

ATLANTIC AMERICAN CORP
Form 10-Q
November 14, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-3722

ATLANTIC AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

Georgia 58-1027114
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

4370 Peachtree Road, N.E., 30319
Atlanta, Georgia
(Address of principal executive offices) (Zip Code)

(404) 266-5500
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The total number of shares of the registrant's Common Stock, \$1 par value, outstanding on November 7, 2017 was 20,439,411.

ATLANTIC AMERICAN CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial StatementsATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

ASSETS

	Unaudited September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 9,473	\$ 13,252
Investments:		
Fixed maturities (cost: \$215,241 and \$210,505)	217,999	210,670
Common and non-redeemable preferred stocks (cost: \$10,918 and \$11,453)	21,582	20,257
Other invested assets (cost: \$9,167 and \$9,709)	9,167	9,709
Policy loans	2,113	2,265
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	252,137	244,177
Receivables:		
Reinsurance	16,871	11,703
Insurance premiums and other (net of allowance for doubtful accounts: \$219 and \$280)	15,572	12,581
Deferred income taxes, net	-	160
Deferred acquisition costs	32,159	28,975
Other assets	5,549	5,208
Intangibles	2,544	2,544
Total assets	\$ 334,305	\$ 318,600

LIABILITIES AND SHAREHOLDERS' EQUITY

Insurance reserves and policyholder funds:		
Future policy benefits		\$80,015 \$74,843
Unearned premiums		26,501 23,208
Losses and claims		67,184 62,562
Other policy liabilities		1,492 2,066
Total insurance reserves and policyholder funds		175,192 162,679
Accounts payable and accrued expenses		14,880 16,677
Deferred income taxes, net		975 -
Junior subordinated debenture obligations, net		33,738 33,738
Total liabilities		224,785 213,094
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$1 par, 4,000,000 shares authorized; Series D preferred, 55,000 shares issued and outstanding; \$5,500 redemption value		55 55
Common stock, \$1 par, 50,000,000 shares authorized; shares issued: 22,400,894; shares outstanding: 20,453,217 and 20,446,705		22,401 22,401
Additional paid-in capital		57,420 57,114

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Retained earnings	28,551	27,272
Accumulated other comprehensive income	8,725	5,830
Unearned stock grant compensation	(587)	(428)
Treasury stock, at cost: 1,947,677 and 1,954,189 shares	(7,045)	(6,738)
Total shareholders' equity	109,520	105,506
Total liabilities and shareholders' equity	\$334,305	\$318,600

The accompanying notes are an integral part of these consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
Insurance premiums	\$ 42,094	\$ 39,432	\$ 122,996	\$ 117,012
Investment income	2,136	2,453	6,380	7,523
Realized investment gains, net	539	527	2,818	1,411
Other income	29	35	95	102
Total revenue	44,798	42,447	132,289	126,048
Benefits and expenses:				
Insurance benefits and losses incurred	30,417	26,955	87,446	78,702
Commissions and underwriting expenses	10,176	11,558	31,800	34,339
Interest expense	440	396	1,273	1,154
Other expense	3,134	3,221	9,301	9,803
Total benefits and expenses	44,167	42,130	129,820	123,998
Income before income taxes	631	317	2,469	2,050
Income tax expense (benefit)	(116)	168	483	762
Net income	747	149	1,986	1,288
Preferred stock dividends	(100)	(100)	(299)	(299)
Net income applicable to common shareholders	\$ 647	\$ 49	\$ 1,687	\$ 989
Earnings per common share (basic and diluted)	\$.03	\$ -	\$.08	\$.05

The accompanying notes are an integral part of these consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 747	\$ 149	\$ 1,986	\$ 1,288
Other comprehensive income:				
<u>Available-for-sale securities:</u>				
Gross unrealized holding gain arising in the period	2,852	1,842	7,271	10,554
Related income tax effect	(997)	(645)	(2,544)	(3,694)
Less: reclassification adjustment for net realized gains included in net income ⁽¹⁾	(539)	(527)	(2,818)	(1,411)
Related income tax effect ⁽²⁾	188	185	986	494
Total other comprehensive income, net of tax	1,504	855	2,895	5,943
Total comprehensive income	\$ 2,251	\$ 1,004	\$ 4,881	\$ 7,231

The accompanying notes are an integral part of these consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited; Dollars in thousands)

Nine Months Ended	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Grant Compensation	Treasury Stock	Total
September 30, 2017								
Balance, December 31, 2016	\$ 55	\$ 22,401	\$ 57,114	\$ 27,272	\$ 5,830	\$ (428)	\$ (6,738)	\$ 105,506
Net income	-	-	-	1,986	-	-	-	1,986
Other comprehensive income, net of tax	-	-	-	-	2,895	-	-	2,895
Dividends on common stock	-	-	-	(408)	-	-	-	(408)
Dividends accrued on preferred stock	-	-	-	(299)	-	-	-	(299)
Restricted stock grants	-	-	293	-	-	(522)	229	-
Amortization of unearned compensation	-	-	-	-	-	363	-	363
Purchase of shares for treasury	-	-	-	-	-	-	(546)	(546)
Issuance of shares under stock plans	-	-	13	-	-	-	10	23
Balance, September 30, 2017	\$ 55	\$ 22,401	\$ 57,420	\$ 28,551	\$ 8,725	\$ (587)	\$ (7,045)	\$ 109,520
September 30, 2016								
Balance, December 31, 2015	\$ 55	\$ 22,401	\$ 56,623	\$ 25,443	\$ 4,584	\$ (273)	\$ (6,341)	\$ 102,492
Net income	-	-	-	1,288	-	-	-	1,288
Other comprehensive income, net of tax	-	-	-	-	5,943	-	-	5,943
Dividends on common stock	-	-	-	(408)	-	-	-	(408)
Dividends accrued on preferred stock	-	-	-	(299)	-	-	-	(299)
Restricted stock grants	-	-	346	-	-	(556)	210	-
Amortization of unearned compensation	-	-	-	-	-	457	-	457
Purchase of shares for treasury	-	-	-	-	-	-	(565)	(565)
Issuance of shares under stock plans	-	-	26	-	-	-	17	43
Balance, September 30, 2016	\$ 55	\$ 22,401	\$ 56,995	\$ 26,024	\$ 10,527	\$ (372)	\$ (6,679)	\$ 108,951

The accompanying notes are an integral part of these consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Dollars in thousands)

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,986	\$ 1,288
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization of deferred acquisition costs	8,696	6,764
Acquisition costs deferred	(11,880)	(7,689)
Realized investment gains, net	(2,818)	(1,411)
Compensation expense related to share awards	363	457
Depreciation and amortization	1,149	860
Deferred income tax (benefit) expense	(423)	161
Increase in receivables, net	(8,289)	(65)
Increase (decrease) in insurance reserves	12,513	(1,745)
Decrease in other liabilities	(2,096)	(644)
Other, net	(344)	(252)
Net cash used in operating activities	(1,143)	(2,276)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold	52,760	48,729
Proceeds from investments matured, called or redeemed	8,982	9,247
Investments purchased	(63,346)	(58,193)
Additions to property and equipment	(101)	(335)
Net cash used in investing activities	(1,705)	(552)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends on common stock	(408)	(408)
Proceeds from shares issued under stock plans	23	43
Purchase of shares for treasury	(546)	(565)
Net cash used in financing activities	(931)	(930)
Net decrease in cash and cash equivalents	(3,779)	(3,758)
Cash and cash equivalents at beginning of period	13,252	15,622
Cash and cash equivalents at end of period	\$ 9,473	\$ 11,864
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 1,263	\$ 1,142
Cash paid for income taxes	\$ 1,400	\$ 675

The accompanying notes are an integral part of these consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; Dollars in thousands, except per share amounts)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Atlantic American Corporation (the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”). The Parent’s primary operating subsidiaries, American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”) operate in two principal business units. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for audited annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements included herein and these related notes should be read in conjunction with the Company’s consolidated financial statements, and the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (the “Annual Report”). The Company’s financial condition and results of operations and cash flows as of and for the three month and nine month periods ended September 30, 2017 are not necessarily indicative of the financial condition or results of operations and cash flows that may be expected for the year ending December 31, 2017 or for any other future period.

The Company’s significant accounting policies have not changed materially from those set out in the Annual Report.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Note 2. Recently Issued Accounting Standards

Adoption of New Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). This guidance applies to all entities that issue share-based payment awards to their employees and is designed to simplify several areas of the accounting for share-based payment transactions, including income tax consequences, forfeitures, classification of awards as either equity or liabilities and related classification on the statement of cash flows. The guidance requires the excess tax benefit or deficiency on vesting or settlement of awards to be recognized in earnings as an income tax benefit or expense, respectively. The Company adopted ASU 2016-09 as of January 1, 2017. Adoption of ASU 2016-09 did not have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting (“ASU 2016-07”). This guidance eliminates the requirement to retroactively adopt the equity method of accounting when an investment qualifies for the use of the equity method as a result of an increase in the level of ownership or degree of influence. Under ASU 2016-07, the

equity method investor is required to add the cost of acquiring the additional interest in the investee to the current basis of the previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The Company adopted ASU 2016-07 as of January 1, 2017. Adoption of ASU 2016-07 did not have an impact on the Company's consolidated financial statements.

Future Adoption of New Accounting Standards

In March 2017, the FASB issued ASU No. 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities (“ASU 2017-08”). This guidance shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. Under current GAAP, premiums and discounts on callable securities generally are amortized to the maturity date. ASU 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018, although earlier adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 as modified provides guidance for recognizing revenue. The guidance excludes insurance contracts and financial instruments. Revenue is to be recognized when, or as, goods or services are transferred to customers in an amount that reflects the consideration that an entity is expected to be entitled in exchange for those goods or services. This guidance is effective retrospectively on January 1, 2018, with a choice of restating prior periods or recognizing a cumulative effect for contracts in place as of adoption. Early adoption is permitted as of January 1, 2017. The Company will adopt this ASU on January 1, 2018. Based on current evaluations, the adoption is not expected to have a material impact on the Company's consolidated financial statements.

Table of ContentsNote 3. Investments

The following tables set forth the carrying value, gross unrealized gains, gross unrealized losses and cost or amortized cost of the Company's investments, aggregated by type and industry, as of September 30, 2017 and December 31, 2016.

	September 30, 2017			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$32,426	\$ 189	\$ 414	\$ 32,651
Obligations of states and political subdivisions	17,882	696	54	17,240
Corporate securities:				
Utilities and telecom	20,463	1,636	76	18,903
Financial services	51,927	2,161	411	50,177
Other business – diversified	41,339	941	1,499	41,897
Other consumer – diversified	53,770	910	1,321	54,181
Total corporate securities	167,499	5,648	3,307	165,158
Redeemable preferred stocks:				
Other consumer – diversified	192	-	-	192
Total redeemable preferred stocks	192	-	-	192
Total fixed maturities	217,999	6,533	3,775	215,241
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,484	520	-	964
Financial services	5,579	796	-	4,783
Other business – diversified	275	228	-	47
Other consumer – diversified	14,244	9,120	-	5,124
Total equity securities	21,582	10,664	-	10,918
Other invested assets	9,167	-	-	9,167
Policy loans	2,113	-	-	2,113
Real estate	38	-	-	38
Investments in unconsolidated trusts	1,238	-	-	1,238
Total investments	\$252,137	\$ 17,197	\$ 3,775	\$ 238,715

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	December 31, 2016			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$31,102	\$ 197	\$ 553	\$31,458
Obligations of states and political subdivisions	17,572	625	308	17,255
Corporate securities:				
Utilities and telecom	18,034	1,462	88	16,660
Financial services	57,282	1,880	911	56,313
Other business – diversified	57,419	1,071	2,337	58,685
Other consumer – diversified	29,069	471	1,344	29,942
Total corporate securities	161,804	4,884	4,680	161,600
Redeemable preferred stocks:				
Other consumer – diversified	192	-	-	192
Total redeemable preferred stocks	192	-	-	192
Total fixed maturities	210,670	5,706	5,541	210,505
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,601	637	-	964
Financial services	5,402	574	-	4,828
Other business – diversified	244	197	-	47
Other consumer – diversified	13,010	7,396	-	5,614
Total equity securities	20,257	8,804	-	11,453
Other invested assets	9,709	-	-	9,709
Policy loans	2,265	-	-	2,265
Real estate	38	-	-	38
Investments in unconsolidated trusts	1,238	-	-	1,238
Total investments	\$244,177	\$ 14,510	\$ 5,541	\$ 235,208

Bonds having an amortized cost of \$11,219 and \$11,435 and included in the tables above were on deposit with insurance regulatory authorities at September 30, 2017 and December 31, 2016, respectively, in accordance with statutory requirements.

The carrying value and amortized cost of the Company's investments in fixed maturities at September 30, 2017 and December 31, 2016 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

	September 30, 2017		December 31, 2016	
	Carrying Value	Amortized Cost	Carrying Value	Amortized Cost
Due in one year or less	\$1,415	\$1,411	\$2,544	\$2,507
Due after one year through five years	16,612	16,795	20,278	20,038
Due after five years through ten years	104,519	103,571	90,667	90,926
Due after ten years	75,117	72,923	80,099	79,627
Varying maturities	20,336	20,541	17,082	17,407
Totals	\$217,999	\$215,241	\$210,670	\$210,505

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The following table sets forth the carrying value, cost or amortized cost, and net unrealized gains (losses) of the Company's investments aggregated by industry as of September 30, 2017 and December 31, 2016.

	September 30, 2017			December 31, 2016		
	Carrying Value	Cost or Amortized Cost	Unrealized Gains (Losses)	Carrying Value	Cost or Amortized Cost	Unrealized Gains (Losses)
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$32,426	\$32,651	\$ (225)	\$31,102	\$31,458	\$ (356)
Obligations of states and political subdivisions	17,882	17,240	642	17,572	17,255	317
Utilities and telecom	21,947	19,867	2,080	19,635	17,624	2,011
Financial services	57,506	54,960	2,546	62,684	61,141	1,543
Other business – diversified	41,614	41,944	(330)	57,663	58,732	(1,069)
Other consumer – diversified	68,206	59,497	8,709	42,271	35,748	6,523
Other investments	12,556	12,556	-	13,250	13,250	-
Investments	\$252,137	\$238,715	\$ 13,422	\$244,177	\$235,208	\$ 8,969

The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of September 30, 2017 and December 31, 2016.

	September 30, 2017					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$15,900	\$ 188	\$9,016	\$ 226	\$24,916	\$ 414
Obligations of states and political subdivisions	2,994	17	1,978	37	4,972	54
Corporate securities	30,340	451	33,204	2,856	63,544	3,307
Total temporarily impaired securities	\$49,234	\$ 656	\$44,198	\$ 3,119	\$93,432	\$ 3,775

	December 31, 2016					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$23,494	\$ 553	\$ -	\$ -	\$23,494	\$ 553
Obligations of states and political subdivisions	8,747	308	-	-	8,747	308
Corporate securities	59,404	2,124	20,587	2,556	79,991	4,680
Total temporarily impaired securities	\$91,645	\$ 2,985	\$20,587	\$ 2,556	\$112,232	\$ 5,541

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The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status.

As of September 30, 2017, there were sixty-three securities in an unrealized loss position which primarily included certain of the Company's investments in fixed maturities within the other diversified business and other diversified consumer sectors. Securities in an unrealized loss position reported in the other diversified business sector included gross unrealized losses of \$1,006 related to investments in fixed maturities of five different issuers, all related to the oil and gas industry. The oil and gas companies represent a diversified group of businesses which include, among others, exploration and production, pipeline owners and operators, deep water offshore rig owners and operators, all of which we believe are in continuing stages of rationalizing their current operations, investments, future capital expenditures and carefully managing and modifying their capital and liquidity positions. Based on publicly available information, the companies are continuing to assess and revise short-term, intermediate and long-term business plans in response to the current trends in oil and gas markets. While these companies have generally experienced credit downgrades or may be currently under credit rating review, the Company believes that many of the downgrades are in response to external market forces and not necessarily specific credit events of any obligor which would currently indicate that an other than temporary impairment need be recorded. All of the investees have continued to make regular interest payments on their debt when and as due and the Company continues to perform in-depth analyses of the publicly available financial disclosures of each of the investees on a regular basis. The Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company's expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company's evaluation of other relevant factors, including those described above, the Company has deemed these securities to be temporarily impaired as of September 30, 2017.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure the value of its financial instruments and information about the inputs used to value those financial instruments. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels.

Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company's financial instruments valued using Level 1 criteria include cash equivalents and exchange traded common stocks.

Level 2 Observable inputs, other than quoted prices included in Level 1, for an asset or liability or prices for similar assets or liabilities. The Company's financial instruments valued using Level 2 criteria include significantly all of its fixed maturities, which consist of U.S. Treasury securities and U.S. Government securities, obligations of states and political subdivisions, and certain corporate fixed maturities, as well as its non-redeemable preferred stocks. In determining fair value measurements of its fixed maturities and non-redeemable preferred stocks using Level 2 criteria, the Company utilizes data from outside sources, including nationally recognized pricing services and broker/dealers. Prices for the majority of the Company's Level 2 fixed maturities and non-redeemable preferred stocks were determined using unadjusted prices received from pricing services that utilize a matrix pricing concept, which is a mathematical technique used widely in the industry to value debt securities based on various relationships to other benchmark quoted prices.

Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. The Company's financial instruments valued using Level 3 criteria consist of a limited number of fixed maturities. As of September 30, 2017 and December 31, 2016, the value of the Company's fixed maturities valued using Level 3 criteria was \$1,351 and \$1,264, respectively. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

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As of September 30, 2017, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>Assets:</u>				
Fixed maturities	\$ -	\$ 216,648	\$ 1,351	(1) \$ 217,999
Equity securities	16,233	5,349	(1) -	21,582
Cash equivalents	8,884	-	-	8,884
Total	\$ 25,117	\$ 221,997	\$ 1,351	\$ 248,465

(1) All underlying securities are financial service industry related.

As of December 31, 2016, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>Assets:</u>				
Fixed maturities	\$ -	\$ 209,406	\$ 1,264	(1) \$ 210,670
Equity securities	15,153	5,104	(1) -	20,257
Cash equivalents	9,811	-	-	9,811
Total	\$ 24,964	\$ 214,510	\$ 1,264	\$ 240,738

(1) All underlying securities are financial service industry related.

The following tables provide a roll-forward of the Company's financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three month and nine month periods ended September 30, 2017 and 2016.

	Fixed Maturities
Balance, December 31, 2016	\$ 1,264
Total unrealized gains included in other comprehensive income	38
Balance, March 31, 2017	1,302
Total unrealized gains included in other comprehensive income	30
Balance, June 30, 2017	1,332
Total unrealized gains included in other comprehensive income	19
Balance, September 30, 2017	\$ 1,351

Fixed
Maturities

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Balance, December 31, 2015	\$ 2,237
Total unrealized gains included in other comprehensive income	63
Balance, March 31, 2016	2,300
Total unrealized gains included in other comprehensive income	68
Balance, June 30, 2016	2,368
Total realized gains included in earnings	57
Total unrealized losses included in other comprehensive income	(61)
Settlements	(1,000)
Balance, September 30, 2016	\$ 1,364

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The Company's fixed maturities valued using Level 3 inputs consist solely of issuances of pooled debt obligations of multiple, smaller financial services companies. They are not actively traded and valuation techniques used to measure fair value are based on future estimated cash flows (based on current cash flows) discounted at reasonable estimated rates of interest. There are no assumed prepayments and/or default probability assumptions as a majority of these instruments contain certain U.S. government agency strips to support repayment of the principal. Other qualitative and quantitative information received from the original underwriter of the pooled offerings is also considered, as applicable.

The following table is a summary of realized investment gains (losses) for the three month and nine month periods ended September 30, 2017 and 2016.

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Gross gains	\$ 539	\$ 543	\$ 2,879	\$ 1,497
Gross losses	-	(16)	(61)	(86)
Realized investment gains, net	\$ 539	\$ 527	\$ 2,818	\$ 1,411

Note 4. Fair Values of Financial Instruments

The estimated fair values have been determined by the Company using available market information from various market sources and appropriate valuation methodologies as of the respective dates. However, considerable judgment is necessary to interpret market data and to develop the estimates of fair value. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, the estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following table sets forth the carrying amount, estimated fair value and level within the fair value hierarchy of the Company's financial instruments as of September 30, 2017 and December 31, 2016.

	Level in Fair Value Hierarchy ⁽¹⁾	September 30, 2017		December 31, 2016	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Assets:</u>					
Cash and cash equivalents	Level 1	\$9,473	\$ 9,473	\$13,252	\$ 13,252
Fixed maturities	(1)	217,999	217,999	210,670	210,670
Equity securities	(1)	21,582	21,582	20,257	20,257
Other invested assets	Level 3	9,167	9,167	9,709	9,709
Policy loans	Level 2	2,113	2,113	2,265	2,265
Real estate	Level 2	38	38	38	38
Investment in unconsolidated trusts	Level 2	1,238	1,238	1,238	1,238
<u>Liabilities:</u>					
Junior subordinated debentures, net	Level 2	33,738	33,738	33,738	33,738

⁽¹⁾ See Note 3 for a description of the fair value hierarchy as well as a disclosure of levels for classes of these financial assets.

There have not been any transfers between Level 1, Level 2 and Level 3 during the periods presented in these condensed consolidated financial statements.

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Table of ContentsNote 5. Liabilities for Unpaid Losses, Claims and Loss Adjustment Expenses

The roll-forward of liabilities for unpaid losses, claims and loss adjustment expenses, by major product, is as follows:

<u>Property and Casualty Insurance Products</u>	Nine Months Ended	
	September 30,	
	2017	2016
Beginning liabilities for unpaid losses, claims and loss adjustment expenses, gross	\$49,556	\$51,200
Less: Reinsurance recoverable on unpaid losses	(9,806)	(11,639)
Beginning liabilities for unpaid losses, claims and loss adjustment expenses, net	39,750	39,561
Incurred related to:		
Current accident year	27,359	26,534
Prior accident year development ⁽¹⁾	(1,480)	(1,296)
Total incurred	25,879	25,238
Paid related to:		
Current accident year	9,858	9,799
Prior accident years	13,720	15,950
Total paid	23,578	25,749
Ending liabilities for unpaid losses, claims and loss adjustment expenses, net	42,051	39,050
Plus: Reinsurance recoverable on unpaid losses	9,455	9,234
Ending liabilities for unpaid losses, claims and loss adjustment expenses, gross	\$51,506	\$48,284

In establishing property and casualty reserves, the Company initially reserves for losses at the higher end of the reasonable range if no other value within the range is determined to be more probable. Selection of such an initial loss estimate is an attempt by management to give recognition that initial claims information received generally is ⁽¹⁾not conclusive with respect to legal liability, is generally not comprehensive with respect to magnitude of loss and generally, based on historical experience, will develop more adversely as time passes and more information becomes available. However, as a result, the Company generally experiences reserve redundancies when analyzing the development of prior year losses in a current period.

<u>Medicare Supplement Insurance Products</u>	Nine Months Ended	
	September 30,	
	2017	2016
Beginning liabilities for unpaid losses, claims and loss adjustment expenses, gross	\$11,263	\$10,547
Less: Reinsurance recoverable on unpaid losses	(990)	-
Beginning liabilities for unpaid losses, claims and loss adjustment expenses, net	10,273	10,547
Incurred related to:		
Current accident year	50,733	46,295
Prior accident year development	720	(1,009)
Total incurred	51,453	45,286
Paid related to:		
Current accident year	40,801	35,986
Prior accident years	10,445	9,267
Total paid	51,246	45,253
Ending liabilities for unpaid losses, claims and loss adjustment expenses, net	10,480	10,580
Plus: Reinsurance recoverable on unpaid losses	3,640	-

Ending liabilities for unpaid losses, claims and loss adjustment expenses, gross	\$ 14,120	\$ 10,580
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<u>Other Life and Health Insurance Products</u>	Nine Months Ended	
	September 30, 2017	2016
Beginning liabilities for unpaid losses, claims and loss adjustment expenses, gross	\$ 1,743	\$ 2,123
Less: Reinsurance recoverable on unpaid losses	-	-
Beginning liabilities for unpaid losses, claims and loss adjustment expenses, net	1,743	2,123
Incurred related to:		
Current accident year	6,226	5,489
Prior accident year development	(104)	(173)
Total incurred	6,122	5,316
Paid related to:		
Current accident year	4,807	4,206
Prior accident years	1,500	1,494
Total paid	6,307	5,700
Ending liabilities for unpaid losses, claims and loss adjustment expenses, net	1,558	1,739
Plus: Reinsurance recoverable on unpaid losses	-	-
Ending liabilities for unpaid losses, claims and loss adjustment expenses, gross	\$ 1,558	\$ 1,739

Following is a reconciliation of total incurred losses to total insurance benefits and losses incurred:

	Nine Months Ended	
	September 30, 2017	2016
Total incurred losses	\$ 83,454	\$ 75,840
Cash surrender value and matured endowments	1,167	1,037
Benefit reserve changes	2,825	1,825
Total insurance benefits and losses incurred	\$ 87,446	\$ 78,702

Table of ContentsNote 6. Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities (“Trust Preferred Securities”) representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) of Atlantic American; and (iii) engaging in those activities necessary or incidental thereto.

The financial structure of each of Atlantic American Statutory Trust I and II as of September 30, 2017 was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES ^{(1) (2)}		
Principal amount owed	\$ 18,042	\$ 23,196
Balance September 30, 2017	\$ 18,042	\$ 23,196
Less: Treasury debt ⁽³⁾	-	(7,500)
Net balance September 30, 2017	\$ 18,042	\$ 15,696
Net balance December 31, 2016	\$ 18,042	\$ 15,696
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer	Yes	Yes
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	\$ 1	\$ 1
Liquidation value	\$ 17,500	\$ 22,500
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly
Distribution guaranteed by ⁽⁴⁾	Atlantic American Corporation	Atlantic American Corporation

For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures’ respective maturity dates. During any such period, interest will continue to accrue and the

(1) Company may not declare or pay any cash dividends or distributions on, or purchase, the Company’s common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.

(2) The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are effectively subordinated to all existing and future liabilities of its subsidiaries.

(3) On August 4, 2014, the Company acquired \$7,500 of the Junior Subordinated Debentures.

The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, (4) including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

Table of ContentsNote 7. Earnings Per Common Share

A reconciliation of the numerator and denominator used in the earnings per common share calculations is as follows:

	Three Months Ended September 30, 2017		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share:			
Net income	\$ 747	20,440	
Less: preferred stock dividends	(100)	-	
Net income applicable to common shareholders	\$ 647	20,440	\$.03

	Three Months Ended September 30, 2016		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share:			
Net income	\$ 149	20,451	
Less: preferred stock dividends	(100)	-	
Net income applicable to common shareholders	\$ 49	20,451	\$ -

	Nine Months Ended September 30, 2017		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share:			
Net income	\$ 1,986	20,428	
Less: preferred stock dividends	(299)	-	
Net income applicable to common shareholders	\$ 1,687	20,428	\$.08

	Nine Months Ended September 30, 2016		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share:			
Net income	\$ 1,288	20,433	
Less: preferred stock dividends	(299)	-	
Net income applicable to common shareholders	\$ 989	20,433	\$.05

The assumed conversion of the Company's Series D preferred stock was excluded from the earnings per common share calculation for all periods presented since its impact would have been antidilutive.

Table of ContentsNote 8. Income Taxes

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and income tax expense (benefit) is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Federal income tax provision at statutory rate of 35%	\$ 221	\$ 110	\$ 864	\$ 717
Dividends-received deduction	(23)	(25)	(71)	(71)
Small life insurance company deduction	(313)	-	(343)	-
Other permanent differences	18	12	52	45
Adjustment for prior years' estimates to actual	(19)	71	(19)	71
Income tax expense (benefit)	\$ (116)	\$ 168	\$ 483	\$ 762

The components of income tax expense (benefit) were:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Current - Federal	\$ (157)	\$ 11	\$ 906	\$ 601
Deferred - Federal	41	157	(423)	161
Total	\$ (116)	\$ 168	\$ 483	\$ 762

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and nine month periods ended September 30, 2017 resulted from the dividends-received deduction (“DRD”) and the small life insurance company deduction (“SLD”). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company’s taxable income. The SLD varies in amount and is determined at a rate of 60 percent of the tentative life insurance company taxable income (“LICTI”). The SLD for any taxable year is reduced (but not below zero) by 15 percent of the tentative LICIT for such taxable year as it exceeds \$3,000 and is ultimately phased out at \$15,000.

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and nine month periods ended September 30, 2016 resulted from provision-to-filed return adjustments, as described below, and the DRD.

The provision-to-filed return adjustments are generally updated at the completion of the third quarter of each fiscal year and were \$19 and \$71 in the three month and nine month periods ended September 30, 2017 and 2016, respectively.

Note 9. Commitments and Contingencies

From time to time, the Company is, and expects to continue to be, involved in various claims and lawsuits incidental to and in the ordinary course of its businesses. In the opinion of management, any such known claims are not expected to have a material effect on the financial condition or results of operations of the Company.

Table of ContentsNote 10. Segment Information

The Parent's primary insurance subsidiaries, American Southern and Bankers Fidelity, operate in two principal business units, each focusing on specific products. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each business unit is managed independently and is evaluated on its individual performance. The following sets forth the revenues and income before income taxes for each business unit for the three month and nine month periods ended September 30, 2017 and 2016.

Revenues	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
American Southern	\$ 15,047	\$ 14,112	\$43,402	\$43,743
Bankers Fidelity	29,661	28,225	87,757	81,947
Corporate and Other	90	110	1,130	358
Total revenue	\$ 44,798	\$ 42,447	\$ 132,289	\$ 126,048

Income Before Income Taxes	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
American Southern	\$ 1,860	\$ 1,855	\$ 5,941	\$ 5,971
Bankers Fidelity	402	164	190	1,111
Corporate and Other	(1,631)	(1,702)	(3,662)	(5,032)
Income before income taxes	\$ 631	\$ 317	\$ 2,469	\$ 2,050

Note 11. Accumulated Other Comprehensive Income

The following table sets forth the balance of the only component of accumulated other comprehensive income as of September 30, 2017 and December 31, 2016, and the changes in the balance of that component during the nine month period ended September 30, 2017, net of taxes.

	Unrealized Gains on Available-for- Sale Securities
Balance, December 31, 2016	\$ 5,830
Other comprehensive income before reclassifications	4,727
Amounts reclassified from accumulated other comprehensive income	(1,832)
Net current period other comprehensive income	2,895
Balance, September 30, 2017	\$ 8,725

Note 12. Related Party Transactions

For the nine month period ended September 30, 2017, Gray Television, Inc., a related party, paid the Company approximately \$448 in premiums related to a group accident plan.

Table of ContentsItem 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of the financial condition and results of operations of Atlantic American Corporation ("Atlantic American" or the "Parent") and its subsidiaries (collectively with the Parent, the "Company") as of and for the three month and nine month periods ended September 30, 2017. This discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included elsewhere herein, as well as with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "Annual Report").

Atlantic American is an insurance holding company whose operations are conducted primarily through its insurance subsidiaries: American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as "Bankers Fidelity"). Each operating company is managed separately, offers different products and is evaluated on its individual performance.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ significantly from those estimates. The Company has identified certain estimates that involve a higher degree of judgment and are subject to a significant degree of variability. The Company's critical accounting policies and the resultant estimates considered most significant by management are disclosed in the Annual Report. During the nine month period ended September 30, 2017, there were no changes to the critical accounting policies or related estimates from those disclosed in the Annual Report.

Overall Corporate Results

The following presents the Company's revenue, expenses and net income for the three month and nine month periods ended September 30, 2017 and the comparable periods in 2016:

	Three Months		Nine Months Ended	
	Ended September 30, 2017	2016	2017	2016
	(In thousands)			
Insurance premiums	\$42,094	\$39,432	\$122,996	\$117,012
Investment income	2,136	2,453	6,380	7,523
Realized investment gains, net	539	527	2,818	1,411
Other income	29	35	95	102
Total revenue	44,798	42,447	132,289	126,048
Insurance benefits and losses incurred	30,417	26,955	87,446	78,702
Commissions and underwriting expenses	10,176	11,558	31,800	34,339
Other expense	3,134	3,221	9,301	9,803
Interest expense	440	396	1,273	1,154
Total benefits and expenses	44,167	42,130	129,820	123,998
Income before income taxes	\$631	\$317	\$2,469	\$2,050
Net income	\$747	\$149	\$1,986	\$1,288

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Management also considers and evaluates performance by analyzing the non-GAAP measure operating income (loss), and believes it is a useful metric for investors, potential investors, securities analysts and others because it isolates the “core” operating results of the Company before considering certain items that are either beyond the control of management (such as taxes, which are subject to timing, regulatory and rate changes depending on the timing of the associated revenues and expenses) or are not expected to regularly impact the Company’s operational results (such as any realized investment gains, which are not a part of the Company’s primary operations and are, to a limited extent, subject to discretion in terms of timing of realization).

A reconciliation of net income to operating income (loss) for the three month and nine month periods ended September 30, 2017 and the comparable periods in 2016 is as follows:

Reconciliation of Non-GAAP Financial Measure	Three Months		Nine Months Ended	
	Ended September 30, 2017	2016	September 30, 2017	2016
	(In thousands)			
Net income	\$747	\$149	\$1,986	\$1,288
Income tax expense (benefit)	(116)	168	483	762
Realized investment gains, net	(539)	(527)	(2,818)	(1,411)
Operating income (loss)	\$92	\$(210)	\$(349)	\$639

On a consolidated basis, the Company had net income of \$0.7 million, or \$0.03 per diluted share, for the three month period ended September 30, 2017, compared to net income of \$0.1 million, or nil per diluted share, for the three month period ended September 30, 2016. The Company had net income of \$2.0 million, or \$0.08 per diluted share, for the nine month period ended September 30, 2017, compared to net income of \$1.3 million, or \$0.05 per diluted share, for the nine month period ended September 30, 2016. Premium revenue for the three month period ended September 30, 2017 increased \$2.7 million, or 6.8%, to \$42.1 million from \$39.4 million in the three month period ended September 30, 2016. For the nine month period ended September 30, 2017, premium revenue increased \$6.0 million, or 5.1%, to \$123.0 million from \$117.0 million in the comparable 2016 period. The increase in premium revenue for the three month and nine month periods ended September 30, 2017 was primarily attributable to an increase in Medicare supplement business in the life and health operations. The increase in net income for the three month and nine month periods ended September 30, 2017 was due primarily to the increase in premium revenue, as well as an increase in realized investment gains. Operating income increased \$0.3 million in the three month period ended September 30, 2017 over the three month period ended September 30, 2016, and decreased \$1.0 million during the nine month period ended September 30, 2017, from the comparable period in 2016. The increase in operating income for the three month period ended September 30, 2017 was primarily due to increased profitability in the property and casualty operations. Partially offsetting the increase in operating income for the three month period ended September 30, 2017 was a decrease in investment income attributable to a decrease in the average yield on the Company’s investments in fixed maturities and a loss from the equity in earnings from investments in real estate partnerships. The decrease in operating income for the nine month period ended September 30, 2017 was primarily attributable to unfavorable loss experience in the life and health operations and the decrease in investment income discussed previously.

A more detailed analysis of the individual operating companies and other corporate activities follows.

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American Southern

The following summarizes American Southern's premiums, losses, expenses and underwriting ratios for the three month and nine month periods ended September 30, 2017 and the comparable periods in 2016:

	Three Months		Nine Months Ended	
	Ended September 30, 2017	2016	September 30, 2017	2016
	(Dollars in thousands)			
Gross written premiums	\$9,520	\$8,704	\$46,505	\$43,766
Ceded premiums	(1,238)	(1,184)	(3,592)	(3,519)
Net written premiums	\$8,282	\$7,520	\$42,913	\$40,247
Net earned premiums	\$14,046	\$12,884	\$40,268	\$40,376
Net loss and loss adjustment expenses	9,663	8,507	25,879	25,238
Underwriting expenses	3,525	3,751	11,583	12,535
Underwriting income	\$858	\$626	\$2,806	\$2,603
Loss ratio	68.8 %	66.0 %	64.3 %	62.5 %
Expense ratio	25.1	29.1	28.7	31.1
Combined ratio	93.9 %	95.1 %	93.0 %	93.6 %

Gross written premiums at American Southern increased \$0.8 million, or 9.4%, during the three month period ended September 30, 2017, and \$2.7 million, or 6.3%, during the nine month period ended September 30, 2017, over the comparable periods in 2016. The increase in gross written premiums for the three month and nine month periods ended September 30, 2017 was primarily attributable to an increase in automobile liability written premiums from existing programs. Also contributing to the increase in gross written premiums for the nine month period ended September 30, 2017 were increases in automobile physical damage and surety business from two new agencies.

Ceded premiums increased slightly during the three month and nine month periods ended September 30, 2017 over the comparable periods in 2016 due primarily to a reinsurance rate increase in the automobile liability line of business.

The following presents American Southern's net earned premiums by line of business for the three month and nine month periods ended September 30, 2017 and the comparable periods in 2016:

	Three Months		Nine Months Ended	
	Ended September 30, 2017	2016	September 30, 2017	2016
	(In thousands)			
Automobile liability	\$7,971	\$6,646	\$22,103	\$20,804
Automobile physical damage	2,424	2,511	7,297	7,675
General liability	745	747	2,211	2,274
Surety	2,091	2,212	6,418	