

UNITED FIRE GROUP INC
Form 10-Q
November 05, 2015
Table of Contents

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, 2015

Commission File Number 001-34257

UNITED FIRE GROUP, INC.
(Exact name of registrant as specified in its charter)

Iowa
(State of Incorporation)

45-2302834
(IRS Employer Identification No.)

118 Second Avenue, S.E., Cedar Rapids, Iowa 52401
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (319) 399-5700

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 R NO o

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 R NO o

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

Large accelerated filer o Accelerated filer R Non-accelerated filer o Smaller reporting company o

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

YES NO

As of October 30, 2015, 25,076,389 shares of common stock were outstanding.

Table of Contents

United Fire Group, Inc.

Index to Quarterly Report on Form 10-Q

September 30, 2015

	Page
<u>Forward-Looking Information</u>	1
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2015 (unaudited) and December 31, 2014</u>	2
<u>Consolidated Statements of Income and Comprehensive Income (unaudited) for the three- and nine-month periods ended September 30, 2015 and 2014</u>	3
<u>Consolidated Statement of Stockholders' Equity (unaudited) for the nine-month period ended September 30, 2015</u>	4
<u>Consolidated Statements of Cash Flows (unaudited) for the nine-month periods ended September 30, 2015 and 2014</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
Review <u>Report of Independent Registered Public Accounting Firm</u>	31
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	48
<u>Item 4. Controls and Procedures</u>	48
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	49
<u>Item 1A. Risk Factors</u>	49
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
<u>Item 3. Defaults Upon Senior Securities</u>	49
<u>Item 4. Mine Safety Disclosures</u>	49
<u>Item 5. Other Information</u>	49
<u>Item 6. Exhibits</u>	50
<u>Signatures</u>	51

Table of Contents

FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about our operations, anticipated performance and other similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our"), the industry in which we operate, and beliefs and assumptions made by management. Words such as "expect(s)," "anticipate(s)," "intend(s)," "plan(s)," "believe(s)," "continue(s)," "seek(s)," "estimate(s)," "goal(s)," "target(s)," "forecast(s)," "project(s)," "predict(s)," "should," "could," "may," "will continue," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. See Part I, Item 1A "Risk Factors" in our 2014 Annual Report on Form 10-K and Part II, Item 1A "Risk Factors" of this report for more information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

Risks and uncertainties that may affect the actual financial condition and results of the Company include but are not limited to the following:

- The frequency and severity of claims, including those related to catastrophe losses and the impact those claims have on our loss reserve adequacy;
- The occurrence of catastrophic events, including international events, significant severe weather conditions, climate change, acts of terrorism, acts of war and pandemics;
- The adequacy of our reserves for property and casualty insurance losses and loss settlement expenses and our life insurance reserve for future policy benefits;
- Geographic concentration risk in both property and casualty insurance and life insurance segments;
- The potential disruption of our operations due to unauthorized data access, cyber-attacks or cyber-terrorism and other security breaches;
- Developments in general economic conditions, domestic and global financial markets, interest rates and other-than-temporary impairment losses that could affect the performance of our investment portfolio;
- Our ability to effectively underwrite and adequately price insured risks;
- Changes in industry trends, an increase in competition and significant industry developments;
- Litigation or regulatory actions that could require us to pay significant damages, fines or penalties or change the way we do business;
- Lowering of one or more of the financial strength ratings of our operating subsidiaries or our issuer credit ratings and the adverse impact such action may have on our premium writings, policy retention, profitability and liquidity;
- Governmental actions, policies and regulations, including, but not limited to, domestic health care reform, financial services regulatory reform, corporate governance, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions;
- Laws, regulations and stock exchange requirements relating to corporate governance and the cost of compliance;
- Our relationship with and the financial strength of our reinsurers; and
- Competitive, legal, regulatory or tax changes that affect the distribution cost or demand for our products through our independent agent/agency distribution network.

These are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission ("SEC"), we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Data)

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value \$291 in 2015 and \$404 in 2014)	\$289	\$397
Available-for-sale, at fair value (amortized cost \$2,733,745 in 2015 and \$2,773,566 in 2014)	2,790,417	2,843,079
Trading securities, at fair value (amortized cost \$11,880 in 2015 and \$14,363 in 2014)	12,918	16,862
Equity securities		
Available-for-sale, at fair value (cost \$72,616 in 2015 and \$71,651 in 2014)	227,689	245,843
Trading securities, at fair value (cost \$4,373 in 2015 and \$3,708 in 2014)	4,097	4,066
Mortgage loans	4,022	4,199
Policy loans	5,569	5,916
Other long-term investments	51,278	50,424
Short-term investments	175	175
	3,096,454	3,170,961
Cash and cash equivalents	124,061	90,574
Accrued investment income	26,293	25,989
Premiums receivable (net of allowance for doubtful accounts of \$789 in 2015 and \$618 in 2014)	295,658	249,030
Deferred policy acquisition costs	158,716	139,719
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$45,188 in 2015 and \$41,492 in 2014)	52,882	49,247
Reinsurance receivables and recoverables	74,415	86,810
Prepaid reinsurance premiums	3,898	3,632
Income taxes receivable	1,928	—
Goodwill and intangible assets	25,701	26,278
Other assets	16,010	14,449
TOTAL ASSETS	\$3,876,016	\$3,856,689
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	\$1,005,997	\$969,437
Life insurance	1,375,029	1,447,764
Unearned premiums	428,822	378,725
Accrued expenses and other liabilities	207,788	212,577
Income taxes payable	—	5,012
Deferred income taxes	12,920	25,759
TOTAL LIABILITIES	\$3,030,556	\$3,039,274
Stockholders' Equity		

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Common stock, \$0.001 par value; authorized 75,000,000 shares; 25,064,339 and 25,019,415 shares issued and outstanding in 2015 and 2014, respectively	\$25	\$25
Additional paid-in capital	204,274	202,676
Retained earnings	565,748	523,541
Accumulated other comprehensive income, net of tax	75,413	91,173
TOTAL STOCKHOLDERS' EQUITY	\$845,460	\$817,415
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,876,016	\$3,856,689

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

Table of Contents

United Fire Group, Inc.

Consolidated Statements of Income and Comprehensive Income (Unaudited)

(In Thousands, Except Share Data)	Three Months Ended September		Nine Months Ended September	
	30, 2015	2014	30, 2015	2014
Revenues				
Net premiums earned	\$239,421	\$212,021	\$681,817	\$607,189
Investment income, net of investment expenses	24,050	22,837	74,205	77,202
Net realized investment gains (includes reclassifications for net unrealized investment gains on available-for-sale securities of \$1,825 and \$4,715 in 2015 and \$985 and \$4,073 in 2014; previously included in accumulated other comprehensive income (loss))	966	894	2,622	5,796
Other income	123	113	318	1,255
Total revenues	\$264,560	\$235,865	\$758,962	\$691,442
Benefits, Losses and Expenses				
Losses and loss settlement expenses	\$144,526	\$154,346	\$421,297	\$422,299
Increase in liability for future policy benefits	12,784	10,552	32,503	26,450
Amortization of deferred policy acquisition costs	48,697	44,644	135,526	124,374
Other underwriting expenses (includes reclassifications for employee benefit costs of \$1,867 and \$5,601 in 2015 and \$768 and \$2,304 in 2014; previously included in accumulated other comprehensive income (loss))	26,161	21,665	73,241	68,869
Interest on policyholders' accounts	5,568	7,503	18,207	23,342
Total benefits, losses and expenses	\$237,736	\$238,710	\$680,774	\$665,334
Income (loss) before income taxes	\$26,824	\$(2,845)	\$78,188	\$26,108
Federal income tax expense (benefit) (includes reclassifications of \$15 and \$310 in 2015 and (\$76) and (\$619) in 2014; previously included in accumulated other comprehensive income (loss))	7,290	(3,170)	19,957	1,767
Net income	\$19,534	\$325	\$58,231	\$24,341
Other comprehensive income (loss)				
Change in net unrealized appreciation on investments	\$(2,008)	\$(12,410)	\$(25,131)	\$38,767
Change in liability for underfunded employee benefit plans	—	—	—	—
Other comprehensive income (loss), before tax and reclassification adjustments	\$(2,008)	\$(12,410)	\$(25,131)	\$38,767
Income tax effect	703	4,344	8,795	(13,569)
Other comprehensive income (loss), after tax, before reclassification adjustments	\$(1,305)	\$(8,066)	\$(16,336)	\$25,198
Reclassification adjustment for net realized investment gains included in income	\$(1,825)	\$(985)	\$(4,715)	\$(4,073)
Reclassification adjustment for employee benefit costs included in expense	1,867	768	5,601	2,304
Total reclassification adjustments, before tax	\$42	\$(217)	\$886	\$(1,769)
Income tax effect	(15)	76	(310)	619

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Total reclassification adjustments, after tax	\$27	\$(141) \$576	\$(1,150)
Comprehensive income (loss)	\$18,256	\$(7,882) \$42,471	\$48,389	
Weighted average common shares outstanding	25,067,080	25,188,381	25,027,382	25,295,842	
Basic earnings per common share	\$0.78	\$0.01	\$2.33	\$0.96	
Diluted earnings per common share	0.77	0.01	2.31	0.95	

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

Table of ContentsUnited Fire Group, Inc.
Consolidated Statement of Stockholders' Equity (Unaudited)

(In Thousands, Except Share Data)	Nine Months Ended September 30, 2015
Common stock	
Balance, beginning of year	\$25
Shares repurchased (79,396 shares)	—
Shares issued for stock-based awards (113,498 shares)	—
Balance, end of period	\$25
Additional paid-in capital	
Balance, beginning of year	\$202,676
Compensation expense and related tax benefit for stock-based award grants	1,342
Shares repurchased	(2,423)
Shares issued for stock-based awards	2,679
Balance, end of period	\$204,274
Retained earnings	
Balance, beginning of year	\$523,541
Net income	58,231
Dividends on common stock (\$0.64 per share)	(16,024)
Balance, end of period	\$565,748
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	\$91,173
Change in net unrealized investment appreciation ⁽¹⁾	(19,400)
Change in liability for underfunded employee benefit plans ⁽²⁾	3,640
Balance, end of period	\$75,413
Summary of changes	
Balance, beginning of year	\$817,415
Net income	58,231
All other changes in stockholders' equity accounts	(30,186)
Balance, end of period	\$845,460

(1) The change in net unrealized appreciation is net of reclassification adjustments and income taxes.

(2) The change in liability for underfunded employee benefit plans is net of reclassification adjustments and income taxes.

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

Table of Contents

United Fire Group, Inc.

Consolidated Statements of Cash Flows (Unaudited)

(In Thousands)	Nine Months Ended September 30,	
	2015	2014
Cash Flows From Operating Activities		
Net income	\$58,231	\$24,341
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	10,534	10,985
Depreciation and amortization	7,706	5,449
Stock-based compensation expense	1,817	1,445
Net realized investment gains	(2,622)	(5,796)
Net cash flows from trading investments	2,663	(6,933)
Deferred income tax benefit	(3,854)	(2,639)
Changes in:		
Accrued investment income	(304)	398
Premiums receivable	(46,628)	(39,945)
Deferred policy acquisition costs	(16,884)	(10,219)
Reinsurance receivables	12,395	3,384
Prepaid reinsurance premiums	(266)	(552)
Income taxes receivable	(1,928)	(3,173)
Other assets	(1,561)	482
Future policy benefits and losses, claims and loss settlement expenses	60,932	70,994
Unearned premiums	50,097	49,974
Accrued expenses and other liabilities	811	(9,153)
Income taxes payable	(5,012)	—
Deferred income taxes	(499)	(1,330)
Other, net	(1,221)	(368)
Total adjustments	\$66,176	\$63,003
Net cash provided by operating activities	\$124,407	\$87,344
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	\$8,228	\$3,091
Proceeds from call and maturity of held-to-maturity investments	108	243
Proceeds from call and maturity of available-for-sale investments	527,365	390,967
Proceeds from short-term and other investments	4,221	2,370
Purchase of available-for-sale investments	(502,086)	(432,112)
Purchase of short-term and other investments	(4,643)	(2,803)
Net purchases and sales of property and equipment	(10,763)	(5,692)
Net cash provided by (used in) investing activities	\$22,430	\$(43,936)
Cash Flows From Financing Activities		
Policyholders' account balances		
Deposits to investment and universal life contracts	\$78,733	\$131,134
Withdrawals from investment and universal life contracts	(175,840)	(170,570)
Payment of cash dividends	(16,024)	(14,672)
Repurchase of common stock	(2,423)	(11,249)
Issuance of common stock	2,679	1,782
Tax impact from issuance of common stock	(475)	(94)
Net cash used in financing activities	\$(113,350)	\$(63,669)
Net Change in Cash and Cash Equivalents	\$33,487	\$(20,261)

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Cash and Cash Equivalents at Beginning of Period	90,574	92,193
Cash and Cash Equivalents at End of Period	\$ 124,061	\$ 71,932

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

Table of Contents

UNITED FIRE GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share amounts or as otherwise noted)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

United Fire Group, Inc. ("UFG", the "Registrant", the "Company", "we", "us", or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. We report our operations in two business segments: property and casualty insurance and life insurance. Our insurance company subsidiaries are licensed as a property and casualty insurer in 45 states and the District of Columbia, and as a life insurer in 37 states.

Basis of Presentation

The unaudited consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X promulgated by the SEC. Certain financial information that is included in our Annual Report on Form 10-K, including certain financial statement footnote disclosures, are not required by the rules and regulations of the SEC for interim financial reporting and have been condensed or omitted.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 from those estimates. The financial statement categories that are most dependent on management estimates and assumptions include: investments; deferred policy acquisition costs; reinsurance receivables and recoverables; future policy benefits and losses, claims and loss settlement expenses; and pension and postretirement benefit obligations.

In the preparation of the accompanying unaudited Consolidated Financial Statements, we have evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Management of UFG believes the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. The review report of Ernst & Young LLP as of September 30, 2015 and for the three- and nine-month periods ended September 30, 2015 and 2014 accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 "Financial Statements."

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, money market accounts, and non-negotiable certificates of deposit with original maturities of three months or less.

For the nine-month periods ended September 30, 2015 and 2014, we made payments for income taxes totaling \$31,724 and \$9,619, respectively. We did not receive a tax refund during the nine-month period ended September 30, 2015. We received a tax refund of \$615 during the nine-month period ended September 30, 2014.

Table of Contents

For the nine-month periods ended September 30, 2015 and 2014, we made no interest payments (excluding interest credited to policyholders' accounts).

Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC, including the related amortization recognized for the nine-month period ended September 30, 2015.

	Property & Casualty Insurance	Life Insurance	Total
Recorded asset at beginning of period	\$72,861	\$66,858	\$139,719
Underwriting costs deferred	147,980	4,430	152,410
Amortization of deferred policy acquisition costs	(130,305)	(5,221)	(135,526)
Ending unamortized deferred policy acquisition costs	\$90,536	\$66,067	\$156,603
Impact of unrealized gains and losses on available-for-sale securities	—	2,113	2,113
Recorded asset at September 30, 2015	\$90,536	\$68,180	\$158,716

Property and casualty insurance policy acquisition costs deferred are amortized as premium revenue is recognized. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value. This takes into account the premium to be earned, losses and loss settlement expenses expected to be incurred and certain other costs expected to be incurred as the premium is earned. With the completion of the Mercer Insurance Group, Inc. integration, we determined it was the appropriate time to review our DAC models. After reviewing our DAC model at March 31, 2015, we enhanced our property & casualty insurance segment DAC model by updating our aggregation of certain lines of business in a manner consistent with how the policies are currently being marketed and managed. The impact of these updates to the model resulted in an increase to DAC amortization of \$994 and an increase to the DAC asset of \$3,586 for the nine-month period ended September 30, 2015 as compared to what we would have recognized had we not updated our model.

For traditional life insurance policies, DAC is amortized to income over the premium-paying period in proportion to the ratio of the expected annual premium revenue to the expected total premium revenue. Expected premium revenue and gross profits are based on the same mortality and withdrawal assumptions used in determining future policy benefits. These assumptions are not revised after policy issuance unless the recorded DAC asset is deemed to be unrecoverable from future expected profits.

For non-traditional life insurance policies, DAC is amortized over the anticipated terms in proportion to the ratio of the expected annual gross profits to the total expected gross profits. Changes in the amount or timing of expected gross profits result in adjustments to the cumulative amortization of these costs. The effect on amortization of DAC for revisions to estimated gross profits is reported in earnings in the period the estimated gross profits are revised.

The effect on DAC that results from the assumed realization of unrealized gains (losses) on investments allocated to non-traditional life insurance business is recognized with an offset to net unrealized investment appreciation as of the balance sheet date. The impact of unrealized gains and losses on available-for-sale securities decreased the DAC asset by \$11,270 and \$13,383 at September 30, 2015 and December 31, 2014, respectively.

Income Taxes

Deferred tax assets and liabilities are established based on differences between the financial statement bases of assets and liabilities and the tax bases of those same assets and liabilities, using the currently enacted statutory tax

Table of Contents

rates. Deferred income tax expense is measured by the year-to-year change in the net deferred tax asset or liability, except for certain changes in deferred tax amounts that affect stockholders' equity and do not impact federal income tax expense.

We reported a federal income tax expense of \$19,957 and \$1,767 for the nine-month periods ended September 30, 2015 and 2014, respectively. Our effective tax rate is different than the federal statutory rate of 35.0 percent due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

The Company performs a quarterly review of its tax position and makes a determination of whether it is more likely than not that the tax position will be sustained upon examination. If based on review, it appears not more likely than not that the position will be sustained, the Company will calculate any unrecognized tax benefits and, if necessary, calculate and accrue any related interest and penalties. We did not recognize any liability for unrecognized tax benefits at September 30, 2015 or December 31, 2014. In addition, we have not accrued for interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.

We file a consolidated federal income tax return. We also file income tax returns in various state jurisdictions. We are no longer subject to federal or state income tax examination for years before 2009. The Internal Revenue Service is conducting a routine examination of our income tax return for the 2011 tax year.

Subsequent Events

In the preparation of the accompanying financial statements, the Company has evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure in the Company's financial statements. The Company concluded there are no material subsequent events or transactions that have occurred after the balance sheet date through the date on which the financial statements were issued.

Recently Issued Accounting Standards Accounting Standards Adopted in 2015

Troubled Debt Restructuring

In August 2014, the Financial Accounting Standards Board ("FASB") issued updated guidance on the accounting for creditors who are holding receivables with troubled debt restructuring, specifically related to the classification of certain government guaranteed mortgage loans that are in foreclosure. The objective of this update is to provide greater consistency and transparency by addressing the classification of certain foreclosed mortgage loans guaranteed through government programs. The guidance is effective for interim and annual periods beginning after December 15, 2014. The Company adopted the guidance on January 1, 2015. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Discontinued Operations

In April 2014, the FASB issued new guidance on reporting discontinued operations and disclosures of disposals of components of an entity. The new guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual periods beginning after December 15, 2014. The Company adopted the guidance on January 1, 2015. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Table of Contents

Pending Adoption of Accounting Standards Short Duration Contracts

In May 2015, the FASB issued guidance on disclosure requirements for short-duration contracts. The new guidance requires additional disclosures about the liability for unpaid loss and loss adjustment expenses and requires disclosure of any information about significant changes in methodologies and assumptions used to calculate the liability. The new guidance is effective for annual periods beginning after December 15, 2015 and interim periods beginning the following year. The Company will adopt the new guidance on January 1, 2016 and is currently evaluating its disclosures for short-duration contracts and the impact on the Company's financial statement disclosures.

Other Internal Use Software

In April 2015, the FASB issued guidance which clarifies customers' accounting for fees paid for cloud computing arrangements. The new guidance provides guidance to customers about whether a cloud computing arrangement includes a software license or whether the arrangement is considered a service contract. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company will adopt the new guidance on January 1, 2016 and is currently evaluating its accounting for cloud computing arrangements and the impact on the Company's financial position and results of operations.

Debt Issuance Costs

In April 2015, the FASB issued new guidance on the presentation of debt issuance costs. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company will adopt the new guidance on January 1, 2016. At this point in time, Management does not expect the adoption of the new guidance to have an impact on the Company's financial position or results of operations.

Consolidation

In February 2015, the FASB issued amendments to the consolidation analysis that a reporting entity performs to determine whether it should consolidate certain legal entities. Specifically, the new guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIE"), eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that have VIE's, particularly those with fee arrangements and related party relationships. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company will adopt the guidance on January 1, 2016. Management currently does not expect the adoption of the new guidance to have an impact on the Company's financial position or results of operations.

Going Concern

In August 2014, the FASB issued new guidance on the disclosure of uncertainties about an entity's ability to continue as a going concern. The new guidance requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, to disclose the fact and what the entity's plans are to alleviate that doubt. The guidance is effective for annual periods ending after December 15, 2015 and interim periods within annual periods beginning after December 15, 2015. The Company will adopt the guidance on January 1, 2016. Management currently does not expect the adoption of the new guidance to have an impact on the Company's financial position or results of operations.

Share Based Payments

In June 2014, the FASB issued new guidance on the accounting for share based payments when the terms of an

9

Table of Contents

award provide that a performance target could be achieved after the requisite service period. The new guidance requires a performance target that affects vesting and that could be achieved after the service period, be treated as a performance condition. The guidance is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively or retrospectively and early adoption is permitted. The Company will adopt the guidance on January 1, 2016 and is currently evaluating the impact on the Company's financial position and results of operations.

Revenue Recognition

In May 2014, the FASB issued comprehensive new guidance on revenue recognition which supersedes nearly all existing revenue recognition guidance under GAAP. The new guidance requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard creates a five-step model that requires companies to exercise judgment when considering the terms of the contract(s) and all relevant facts and circumstances. Insurance contracts are not within the scope of this new guidance. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company will adopt the guidance on January 1, 2018 and is currently evaluating the impact on the Company's financial position and results of operations and considering which transition method it will use in implementing the new guidance.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities as of September 30, 2015 and December 31, 2014, is as follows:
September 30, 2015

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
Corporate bonds - financial services	\$200	\$—	\$—	\$200
Mortgage-backed securities	89	2	—	91
Total Held-to-Maturity Fixed Maturities	\$289	\$2	\$—	\$291
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	\$21,654	\$270	\$2	\$21,922
U.S. government agency States, municipalities and political subdivisions	235,045	3,410	1,208	237,247
General obligations:				
Midwest	165,797	5,107	94	170,810
Northeast	56,812	1,674	19	58,467
South	124,580	3,328	370	127,538
West	98,780	2,775	259	101,296
Special revenue:				
Midwest	148,385	4,544	166	152,763

Table of Contents

Northeast	21,197	742	153	21,786
South	103,539	3,814	112	107,241
West	74,463	2,852	24	77,291
Foreign bonds	89,473	3,343	1,628	91,188
Public utilities	201,218	5,661	688	206,191
Corporate bonds				
Energy	113,692	2,056	1,391	114,357
Industrials	226,222	5,379	4,397	227,204
Consumer goods and services	179,716	4,315	651	183,380
Health care	96,149	2,697	590	98,256
Technology, media and telecommunications	145,531	2,560	1,348	146,743
Financial services	249,063	7,531	633	255,961
Mortgage-backed securities	14,102	438	25	14,515
Collateralized mortgage obligations	362,732	10,064	2,180	370,616
Asset-backed securities	5,595	219	169	5,645
Total Available-for-Sale Fixed Maturities	\$2,733,745	\$72,779	\$16,107	\$2,790,417
Equity securities:				
Common stocks				
Public utilities	\$7,231	\$11,430	\$163	\$18,498
Energy	6,103	5,428	159	11,372
Industrials	13,252	28,415	250	41,417
Consumer goods and services	10,315	11,474	5	21,784
Health care	7,763	17,932	—	25,695
Technology, media and telecommunications	6,151	6,673	85	12,739
Financial services	17,433	74,451	131	91,753
Nonredeemable preferred stocks	4,368	65	2	4,431
Total Available-for-Sale Equity Securities	\$72,616	\$155,868	\$795	\$227,689
Total Available-for-Sale Securities	\$2,806,361	\$228,647	\$16,902	\$3,018,106

Table of Contents

December 31, 2014

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
States, municipalities and political subdivisions				
Special revenue:				
Midwest	\$55	\$—	\$—	\$55
Corporate bonds - financial services	200	—	—	200
Mortgage-backed securities	142	7	—	149
Total Held-to-Maturity Fixed Maturities	\$397	\$7	\$—	\$404
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	\$25,856	\$168	\$52	\$25,972
U.S. government agency	349,747	4,347	2,422	351,672
States, municipalities and political subdivisions				
General obligations:				
Midwest	179,491	6,599	170	185,920
Northeast	59,084	2,120	50	61,154
South	122,055	4,453	288	126,220
West	75,102	3,350	19	78,433
Special revenue:				
Midwest	126,192	5,356	146	131,402
Northeast	11,767	864	—	12,631
South	106,917	4,368	63	111,222
West	68,024	3,285	6	71,303
Foreign bonds	136,487	4,132	446	140,173
Public utilities	206,366	6,479	488	212,357
Corporate bonds				
Energy	135,068	2,858	793	137,133
Industrials	211,256	6,373	2,154	215,475
Consumer goods and services	172,623	4,702	324	177,001
Health care	86,017	3,228	210	89,035
Technology, media and telecommunications	131,465	3,863	799	134,529
Financial services	215,095	8,574	87	223,582
Mortgage-backed securities	17,121	483	46	17,558
Collateralized mortgage obligations	335,092	7,003	4,806	337,289
Asset-backed securities	2,741	277	—	3,018
Total Available-for-Sale Fixed Maturities	\$2,773,566	\$82,882	\$13,369	\$2,843,079

Table of Contents

Equity securities:

Common stocks

Public utilities	\$7,231	\$13,103	\$44	\$20,290
Energy	5,094	8,623	—	13,717
Industrials	13,284	32,299	124	45,459
Consumer goods and services	10,294	13,295	275	23,314
Health care	7,920	22,436	—	30,356
Technology, media and telecommunications	6,207	7,846	58	13,995
Financial services	16,637	77,077	51	93,663
Nonredeemable preferred stocks	4,984	72	7	5,049
Total Available-for-Sale Equity Securities	\$71,651	\$174,751	\$559	\$245,843
Total Available-for-Sale Securities	\$2,845,217	\$257,633	\$13,928	\$3,088,922

Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at September 30, 2015, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

September 30, 2015	Held-To-Maturity		Available-For-Sale		Trading	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$—	\$—	\$129,230	\$130,254	\$1,181	\$1,659
Due after one year through five years	200	200	789,739	820,780	6,865	6,955
Due after five years through 10 years	—	—	988,569	998,254	1,610	1,818
Due after 10 years	—	—	443,778	450,353	2,224	2,486
Asset-backed securities	—	—	5,595	5,645	—	—
Mortgage-backed securities	89	91	14,102	14,515	—	—
Collateralized mortgage obligations	—	—	362,732	370,616	—	—
	\$289	\$291	\$2,733,745	\$2,790,417	\$11,880	\$12,918

Table of Contents

Net Realized Investment Gains and Losses

Net realized gains on disposition of investments are computed using the specific identification method and are included in the computation of net income. A summary of the components of net realized investment gains (losses) is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net realized investment gains (losses)				
Fixed maturities:				
Available-for-sale	\$407	\$984	\$2,363	\$2,336
Trading securities				
Change in fair value	(999)	(253)	(1,461)	695
Sales	531	181	1,230	701
Equity securities:				
Available-for-sale	1,418	—	2,352	1,736
Trading securities				
Change in fair value	(430)	(17)	(634)	329
Sales	39	(1)	85	(1)
Other long-term investments	—	—	(1,313)	—
Total net realized investment gains	\$966	\$894	\$2,622	\$5,796

The proceeds and gross realized gains (losses) on the sale of available-for-sale securities are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Proceeds from sales	\$—	\$3,081	\$8,228	\$3,091
Gross realized gains	—	900	1,030	900
Gross realized losses	—	—	—	(56)

There were no sales of held-to-maturity securities during the three- and nine-month periods ended September 30, 2015 and 2014.

Our investment portfolio includes trading securities with embedded derivatives. These securities are primarily convertible securities which are recorded at fair value. Income or loss, including the change in the fair value of these trading securities, is recognized currently in earnings as a component of net realized investment gains. Our portfolio of trading securities had a fair value of \$17,015 and \$20,928 at September 30, 2015 and December 31, 2014, respectively.

Funding Commitment

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed through December 31, 2023 to make capital contributions upon request of the partnership. Our remaining potential contractual obligation was \$8,450 at September 30, 2015.

Table of Contents

Unrealized Appreciation

A summary of the changes in net unrealized investment appreciation during the reporting period is as follows:

	Nine Months Ended September 30,	
	2015	2014
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities	\$(12,841)	\$44,586
Available-for-sale equity securities	(19,119)	3,872
Deferred policy acquisition costs	2,113	(13,764)
Income tax effect	10,447	(12,143)
Total change in net unrealized investment appreciation, net of tax	\$(19,400)	\$22,551

We continually monitor the difference between our cost basis and the estimated fair value of our investments. Our accounting policy for impairment recognition requires other-than-temporary impairment ("OTTI") charges to be recorded when we determine that it is more likely than not that we will be unable to collect all amounts due according to the contractual terms of the fixed maturity security or that the anticipated recovery in fair value of the equity security will not occur in a reasonable amount of time. Impairment charges on investments are recorded based on the fair value of the investments at the measurement date. Factors considered in evaluating whether a decline in value is other-than-temporary include: the length of time and the extent to which fair value has been less than cost; the financial condition and near-term prospects of the issuer; our intention to hold the investment; and the likelihood that we will be required to sell the investment.

The tables on the following pages summarize our fixed maturity and equity securities that were in an unrealized loss position at September 30, 2015 and December 31, 2014. The securities are presented by the length of time they have been continuously in an unrealized loss position. It is possible that we could recognize OTTI charges in future periods on securities held at September 30, 2015, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We have evaluated the near-term prospects of the issuers of our fixed maturity securities in relation to the severity and duration of the unrealized loss, and unless otherwise noted, these losses did not warrant the recognition of an OTTI charge at September 30, 2015 or at September 30, 2014. We believe the unrealized depreciation in value of other securities in our fixed maturity portfolio is primarily attributable to changes in market interest rates and not the credit quality of the issuer. We have no intent to sell, and it is more likely than not that we will not be required to sell, these securities until the fair value recovers to at least equal to our cost basis or the securities mature.

We have evaluated the near-term prospects of the issuers of our equity securities in relation to the severity and duration of the unrealized loss, and unless otherwise noted, these losses do not warrant the recognition of an OTTI charge at September 30, 2015. Our largest unrealized loss greater than 12 months on an individual equity security at September 30, 2015 was \$163. We have no intention to sell any of these securities prior to a recovery in value, but will continue to monitor the fair value reported for these securities as part of our overall process to evaluate investments for OTTI recognition.

Table of Contents

September 30, 2015	Less than 12 months			12 months or longer			Total	Gross
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Unrealized Depreciation
AVAILABLE-FOR-SALE								
Fixed maturities:								
Bonds								
U.S. Treasury	—	\$—	\$—	2	\$1,652	\$ 2	\$1,652	\$ 2
U.S. government agency States, municipalities and political subdivisions	26	70,261	814	7	22,056	394	92,317	1,208
General obligations								
Midwest	11	11,332	94	—	—	—	11,332	94
Northeast	7	6,031	19	—	—	—	6,031	19
South	11	14,767	188	12	6,549	182	21,316	370
West	13	19,733	259	—	—	—	19,733	259
Special revenue								
Midwest	17	20,088	122	1	2,483	44	22,571	166
Northeast	1	4,814	153	—	—	—	4,814	153
South	8	12,527	84	2	1,828	28	14,355	112
West	8	8,447	24	—	—	—	8,447	24
Foreign bonds	9	15,153	1,628	—	—	—	15,153	1,628
Public utilities	13	28,383	376	5	2,926	312	31,309	688
Corporate bonds								
Energy	7	14,922	884	3	6,876	507	21,798	1,391
Industrials	20	35,955	1,282	3	7,878	3,115	43,833	4,397
Consumer goods and services	17	46,527	647	4	2,502	4	49,029	651
Health care	13	31,567	505	2	3,806	85	35,373	590
Technology, media and telecommunications	19	53,402	850	2	8,987	498	62,389	1,348
Financial services	21	42,848	633	—	—	—	42,848	633
Mortgage-backed securities	2	1,503	15	4	198	10	1,701	25
Collateralized mortgage obligations	23	35,007	472	31	73,973	1,708	108,980	2,180
Asset-backed securities	1	2,598	169	—	—	—	2,598	169
Total Available-for-Sale Fixed Maturities	247	\$475,865	\$ 9,218	78	\$141,714	\$ 6,889	\$617,579	\$ 16,107
Equity securities:								
Common stocks								
Public utilities	—	\$—	\$—	3	\$145	\$ 163	\$145	\$ 163
Energy	8	1,934	159	—	—	—	1,934	159
Industrials	5	301	11	4	219	239	520	250
Consumer goods and services	—	—	—	2	13	5	13	5
Technology, media and telecommunications	10	478	71	2	12	14	490	85
Financial services	6	311	67	1	172	64	483	131

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Nonredeemable preferred stocks	1	351	2	—	—	—	351	2
Total Available-for-Sale Equity Securities	30	\$3,375	\$ 310	12	\$561	\$ 485	\$3,936	\$ 795
Total Available-for-Sale Securities	277	\$479,240	\$ 9,528	90	\$142,275	\$ 7,374	\$621,515	\$ 16,902

Table of Contents

December 31, 2014	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
AVAILABLE-FOR-SALE								
Fixed maturities:								
Bonds								
U.S. Treasury	4	\$2,343	\$ 6	4	\$5,069	\$ 46	\$7,412	\$ 52
U.S. government agency States, municipalities and political subdivisions	11	41,064	70	35	95,198	2,352	136,262	2,422
General obligations								
Midwest	1	3,650	74	14	9,856	96	13,506	170
Northeast	—	—	—	9	7,377	50	7,377	50
South	1	3,085	58	19	13,475	230	16,560	288
West	1	1,023	1	5	2,700	18	3,723	19
Special revenue								
Midwest	9	10,219	41	8	11,631	105	21,850	146
South	6	12,882	11	3	2,137	52	15,019	63
West	—	—	—	4	3,671	6	3,671	6
Foreign bonds	6	17,158	446	—	—	—	17,158	446
Public utilities	10	21,839	194	4	3,611	294	25,450	488
Corporate bonds								
Energy	8	17,416	420	3	7,061	373	24,477	793
Industrials	8	17,103	362	3	9,592	1,792	26,695	2,154
Consumer goods and services	11	28,344	258	7	10,064	66	38,408	324
Health care	3	8,244	36	3	7,104	174	15,348	210
Technology, media and telecommunications	4	8,860	68	4	15,742	731	24,602	799
Financial services	3	5,908	31	2	6,131	56	12,039	87
Mortgage-backed securities	9	425	21	2	1,991	25	2,416	46
Collateralized mortgage obligations	10	20,746	112	56	122,550	4,694	143,296	4,806
Total Available-for-Sale Fixed Maturities	105	\$220,309	\$ 2,209	185	\$334,960	\$ 11,160	\$555,269	\$ 13,369
Equity securities:								
Common stocks								
Public utilities	3	\$263	\$ 44	—	\$—	\$ —	\$263	\$ 44
Industrials	3	280	70	2	58	54	338	124
Consumer goods and services	1	129	272	2	15	3	144	275
Technology, media and telecommunications	4	503	14	5	218	44	721	58
Financial services	1	186	51	—	—	—	186	51
Nonredeemable preferred stocks	—	—	—	1	700	7	700	7
	12	\$1,361	\$ 451	10	\$991	\$ 108	\$2,352	\$ 559

Total Available-for-Sale
Equity Securities
Total Available-for-Sale
Securities

117	\$221,670	\$ 2,660	195	\$335,951	\$ 11,268	\$557,621	\$ 13,928
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17
