 2017 Robert H. Bateman
Executive Vice President, Chief Financial Officer and Treasurer