

UNITED FIRE GROUP INC  
Form 10-K  
February 26, 2016  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K  
R Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended  
December 31, 2015  
OR

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period  
from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-34257

UNITED FIRE GROUP, INC.

(Exact name of registrant as specified in its charter)

Iowa

45-2302834

(State or other jurisdiction of  
incorporation or organization)

(I.R.S Employer Identification No.)

118 Second Avenue SE  
Cedar Rapids, Iowa 52401

(Address of principal executive offices) (Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	The NASDAQ Global Select Market
Securities Registered Pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Act. YES  NO

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 website, if any,  
every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of  
this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and  
post such files). YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not  
contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2015 was approximately \$773.5 million. For purposes of this calculation, all directors and executive officers of the registrant are considered affiliates. As of February 24, 2016, 25,200,422 shares of common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for its annual shareholder meeting to be held on May 18, 2016.

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**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" 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 and reputation 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.



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PART I.

ITEM 1. BUSINESS

GENERAL DESCRIPTION

United Fire Group, Inc. ("UFG", "United Fire", 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. Our insurance company subsidiaries are currently licensed as a property and casualty insurer in 46 states, plus the District of Columbia and as a life insurer in 37 states. United Fire & Casualty Company was incorporated in Iowa in January 1946. Our principal executive office is located at 118 Second Avenue SE, Cedar Rapids, Iowa 52401; telephone: 319-399-5700.

United Fire Group, Inc. owns 100 percent of one subsidiary, United Fire & Casualty Company. United Fire & Casualty Company owns 100 percent of eight subsidiaries: United Life Insurance Company, Addison Insurance Company, Lafayette Insurance Company, United Fire & Indemnity Company, Mercer Insurance Company, Financial Pacific Insurance Company, UFG Specialty Insurance Company (formerly known as Texas General Indemnity Company) and United Real Estate Holdings Company, LLC. Mercer Insurance Company owns 100 percent of two subsidiaries: Franklin Insurance Company and Mercer Insurance Company of New Jersey, Inc. United Fire Lloyds is an affiliate of United Fire & Indemnity Company.

In 2015, the Company dissolved three of its holding companies in order to flatten our organizational chart. The companies dissolved were American Indemnity Financial Corporation, Mercer Insurance Group, Inc. and Financial Pacific Insurance Group, Inc. In addition, Texas General Indemnity Company was renamed UFG Specialty Insurance Company on July 1, 2015.

Holding Company Reorganization

On February 1, 2012, we completed a holding company reorganization (the "Reorganization") of United Fire Group, Inc., United Fire & Casualty Company, and UFC MergeCo, Inc., an Iowa corporation formed for the purpose of facilitating the Reorganization. The Reorganization agreement was approved and adopted by United Fire & Casualty Company shareholders at a special meeting of shareholders held on January 24, 2012.

The Reorganization agreement provided for the merger of United Fire & Casualty Company with UFC MergeCo, Inc., with United Fire & Casualty Company surviving the merger as a wholly owned subsidiary of United Fire Group, Inc. Each share of common stock, par value \$3.33 1/3 per share, of United Fire & Casualty Company issued and outstanding immediately prior to the effective time of the merger, converted into one duly issued, fully paid and nonassessable share of common stock, par value \$0.001 per share, of United Fire Group, Inc. In addition, each outstanding option to purchase or right to acquire shares of United Fire & Casualty Company common stock was automatically converted into an option to purchase or right to acquire, upon the same terms and conditions, an identical number of shares of United Fire Group, Inc. common stock.

Upon completion of the Reorganization, United Fire Group, Inc., an Iowa corporation, replaced United Fire & Casualty Company, an Iowa corporation, as the publicly held corporation, and the holders of United Fire & Casualty Company common stock then held the same number of shares at the same ownership percentage of United Fire Group, Inc. as they held of United Fire & Casualty Company immediately prior to the Reorganization. On February 2, 2012, shares of United Fire Group, Inc. common stock commenced trading on the NASDAQ Global Select Market under the ticker symbol "UFCS."

Employees

As of December 31, 2015, we employed 1,057 full-time employees and 13 part-time employees. We are not a party to any collective bargaining agreement.

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Reportable Segments

We report our operations in two business segments: property and casualty insurance and life insurance. Our property and casualty insurance segment is comprised of commercial lines insurance, including surety bonds, personal lines insurance and assumed reinsurance. Our life insurance segment is comprised of deferred and immediate fixed annuities, universal life insurance products and traditional life insurance products. A table reflecting revenues, net income and assets attributable to our operating segments is included in Part II, Item 8, Note 10 "Segment Information." All intercompany transactions have been eliminated in consolidation.

All of our property and casualty insurance subsidiaries and our affiliate belong to an intercompany reinsurance pooling arrangement. On July 1, 2015, UFG Specialty Insurance Company (formerly known as Texas General Indemnity Company) entered the pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant's own surplus level. Under such arrangements, the members share substantially all of the insurance business that is written and allocate the combined premiums, losses and expenses based on percentages defined in the arrangement.

Our life insurance segment consists solely of the operations of United Life Insurance Company.

Available Information

We provide free and timely access to all our reports filed with the SEC in the Investor Relations section of our website at [www.unitedfiregroup.com](http://www.unitedfiregroup.com). Under the "Investor Relations" tab, select "Financial Information" and then, under the "Investor Relations" tab, select "SEC Filings" to view the list of our SEC filings, which includes annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, beneficial ownership reports on Forms 3, 4 and 5 and amendments to reports filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Exchange Act. Such reports are made available as soon as reasonably practicable after they are filed with or furnished to the SEC.

Our Code of Ethics and Business Conduct is also available at [www.unitedfiregroup.com](http://www.unitedfiregroup.com) in the Investor Relations section. To view it, under the "Investor Relations" tab, select "Corporate Governance" and then "Code of Ethics and Business Conduct."

Free paper copies of any materials that we file with or furnish to the SEC can also be obtained by writing to Investor Relations, United Fire Group, Inc., 118 Second Avenue SE, Cedar Rapids, Iowa 52401.

MARKETING AND DISTRIBUTION

We market our products through our home office in Cedar Rapids, Iowa, and five regional locations: Westminster, Colorado, a suburb of Denver; Webster, Texas; Pennington, New Jersey; Los Angeles, California and Rocklin, California. We are represented through approximately 1,200 independent property and casualty agencies and by approximately 1,200 independent life agencies.



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## Property and Casualty Insurance Segment

In 2015, 2014 and 2013 the direct statutory premiums written by our property and casualty insurance operations were distributed as follows:

(In Thousands)	Years Ended December 31,			% of Total			
	2015	2014	2013	2015	2014	2013	
Texas	\$142,485	\$122,559	\$104,775	15.4	% 14.6	% 13.9	%
California	109,420	92,754	79,326	11.8	11.1	10.5	
Iowa	99,949	97,790	92,976	10.8	11.7	12.3	
Missouri	53,867	50,704	47,787	5.8	6.0	6.3	
New Jersey	50,979	51,436	51,992	5.5	6.1	6.9	
Colorado	45,805	40,291	36,014	4.9	4.8	4.8	
Minnesota	44,993	39,844	33,434	4.9	4.8	4.4	
Illinois	43,381	41,760	38,012	4.7	5.0	5.0	
Louisiana	36,594	36,733	36,352	3.9	4.4	4.8	
All Other States	299,027	264,712	233,926	32.3	31.5	31.1	
Direct Statutory Premiums Written	\$926,500	\$838,583	\$754,594	100.0	% 100.0	% 100.0	%

We staff our regional offices with underwriting, claims and marketing representatives and administrative technicians, all of whom provide support and assistance to the independent agencies. Also, home office staff technicians and specialists provide support to our subsidiaries, regional offices and independent agencies. We use management reports to monitor subsidiary and regional offices for overall results and conformity to our business policies.

**Competition**

The property and casualty insurance industry is highly competitive. We compete with numerous property and casualty insurance companies in the regional and national market, many of which are substantially larger and have considerably greater financial and other resources. Except for regulatory considerations, there are limited barriers to entry into the insurance industry. Our competitors may be domestic or foreign, as well as licensed or unlicensed. The exact number of competitors within the industry is not known. Insurers compete on the basis of reliability, financial strength and stability, ratings, underwriting consistency, service, business ethics, price, performance, capacity, policy terms and coverage conditions.

In addition, because our products are marketed exclusively through independent insurance agencies, most of which represent more than one company, we face competition within each agency and competition to retain qualified independent agents. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers.

Because we rely solely on independent agencies, we offer a competitive commissions program and a rewarding profit-sharing plan as incentives for agents to place high-quality property and casualty insurance business with us. Property and casualty insurance agencies will receive profit-sharing payments of \$21.2 million in 2016, based on profitable business produced by the agencies in 2015. In 2015 for 2014 business, agencies received \$17.6 million in profit-sharing payments and in 2014 for 2013 business, agencies received \$19.2 million in payments.

Our competitive advantages include our commitment to:

**Strong agency relationships —**

A stable workforce, with an average duration of employment of approximately 10.6 years, allows our agents to work with the same, highly-experienced personnel each day.

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Our organization is relatively flat, allowing our agents to be close to the highest levels of management and ensuring that our agents will receive answers quickly to their questions.

• **Exceptional service** — our agents and policyholders always have the option to speak with a real person.

• **Fair and prompt claims handling** — we view claims as an opportunity to prove to our customers that they have chosen the right insurance company.

• **Disciplined underwriting** — we empower our underwriters with the knowledge and tools needed to make good decisions for the Company.

• **Superior loss control services** — our loss control representatives make multiple visits to businesses and job sites each year to ensure safety.

• **Effective and efficient use of technology** — we use technology to provide enhanced service to our agents and policyholders, not to replace our personal relationships, but to reinforce them.

### Life Insurance Segment

Our life insurance subsidiary markets its products primarily in the Midwest, East Coast and West. In 2015, 2014 and 2013 the direct statutory premiums written by our life insurance operations were distributed as follows:

(In Thousands)	Years Ended December 31,			% of Total			
	2015	2014	2013	2015	2014	2013	
Iowa	\$47,616	\$69,543	\$64,906	32.6	%34.4	%38.8	%
Illinois	16,128	19,428	19,375	11.0	9.6	11.6	
Minnesota	13,269	20,325	16,074	9.1	10.1	9.6	
Wisconsin	12,513	22,411	13,939	8.6	11.1	8.3	
Nebraska	9,334	11,382	11,080	6.4	5.6	6.6	
All Other States	47,236	58,887	41,923	32.3	29.2	25.1	
Direct Statutory Premiums Written	\$146,096	\$201,976	\$167,297	100.0	%100.0	%100.0	%

### Competition

We encounter significant competition in all lines of our life and fixed annuity business from other life insurance companies and other providers of financial services. Since our products are marketed exclusively through independent life insurance agencies that typically represent more than one company, we face competition within our agencies. Competitors include companies that market their products through agents, as well as companies that sell directly to their customers. The exact number of competitors within the industry is not known.

To attract and maintain relationships with our independent life insurance agencies, we offer competitive commission rates and other sales incentives. Our life insurance segment achieves a competitive advantage by offering products that are simple and straightforward, by providing outstanding customer service, by being accessible to our agents and customers, and by using technology in a variety of ways to assist our agents and improve the delivery of service to our policyholders.

### OPERATING SEGMENTS

Information specific to the reportable business segments in our operations, including products, pricing and seasonality of premiums written is incorporated by reference from Note 10 "Segment Information" contained in Part II, Item 8, "Financial Statements and Supplementary Data." Additionally, for a detailed discussion of our operating results by segment, refer to the "Consolidated Results of Operations" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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REINSURANCE

Incorporated by reference from Note 4 "Reinsurance" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

RESERVES

Property and Casualty Insurance Segment

Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property or the loss of its income-producing abilities. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases, casualty insurance also obligates the insurance company to provide a defense for the insured in litigation, arising out of events covered by the policy.

Liabilities for loss and loss settlement expenses reflect management's best estimates at a given point in time of what we expect to pay for claims that have been reported and those that have been incurred but not reported ("IBNR"), based on known facts, circumstances, and historical trends.

The determination of reserves (particularly those relating to liability lines of insurance that have relatively longer lag in claim reporting) requires significant work to reasonably project expected future claim reporting and payment patterns. If, during the course of our regular monitoring of reserves, we determine that coverages previously written are incurring higher than expected losses, we will take action that may include, among other things, increasing the related reserves. Any adjustments we make to reserves are reflected in operating results in the year in which we make those adjustments. We engage an independent actuary, Regnier Consulting Group, Inc. ("Regnier"), to render an opinion as to the adequacy of our statutory reserves annually. The actuarial opinion is filed in those states where we are licensed.

On a quarterly basis, United Fire's internal actuary performs a detailed actuarial review of IBNR reserves. This review includes a comparison of results from the most recent analysis of reserves completed by both our internal and external actuaries. Senior management meets with our internal actuary to review, on a regular and quarterly basis, the adequacy of carried reserves based on results from this actuarial analysis. There are two fundamental types or sources of IBNR reserves. We record IBNR reserves for "normal" types of claims and also specific IBNR reserves related to unique circumstances or events. A major hurricane is an example of an event that might necessitate establishing specific IBNR reserves because an analysis of existing historical data would not provide an appropriate estimate.

We do not discount loss reserves based on the time value of money. There are no material differences between our reserves established under U.S. generally accepted accounting principles ("GAAP") and our statutory reserves.

The following table illustrates the change in our estimate of loss reserves for our property and casualty insurance companies for the years 2005 through 2015. The first section shows the amount of the liability, as originally reported, at the end of each calendar year in our Consolidated Financial Statements. These reserves represent the estimated amount of losses and loss settlement expenses for losses arising in that year and all prior years that are unpaid at the end of each year, including an estimate for our IBNR losses, net of applicable ceded reinsurance. The second section displays the cumulative amount of net losses and loss settlement expenses paid for each year with respect to that liability. The third section shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the losses for individual years. The last section compares the latest re-estimated amount with the original estimate. Conditions and trends that have affected development of loss reserves in the past may not necessarily exist in the future. Accordingly, it would not be appropriate to project future redundancies or deficiencies based on this table.

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(In Thousands) Years Ended December 31, Gross liability for loss and loss settlement expenses Ceded loss and loss settlement expenses Net liability for loss and settlement expenses Cumulative net paid as of: One year later Two years later Three years later Four years later Five years later Six years later Seven years later Eight years later Nine years later Ten years later Net liability re-estimated as of: End of year One year later	2005	2006	2007	2008	2009	2010	2011 <sup>(1)</sup>	2012	2013	2014	2015
	\$620,100	\$518,886	\$496,083	\$586,109	\$606,045	\$603,090	\$945,051	\$971,911	\$960,651	\$969,437	\$1,003,895
	60,137	40,560	38,800	52,508	33,754	39,000	120,359	103,870	75,150	63,757	54,653
	\$559,963	\$478,326	\$457,283	\$533,601	\$572,291	\$564,090	\$824,692	\$868,041	\$885,501	\$905,680	\$949,242
	\$230,455	\$148,593	\$140,149	\$195,524	\$165,046	\$146,653	\$194,156	\$216,026	\$241,981	\$251,503	
	321,110	235,975	265,361	304,622	260,872	230,800	317,623	367,456	386,428		
	380,294	332,768	345,092	373,765	312,451	283,837	422,458	466,261			
	456,919	390,763	392,676	406,773	347,682	327,497	485,957				
	502,455	422,669	416,656	429,477	372,868	348,433					
	527,136	441,202	434,437	448,097	386,311						
	540,740	456,089	448,506	455,107							
	553,035	467,239	453,118								
	561,708	470,572									
	563,209										
	\$559,963	\$478,326	\$457,283	\$533,601	\$572,291	\$564,090	\$824,692	\$868,041	\$885,501	\$905,680	\$949,242
	534,998	433,126	457,831	559,816	526,413	502,995	751,265	810,554	828,757	865,285	
	508,774	453,474	502,177	547,824	497,136	457,532	749,491	795,328	805,069		

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Two years later											
Three years later	538,451	497,629	503,992	537,912	461,677	431,213	741,455	772,413			
Four years later	574,484	500,071	503,720	514,763	446,825	417,962	726,325				
Five years later	582,343	507,507	494,027	503,175	439,961	413,415					
Six years later	592,772	503,510	487,514	499,302	435,451						
Seven years later	589,661	498,735	488,692	492,001							
Eight years later	586,083	502,926	481,542								
Nine years later	589,873	495,994									
Ten years later	583,374										
Net redundancy (deficiency)	\$(23,411)	\$(17,668)	\$(24,259)	\$41,600	\$136,840	\$150,675	\$98,367	\$95,628	\$80,432	\$40,395	
Net re-estimated liability	583,374	495,994	481,542	492,001	435,451	413,415	726,325	772,413	805,069	865,285	
Re-estimated ceded loss and settlement expenses	\$102,093	\$70,210	\$64,866	\$75,230	\$60,323	\$64,378	\$87,706	\$83,353	\$69,082	\$61,588	
Gross re-estimated liability	\$685,467	\$566,204	\$546,408	\$567,231	\$495,774	\$477,793	\$814,031	\$855,766	\$874,151	\$926,873	
Gross redundancy (deficiency)	\$(65,367)	\$(47,318)	\$(50,325)	\$18,878	\$110,271	\$125,297	\$131,020	\$116,145	\$86,500	\$42,564	

(1) Amounts shown in the 2011 column of the table include both 2011 and prior to 2011 accident year development for Mercer Insurance Group, which was acquired on March 28, 2011 and accounted for in accordance with ASC 805 Business Combinations.

For a more detailed discussion of our loss reserves, refer to the "Critical Accounting Policies" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 5 "Reserves for Losses and Loss Settlement Expenses" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

#### Life Insurance Segment

We calculate the policy reserves reported in our Consolidated Financial Statements in accordance with GAAP. For our fixed annuities and universal life policies, we establish a benefit reserve at the time of policy issuance in an amount equal to the deposits received. Subsequently, we adjust the benefit reserve for any additional deposits, interest credited and partial or complete withdrawals, as well as insurance and other expense charges. We base policy reserves for other life products on the projected contractual benefits and expenses and interest rates appropriate to those products. We base reserves for accident and health products, which are a minor portion of our reserves, on appropriate morbidity tables.



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We determine reserves for statutory purposes based upon mortality rates and interest rates specified by Iowa state law. Our life insurance subsidiary's reserves meet or exceed the minimum statutory requirements. Griffith, Ballard & Company, an independent actuary, assists us in developing and analyzing our reserves on both a GAAP and statutory basis.

For further discussion of our life insurance segment's reserves, refer to the "Critical Accounting Policies" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

INVESTMENTS

Incorporated by reference from Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the headings "Investments," "Market Risk" and "Critical Accounting Policies"; and Note 1 "Significant Accounting Policies" under the headings "Investments," Note 2 "Summary of Investments," and Note 3 "Fair Value of Financial Instruments," contained in Part II, Item 8, "Financial Statements and Supplementary Data."

REGULATION

The insurance industry is subject to comprehensive and detailed regulation and supervision. Each jurisdiction in which we operate has established supervisory agencies with broad administrative powers. While we are not aware of any currently proposed or recently enacted state or federal regulation that would have a material impact on our operations, we cannot predict the effect that future regulatory changes might have on us.

State Regulation

We are subject to extensive regulation, primarily at the state level. The method, extent and substance of such regulation varies by state, but generally has its source in National Association of Insurance Commissioners ("NAIC") model laws and regulations that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state regulatory agency. Moreover, the NAIC Accreditation Program requires state regulatory agencies to meet baseline standards of solvency regulation, particularly with respect to regulation of multi-state insurers. In general, such regulation is intended for the protection of those who purchase or use our insurance products, and not our shareholders. These rules have a substantial effect on our business and relate to a wide variety of matters including: insurance company licensing and examination; the licensing of insurance agents and adjusters; price setting or premium rates; trade practices; approval of policy forms; claims practices; restrictions on transactions between our subsidiaries and their affiliates, including the payment of dividends; investments; underwriting standards; advertising and marketing practices; capital adequacy; and the collection, remittance and reporting of certain taxes, licenses and fees.

The state laws and regulations that have the most significant effect on our insurance operations and financial reporting are discussed below.

Insurance Holding Company Regulation

We are regulated as an insurance holding company system in the states of domicile of our property and casualty insurance companies and life insurance subsidiary: Iowa (United Fire & Casualty Company, United Life Insurance Company, UFG Specialty Insurance Company and Addison Insurance Company), California (Financial Pacific Insurance Company), Louisiana (Lafayette Insurance Company), New Jersey (Mercer Insurance Company of New Jersey, Inc.), Pennsylvania (Mercer Insurance Company and Franklin Insurance Company) and Texas (United Fire & Indemnity Company and United Fire Lloyds). These regulations require that we annually furnish financial and other information about the operations of the individual companies within our holding company system. Generally, the insurance laws of these states provide that notice to the state insurance commissioner is required before finalizing any transaction affecting the ownership or control of an insurer and before finalizing certain material transactions between an insurer and any person or entity within its holding company system. In addition, some of those transactions cannot be finalized without the commissioner's prior approval.

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Most states have now adopted the version of the Model Insurance Holding Company System Regulation Act and Regulation as amended by the NAIC in December 2010 (the "Amended Model Act") to introduce the concept of "enterprise risk" within an insurance company holding system. Enterprise risk is defined as any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or the liquidity of the insurer or its insurance holding company system as a whole. The Amended Model Act imposes more extensive informational requirements on us, including requiring us to prepare an annual enterprise risk report that identifies the material risks within our insurance company holding system that could pose enterprise risk to our licensed insurers. Compliance with new reporting requirements under the Amended Model Act began for us in 2014 for the 2013 fiscal year.

### Restrictions on Shareholder Dividends

As an insurance holding company with no independent operations or source of revenue, our capacity to pay dividends to our shareholders is based on the ability of our insurance company subsidiaries to pay dividends to us. The ability of our subsidiaries to pay dividends to us is regulated by the laws of their state of domicile. Under these laws, insurance companies must provide advance informational notice to the domicile state insurance regulatory authority prior to payment of any dividend or distribution to its shareholders. Prior approval from the state insurance regulatory authority must be obtained before payment of an "extraordinary dividend" as defined under the state's insurance code. The amount of ordinary dividends that may be paid to us is subject to certain limitations, the amounts of which change each year. In all cases, we may pay dividends only from our earned surplus. Refer to the "Market Information" section of Part II, Item 5, "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities," and Note 6 "Statutory Reporting, Capital Requirements and Dividends and Retained Earnings Restrictions," contained in Part II, Item 8, "Financial Statements and Supplementary Data" for additional information about the dividends we paid during 2015.

### Price Regulation

Nearly all states have insurance laws requiring us to file rate schedules, policy or coverage forms, and other information with the state's regulatory authority. In certain states, rate schedules, policy forms, or both, must be approved prior to use. While insurance laws vary from state to state, their objectives are generally the same: an insurance rate cannot be excessive, inadequate or unfairly discriminatory. The speed with which we can change our rates in response to competition or in response to increasing costs depends, in part, on the willingness of state regulators to allow adequate rates for the business we write.

### Investment Regulation

We are subject to various state regulations requiring investment portfolio diversification and limiting the concentration of investments we may maintain in certain asset categories. Failure to comply with these regulations leads to the treatment of nonconforming investments as nonadmitted assets for purposes of measuring statutory surplus. Further, in some instances, state regulations require us to sell certain nonconforming investments.

### Exiting Geographic Markets; Canceling and Nonrenewing Policies

Most states regulate our ability to exit a market. For example, states limit, to varying degrees, our ability to cancel and nonrenew insurance policies. Some states prohibit us from withdrawing one or more types of insurance business from the state, except upon prior regulatory approval. Regulations that limit policy cancellation and nonrenewal may restrict our ability to exit unprofitable markets.

### Insurance Guaranty Associations

Each state has insurance guaranty association laws. Membership in a state's insurance guaranty association is generally mandatory for insurers wishing to do business in that state. Under these laws, associations may assess their members for certain obligations that insolvent insurance companies have incurred with regard to their policyholders and claimants.



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Typically, states assess each solvent association member with an amount related to that member's proportionate share of business written by all association members within the state. Most state guaranty associations allow solvent insurers to recoup the assessments they are charged through future rate increases, surcharges or premium tax credits. However, there is no assurance that we will ultimately recover these assessments. We cannot predict the amount and timing of any future assessments or refunds under these laws.

### Shared Market and Joint Underwriting Plans

State insurance regulations often require insurers to participate in assigned risk plans, reinsurance facilities and joint underwriting associations. These are mechanisms that generally provide applicants with various types of basic insurance coverage that may not otherwise be available to them through voluntary markets. Such mechanisms are most commonly instituted for automobile and workers' compensation insurance, but many states also mandate participation in Fair Access to Insurance Requirements ("FAIR") Plans or Windstorm Plans, which provide basic property coverage. Participation is based upon the amount of a company's voluntary market share in a particular state for the classes of insurance involved. Policies written through these mechanisms may require different underwriting standards and may pose greater risk than those written through our voluntary application process.

### Statutory Accounting Rules

For public reporting, insurance companies prepare financial statements in accordance with GAAP. However, state laws require us to calculate and report certain data according to statutory accounting rules as defined in the NAIC Accounting Practices and Procedures Manual. While not a substitute for any GAAP measure of performance, statutory data frequently is used by industry analysts and other recognized reporting sources to facilitate comparisons of the performance of insurance companies.

### Insurance Reserves

State insurance laws require that insurance companies analyze the adequacy of their reserves annually. Our appointed actuaries must submit an opinion that our statutory reserves are adequate to meet policy claims-paying obligations and related expenses.

### Financial Solvency Ratios

The NAIC annually calculates 13 financial ratios to assist state insurance regulators in monitoring the financial condition of insurance companies. A "usual range" of results for each of these ratios is used by insurance regulators as a benchmark. Departure from the usual range on four or more of the ratios could lead to inquiries from individual state insurance departments as to certain aspects of a company's business. In addition to the financial ratios, states also require us to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These "risk-based capital" results are used by state insurance regulators to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2015, all of our insurance companies had capital in excess of the required levels.

### Federal Regulation

Although the federal government and its regulatory agencies generally do not directly regulate the business of insurance, federal initiatives and legislation often have an impact on our business. These initiatives and legislation include tort reform proposals, proposals addressing natural catastrophe exposures, terrorism risk mechanisms, federal financial services reforms, various tax proposals affecting insurance companies, and possible regulatory limitations, impositions and restrictions arising from the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), and the Patient Protection and Affordable Care Act.

Various legislative and regulatory efforts to reform the tort liability system have impacted and will continue to impact our industry. Although there has been some tort reform with positive impact to the insurance industry, new causes of action and theories of damages continue to be proposed in state court actions or by federal or state legislatures that continue to expand liability for insurers and their policyholders. For example, some state legislatures have from time to time considered legislation addressing direct actions against insurers related to bad

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faith claims. As a result of this unpredictability in the law, insurance underwriting is expected to continue to be difficult in commercial lines, professional liability and other specialty coverages.

Dodd-Frank expanded the federal presence in insurance oversight and may increase regulatory requirements that are applicable to us. Dodd-Frank's requirements include streamlining the state-based regulation of reinsurance and non-admitted insurance (property or casualty insurance placed with insurers that are eligible to accept insurance, but are not licensed to write insurance in a particular state). Dodd-Frank also established the Federal Insurance Office within the U.S. Department of the Treasury that is authorized to, among other things, gather data and information to monitor aspects of the insurance industry, identify issues in the regulation of insurers about insurance matters, and preempt state insurance measures under certain circumstances.

Dodd-Frank also contains a number of provisions related to corporate governance and disclosure matters. In response to Dodd-Frank, the SEC has adopted or proposed rules regarding director independence, director and officer hedging activities, executive compensation clawback policies, compensation advisor independence, pay versus performance disclosures, internal pay equity disclosures, and shareholder proxy access. We continue to monitor developments under Dodd-Frank and their impact on us, insurers of similar size and the insurance industry as a whole. The Patient Protection and Affordable Care Act and the related amendments in the Health Care and Education Reconciliation Act may increase our operating costs and underwriting losses. This landmark legislation continues to result in numerous changes within the health care industry that could create additional operating costs for us, particularly with respect to our workers' compensation products.

**FINANCIAL STRENGTH AND ISSUER CREDIT RATING**

Our financial strength, as measured by statutory accounting principles, is regularly reviewed by an independent rating agency that assigns a rating based upon criteria such as results of operations, capital resources and minimum policyholders' surplus requirements. An insurer's financial strength rating is one of the primary factors evaluated by those in the market to purchase insurance. A poor rating indicates that there is an increased likelihood that the insurer could become insolvent and therefore not able to fulfill its obligations under the insurance policies it issues. This rating can also affect an insurer's level of premium writings, the lines of business it can write and, for insurers like us that are also public registrants, the market value of its securities.

Our property and casualty insurers are rated by A.M. Best Company ("A.M. Best") on a group basis. Our pooled property and casualty insurers have all received an "A" (Excellent) financial strength rating from A.M. Best. Our life insurance subsidiary has received an "A-" (Excellent) financial strength rating from A.M. Best. According to A.M. Best, companies rated "A" and "A-" have "an excellent ability to meet their ongoing obligations to policyholders." A.M. Best also assigns issuer credit ratings based on a company's ability to repay its debts. All of our property and casualty insurers have received an issuer credit rating of "a" from A.M. Best. Our life insurance subsidiary has received an issuer credit rating of "a-" from A.M. Best. Beginning in 2012, our holding company parent was also rated by A.M. Best, receiving an issuer credit rating of "bbb."



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## EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth information concerning the following executive officers:

Name	Age	Position
Randy A. Ramlo	54	President and Chief Executive Officer
Michael T. Wilkins	52	Executive Vice President and Chief Operating Officer
Dawn M. Jaffray	49	Senior Vice President and Chief Financial Officer
Barrie W. Ernst	61	Vice President and Chief Investment Officer
Neal R. Scharmer	59	Vice President, General Counsel and Corporate Secretary
Michael J. Sheeley	55	Vice President and Chief Operating Officer, United Life Insurance Company

A brief description of the business experience of these officers follows:

Randy A. Ramlo became our President and Chief Executive Officer in May 2007. He previously served as our Chief Operating Officer from May 2006 until May 2007, as Executive Vice President from May 2004 until May 2007, and as Vice President, Fidelity and Surety, from November 2001 until May 2004. He also worked as an underwriting manager in our Great Lakes region. Mr. Ramlo began his employment with us as an underwriter in 1984.

Michael T. Wilkins became our Executive Vice President and Chief Operating Officer in May 2014. He served as our Executive Vice President, Corporate Administration, from May 2007 to May 2014. He was our Senior Vice President, Corporate Administration, from May 2004 until May 2007, our Vice President, Corporate Administration, from August 2002 until May 2004 and the resident Vice President in our Lincoln regional office from 1998 until 2002. Prior to 1998, Mr. Wilkins held various other positions within the Company since joining us in 1985.

Dawn M. Jaffray became our Senior Vice President and Chief Financial Officer in May 2015. Ms. Jaffray previously served as Chief Financial Officer of Soleil Advisory Group, a consulting firm specializing in operational consulting, mergers and acquisitions, investment and strategy from 2009 to 2015. Prior to her service with Soleil Advisory Group, Ms. Jaffray held numerous positions in insurance operations and mergers / acquisition activities, primarily in the role of principal financial officer. Ms. Jaffray's business experience has been focused in particular on insurance, finance and capital management.

Barrie W. Ernst is our Vice President and Chief Investment Officer. He joined us in August 2002. Previously, Mr. Ernst served as Senior Vice President of SCI Financial Group in Cedar Rapids, Iowa, where he worked from 1980 to 2002. SCI Financial Group was a regional financial services firm providing brokerage, insurance and related services to its clients.

Neal R. Scharmer was appointed our Vice President and General Counsel in May 2001 and Corporate Secretary in May 2006. He joined us in 1995.

Michael J. Sheeley was appointed Vice President and Chief Operating Officer of United Life Insurance Company in March 2011. Prior to assuming leadership of United Life Insurance Company, Mr. Sheeley served us as personal lines underwriting manager from 1991 to 2011. He has also served in various capacities including commercial underwriting and claims since joining us in 1985.

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ITEM 1A. RISK FACTORS

We provide readers with the following discussion of risks and uncertainties relevant to our business. These are factors that we believe could cause our actual results to differ materially from our historic or anticipated results. We could also be adversely affected by other factors, in addition to those listed here. Additional information concerning factors that could cause actual results to differ materially from those contained in the forward-looking statements is set forth in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Relating to Our Business

The occurrence, frequency and severity of catastrophe losses are unpredictable and may adversely affect our results of operations, liquidity and financial condition.

Our property and casualty insurance operations expose us to claims arising from catastrophic events affecting multiple policyholders. Such catastrophic events consist of various natural disasters, including, but not limited to, hurricanes, tornadoes, windstorms, hailstorms, fires and wildfires, earthquakes, severe winter weather, tropical storms, volcanic eruptions and man-made disasters such as terrorist acts (including biological, chemical or radiological events), explosions, infrastructure failures and results from political instability. We have exposure to tropical storms and hurricanes along the Gulf Coast, Eastern and Southeastern coasts of the United States. We have exposure to tornadoes, windstorms and hail storms throughout the United States. We have exposure to earthquakes along the West Coast and the New Madrid Fault area. Our automobile and inland marine business also exposes us to losses arising from floods and other perils.

Property damage resulting from catastrophes is the greatest risk of loss we face in the ordinary course of our business. We have exposure to catastrophe losses under both our commercial insurance policies and our personal insurance policies. The losses from catastrophic events are a function of both the extent of our exposure, the frequency and severity of the events themselves and the level of reinsurance assumed and ceded. For example, the losses experienced from a tornado will vary on whether the location of the tornado was in a highly populated or unpopulated area, the concentration of insureds in that area and the severity of the tornado. Increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from a catastrophic event.

Long-term weather trends may be changing and new types of catastrophe losses may be developing due to climate change, which is a phenomenon that has been associated with extreme weather events linked to rising temperatures, including effects on global weather patterns, greenhouse gases, sea, land and air temperature, sea levels, rain and snow. While the emerging science regarding climate change and its connection to extreme weather events continues to be debated, in recent years there has been an increase in frequency and severity of tornadoes and hailstorms, and hurricanes are now impacting areas further inland than experienced in the recent past. Such changes in climate conditions could cause our underlying modeling data to be less accurate, limiting our ability to evaluate and manage our risk.

In addition, as with catastrophe losses generally, it can take a long time for us to determine our ultimate losses associated with a particular catastrophic event. The inability to access portions of the impacted area, the complexity of the losses, legal and regulatory uncertainty and the nature of the information available for certain catastrophic events may affect our ability to estimate the claims and claim adjustment expense reserves. Such complex factors include, but are not limited to: determining the cause of the damage, evaluating general liability exposures, estimating additional living expenses, the impact of demand surge, infrastructure disruption, fraud, business interruption costs and reinsurance collectability.

The timing of a catastrophic occurrence at the end or near the end of a reporting period may also affect the information available to us when estimating claims and claim adjustment expense reserves for the reporting period. As our claims experience for a particular catastrophe develops, we may be required to adjust our reserves to reflect our revised estimates of the total cost of claims. However, because the occurrence and severity of catastrophes are

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inherently unpredictable and may vary significantly from year to year and region to region, historical results of operations may not be indicative of future results of operations.

Catastrophes may reduce our net income, cause substantial volatility in our financial results for any fiscal quarter or year or otherwise adversely affect our financial condition, liquidity or results of operations. Catastrophes may also negatively affect our ability to write new business.

Following catastrophes there are also sometimes legislative, administrative and judicial decisions that seek to expand insurance coverage for claims beyond the original intent of the policies or seek to prevent the application of deductibles. Our ability to manage catastrophic exposure may be limited by public policy considerations, the political environment, changes in the general economic climate and/or social responsibilities.

Our reserves for property and casualty insurance losses and loss settlement expenses and our life insurance reserves for future policy benefits are based on estimates and may be inadequate, adversely impacting our financial results.

We maintain insurance reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjustment process, for reported and unreported claims and for future policy benefits. Our reserves may prove to be inadequate, which may result in future charges to earnings and/or a downgrade of our financial strength rating or the financial strength ratings of our insurance company subsidiaries.

Insurance reserves represent our best estimate at a given point in time. They are not an exact calculation of liability but instead are complex estimates, which are a product of actuarial expertise and projection techniques from a number of assumptions and expectations about future events, many of which are highly uncertain.

The process of estimating claims and claims adjustment expense reserves involves a high degree of judgment. These estimates are based on historical data and the impact of various factors such as:

- actuarial and statistical projections of the cost of settlement and administration of claims reflecting facts and circumstances then known;

- historical claims information and loss emergence patterns;

- assessments of currently available data;

- estimates of future trends in claims severity and frequency;

- judicial theories of liability;

- economic factors such as inflation;

- estimates and assumptions regarding social, judicial and legislative trends, and actions such as class action lawsuits

- and judicial interpretation of coverages or policy exclusions; and

- the level of insurance fraud.

Many of these factors are not quantifiable. The inherent uncertainties of estimating reserves are greater for certain types of liabilities, particularly those in which the various considerations affecting the type of claim are subject to change and in which long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are continually refined in a regular and ongoing process as experience develops and further claims are reported and settled.

Along with other insurers, we use internal and external models in assessing our exposure to catastrophe losses that assume various conditions and probability scenarios; however, these models do not necessarily accurately predict future losses or accurately measure losses currently incurred. Models for catastrophes use historical information about various catastrophes and details about our in-force business. While we use this information in our pricing and risk managements, there are limitations with respect to their usefulness in predicting losses in any reporting period. Such limitations lead to questionable predictive capability and post-event measurements that have not been well understood or proven to be sufficiently reliable. In addition, the models are not necessarily reflective of our state-

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specific policy language, demand surge for labor and materials or loss settlement expenses, all of which are subject to wide variation.

For our life insurance business, we calculate life insurance product reserves based on our assumptions, including estimated premiums we will receive over the assumed life of the policy, the timing of the event covered by the insurance policy and the amount of benefits or claims to be paid. The premiums that we charge and the liabilities that we hold for future policy benefits are based on assumptions reflecting a number of factors, including the amount of premiums that we will receive in the future, the rate of return on assets we purchase with premiums received, expected claims, mortality, morbidity, expenses and persistency, which is the measurement of the percentage of insurance policies remaining in force from year to year. However, due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid policy benefits and claims, we cannot determine precisely the amounts we will ultimately pay to settle these liabilities. To the extent that actual experience is less favorable than our underlying assumptions, we could be required to increase our liabilities, which may harm our financial strength and reduce our profitability.

For example, if mortality rates are higher than our pricing assumptions, we will be required to make greater claims payments on our life insurance policies than we had projected. Our results of operations may also be adversely impacted by an increase in morbidity rates.

Actual loss and loss settlement expenses paid might exceed our reserves. If our loss reserves are insufficient, or if we believe our loss reserves are insufficient to cover our actual loss and loss settlement expenses, we will have to increase our loss reserves and incur charges to our earnings, which could indicate that premium levels were insufficient. As such, deviations from one or more of these assumptions could result in a material adverse impact on our Consolidated Financial Statements and our financial strength rating or the financial strength ratings of our insurance company subsidiaries could be downgraded.

For a detailed discussion of our reserving process and the factors we consider in estimating reserves, refer to the "Critical Accounting Policies" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our geographic concentration in both our property and casualty insurance and life insurance segments ties our performance to the business, economic and regulatory conditions of certain states.

The following states provided 49.3 percent of the direct statutory premiums written for the property and casualty insurance segment in 2015: Texas (15.4 percent), California (11.8 percent), Iowa (10.8 percent), Missouri (5.8 percent) and New Jersey (5.5 percent). The following states provided 67.7 percent of the direct statutory premiums written for the life insurance segment in 2014: Iowa (32.6 percent), Illinois (11.0 percent), Minnesota (9.1 percent), Wisconsin (8.6 percent), and Nebraska (6.4 percent).

Our revenues and profitability are subject to the prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in the principal states in which we do business. With respect to regulatory conditions, the NAIC and state legislators continually reexamine existing laws and regulations, specifically focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws and regulations. In a time of financial uncertainty or a prolonged economic downturn, regulators may choose to adopt more restrictive insurance laws and regulations. Changes in regulatory or any other of these conditions could make it less attractive for us to do business in such states and would have a more pronounced effect on us compared to companies that are more geographically diversified. In addition, our exposure to severe losses from localized natural perils, such as hurricanes or hailstorms, is increased in those areas where we have written a significant amount of property insurance policies.

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Unauthorized data access, cyber attacks and other security breaches could have an adverse impact on our business and reputation.

We rely on computer systems to conduct our business for our customer service, marketing and sales activities, customer relationship management and producing financial statements. Our business and operations rely on secure and efficient processing, storage and transmission of customer and Company data, including personally identifiable information. Our ability to effectively operate our business depends upon our ability, and the ability of certain third party vendors and business partners, to access our computer systems to perform necessary business functions, such as providing quotes and product pricing, billing and processing premiums, administering claims, and reporting our financial results.

We retain confidential information on our computer systems, including customer information and proprietary business information belonging to us and our policyholders. Our business and operations depend upon our ability to safeguard this personally identifiable information. Our systems may be vulnerable to unauthorized access and hackers, computer viruses, and other scenarios in which our data may be compromised.

Cyber attacks involving these systems, or those of our third party vendors, could be carried out remotely and from multiple sources and could interrupt, damage, or otherwise adversely affect the operations of these critical systems. Cyber attacks could result in the modification or theft of data, the distribution of false information, or the denial of service to users. Threats to data security can emerge from a variety of sources and change rapidly, resulting in the ongoing need to expend resources to secure our data in accordance with customer expectations and statutory and regulatory requirements.

Any compromise of the security of our data could expose us to liability and harm our reputation, which could affect our business and results of operations. We continually enhance our operating procedures and internal controls to effectively support our business and comply with our regulatory and financial reporting requirements, but there can be no assurances that we will be able to implement security measures adequate to prevent every security breach.

Although, to date, we do not believe we have experienced any material cyber attacks, the occurrence, scope and effect of any cyber attack may remain undetected for a period of time. We maintain cyber liability insurance coverage that provides both third-party liability and first-party insurance coverages; however, our insurance may be insufficient to cover all losses and expenses related to a cyber attack.

Conditions in the global capital markets and the economy generally may weaken materially and adversely affect our business and results of operations.

Our results of operations, financial position and liquidity are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. Recently, concerns over the depth and breadth of the economic recovery, overall level of U.S. national debt, extraordinary monetary accommodation by central banks, energy costs and geopolitical issues have contributed to increased uncertainty. These factors, combined with a lack of fiscal policy leadership, reduced business and consumer confidence and continued high unemployment, have negatively impacted the U.S. economy. Although conditions have gradually improved since the financial crisis of 2008-2009, a meaningful deterioration in economic activity and/or capital market liquidity could have an adverse impact on our results of operations.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, investor and consumer confidence and inflation levels all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment, negative investor sentiment and lower consumer spending, the demand for our insurance products could be adversely affected. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies causing a change in our exposure.



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We are subject to certain risks related to our investment portfolio that could negatively affect our profitability. Investment income is an important component of our net income and overall profitability. We invest premiums received from policyholders and other available cash to generate investment income and capital appreciation, while also maintaining sufficient liquidity to pay covered claims, operating expenses and dividends. As discussed in detail below, general economic conditions, changes in financial markets and many other factors beyond our control can adversely affect the value of our investments and the realization of investment income.

We primarily manage our investment portfolio internally under required statutory guidelines and investment guidelines approved by our Board of Directors and the boards of directors of our subsidiaries. Although these guidelines stress diversification and capital preservation, our investments are subject to a variety of risks, including:

**Credit Risk** - The value of our investment in marketable securities is subject to impairment as a result of deterioration in the creditworthiness of the issuer. Such impairments could reduce our net investment income and result in realized investment losses. The vast majority of our investments (98.3 percent at December 31, 2015) are made in investment-grade securities. Although we try to manage this risk by diversifying our portfolio and emphasizing credit quality, our investments are subject to losses as a result of a general downturn in the economy.

**Interest Rate Risk** - A significant portion of our investment portfolio (90.4 percent at December 31, 2015) consists of fixed income securities, primarily corporate and municipal bonds (66.7 percent at December 31, 2015). These securities are sensitive to changes in interest rates. An increase in interest rates typically reduces the fair value of fixed income securities, while a decline in interest rates reduces the investment income earned from future investments in fixed income securities. In recent periods, interest rates have been at or near historic lows. It is possible that this trend may continue for a prolonged period of time. We generally hold our fixed income securities to maturity, so our interest rate exposure does not usually result in realized losses. However, rising interest rates could result in a significant reduction of the book value of our equity investments. Low interest rates, and low investable yields, could adversely impact our net earnings as reinvested funds produce lower investment income.

Fluctuations in interest rates may cause increased surrenders and withdrawals from our life insurance and annuity products. In periods of rising interest rates, or if long-term interest rates rise dramatically within a very short time period, certain segments of our life insurance and annuities businesses may be exposed to disintermediation risk, which refers to the risk that surrenders and withdrawals of life insurance policies and annuity contracts, along with policy loans, may increase as policyholders seek to buy products with perceived higher rates of return. This may require us to liquidate assets in an unrealized loss position. Due to the long-term nature of the liabilities associated with certain segments of our life insurance business, sustained declines in long-term interest rates may subject us to reinvestment risks and increased hedging costs. In other situations, a sudden change in interest rates may result in an unexpected change in the duration of certain life insurance liabilities, creating asset and liability duration mismatches. Interest rates are highly sensitive to many factors beyond our control including general economic conditions, changes in governmental regulations and monetary policy, and national and international political conditions.

**Liquidity Risk** - We seek to match the maturities of our investment portfolio with the estimated payment date of our loss and loss adjustment expense reserves to ensure strong liquidity and avoid having to liquidate securities to fund claims. Risk such as inadequate loss and loss adjustment reserves or unfavorable trends in litigation could potentially result in the need to sell investments to fund these liabilities. This could result in significant realized losses depending on the conditions of the general market, interest rates and credit profile of individual securities.

Further, our investment portfolio is subject to increased valuation uncertainties when investment markets are illiquid. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of the portion of the investment portfolio

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that is carried at fair value as reflected in our financial statements is not reflective of prices at which actual transactions could occur.

**Market Risk** - Our investments are subject to risks inherent in the global financial system and capital markets. The value and risks of our investments may be adversely affected if the functioning of those markets is disrupted or otherwise affected by local, national or international events, such as: changes in regulation or tax policy; changes in legislation relating to bankruptcy or other proceedings; infrastructure failures; wars or terrorist attacks; the overall health of global economies; a significant change in inflation expectations; a significant devaluation of government or private sector credit and/or currency values; and other factors or events not specifically attributable to changes in interest rates, credit losses, and liquidity needs.

**Credit Spread Risk** - Our exposure to credit spreads primarily relates to market price variability and reinvestment risk associated with changes in credit spreads. Valuations may include assumptions or estimates that may have significant period-to-period changes from market volatility, which could have a material adverse effect on our results of operations or financial condition.

Our fixed maturity investment portfolio is invested substantially in state, municipal and political subdivision bonds. Our fixed maturity investment portfolio could be subject to default or impairment, in particular:

Due to the impact of the financial crisis that occurred in 2008 and 2009, many states and local governments have been operating under deficits or projected deficits which may have an impact on the valuation of our municipal bond portfolio.

There is a risk of widespread defaults which may increase if some issuers chose to voluntarily default instead of implementing fiscal measures such as increasing tax rates or reducing spending. Such risk may also increase if there are changes in legislation permitting states, municipalities and political subdivisions to file for bankruptcy protection where they were not permitted to before. Judicial interpretations in such bankruptcy proceedings may also adversely affect the collectability of principal and interest, and/or valuation of our bonds. Changes in tax laws impacting marginal tax rates, exemptions, deductions, credits and/or the preferred tax treatment of municipal obligations could also adversely affect the market value of municipal obligations. Since a large portion of our investment portfolio (26.8 percent at December 31, 2015) is invested in tax-exempt municipal obligations, any such changes in tax law could adversely affect the value of our investment portfolio.

We exercise prudence and significant judgment in analyzing and validating fair values, which are primarily provided by third parties, for securities in our investment portfolio, including those that are not regularly traded in active markets. We also exercise prudence and significant judgment in determining whether the impairment of particular investments is temporary or other-than-temporary. Due to the inherent uncertainties involved in these judgments, we may incur unrealized losses and subsequently conclude that other-than-temporary write downs of our investments are required.

Our success depends primarily on our ability to underwrite risks effectively and adequately price the risks we underwrite.

The results of our operations and our financial condition depend on our ability to underwrite and set premium rates accurately for a wide variety of determinable and indeterminable risks based on available information. Adequate rates are necessary to generate premiums sufficient to pay losses, loss settlement expenses and underwriting expenses and to earn a profit. To price our products accurately, we must collect and properly analyze a substantial amount of data; develop, test and apply appropriate pricing techniques; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy. We could under price risks which would adversely affect our profit margins. Conversely, we could overprice risks which could reduce our sales volume and competitiveness. Our ability to undertake these efforts successfully, and to price our products accurately, is subject to a number of risks and uncertainties, including but not limited to:



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the availability of sufficient reliable data and our ability to properly analyze available data;

market and competitive conditions;

changes in medical care expenses and restoration costs;

our selection and application of appropriate pricing techniques; and

changes in the regulatory market, applicable legal liability standards and in the civil litigation system generally.

The cyclical nature of the property and casualty insurance industry may affect our financial performance.

The property and casualty insurance industry is cyclical in nature and has historically been characterized by soft markets (periods of relatively high levels of price competition, less restrictive underwriting standards and generally low premium rates) followed by hard markets (periods of capital shortages resulting in a lack of insurance availability, relatively low levels of price competition, more selective underwriting of risks and relatively high premium rates).

During soft markets, we may lose business to competitors offering competitive insurance at lower prices. We may reduce our premiums or limit premium increases leading to a reduction in our profit margins and revenues. We expect these cycles to continue.

The demand for property and casualty insurance can also vary significantly, rising as the overall level of economic activity increases and falling as that activity decreases. Fluctuations in demand and competition could produce underwriting results that would have a negative impact on the results of our operations and financial condition.

The effects of emerging claim and coverage issues and class action litigation on our business are uncertain.

We are subject to certain effects of emerging or potential claims and coverage issues that arise as industry practices and legal, judicial, social, economic and other environmental conditions change, including unexpected and unintended issues related to claims and coverage. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number and/or size of claims, resulting in further increases in our reserves. The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict.

Examples of these issues include:

judicial expansion of policy coverage and the impact of new theories of liability;

an increase of plaintiffs targeting property and casualty insurers, including us, in purported class action litigation regarding claims handling and other practices;

medical developments that link health issues to particular causes, resulting in liability or workers' compensation (for example, cumulative trauma);

claims relating to unanticipated consequences of current or new technologies;

an increase in the variety, number and size of claims relating to liability losses, which often present complex coverage and damage valuation questions;

claims relating to potentially changing climate conditions, including higher frequency and severity of weather-related events; and

adverse changes in loss cost trends, including inflationary pressure in medical cost and auto and home repair costs.

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A downgrade or a potential downgrade in our financial strength or issuer credit ratings could result in a loss of business and could have a material adverse effect on our financial condition and results of operations.

Ratings are an important factor in establishing the competitive position of insurance companies. Third-party rating agencies assess and rate the claims-paying ability, capital strength and creditworthiness of insurers and reinsurers based on criteria established by the agencies. A.M. Best rates our property and casualty insurance companies on a group basis. Our life insurance subsidiary receives a separate rating. Since 2012, A.M. Best has also given an issuer credit rating to our parent holding company. The table below shows the current ratings assigned to our companies by A.M. Best.

	Financial Strength Rating	Issuer Credit Rating	Rating Held Since
Property and Casualty Insurers	A	a	1994
Life Insurer	A-	a-	1998
United Fire Group, Inc.	N/A	bbb	2012

Financial strength and issuer credit ratings are used by policyholders, insurers, reinsurers and insurance and reinsurance intermediaries as an important means of assessing the financial strength, creditworthiness and quality of insurers and reinsurers. These ratings are not evaluations directed to potential purchasers of our common stock and are not recommendations to buy, sell or hold our common stock. These ratings are subject to change at any time and could be revised downward or revoked at the sole discretion of the rating agency. Downgrades in our financial strength ratings could adversely affect our ability to access the capital markets or could lead to increased borrowing costs in the future. Perceptions of the Company by investors, producers, other businesses and consumers could also be significantly impaired.

We believe that the ratings assigned by A.M. Best are an important factor in marketing our products. Our ability to retain our existing business and to attract new business in our insurance operations depends on our ratings by this agency. Our failure to maintain our ratings, or any other adverse development with respect to our ratings, could cause our current and future independent agents and policyholders to choose to transact their business with more highly rated competitors. If A.M. Best downgrades our ratings or publicly indicates that our ratings are under review, it is likely that we will not be able to compete as effectively with our competitors and our ability to sell insurance policies could decline, leading to a decrease in our premium revenue and earnings. For example, many of our agencies and policyholders have guidelines that require us to have an A.M. Best financial strength rating of "A-" or higher. A reduction of our A.M. Best ratings below "A-" would prevent us from issuing policies to a portion of our current policyholders or other potential policyholders with ratings requirements. Additionally, a ratings downgrade could materially increase the number of surrenders for all or a portion of the net cash values by the owners of policies and contracts we have issued, and materially increase the number of withdrawals by policyholders of cash values from their policies.

A reduction in our issuer credit rating could limit our ability to access capital markets or significantly increase the cost to us of raising capital. The failure of our insurance company subsidiaries to maintain their current ratings could dissuade a lender or reinsurance company from conducting business with us. A ratings downgrade could also cause some of our existing liabilities to be subject to acceleration, additional collateral support, changes in terms, or creation of additional financial obligations. It might also increase our interest or reinsurance costs.

We are exposed to credit risk in certain areas of our operations.

In addition to exposure to credit risk related to our investment portfolio, we are exposed to credit risk in several other areas of our business operations, including from:

our reinsurers, who are obligated to us under our reinsurance agreements. See the risk factor titled "Market conditions may affect our access to and the cost of reinsurance and our reinsurers may not pay losses in a timely manner, or at all," for a discussion of the credit risk associated with our reinsurance program;

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some of our independent agents, who collect premiums from policyholders on our behalf and are required to remit the collected premiums to us;

some of our policyholders, which may be significant; and

our surety insurance operations, where we guarantee to a third party that our bonded principal will satisfy certain performance obligations (for example, as in a construction contract) or certain financial obligations. If our policyholder defaults, we may suffer losses and be unable to be reimbursed by our policyholder.

To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk during periods of economic downturn. While we attempt to manage these risks through underwriting and investment guidelines, collateral requirements and other oversight mechanisms, our efforts may not be successful. For example, collateral obtained may subsequently have little or no value. As a result, our exposure to credit risk could materially and adversely affect our results of operation and financial condition.

We are subject to comprehensive laws and regulations, changes to which may have an adverse effect on our financial condition and results of operations.

Insurance is a highly regulated industry. We are subject to extensive supervision and regulation by the states in which we operate. As a public company, we are also subject to increased regulation at the federal level. Our ability to comply with these laws and regulations and obtain necessary and timely regulatory action is, and will continue to be, critical to our success and ability to earn profits.

Examples of regulations that pose particular risks to our ability to earn profits include the following:

**Required licensing.** Our insurance company subsidiaries operate under licenses issued by various state insurance departments. If a regulatory authority were to revoke an existing license or deny or delay granting a new license, our ability to continue to sell insurance or to enter or offer new insurance products in that market would be substantially impaired.

**Regulation of insurance rates, fees and approval of policy forms.** The insurance laws of most states in which we operate require insurance companies to file insurance premium rate schedules and policy forms for review and approval. When our loss ratio compares favorably to that of the industry, state regulatory authorities may resist or delay our efforts to raise premium rates, even if the property and casualty industry generally is not experiencing regulatory resistance to premium rate increases. If premium rate increases we deem necessary are not approved, we may not be able to respond to market developments and increased costs in that state. State regulatory authorities may even impose premium rate rollbacks or require us to pay premium refunds to policyholders, affecting our profitability. If insurance policy forms we seek to use are not approved by state insurance departments, our ability to offer new products and grow our business in that state could be substantially impaired.

**Restrictions on cancellation, nonrenewal or withdrawal.** Many states have laws and regulations restricting an insurance company's ability to cease or significantly reduce its sales of certain types of insurance in that state, except pursuant to a plan that is approved by the state insurance departments. These laws and regulations could limit our ability to exit or reduce our business in unprofitable markets or discontinue unprofitable products. For example, the State of Louisiana has a law prohibiting the nonrenewal of homeowners policies written for longer than three years except under certain circumstances, such as for nonpayment of premium or fraud committed by the insured. Additionally, our ability to adjust terms or increase pricing requires approval of regulatory authorities in certain states.

**Risk-based capital and capital adequacy requirements.** Our insurance company subsidiaries and affiliate are subject to risk-based capital requirements that require us to report our results of risk-based capital calculations to state insurance departments and the NAIC. These standards apply specified risk factors to various asset, premium and reserve components of statutory capital and surplus reported in our statutory



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basis of accounting financial statements. Any failure to meet applicable risk-based capital requirements or minimum statutory capital requirements could subject us or our subsidiaries and affiliate to further examination or corrective action by state regulators, including limitations on our writing of additional business, state supervision or liquidation.

Transactions between insurance companies and their affiliates. Transactions between us, our insurance company subsidiaries and our affiliates generally must be disclosed to, and in some cases approved by, state insurance departments. State insurance departments may refuse to approve or delay their approval of a transaction, which may impact our ability to innovate or operate efficiently.

Required participation in guaranty funds and assigned risk pools. Certain states have enacted laws that require a property and casualty insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations where participating insurers are required to provide coverage for assigned risks. The number of risks assigned to us by these plans is based on our share of total premiums written in the voluntary insurance market for that state. Pricing is controlled by the plan, often restricting our ability to charge the premium rate we might otherwise charge. Wherever possible, we utilize a designated servicing carrier to fulfill our obligations under these plans. Designated servicing carriers charge us fees to issue policies, adjust and settle claims and handle administrative reporting on our behalf. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired premium rates, possibly leading to an unacceptable return on equity. While these facilities are generally designed so that the ultimate cost is borne by policyholders, the exposure to assessments and our ability to recoup these assessments through adequate premium rate increases may not offset each other in our financial statements. Moreover, even if they do offset each other, they may not offset each other in our financial statements for the same fiscal period, due to the ultimate timing of the assessments and recoupments or premium rate increases. Additionally, certain states require insurers to participate in guaranty funds to bear a portion of the unfunded obligations of impaired or insolvent insurance companies. These state funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

Restrictions on the amount, type, nature, quality and concentration of investments. The various states in which we are domiciled have certain restrictions on the amount, type, nature, quality and concentration of our investments. Generally speaking, these regulations require us to be conservative in the nature and quality of our investments and restrict our ability to invest in riskier, but often higher yield investments. These restrictions may make it more difficult for us to obtain our desired investment results.

State and federal tax laws. Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products. Taxes, if any, are payable on income attributable to a distribution under the contract for the year in which the distribution is made. The U.S. Congress has, from time to time, considered legislation that would reduce or eliminate the benefit of such deferral of taxation on the accretion of value within life insurance and nonqualified annuity contracts. Enactment of this legislation, including a simplified "flat tax" income structure with an exemption from taxation for investment income, could result in fewer sales of our insurance, annuity and investment products.

In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning. In addition, we benefit from certain tax items, including but not limited to, tax-exempt bond interest, dividends-received deductions, tax credits (such as foreign tax credits) and insurance reserve deductions. From time to time, the U.S. Congress, as well as foreign, state and local governments, considers legislation that could reduce or eliminate the benefits associated with these tax items. If such legislation is adopted, our profitability could be negatively impacted. We continue to evaluate the impact that potential tax reform, which lacks sufficient detail and is relatively uncertain, may have on our future results of operations and financial condition.





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Terrorism Risk Insurance. On January 12, 2015, President Obama signed into law The Terrorism Risk Insurance Program Reauthorization Act of 2015 ("TRIPRA"). TRIPRA extends the Terrorism Risk Insurance Program until December 31, 2020; gradually increases the coverage trigger for shared terrorism losses between the federal government and the insurance industry to \$200 billion per year (up from \$100 billion); and gradually increases the industry-wide retention to \$37.5 billion per year (up from \$27.5 billion). For further information about TRIPRA and its effect on our operations, refer to the information in the "Consolidated Results of Operations" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Accounting standards. We prepare our consolidated financial statements in conformity with GAAP, which is periodically revised and/or expanded by recognized authoritative bodies, including the Financial Accounting Standards Board ("FASB"). These principles are subject to interpretation by the SEC and various other bodies formed to interpret and create appropriate accounting principles and guidance. The FASB is currently working on several joint projects in conjunction with the International Accounting Standards Board ("IASB") that could result in a convergence of GAAP with International Financial Reporting Standards. These projects may result in significant changes to GAAP. Changes in GAAP and financial reporting requirements, or the interpretation of GAAP or those requirements, may have an impact on the content and presentation of our financial results and could have adverse consequences on our financial results, including lower reported results of operations and shareholders' equity and increased volatility and decreased comparability of our reported results with our historic results and with the results of other insurers. In addition, the required adoption of new accounting standards may result in significant incremental costs associated with initial implementation of and ongoing compliance with those standards. Additional information regarding recently proposed and adopted accounting standards and their potential impact on us is set forth in Note 1 "Summary of Significant Accounting Policies" to Part II, Item 8, "Financial Statements and Supplementary Data."

Corporate Governance and Public Disclosure Regulation. Changing laws, regulations and standards relating to corporate governance and public disclosure, including Dodd-Frank, the Sarbanes-Oxley Act of 2002 and related SEC regulations, as well as the listing standards of the NASDAQ Stock Market, have created and are continuing to create uncertainty for public companies. While the federal government has not historically regulated the insurance business, in 2010 Dodd-Frank established a Federal Insurance Office within the U.S. Department of the Treasury. The Federal Insurance Office has limited regulatory authority and is empowered to gather data and information regarding the insurance industry and insurers, monitor aspects of the insurance industry, identify issues with regulation of insurers that could contribute to a systemic crisis in the insurance industry or the overall financial system, coordinate federal policy on international insurance matters and preempt state insurance measures under certain circumstances. While certain details and much of the impact of Dodd-Frank will not be known for some time, Dodd-Frank and other federal regulation adopted in the future may impose burdens on us, including impacting the ways we conduct our business, increasing compliance costs and duplicating state regulation. Additional regulation under these laws in the area of compensation disclosure, particularly regarding internal pay equity, officer and director hedging activities and compensation clawback policies is still expected.

U.S. Social Security Administration's Death Master File. We have received regulatory inquiries from certain state insurance regulators relating to compliance with unclaimed property laws and the use of data available on the U.S. Social Security Administration's Death Master File (or a similar database) to identify instances where benefits under life insurance policies, annuities and retained asset accounts are payable. It is possible that other jurisdictions may pursue similar inquiries and that such inquiries may result in payments to beneficiaries, escheatment of funds deemed abandoned under state laws and changes to procedures for the identification and escheatment of abandoned property. Compliance with these laws and regulations requires us to incur administrative costs that decrease our profits. These laws and regulations may also prevent or limit our ability to underwrite and price risks accurately, obtain timely premium rate increases necessary to cover increased costs, discontinue unprofitable relationships or exit unprofitable markets and otherwise continue to operate our business profitably. In addition, our failure to comply with these laws



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and regulations could result in actions by state or federal regulators, including the imposition of fines and penalties or, in an extreme case, revocation of our ability to do business in one or more states. Finally, we could face individual, group and class action lawsuits by our policyholders and others for alleged violations of certain state laws and regulations. Each of these regulatory risks could have a negative effect on our profitability.

Market conditions may affect our access to and the cost of reinsurance and our reinsurers may not pay losses in a timely manner, or at all.

As part of our overall risk and capacity management strategy, we purchase reinsurance for significant amounts of the risk that we and our insurance company subsidiaries and affiliates underwrite, by transferring (or ceding) part of the risk we have assumed to a reinsurance company in exchange for part of the premium we receive in connection with the risk. These reinsurance arrangements diversify our business and reduce our exposure to large losses or from hazards of an unusual nature. As of December 31, 2015, we ceded premium written of \$56.9 million to our reinsurers. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred, it does not eliminate our liability to our policyholders because we remain liable as the direct insurer on all of the reinsured risks. As a result we are subject to credit risk relating to our ability to recover amounts due from our reinsurers.

Our ability to collect reinsurance recoverables may be subject to uncertainty. Our losses must meet the qualifying conditions of the reinsurance agreement. Our reinsurance agreements are subject to specified limits and we would not have reinsurance coverage to the extent that it exceeds those limits. We are also subject to the risk that reinsurers may dispute their obligations to pay our claims. Reinsurers must have the financial capacity and willingness to make payments under the terms of a reinsurance agreement or program. Reinsurers may dispute amounts we believe are due to us. Particularly, following a major catastrophic event, our inability to collect a material recovery from a reinsurer on a timely basis, or at all, could have a material adverse effect on our liquidity, operating results and financial condition. Market conditions determine the availability and cost of the reinsurance protection we purchase, which affects the level of our business profitability, as well as the level and types of risk we retain. Although we purposely work with several reinsurance intermediaries and reinsurers, we may be unable to maintain our current reinsurance facilities or obtain other reinsurance facilities in adequate amounts and at favorable premium rates. Moreover, there may be a situation in which we have more than two catastrophic events within one policy year. Because our current catastrophe reinsurance program only allows for one automatic reinstatement at an additional reinstatement premium, we would be required to obtain a new catastrophe reinsurance policy to maintain our current level of catastrophe reinsurance coverage. Such coverage may be difficult to obtain, particularly if it is necessary to do so during hurricane season following the second catastrophe. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposure to risk will increase or, if we are unwilling to bear an increase in net risk exposures, we will have to reduce the amount of risk we underwrite.

We face significant competitive pressures in our business that could cause demand for our products to fall or hinder our ability to introduce new products or services and keep pace with advances in technology, reducing our revenue and profitability.

The insurance industry is highly competitive and will likely remain that way for the foreseeable future. In our property and casualty insurance business and in our life insurance business we compete, and will continue to compete, with many major U.S. and non-U.S. insurers and smaller regional companies, as well as mutual companies, specialty insurance companies, underwriting agencies, and diversified financial services companies, including banks, mutual funds, broker-dealers and asset-managers. Except for regulatory considerations, there are few barriers to entry in the insurance market. National banks, with their large existing customer bases, may increasingly compete with insurers as a result of court rulings allowing national banks to sell annuity products in some circumstances, and as a result of new legislation removing restrictions on bank affiliations with insurers. These developments may increase competition, by increasing the number, size and financial strength of competitors who may be able to offer, due to economies of scale, more competitive pricing than we can.

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Our competitors may attempt to increase their market share by lowering rates. In that case, we could experience reductions in our underwriting margins or sales of insurance policies. Losing business to competitors offering similar products at lower prices or who have a competitive advantage may adversely affect the results of our operations. Additionally, economic conditions may reduce the total volume of business available to us and our competitors. We price our insurance products based on estimated profit margins, and we may not be able to react in a timely manner to reprice our insurance products to respond to changes in the market. Some of our competitors may be larger and have far greater financial, technology and marketing resources than we do. If new or existing competitors decide to target our policyholder base by offering similar or enhanced product offerings or technologies at lower prices than we are able to offer, our premium revenue and our profitability could decline.

Our products are marketed exclusively through independent insurance agencies, most of which represent more than one company. We face competition within each agency and competition to retain qualified independent agents. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers. In personal insurance, the use of comparative rating technologies has impacted our business and may continue to impact the entire industry. This has resulted in an increase in the total level of quote activity but a lower percentage of quotes have resulted in new business from customers. There is also the potential for similar technology to be used to compare rates for small business.

The successful implementation of our business model depends on our ability to adapt to evolving technologies and industry standards and introduce new products and services. There is no guarantee we will be able to introduce new or improved products, or that our products will achieve market acceptance. We may also not be successful in using new technologies effectively or adapting our proprietary technology to evolving customer requirements, causing our products or services to become obsolete.

Technology may be increasingly playing a role in our ability to be competitive. Innovations such as telematics and other usage-based methods of determining premiums may impact product design and pricing and may be an increasingly important factor in our ability to be competitive. Our competitive position may also be impacted by our ability to institute technology that collects and analyzes a wide variety of data points to make underwriting or other decisions.

Our business depends on the uninterrupted operations of our facilities, systems and business functions.

Our business depends on our employees' or vendors' ability to perform necessary business functions, such as processing new and renewal policies, providing customer service, making claims payments, facilitating collections and cancellations and performing actuarial functions necessary for pricing and product development. We increasingly rely on technology and systems to accomplish these business functions in an efficient and uninterrupted fashion. Our inability to access our facilities or a failure of technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis or affect the accuracy of transactions. If sustained or repeated, such a business interruption or system failure could result in a deterioration of our ability to write and process new and renewal business, serve our agents and policyholders or perform other necessary business functions as discussed above.

If a natural disaster or a terrorist act occurs, our company and employees could be directly adversely affected, depending on the nature of the event. We have an emergency preparedness plan that consists of the information and procedures required to enable rapid recovery from an occurrence, such as natural disaster or business disruption, which could potentially disable us for an extended period of time. This plan was successfully tested during 2008, both by the Midwest flooding that affected our corporate headquarters in Cedar Rapids, Iowa, and by Hurricane Ike that affected our Gulf Coast regional office in Galveston, Texas. It was also tested, to a lesser extent, by Super Storm Sandy in 2012 that affected our East Coast regional office in Pennington, New Jersey.

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Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, as well as our access to and the cost of capital.

Although capital market conditions have improved, our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by continued volatility, uncertainty and disruptions in the capital and credit markets.

We maintain a level of cash and securities which, combined with expected cash inflows from investments and operations, is believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. However, withdrawal and surrender levels may differ from anticipated levels for a variety of reasons, such as changes in economic conditions or changes in our claims paying ability and financial strength ratings. In the event our current internal sources of liquidity do not satisfy our needs, we have entered into a \$50 million revolving unsecured credit facility that we can access, which also allows the Company to increase the aggregate amount of the commitments thereunder by up to \$100 million. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity as well as customers' or lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us.

Disruptions, uncertainty or volatility in the capital and credit markets may limit our access to capital required to operate our business. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy statutory capital requirements; and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue shorter term securities than we prefer, utilize available internal resources or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility and liquidity.

We may experience difficulty in integrating future acquisitions to our operations.

The successful integration of any newly acquired businesses into our operations will require, among other things:

- the timely receipt of any required regulatory approvals;
- the retention and assimilation of their key management, sales and other personnel;
- the coordination of their lines of insurance products and services;
- the adaptation of their technology, information systems and other processes; and
- the retention and transition of their customers.

Unexpected difficulties in integrating any acquisition could result in increased expenses and the diversion of management time and resources. If we do not successfully integrate any acquired business into our operations, we may not realize the anticipated benefits of the acquisition, which could have a material adverse impact on our financial condition and results of operations. Further, any potential acquisitions may require significant capital outlays and, if we issue equity or convertible debt securities to pay for an acquisition, the issuance may be dilutive to our existing shareholders.

The exclusions and limitations in our policies may not be enforceable.

Many of the policies we issue include exclusions and other conditions that define and limit coverage, which exclusions and conditions are designed to manage our exposure to certain types of risks and expanding theories of legal liability. In addition, many of our policies limit the period during which a policyholder may bring a claim under the policy, which period in many cases is shorter than the statutory period under which these claims can be brought by our policyholders. While these exclusions and limitations help us assess and control our loss exposure, it is possible that a court or regulatory authority could nullify or void an exclusion or limitation, or legislation could be enacted which modifies or bars the use of these exclusions and limitations. This could result in higher than anticipated losses by extending coverage beyond the intent of our underwriting. In some instances, these changes may not become apparent until sometime after we have issued the insurance policies that are affected by these

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changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a policy is issued.

Our internal controls are not fail-safe.

As a result of the inherent limitations in all control systems, no system of controls can provide absolute assurance that all control objectives have been or will be met, and that every instance of error or fraud has been or will be detected. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake.

The determination of the amount of impairments taken on our investments requires estimates and assumptions which are subject to differing interpretations and could materially impact our results of operations or financial position.

The determination of the amount of impairments varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. There can be no assurance that our management has accurately assessed the level of impairments taken in our financial statements. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments.

Additionally, our management considers a wide range of factors about the instrument issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the instrument and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential.

**Risks Relating to Our Common Stock**

The ability of our subsidiaries to pay dividends may affect our liquidity and ability to meet our obligations.

As a holding company, we have no significant independent operations of our own. Our principal sources of funds are dividends and other payments received from our subsidiaries. We rely on those dividends for our liquidity and to meet our obligations to pay dividends to shareholders and make share repurchases. Dividends from those subsidiaries depend on their statutory surplus, earnings and regulatory restrictions.

State insurance laws limit the ability of insurance subsidiaries to pay dividends and require our insurance subsidiaries to maintain specified minimum levels of statutory capital and surplus. The actual ability to pay dividends may further be constrained by business and regulatory considerations, such as the impact of dividends on surplus, by our competitive position and by the amount of premiums that we can write. Ordinary dividend payments, or dividends that do not require prior approval by the insurance subsidiaries' domiciliary state insurance regulator are generally limited to amounts determined by a formula which varies by jurisdiction. Extraordinary dividends, on the other hand, require prior regulatory approval by the insurance subsidiaries' domiciliary state insurance regulator before they can be made. In addition, competitive pressures generally require insurance companies to maintain insurance financial strength ratings. These restrictions and other regulatory requirements affect the ability of our insurance subsidiaries to make dividend payments to us. At times we may not be able to pay dividends on our common stock, or we may be required to seek prior approval from the applicable regulatory authority before we can pay any such dividends. In addition, the payment of dividends by us is within the discretion of our Board of Directors and will depend on numerous factors, including our financial condition, our capital requirements and other factors that our Board of Directors considers relevant.

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The price of our common stock may be volatile.

The trading price of our common stock may fluctuate substantially due to a variety of factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could be significant and could cause a loss in the amount invested in our shares of common stock. Factors that could cause fluctuations include, but are not limited to, the following:

- variations in our actual or anticipated operating results or changes in the expectations of financial market analysts with respect to our results;

- investor perceptions of the insurance industry in general and the Company in particular;

- market conditions in the insurance industry and any significant volatility in the market;

- major catastrophic events; and

- departure of key personnel.

Certain provisions of our organizational documents, as well as applicable insurance laws, could impede an attempt to replace or remove our management, prevent the sale of the Company or prevent or frustrate any attempt by shareholders to change the direction of the Company, each of which could diminish the value of our common stock. Our articles of incorporation and bylaws, as well as applicable laws governing corporations and insurance companies, contain provisions that could impede an attempt to replace or remove our management or prevent the sale of the Company that, in either case, shareholders might consider being in their best interests. For example: our Board of Directors is divided into three classes. At any annual meeting of our shareholders, our shareholders have the right to appoint approximately one-third of the directors on our Board of Directors. Consequently, it will take at least two annual shareholder meetings to effect a change in control of our Board of Directors;

- our articles of incorporation limit the rights of shareholders to call special shareholder meetings;

- our articles of incorporation set the minimum number of directors constituting the entire Board of Directors at nine and the maximum at 15, and they require approval of holders of 60.0 percent of all outstanding shares to amend these provisions. Within the range, the Board of Directors may increase by one each year the number of directors serving on the Board of Directors;

- our articles of incorporation require the affirmative vote of 60.0 percent of all outstanding shares to approve any plan of merger, consolidation, or sale or exchange of all, or substantially all, of our assets;

- our Board of Directors may fill vacancies on the Board of Directors;

- our Board of Directors has the authority, without further approval of our shareholders, to issue shares of preferred stock having such rights, preferences and privileges as the Board of Directors may determine;

- Section 490.1110 of the Iowa Business Corporation Act imposes restrictions on mergers and other business combinations between us and any holder of 10.0 percent or more of our common stock; and

- Section 490.624A of the Iowa Business Corporation Act authorizes the terms and conditions of stock rights or options issued by us to include restrictions or conditions that preclude or limit the exercise, transfer, or receipt of such rights or options by a person, or group of persons, owning or offering to acquire a specified number or percentage of the outstanding common shares or other securities of the corporation.





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Further, the insurance laws of Iowa and the states in which our insurance company subsidiaries are domiciled prohibit any person from acquiring direct or indirect control of us or our insurance company subsidiaries, generally defined as owning or having the power to vote 10.0 percent or more of our outstanding voting stock, without the prior written approval of state regulators.

These provisions of our articles of incorporation and bylaws, and these state laws governing corporations and insurance companies, may discourage potential acquisition proposals. These provisions and state laws may also delay, deter or prevent a change of control of the Company, in particular through unsolicited transactions that some or all of our shareholders might consider to be desirable. As a result, efforts by our shareholders to change the direction or the Company's management may be unsuccessful, and the existence of such provisions may adversely affect market prices for our common stock if they are viewed as discouraging takeover attempts.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We own seven buildings and related parking facilities in Cedar Rapids, Iowa. Our corporate headquarters includes: a five-story office building, a two-story office building and an eight-story office building in which a portion of the first floor is leased to commercial tenants. We also own three surrounding buildings as part of a commercial office complex. In September 2015, we acquired a two-story office building adjacent to our corporate headquarters, which is leased to commercial tenants.

In addition, three of our regional office locations in Lock Haven, Pennsylvania; Pennington, New Jersey; and Rocklin, California, conduct operations in office space that we own. We also own a tract of land adjacent to the Pennington office. Our other three regional office locations in Los Angeles, California; Westminster, Colorado; and Webster, Texas, and our claims office in Metairie, Louisiana, conduct operations in leased office space.

The following table shows a brief description of our owned and leased office space as of December 31, 2015.

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Location	Utilized by	Owned or Leased	Lease Expiration Date
Corporate Headquarters – Cedar Rapids, Iowa			
118 2nd Ave SE	Corporate administration, property and casualty segment	Owned	N/A
203 2nd St SE	Corporate administration, life segment	Owned	N/A
109 2nd St SE	Property and casualty segment	Owned	N/A
118 2nd St SE	Corporate administration, property and casualty segment	Leased	January 1, 2017
Commercial Office Complex – Cedar Rapids, Iowa			
101 2nd St SE	Commercial tenants	Owned	N/A
107 2nd St SE	Commercial tenants	Owned	N/A
101 1st Ave SE	Commercial tenants	Owned	N/A
Denver Regional Office – Westminster, Colorado			
7301 N Federal Blvd Ste 200	Property and casualty segment	Leased	June 30, 2018
East Coast Regional Office – Lock Haven Office – Lock Haven, Pennsylvania			
100 Mercer Dr	Property and casualty segment	Owned	N/A
Pennington Office – Pennington, New Jersey			
10 N Hwy 31	Property and casualty segment	Owned	N/A
Specialty Division Office – Los Angeles, California			
725 S Figueroa St Ste 1870	Property and casualty segment	Leased	October 24, 2021
Gulf Coast Regional Office – Houston Office – Webster, Texas			
455 E Medical Ctr Blvd	Property and casualty segment	Leased	September 20, 2022
Dallas Office – McKinney, Texas			
321 N Central Expy Ste 230	Property and casualty segment	Leased	June 30, 2020
New Orleans Claims Office – Metairie, Louisiana			
2800 Veterans Hwy Ste 253	Property and casualty segment	Leased	May 22, 2020
West Coast Regional Office – Rocklin, California			
3880 Atherton Rd	Property and casualty segment	Owned	N/A
Reno, Nevada			
516 Ryland St	Property and casualty segment	Leased	August 14, 2017

**ITEM 3. LEGAL PROCEEDINGS**

In the normal course of its business, the Company is a party to a variety of legal proceedings. While the final outcome of these legal proceedings cannot be predicted with certainty, management believes all of the proceedings pending as of December 31, 2015 to be ordinary and routine and does not expect these legal proceedings to have a material adverse effect on the Company's financial position or results of operations.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.



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PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Shareholders

United Fire Group, Inc.'s common stock is traded on the NASDAQ stock market under the symbol "UFCS." On February 24, 2016, there were 816 holders of record of United Fire Group, Inc. common stock. The number of record holders does not reflect shareholders who beneficially own common stock in nominee or street name, but does include participants in our employee stock purchase plan.

Dividends

Our practice has been to pay quarterly cash dividends, which we have paid every quarter since March 1968.

As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at December 31, 2015, our insurance company subsidiary, United Fire & Casualty, is able to make a maximum of \$53.1 million in dividend payments without prior regulatory approval.

The table in the following section shows the quarterly cash dividends declared in 2015 and 2014. Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors out of legally available funds and there can be no assurance that we will continue to pay such dividends or the amount of such dividends.

Additional information about these restrictions is incorporated by reference from Note 6 "Statutory Reporting, Capital Requirements and Dividends and Retained Earnings Restrictions" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

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## Market Information

The following table sets forth the high and low trading price as reported on the NASDAQ stock market for our common stock for the calendar periods indicated, as well as the amount of cash dividends declared on our common stock.

	Share Price High	Low	Cash Dividends Declared per share
2015			
Quarter Ended:			
March 31	\$31.94	\$27.57	\$0.20
June 30	34.09	29.31	0.22
September 30	37.00	31.68	0.22
December 31	40.64	33.70	0.22
Year-end closing share price: \$38.31			
2014			
Quarter Ended:			
March 31	\$32.02	\$24.15	\$0.18
June 30	31.44	26.50	0.20
September 30	30.55	27.36	0.20
December 31	32.70	27.36	0.20
Year-end closing share price: \$29.73			
Issuer Purchases of Equity Securities			

Under our share repurchase program, we may purchase our common stock from time to time on the open market or through privately negotiated transactions. The amount and timing of any purchases will be at our discretion and will depend upon a number of factors, including the share price, general economic and market conditions, and corporate and regulatory requirements. Our share repurchase program may be modified or discontinued at any time.



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The following table provides information with respect to purchases of shares of common stock made by or on our behalf or by any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Exchange Act, during the year ended December 31, 2015:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
1/1/15 - 1/31/15	37,637	\$28.78	37,637	1,570,645
2/1/15 - 2/28/15	—	—	—	1,570,645
3/1/15 - 3/31/15	—	—	—	1,570,645
4/1/15 - 4/30/15	—	—	—	1,570,645
5/1/15 - 5/31/15	11,768	29.83	11,768	1,558,877
6/1/15 - 6/30/15	300	30.00	300	1,558,577
7/1/15 - 7/31/15	—	—	—	1,558,577
8/1/15 - 8/31/15	1,908	33.00	1,908	1,556,669
9/1/15 - 9/30/15	27,783	32.99	27,783	1,528,886
10/1/15 - 10/31/15	—	—	—	1,528,886
11/1/15 - 11/30/15	—	—	—	1,528,886
12/1/15 - 12/31/15	—	—	—	1,528,886
Total	79,396		79,396	

(1) Our share repurchase program was originally announced in August 2007. In August 2014, our Board of Directors authorized the repurchase of up to an additional 1,000,000 shares of common stock through the end of August 2016. This is in addition to the 818,601 shares of common stock remaining under its previous authorization in August 2012. United Fire Group, Inc. Common Stock Performance Graph

The following graph compares the performance of an investment in United Fire Group Inc.'s common stock from December 31, 2010 through December 31, 2015, with the Standard & Poor's 500 Index ("S&P 500 Index"), and the Standard & Poor's 600 Property and Casualty Index ("S&P 600 P&C Index"). The graph assumes \$100 was invested on December 31, 2010 in our common stock and each of the below listed indices and that all dividends were reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.



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The following table shows the data used in the total return performance graph above.

Index	Period Ended					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
United Fire Group, Inc.	\$100.00	\$93.30	\$103.83	\$139.67	\$148.87	\$196.92
S&P 500 Index	100.00	102.11	118.45	156.82	178.28	180.75
S&P 600 P&C Index	100.00	109.39	118.50	151.02	158.79	182.46

The foregoing performance graph is being furnished as part of this Annual Report on Form 10-K solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our shareholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act or Exchange Act.

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data derived from the Consolidated Financial Statements of United Fire Group, Inc. and its subsidiaries and affiliates. The data should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 8, "Financial Statements and Supplementary Data."

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(In Thousands, Except Per Share Data)

Years Ended December 31	2015	2014	2013	2012	2011
Consolidated Balance Sheet Data:					
Total cash and investments	\$3,249,209	\$3,261,535	\$3,142,330	\$3,151,829	\$3,052,535
Total assets	3,890,376	3,856,689	3,720,672	3,694,653	3,618,924
Future policy benefits and losses, claims and loss settlement expenses					
Property and casualty insurance	1,003,895	969,437	960,651	971,911	945,051
Life insurance	1,372,358	1,447,764	1,472,132	1,498,176	1,476,281
Unearned premiums	415,057	378,725	340,464	311,650	288,991
Total liabilities	3,011,479	3,039,274	2,937,839	2,965,476	2,922,783
Net unrealized investment gains, after tax	128,369	149,623	116,601	144,096	124,376
Repurchase of United Fire Group, Inc. common stock	(2,423 )	(12,942 )	(1,644 )	(7,301 )	(12,433 )
Total stockholders' equity	878,897	817,415	782,833	729,177	696,141
Book value per share	34.94	32.67	30.87	28.90	27.29
Consolidated Income Statement Data:					
Revenues					
Net premiums written	\$967,064	\$866,120	\$783,463	\$720,881	\$604,867
Net premiums earned	930,890	828,330	754,846	694,994	586,783
Investment income, net of investment expenses	100,781	104,609	112,799	111,905	109,494
Net realized investment gains	2,846	7,270	8,695	5,453	6,440
Other income	401	1,685	702	891	2,291
Consolidated revenues	\$1,034,918	\$941,894	\$877,042	\$813,243	\$705,008
Losses and loss settlement expenses					
Property and casualty insurance	520,087	509,811	437,354	439,137	407,831
Life insurance	29,001	26,432	21,461	20,569	22,558
Amortization of deferred policy acquisition costs <sup>(1)</sup>	186,817	167,449	153,677	141,834	153,176
Other underwriting expenses <sup>(1)</sup>	102,937	94,871	89,861	81,125	58,757
Net income	89,126	59,137	76,140	40,212	11
Property and Casualty Insurance Segment Data:					
Net premiums written	887,874	804,715	722,821	655,331	551,923
Net premiums earned	851,695	766,939	694,192	629,411	533,771
Net income (loss)	85,320	52,376	67,456	33,512	(7,639 )
Combined ratio <sup>(2)</sup>	92.0	% 97.8	% 94.8	% 101.2	% 112.1
Life Insurance Segment Data:					
Net premiums earned	79,195	61,391	60,654	65,583	53,012
Net income	3,806	6,761	8,684	6,700	7,650

Earnings Per Share Data:

Basic earnings per common share	3.56	2.34	3.01	1.58	—
Diluted earnings per common share	3.53	2.32	2.98	1.58	—

Other Supplemental Data:

Cash dividends declared per common share	0.86	0.78	0.69	0.60	0.60
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(1) In 2012, we adopted new deferred policy acquisition cost accounting guidance on a prospective basis. As a result of the adoption, the amount of underwriting expenses eligible for deferral has decreased.

(2) The combined ratio is a commonly used financial measure of property and casualty underwriting performance. A combined ratio below 100.0 percent generally indicates a profitable book of business.

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

The following Management's Discussion and Analysis should be read in conjunction with Part II, Item 6, "Selected Financial Data" and Part II, Item 8, "Financial Statements and Supplementary Data." Amounts (except per share amounts) are presented in thousands, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

It is important to note that our actual results could differ materially from those projected in any forward-looking statements in this Form 10-K. Please refer to "Forward-Looking Information" and Part I, Item 1A, "Risk Factors" of this report for information concerning factors that could cause actual results to differ materially from the forward-looking statements contained in this Form 10-K.

BUSINESS OVERVIEW

Originally founded in 1946 as United Fire & Casualty Company, United Fire Group, Inc. ("UFG", "United Fire", the "Registrant", the "Company", "we", "us", "our") and its consolidated insurance company subsidiaries provide insurance protection for individuals and businesses through several regional companies. Our property and casualty insurance company subsidiaries are licensed in 46 states plus the District of Columbia and are represented by approximately 1,200 independent agencies. Our life insurance subsidiary is licensed in 37 states and is represented by approximately 1,200 independent agencies.

Segments

We operate two business segments that are comprised of a wide range of products:

• property and casualty insurance, which includes commercial insurance, personal insurance, surety bonds and assumed reinsurance; and

• life insurance, which includes deferred and immediate annuities, universal life products and traditional life (primarily single premium whole life insurance) products.

We manage these business segments separately, as they generally do not share the same customer base, and they each have different products, pricing, and expense structures.

For 2015, property and casualty business accounted for approximately 91.5 percent of our net premiums earned, with the majority of which, 91.9 percent, was generated from commercial insurance. Life insurance business made up approximately 8.5 percent of our net premiums earned, of which over 68.5 percent was generated from traditional life insurance products.

Pooling Arrangement

All of our property and casualty insurance subsidiaries are members of an intercompany reinsurance pooling arrangement. On July 1, 2015, UFG Specialty Insurance Company (formerly known as Texas General Indemnity Company) entered the pooling arrangement. The Company's pooling arrangement permits the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant's own surplus level.

Geographic Concentration

For 2015, approximately 49.3 percent of our property and casualty statutory direct written premiums were written in Texas, California, Iowa, Missouri and New Jersey; approximately 69.3 percent of our life insurance premiums were written in Iowa, Illinois, Minnesota, Wisconsin and Nebraska.

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## Sources of Revenue and Expense

We evaluate segment profit or loss based upon operating and investment results. Segment profit or loss described in the following sections of Management's Discussion and Analysis is reported on a pre-tax basis. Additional segment information is presented in Part II, Item 8, Note 10 "Segment Information" to the Consolidated Financial Statements. Our primary sources of revenue are premiums and investment income. Major categories of expenses include losses and loss settlement expenses, future policy benefits, underwriting and other operating expenses and interest on policyholders' accounts.

## Profit Factors

Our profitability is influenced by many factors, including price, competition, economic conditions, investment returns, interest rates, catastrophic events and other natural disasters, man-made disasters, state regulations, court decisions, and changes in the law. To manage these risks and uncertainties, we seek to achieve consistent profitability through strong agency relationships, exceptional customer service, fair and prompt claims handling, disciplined underwriting, superior loss control services, prudent management of our investments, appropriate matching of assets and liabilities and effective and efficient use of technology.

## MEASUREMENT OF RESULTS

Our consolidated financial statements are prepared on the basis of GAAP. We also prepare financial statements for each of our insurance company subsidiaries based on statutory accounting principles and file them with insurance regulatory authorities in the states where they do business.

Management evaluates our operations by monitoring key measures of growth and profitability. We believe that disclosure of certain non-GAAP financial measures enhances investor understanding of our financial performance.

The following provides further explanation of the key measures management uses to evaluate our results:

Catastrophe losses is a commonly used non-GAAP financial measure, which utilizes the designations of the Insurance Services Office ("ISO") and are reported with losses and loss settlement expense amounts net of reinsurance recoverables, unless specified otherwise. According to the ISO, a catastrophe loss is defined as a single unpredictable incident or series of closely related incidents that result in \$25.0 million or more in U.S. industry-wide direct insured losses to property and that affect a significant number of insureds and insurers ("ISO catastrophe"). In addition to ISO catastrophes, we also include as catastrophes those events ("non-ISO catastrophes"), which may include U.S. or international losses, that we believe are, or will be, material to our operations, either in amount or in number of claims made. Management, at times, may determine for comparison purposes that it is more meaningful to exclude extraordinary catastrophe losses and resulting litigation. The frequency and severity of catastrophic losses we experience in any year affect our results of operations and financial position. In analyzing the underwriting performance of our property and casualty insurance segment, we evaluate performance both including and excluding catastrophe losses. Portions of our catastrophe losses may be recoverable under our catastrophe reinsurance agreements. We include a discussion of the impact of catastrophes because we believe it is meaningful for investors to understand the variability in our periodic earnings.

(In Thousands)	Years Ended December 31,		
	2015	2014	2013
ISO catastrophes	\$25,380	\$47,351	\$27,222
Non-ISO catastrophes <sup>(1)</sup>	6,933	2,328	2,994
Total catastrophes	\$32,313	\$49,679	\$30,216

(1) Includes international assumed losses.

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## CONSOLIDATED FINANCIAL HIGHLIGHTS

(In Thousands)	Years Ended December 31,			% Change			
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013		
<b>Revenues</b>							
Net premiums earned	\$930,890	\$828,330	\$754,846	12.4	% 9.7	%	
Investment income, net of investment expenses	100,781	104,609	112,799	(3.7	) (7.3	)	
Net realized investment gains (losses)							
Other-than-temporary impairment charges	(1,300 )	—	(139 )	NM		NM	
All other net realized gains	4,146	7,270	8,834	(43.0	) (17.7	)	
Total net realized investment gains	2,846	7,270	8,695	(60.9	) (16.4	)	
Other income	401	1,685	702	(76.2	) 140.0		
Total revenues	\$1,034,918	\$941,894	\$877,042	9.9	% 7.4	%	
<b>Benefits, losses and expenses</b>							
Losses and loss settlement expenses	\$549,088	\$536,243	\$458,814	2.4	% 16.9	%	
Increase in liability for future policy benefits	50,945	36,623	37,625	39.1	(2.7	)	
Amortization of deferred policy acquisition costs	186,817	167,449	153,677	11.6	9.0		
Other underwriting expenses	102,937	94,871	89,861	8.5	5.6		
Interest on policyholders' accounts	23,680	30,245	35,163	(21.7	) (14.0	)	
Total benefits, losses and expenses	\$913,467	\$865,431	\$775,140	5.6	% 11.6	%	
Income before income taxes	\$121,451	\$76,463	\$101,902	58.8	% (25.0	)%	
Federal income tax expense	32,325	17,326	25,762	86.6	% (32.7	)%	
Net income	\$89,126	\$59,137	\$76,140	50.7	% (22.3	)%	

NM = not meaningful

## Consolidated Results of Operations

In 2015, the increase in net income was driven by a 12.4 percent increase in net premiums earned, which was the result of organic growth from new business and rate increases in the property and casualty segment. This increase in premiums was offset by a decrease in investment income and net realized investment gains and a proportionately lower increase in losses and loss settlement expenses on a better performing underlying book of business.

In 2014, the decrease in net income was driven by an increase in losses and loss settlement expenses offset by an increase in property and casualty premium revenue. The increase in losses and loss settlement expenses is primarily attributable to an increase in catastrophe losses from spring and summer convective storms in regions of the U.S. where we conduct much of our business and an increase in frequency and severity in fire-related losses in our commercial property line of business. Net premiums earned increased to \$828.3 million compared to \$754.8 million in 2013. The increase in property and casualty premium revenue represents organic growth and is the result of a combination of rate increases across most commercial and personal lines and, to a lesser extent, new business writings.

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## RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

## Property and Casualty Insurance Segment

(In Thousands)	Years Ended December 31,			% Change			
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013		
Net premiums written	\$887,874	\$804,715	\$722,821	10.3	%	11.3	%
Net premiums earned	\$851,695	\$766,939	\$694,192	11.1		10.5	
Losses and loss settlement expenses	(520,087 )	(509,811 )	(437,353 )	2.0		16.6	
Amortization of deferred policy acquisition costs	(180,183 )	(161,310 )	(147,175 )	11.7		9.6	
Other underwriting expenses	(83,631 )	(79,117 )	(73,626 )	5.7		7.5	
Underwriting gain	\$67,794	\$16,701	\$36,038	305.9	%	(53.7	)%
Investment income, net of investment expenses	46,559	44,236	46,332	5.3	%	(4.5	)%
Net realized investment gains (losses)							
Other-than-temporary impairment charges	—	—	(139 )	—	%	(100.0	)%
All other net realized gains	1,124	4,177	6,400	(73.1	)	(34.7	)
Total net realized investment gains	1,124	4,177	6,261	(73.1	)%	(33.3	)%
Other income (loss)	(107 )	911	88	(111.7	)	NM	
Income before income taxes	\$115,370	\$66,025	\$88,719	74.7	%	(25.6	)%

## GAAP Ratios:

Net loss ratio (without catastrophes)	57.2	%	60.0	%	58.6	%	(4.7	)%	2.4	%
Catastrophes - effect on net loss ratio	3.8		6.5		4.4		(41.5	)	47.7	
Net loss ratio <sup>(1)</sup>	61.0	%	66.5	%	63.0	%	(8.3	)%	5.6	%
Expense ratio <sup>(2)</sup>	31.0		31.3		31.8		(1.0	)	(1.6	)
Combined ratio <sup>(3)</sup>	92.0	%	97.8	%	94.8	%	(5.9	)%	3.2	%

## Statutory Ratios:

Net loss ratio (without catastrophes)	57.4	%	60.2	%	58.9	%	(4.7	)%	2.2	%
Catastrophes - effect on net loss ratio	3.8		6.5		4.4		(41.5	)	47.7	
Net loss ratio <sup>(1)</sup>	61.2	%	66.7	%	63.3	%	(8.2	)%	5.4	%
Expense ratio <sup>(2)</sup>	32.2		31.4		32.0		2.5		(1.9	)
Combined ratio <sup>(3)</sup>	93.4	%	98.1	%	95.3	%	(4.8	)%	2.9	%

NM = not meaningful

(1) The net loss ratio is calculated by dividing the sum of losses and loss settlement expenses by net premiums earned. We use the net loss ratio as a measure of the overall underwriting profitability of the insurance business we write and to assess the adequacy of our pricing. Our net loss ratio is meaningful in evaluating our financial results as reported in our Consolidated Financial Statements.

(2) The GAAP expense ratio is calculated by dividing nondeferred underwriting expenses and amortization of deferred policy acquisition costs by net premiums earned. The expense ratio measures a company's operational efficiency in producing, underwriting and administering its insurance business. The statutory expense ratio, presented here, is calculated in a similar fashion as GAAP but uses net premiums written instead of net premiums earned.

(3) The combined ratio is a commonly used financial measure of property and casualty underwriting performance. A combined ratio below 100.0 percent generally indicates a profitable book of business. The combined ratio is the sum of the net loss ratio and the underwriting expense ratio.

For the year ended December 31, 2015, our property and casualty insurance segment reported income before income taxes of \$115.4 million compared to income before income taxes of \$66.0 million in the same period in 2014. The increase in income before income taxes during 2015 as compared to 2014 was driven by organic premium growth from new business and rate increases slightly offset by a proportionately lower increases in losses and loss settlement expenses and underwriting expenses on a better performing underlying book of business. Net premiums earned increased 11.1 percent as compared to 2014.

For the year ended December 31, 2014, our property and casualty insurance segment reported income before income taxes of \$66.0 million compared to income before income taxes of \$88.7 million in the same period in 2013. The



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decrease in income before income taxes during 2014 as compared to 2013 is primarily due to an increase in losses and loss settlement expenses partially offset by a 10.5 percent increase in net premiums earned.

**Premiums**

The following table shows our premiums written and earned for 2015, 2014 and 2013:

(In Thousands)	2015	2014	2013	% Change	
				2015 vs. 2014	2014 vs. 2013
Years ended December 31,					
Direct premiums written	\$926,500	\$838,584	\$754,594	10.5	11.1
Assumed premiums written	18,290	16,421	18,938	11.4	(13.3)
Ceded premiums written	(56,916 )	(50,290 )	(50,711 )	13.2	(0.8)
Net premiums written	\$887,874	\$804,715	\$722,821	10.3	11.3
Net premiums earned	851,695	766,939	694,192	11.1	10.5

**Net Premiums Written**

Net premiums written comprise direct and assumed premiums written, less ceded premiums written. Direct premiums written are the total policy premiums, net of cancellations, associated with policies issued and underwritten by our property and casualty insurance segment. Assumed premiums written are the total premiums associated with the insurance risk transferred to us by other insurance and reinsurance companies pursuant to reinsurance contracts. Ceded premiums written is the portion of direct premiums written that we cede to our reinsurers under our reinsurance contracts. Net premiums earned are recognized ratably over the life of a policy and differ from net premiums written, which are recognized on the effective date of the policy.

**Direct Premiums Written**

Direct premiums written increased \$87.9 million in 2015 as compared to 2014 due to organic growth from a combination of new business and rate increases.

Direct premiums written increased \$84.0 million in 2014 as compared to 2013 due to organic growth from a combination of rate increases across most commercial and personal lines and new business writings.

**Assumed Premiums Written**

Assumed premiums written increased \$1.9 million in 2015 as compared to 2014 due the addition of one new program to our portfolio. The new assumed program is for international catastrophes excluding the United States with the largest exposure to European wind perils. In 2015, we also renewed our participation in all of our assumed programs. Assumed premiums written decreased \$2.5 million in 2014 as compared to 2013 due to softening reinsurance market conditions. We renewed our participation levels in all but one of our active assumed programs and added one new program to replace the lost premium from the program not renewed.

**Ceded Premiums Written**

Direct and assumed premiums written are reduced by the ceded premiums that we pay to reinsurers. For 2015, we ceded 13.2 percent more premium to reinsurers as a result of growth in direct written premiums. For 2014, we benefited from softening market conditions and decreasing ceding rates that allowed us to cede 0.8 percent less premium while growing direct premiums written by 11.1 percent as compared to 2013.

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Losses and Loss Settlement Expenses

Catastrophe Exposures

Catastrophe losses are inherent risks of the property and casualty insurance business. Catastrophic events include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds, winter storms and other natural disasters, along with man-made exposures to losses resulting from, without limitation, acts of war, acts of terrorism and political instability. Such events result in insured losses that can be, and may continue to be, a material factor in our results of operations and financial position, as the extent of losses from a catastrophe is a function of both the total amount of insured exposure in an area affected by the event and the severity of the event. Because the level of insured losses that may occur in any one year cannot be accurately predicted, these losses contribute to fluctuations in our year-to-year results of operations and financial position. Some types of catastrophes are more likely to occur at certain times within the year than others, which adds an element of seasonality to our property and casualty insurance claims. Our property and casualty insurance segment experiences some seasonality with regard to premiums written, which are generally highest in January and July and lowest during the fourth quarter. Losses and loss settlement expenses incurred tend to remain consistent throughout the year, with the exception of catastrophe losses, which generally are highest in the second and third quarters. The frequency and severity of catastrophic events are difficult to accurately predict in any year. However, some geographic locations are more susceptible to these events than others. We control our direct insurance exposures in regions that are prone to naturally occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, and reinsurance. We regularly assess our concentration of risk exposures in natural catastrophe exposed areas. We have strategies and underwriting standards to manage these exposures through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance coverage. We use catastrophe modeling and a risk concentration management tool to monitor and control our accumulations of potential losses in natural catastrophe exposed areas of the United States, such as the Gulf and East Coasts, as well as in areas of exposure in other countries where we are exposed to a portion of an insurer's underwriting risk under our assumed reinsurance contracts.

Overall, the models indicate increased risk estimates for our exposure to hurricanes in the U.S., but the impact of the models on our book of business varies significantly among the regions that we model for hurricanes. Based on our analysis, we have implemented more targeted underwriting and rate initiatives in some regions. We will continue to take underwriting actions and/or purchase additional reinsurance as necessary to reduce our exposure.

Catastrophe modeling generally relies on multiple inputs based on experience, science, engineering and history, and the selection of those inputs requires a significant amount of judgment. The modeling results may also fail to account for risks that are outside the range of normal probability or are otherwise unforeseen. Because of this, actual results may differ materially from those derived from our modeling assumptions.

Despite our efforts to manage our catastrophe exposure, the occurrence of one or more severe natural catastrophic events in heavily populated areas could have a material effect on our results of operations, financial condition or liquidity.

The process of estimating and establishing reserves for losses incurred from catastrophic events is inherently uncertain and the actual ultimate cost of a claim, net of reinsurance recoveries, may vary materially from the estimated amount reserved. Although we reinsure a portion of our exposure, reinsurance may prove to be inadequate if a major catastrophic event exceeds our reinsurance limits or if we experience a number of small catastrophic events that individually fall below our reinsurance retention level.

Catastrophe Losses

In 2015, our pre-tax catastrophe losses were \$32.3 million, a decrease as compared to \$49.7 million and an increase as compared to \$30.2 million in 2014 and 2013, respectively. The decrease in catastrophe losses in 2015 is primarily due to elevated losses in the prior year. In 2014, there was an increase in catastrophes from spring and summer

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convective storms in regions of the U.S. where we conduct much of our business. In 2015, our catastrophe losses included 37 catastrophes, where our largest single pre-tax catastrophe loss totaled \$4.0 million. In 2014 our catastrophe losses included 26 catastrophes, where our largest single pre-tax catastrophe loss totaled \$7.7 million and in 2013 our catastrophe losses included 29 catastrophes, where our largest single pre-tax catastrophe loss totaled \$4.0 million.

**Catastrophe Reinsurance**

In 2015, 2014 and 2013, we did not exceed our catastrophe reinsurance retention level of \$20.0 million.

We use many reinsurers, both domestic and foreign, which helps us to avoid concentrations of credit risk associated with our reinsurance. All reinsurers we do business with must meet the following minimum criteria: capital and surplus of at least \$250.0 million and an A.M. Best rating or an S&P rating of at least "A-." If a reinsurer is rated by both rating agencies, then both ratings must be at least an "A-."

The following table represents the primary reinsurers we utilize and their financial strength ratings as of December 31, 2015:

Name of Reinsurer	A.M. Best	S&P Rating
Arch Reinsurance Company	A+	A+
FM Global	A+	N/A
Hannover Rueckversicherung AG <sup>(1) (2)</sup>	A+	AA-
Lloyd's	A	A+
MS Frontier	A	A+
Partner Re <sup>(1)(2)</sup>	A	A+
QBE Reinsurance Corporation <sup>(1)</sup>	A	A+
R&V Versicherung AG <sup>(2)</sup>	N/A	AA-
SCOR Reinsurance Company <sup>(1)(2)</sup>	A	AA-
Tokio Millennium Re Ltd	A++	A+

(1) Primary reinsurers participating in the property and casualty excess of loss programs.

(2) Primary reinsurers participating in the surety excess of loss program.

Refer to Part II, Item 8, Note 4 "Reinsurance" for further discussion of our reinsurance programs.

**Terrorism Coverage**

The Terrorism Risk Insurance Program Reauthorization Act of 2007 was signed into law on December 27, 2007. In January 2015, President Obama signed into law The Terrorism Risk Insurance Program Reauthorization Act of 2015 ("TRIPRA"). TRIPRA extends the Terrorism Risk Insurance Program until December 31, 2020; gradually increases the coverage trigger for shared terrorism losses between the federal government and the insurance industry to \$200 billion per year (up from \$100 billion); and gradually increases the industry-wide retention to \$37.5 billion per year (up from \$27.5 billion). TRIPRA coverage includes most direct commercial lines of business, including coverage for losses from nuclear, biological and chemical exposures if coverage was afforded by an insurer, with exclusions for commercial automobile insurance, burglary and theft insurance, surety, professional liability insurance and farm owners multiple peril insurance. Under TRIPRA, each insurer has a deductible amount, which is 20.0 percent of the prior year's direct commercial lines earned premiums for the applicable lines of business, and retention of 15.0 percent above the deductible. No insurer that has met its deductible shall be liable for the payment of any portion of that amount that exceeds the annual aggregate loss cap specified in TRIPRA. TRIPRA provides marketplace stability. As a result, coverage for terrorist events in both the insurance and reinsurance markets is often available. The amount of aggregate losses necessary for an act of terrorism to be certified by the U.S. Secretary of Treasury, the Secretary of State and the Attorney General was \$100.0 million for 2015 and remains the same for 2016. Our TRIPRA deductible was \$99.2 million for 2015 and our TRIPRA deductible will be \$111.1 million for 2016. Our catastrophe and non-catastrophe reinsurance programs provide limited coverage for terrorism exposure excluding nuclear, biological and chemical-related claims.



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### 2015 Results

In 2015, although our losses and loss settlement expenses were 2.0 percent higher than 2014, our net loss ratio decreased 5.5 points due to a better performing underlying book of business and a decrease in catastrophe losses. Catastrophe losses decreased to \$32.3 million in both our direct business and assumed reinsurance business as compared to \$49.7 million in 2014.

### 2014 Results

In 2014, our losses and loss settlement expenses were affected by catastrophe losses of \$49.7 million in both our direct business and assumed reinsurance business as compared to \$30.2 million in 2013 and also by an increase in our non-catastrophe results from an increase in frequency and severity in fire-related losses in our commercial property line of business.

### 2013 Results

In 2013, our losses and loss settlement expenses were affected by a reduction of \$34.5 million in catastrophe losses in both our direct business and assumed reinsurance business as compared to 2012, and also, to a lesser extent, by an improvement in our non-catastrophe results.

### Reserve Development

For many liability claims, significant periods of time, ranging up to several years, and for certain construction defect claims, more than a decade, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement or other disposition of the claim. As a result, loss experience in the more recent accident years for the long-tail liability coverages has limited statistical credibility in our reserving process because a relatively small proportion of losses in these accident years are reported claims and an even smaller proportion are paid losses. In addition, long-tail liability claims are more susceptible to litigation and can be significantly affected by changing contract interpretations and the legal environment. Consequently, the estimation of loss reserves for long-tail coverages is more complex and subject to a higher degree of variability. Reserves for these long-tail coverages represent a significant portion of our overall carried reserves.

When establishing reserves and monitoring reserve adequacy, we analyze historical data and consider the potential impact of various loss development factors and trends including historical loss experience, legislative enactments, judicial decisions, legal developments in imposition of damages, experience with alternative dispute resolution, results of our medical bill review process, the potential impact of salvage and subrogation and changes and trends in general economic conditions, including the effects of inflation. All of these factors influence our estimates of required reserves and for long-tail lines these factors can change over the course of the settlement of the claim. However, there is no precise method for evaluating the specific dollar impact of any individual factor on the development of reserves.

Our reserving philosophy is to reserve claims to their ultimate expected loss amount as soon as practicable after information about a claim becomes available. This approach tends to produce, on average, prudently conservative case reserves, which we expect to result in some level of favorable development over the course of settlement.

### 2015 Development

The property and casualty insurance segment experienced \$40.4 million of favorable development in our net reserves for prior accident years for the year ended December 31, 2015. Three lines in aggregate accounted for a majority of the favorable development. The largest single contributor was long-tail liability with \$23.0 million of favorable development followed by workers' compensation with \$22.1 million of favorable development and auto physical damage with \$4.4 million of favorable development for the year ended December 31, 2015. The favorable development is attributable to reductions in reserves for reported claims as well as reductions in required reserves for incurred but not reported claims combined with continued successful management of litigation expenses. These



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reserve decreases were more than sufficient to offset claim payments. The favorable development was partially offset by adverse development, the majority coming from three lines which included property with \$5.6 million of adverse development from an increase in severity and frequency of losses, assumed reinsurance with \$8.1 million of adverse development due to prior year development of catastrophe losses and commercial auto liability with \$2.8 million of adverse development due to an increase in frequency of losses in the year ended December 31, 2015. No other single line of business contributed a significant portion of the total development.

2014 Development

The property and casualty insurance segment experienced \$56.7 million of favorable development in our net reserves for prior accident years for the year ended December 31, 2014. The significant drivers of the favorable reserve development in 2014 were our long-tail liability lines, workers' compensation, and automobile (both liability and physical damage), which collectively contributed \$54.3 million of the total development. Much of the favorable long-tail liability development came from loss adjustment expense and is attributed to our litigation management initiative. Workers' compensation favorable development was due to the combination of claim reserve decreases along with favorable changes affecting loss adjustment expense. Changes in reserve development patterns have shown increased redundancies in reserves for reported claims along with relatively less need for IBNR claim reserves. Loss adjustment expense, closely tied to loss, generally decreases when loss decreases. Commercial auto liability continues to benefit from loss control and re-underwriting initiatives over the past two years as well as favorable changes affecting loss adjustment expense as reserve development patterns also showed a redundancy in reserves along with less need for IBNR claim reserves.

2013 Development

The property and casualty insurance segment experienced \$57.5 million of favorable development in our net reserves for prior accident years for the year ended December 31, 2013. The favorable reserve development on prior year reserves was primarily related to our long-tail lines of commercial business including other liability, workers' compensation and auto liability. The significant driver of the favorable reserve development in 2013 was the other liability line which contributed \$33.5 million of the total, primarily due to additional recognition of relatively recent changes in reserve development patterns which have shown increased redundancies in reserves for reported claims along with relatively less need for IBNR claim reserves. Also contributing to the favorable reserve development in 2013, only to a lesser extent than the other liability line of business, were workers' compensation, commercial auto liability and surety lines of business, which contributed \$7.5 million, \$6.3 million and \$4.7 million, respectively, to the favorable reserve development.

Reserve development amounts can vary significantly from year-to-year depending on a number of factors, including the number of claims settled and the settlement terms, and are subject to reallocation between accident years and lines of business.

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## Net Loss Ratios by Line

The following table depicts our net loss ratios for 2015, 2014 and 2013:

Years ended December 31,	2015			2014			2013			
(In Thousands)	Net Premiums Earned	Net Losses and Loss Settlement Expenses Incurred	Net Loss Ratio	Net Premiums Earned	Net Losses and Loss Settlement Expenses Incurred	Net Loss Ratio	Net Premiums Earned	Net Losses and Loss Settlement Expenses Incurred	Net Loss Ratio	
Commercial lines										
Other liability	\$261,303	\$130,904	50.1 %	\$228,426	\$106,827	46.8 %	\$199,548	\$98,013	49.1 %	
Fire and allied lines	202,375	128,479	63.5	181,710	148,856	81.9	165,081	95,158	57.6	
Automobile	185,970	152,558	82.0	164,537	122,683	74.6	147,026	120,354	81.9	
Workers' compensation	95,672	47,106	49.2	88,522	63,425	71.6	81,616	73,179	89.7	
Fidelity and surety	21,362	2,001	9.4	19,212	1,597	8.3	18,746	(2,201)	(11.7)	
Other	2,158	428	19.8	2,741	153	5.6	1,861	126	6.8	
Total commercial lines	\$768,840	\$461,476	60.0 %	\$685,148	\$443,541	64.7 %	\$613,878	\$384,629	62.7 %	
Personal lines										
Fire and allied lines	\$44,075	\$28,815	65.4 %	\$44,376	\$38,644	87.1 %	\$42,949	\$28,235	65.7 %	
Automobile	24,120	17,817	73.9	23,276	20,571	88.4	22,185	16,872	76.1	
Other	1,021	296	29.0	994	1,972	198.4	774	2,637	NM	
Total personal lines	\$69,216	\$46,928	67.8 %	\$68,646	\$61,187	89.1 %	\$65,908	\$47,744	72.4 %	
Reinsurance assumed	\$13,639	\$11,683	85.7 %	\$13,145	\$5,083	38.7 %	\$14,406	\$4,980	34.6 %	
Total	\$851,695	\$520,087	61.0 %	\$766,939	\$509,811	66.5 %	\$694,192	\$437,353	63.0 %	

NM=Not meaningful



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Commercial Lines

The net loss ratio in our commercial lines of business, excluding assumed reinsurance, was 60.0 percent in 2015 compared to 64.7 percent in 2014 and 62.7 percent in 2013. The improvement in 2015 as compared to 2014 was primarily the result of a decrease in net losses and loss settlement expenses incurred in fire and allied lines and workers' compensation partially offset by an increase in losses in commercial automobile. The prior year results included an increase in catastrophe losses from spring and summer storms in regions of the U.S where we conduct much of our business and an increase in frequency and severity in fire-related losses in our commercial property line of business.

The deterioration in 2014 as compared to 2013 was primarily the result of an increase in catastrophe losses from spring and summer storms in regions of the U.S where we conduct much of our business and an increase in frequency and severity in fire-related losses in our commercial property line of business partially offset by an improvement in the loss ratio for workers' compensation and commercial automobile insurance.

Other Liability

Other liability is business insurance covering bodily injury and property damage arising from general business operations, accidents on the insured's premises and products manufactured or sold. Because of the long-tail nature of liability claims, significant periods of time, ranging up to several years, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement of the claim.

In recent years, we began to use our loss control department more extensively in an attempt to return this line of business to a higher level of profitability. For example, our loss control department has representatives who make multiple visits each year to businesses and job sites to ensure safety. We also non-renew accounts that no longer meet our underwriting or pricing guidelines. We avoid accounts that have become too underpriced for the risk.

Construction Defect Losses

Incurred losses from construction defect claims were \$3.6 million in 2015 compared to \$10.1 million and \$13.7 million in 2014 and 2013, respectively. At December 31, 2015, we had \$28.8 million in construction defect loss and loss settlement expense reserves (excluding IBNR reserves which is calculated at the overall other liability commercial line), which consisted of 1,721 claims. In comparison, at December 31, 2014, we had reserves of \$33.6 million, excluding IBNR reserves, consisting of 1,597 claims. The decrease in the incurred losses and reserves is due to a decrease in loss severity.

Construction defect claims generally relate to allegedly defective work performed in the construction of structures such as apartments, condominiums, single family dwellings or other housing, as well as the sale of defective building materials. Such claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. The reporting of such claims can be quite delayed due to an extended statute of limitations, sometimes up to ten years. Court decisions have expanded insurers' exposure to construction defect claims as well. Defense costs are also a part of the insured expenses covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims.

We have exposure to construction defect liabilities in Colorado and surrounding states. We have historically insured small- to medium-sized contractors in this geographic area. In an effort to limit the number of future claims from multi-unit buildings, we implemented policy exclusions in 2009, later revised in 2010, that exclude liability coverage for contractors performing "residential structural" operations on any building project with more than 12 units or on single family homes in any subdivision where the contractor is working on more than 15 homes. The exclusions do not apply to remodeling or repair of an existing structure. We also changed our underwriting guidelines to add a professional liability exclusion when contractors prepare their own design work or blueprints and implemented the multi-family exclusion and tract home building limitation form for the state of Colorado and our other western states as a means to reduce our exposure in future years. When offering commercial umbrella coverage for structural residential contractors, limits of liability are typically limited to a maximum of \$2.0 million per occurrence. Requests to provide additional insured status for "developers" are declined.



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As a result of our acquisition of Mercer Insurance Group in 2011, we added construction defect exposure in the states of California, Nevada and Arizona. Mercer Insurance Group has been writing in these states for more than 20 years. In order to minimize our exposure to construction defect claims in this region, we continually review the coverage we offer and our pricing models. In an effort to limit our exposure from residential multi-unit buildings, we started including condominium and townhouse construction policy exclusions in 2012 for our contracting policies in this region. For the majority of our residential contractors we limit the size of any tracts the contractor is working on to 25 homes or less and do not include a continuous trigger with our designated work exclusion. In a majority of the policies in our small service, repair and remodel contractors program, we have a favorable new residential construction exclusion. We also apply strict guidelines when additional insured forms are required and changed our underwriting guidelines to limit our exposure to large, multi-party construction defect claims.

**Commercial Fire and Allied Lines**

Commercial fire and allied lines include fire, allied lines, commercial multiple peril and inland marine. The insurance covers losses to an insured's property, including its contents, from weather, fire, theft or other causes. We provide this coverage through a variety of business policies.

The improvement in the net loss ratio in 2015 as compared to 2014 was primarily attributable to elevated losses in the prior year. In 2014, there were elevated catastrophe losses from spring and summer storms in regions of the U.S. where we conduct much of our business and an increase in frequency and severity in fire-related losses in our commercial property line of business.

The deterioration in the net loss ratio in 2014 as compared to 2013, was due to an increase in catastrophe losses from spring and summer storms in regions of the U.S. where we conduct much of our business and an increase in frequency and severity in fire-related losses in our commercial property line of business.

**Commercial Automobile**

Our commercial automobile insurance covers physical damage to an insured's vehicle, as well as liabilities to third parties. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft, flood or other causes. Automobile liability insurance covers bodily injury, damage to property resulting from automobile accidents caused by the insured, uninsured or underinsured motorists and the legal costs of defending the insured against lawsuits. The deterioration in our commercial automobile insurance line in 2015 as compared to 2014 was due to an increase in severity of claims combined with additional reserves for incurred but not reported claims in 2015 primarily from an adverse development experience trend from an increase in highway roadway use by commercial vehicles. The improvement in our commercial automobile insurance line in 2014 as compared to 2013 was primarily due to favorable results from loss control and re-underwriting initiatives which focused on under-performing accounts and agents.

**Workers' Compensation**

We consider our workers' compensation business to be a companion product; we rarely write stand-alone workers' compensation policies. Our workers' compensation insurance covers primarily small- to mid-size accounts.

The improvement in our workers' compensation line of business in 2015 as compared to 2014 was due to a decrease in severity and frequency of claims and favorable development in reserves for reported claims. The improvement in our workers' compensation line of business in 2014 as compared to 2013 was due to the combined effects of lower claim frequency and favorable reserve development from previously reported claims.

The challenges faced by workers' compensation insurance providers to attain profitability include the regulatory climates in some states that make it difficult to obtain appropriate premium rate increases and inflationary medical costs. Despite these pricing issues, we continue to believe that we can improve the results of this line of business. Consequently, we have increased the utilization of our loss control unit in the analysis of current risks, with the

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intention of increasing the quality of our workers' compensation book of business. We are currently using these modeling analytics to assist us in risk selection, and we will continue to evaluate the model results.

Fidelity and Surety

Our surety products guarantee performance and payment by our bonded principals. Our contract bonds protect owners from failure to perform on the part of our principals. In addition, our surety bonds protect material suppliers and subcontractors from nonpayment by our contractors. When surety losses occur, our loss is determined by estimating the cost to complete the remaining work and to pay the contractor's unpaid bills, offset by contract funds due to the contractor, reinsurance, and the value of any collateral to which we may have access.

In 2015, the loss ratio increased slightly as compared to 2014 due to a single large claim incurred in the first quarter of 2015. In 2014, the loss ratio increased as compared to 2013 which experienced a decrease in claim frequency along with a release of IBNR reserves as a result of actual emergence of paid losses being less than expected. This resulted in the negative loss ratio in 2013.

During 2015, there were two claims that exceeded our \$1.5 million surety excess of loss reinsurance retention level. During 2014 and 2013 there were no claims that exceeded our \$1.5 million reinsurance retention level.

Personal Lines

Our personal lines consist primarily of fire and allied lines (including homeowners) and automobile lines. In 2015, the net loss ratio improved 21.3 percentage points compared to 2014. The change was primarily due to a decrease in net losses and loss settlement expenses incurred in the fire and allied lines of business due to less catastrophe losses in 2015. In 2014, the net loss ratio increased 16.7 percentage points compared to 2013. The change was primarily due to catastrophe loss experience from spring and summer storms in the United States in 2014.

We will continue pursuing opportunities to grow our personal lines business in the future. We have added within our CATography™ Underwriter tool the ability to determine whether the premium we charge for an exposure is adequate in areas where hurricanes and earthquakes occur. We have also implemented predictive analytics and data prefill for our personal automobile line. Data prefill is a data accessing methodology that allows for a more complete profile of our customers at the agent's point of sale during the quotation process.

Assumed Reinsurance

Our assumed reinsurance is the business we choose to write by participating in programs insuring insurance companies. The net loss ratio deterioration in 2015 was due to an increase in catastrophe losses assumed. The net loss ratio deterioration in 2014 was due to a combination of an increase in catastrophe losses, from development of losses on prior year catastrophes, and from an increase in frequency and severity in fire-related losses. The net loss ratio improvement in 2013 was driven by a decrease in catastrophe losses.

In 2015, we renewed our participation in all of our assumed programs and added one new program to our portfolio.

In 2014, we renewed our participation in all but one of our assumed programs and added one new program to our portfolio. We increased participation in one program in our assumed portfolio to replace lost premium from the program not renewed.

In 2013, we renewed our participation in all but one of our assumed programs and added two new programs to our portfolio. We added two new programs to replace the lost premium from the program not renewed and to take advantage of areas where we had exposure capacity. One of the new programs has worldwide exposure and the other has exposure in the United Kingdom and Japan.

Other Underwriting Expenses

Our underwriting expense ratio, which is a percentage of other underwriting expenses over net premiums earned, was 31.0 percent, 31.3 percent and 31.8 percent for 2015, 2014, and 2013, respectively. The underwriting expense



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ratio improved slightly in 2015 due to the improvement in the profitability in certain lines of business, which led to an increase in the amount of underwriting expense eligible for deferral, elimination of duplicate costs associated with the previously disclosed Mercer Insurance Group, Inc. integration and completion of technology projects, all partially offset by an increase in post-retirement benefit costs.

The decrease in the underwriting expense ratio in 2014 was primarily due to a decrease in employee compensation and employee benefit costs offset slightly by a decrease in underwriting expenses eligible for deferral due to a deterioration in the profitability of certain lines of business caused by an increase in claims severity.

## Life Insurance Segment Results

(In Thousands)	Years Ended December 31,			% Change			
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013		
<b>Revenues</b>							
Net premiums earned	\$79,195	\$61,391	\$60,654	29.0	%	1.2	%
Investment income, net	54,222	60,373	66,467	(10.2)	)%	(9.2)	)%
Net realized investment gains (losses)							
Other-than-temporary impairment charges	(1,300 )	—	—	NM		—	%
All other net realized gains	3,022	3,093	2,434	(2.3)	)%	27.1	%
Net realized investment gains	1,722	3,093	2,434	(44.3)	)%	27.1	%
Other income	508	774	614	(34.4)	)%	26.1	%
Total revenues	\$135,647	\$125,631	\$130,169	8.0	%	(3.5)	)%
<b>Benefits, Losses and Expenses</b>							
Losses and loss settlement expenses	\$29,001	\$26,432	\$21,461	9.7	%	23.2	%
Increase in liability for future policy benefits	50,945	36,623	37,625	39.1	%	(2.7)	)%
Amortization of deferred policy acquisition costs	6,634	6,139	6,502	8.1	%	(5.6)	)%
Other underwriting expenses	19,306	15,754	16,235	22.5	%	(3.0)	)%
Interest on policyholders' accounts	23,680	30,245	35,163	(21.7)	)%	(14.0)	)%
Total benefits, losses and expenses	\$129,566	\$115,193	\$116,986	12.5	%	(1.5)	)%
Income before income taxes	\$6,081	\$10,438	\$13,183	(41.7)	)%	(20.8)	)%

NM =Not meaningful

United Life Insurance Company underwrites all of our life insurance business. Our principal life insurance products are deferred and immediate annuities, universal life products and traditional life (primarily single premium whole life insurance) products. We also underwrite and market other traditional products, including term life insurance and whole life insurance. Deferred and immediate annuities (49.4 percent), traditional life products (38.5 percent), universal life products (10.5 percent), and other life products (1.6 percent) comprised our 2015 life insurance premium revenues, as determined on the basis of statutory accounting principles. We do not write variable annuities or variable insurance products.

Income before income taxes for our life insurance segment totaled \$6.1 million in 2015 compared to \$10.4 million in 2014 and \$13.2 million in 2013. The decrease in net income before income taxes from 2014 to 2015 was primarily a result of a decrease in net investment income, an increase in losses and loss settlement expenses and an increase in the increase in liability for future policy benefits, all partially offset by an increase in net premiums earned from higher sales of single premium whole life policies ("SPWL") and a decrease in interest on policyholders' accounts due to a decline in the crediting rate paid on continued net withdrawals of annuity products.

The decrease in net income before income taxes from 2013 to 2014 was primarily a result of a decrease in net investment income and an increase in losses and loss settlement expenses due to an increase in death benefits paid, which were partially offset by a decrease in interest on policyholders' accounts which is due to continued net

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withdrawals of annuity products and a decline in the increase in liability for future policy benefits as a result of a decline in sales of SPWL policies.

In 2015, net investment income decreased 10.2 percent as compared to 2014 and decreased 9.2 percent in 2014 as compared to 2013. The decrease is due to lower asset base from declining annuity deposits and the decline in the reinvestment interest rates from the low interest rate environment. For discussion of our consolidated investment results, see the "Investments" section contained in this Item.

Net premiums earned increased 29.0 percent in 2015 as compared to 2014 primarily due to an increase in sales of SPWL policies. Net premiums earned increased 1.2 percent in 2014 as compared to 2013 due in part to an increase in the sale of single premium immediate annuities.

Underwriting expenses increased 22.5 percent in 2015 as compared to 2014 due to an increase in SPWL commissions related to the increase in premiums as previously mentioned and an increase in our postretirement benefit plan expenses.

Deferred annuity deposits decreased 55.7 percent in 2015, as compared to 2014. We gradually lowered the credited rate offered on our deferred annuity products in the low interest rate environment, which resulted in the decrease in deferred annuity deposits. Deferred annuity deposits increased 34.0 percent in 2014 as compared to 2013 due to crediting rate increases which occurred in the latter half of 2013.

Net cash outflow related to the Company's annuity business was \$129.7 million in 2015 compared to a net cash outflow of \$77.7 million in 2014 and 2013. This result is attributed to the activity described previously.

The fixed annuity deposits that we collect are not reported as net premiums earned under GAAP. Instead, we invest annuity deposits and record them as a liability for future policy benefits. The revenue that is generated from fixed annuity products consists of policy surrender charges and investment income. The difference between the yield we earn on our investment portfolio and the interest we credit on our fixed annuities is known as the investment spread. The investment spread is a major driver of the profitability for all of our annuity products. As of December 31, 2015, our investment spread on our annuity products was 1.34 percent as compared to 1.02 percent at December 31, 2014.

**Federal Income Taxes**

We reported a federal income tax expense of \$32.3 million, \$17.3 million and \$25.8 million in 2015, 2014, and 2013, respectively. Our effective federal tax rate varied from the statutory federal income tax expense rate of 35.0 percent in each year, due primarily to our portfolio of tax-exempt securities.

As of December 31, 2015, we had a net operating loss ("NOL") carryforward of \$4.7 million, which is due to our purchase of American Indemnity Financial Corporation in 1999. No NOLs will expire in 2016.

Due to our determination that we may not be able to fully realize the benefits of the NOLs acquired in the purchase of American Indemnity Financial Corporation, which are only available to offset the future taxable income of our property and casualty insurance operations and are further limited as to the amount that can be utilized in any given year, we have recorded a valuation allowance against these NOLs that totaled \$1.3 million at December 31, 2015.

Based on a yearly review, we determine whether the benefit of the NOLs can be realized, and, if so, the decrease in the valuation allowance is recorded as a reduction to current federal income tax expense. If NOLs expire during the year, the decrease in the valuation allowance is offset with a corresponding decrease to the deferred income tax asset. The valuation allowance was reduced by \$0.6 million in 2015 due to the realization of \$1.6 million in NOLs.

As of December 31, 2015, we had no alternative minimum tax ("AMT") credit carryforwards.



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### INVESTMENTS

#### Investment Environment

Two of the primary themes for 2015 were the dramatic decline in commodity prices and a stronger U.S. dollar. There were also a host of several other macro trends that dominated the market narrative at various times throughout the year. Examples include the slowing Chinese economy, diverging monetary policy among global central banks, a tepid U.S. economic recovery and a fast-approaching presidential election. Collectively, the increase in uncertainty negatively impacted investor confidence and resulted in a year where capital markets provided flat to negative returns. Global equities and commodities were lower with emerging markets and high-beta credit under performing. Interest rates in the United States were flat, though they traded in a 100 basis point range throughout the year, while rates in Europe and Japan fell meaningfully in response to increased monetary stimulus.

As anticipated, the U.S. Federal Reserve began its move towards policy normalization at the end of 2015. The U.S. economy continues to expand at a moderate pace with positive trends seen in employment, housing demand, consumer fuel prices, and auto sales. Overall investment yields remain near their secular lows, but did increase toward year-end due to negative price dislocation in the energy and metals sectors, and the contagion effects this had on other segments of the market.

Our investment portfolio has a small amount of exposure to energy and certain industrials which were most adversely impacted by the fall in commodity prices. However, the vast majority of those holdings are in highly rated, highly capitalized companies. If this weak commodity environment persists, the credit rating of some of our fixed maturity securities may be downgraded from investment grade to non-investment grade. However, we believe we have ample capacity in the portfolio to manage that transition should it occur. In general, we expect investment yields will remain bounded by central bank monetary policy and the slow pace of global economic growth, and we anticipate periodic spikes in volatility to result in inconsistent liquidity over the near term.

#### Investment Philosophy

The Company's assets are invested to meet liquidity needs and maximize after-tax returns while maintaining an appropriate balance of risk. The return on our portfolio is an important component of overall financial results, but quality and safety of principal is the highest priority of our investment program. Our general investment philosophy is to purchase financial instruments with the expectation that we will hold them to their maturity. However, active management of our available-for-sale portfolio is considered necessary to achieve portfolio objectives and maximize risk-adjusted returns as market conditions change.

We work with our insurance company subsidiaries to develop an appropriate investment strategy that aligns with their business needs and supports United Fire's strategic plan and risk appetite. The portfolio is structured so as to be in compliance with state insurance laws that prescribe the quality, concentration and type of investments that may be made by insurance companies. All but a small portion of our investment portfolio is managed internally.

#### Investment Portfolio

Our invested assets at December 31, 2015 totaled \$3.1 billion, compared to \$3.2 billion at December 31, 2014, a decrease of \$28.2 million. At December 31, 2015, fixed maturity securities and equity securities comprised 90.4 percent and 7.6 percent of our investment portfolio, respectively. Because the primary purpose of the investment portfolio is to fund future claims payments, we utilize a conservative investment philosophy, investing in a diversified portfolio of high-quality, intermediate-term taxable corporate bonds, taxable U.S. government and government agency bonds and tax-exempt U.S. municipal bonds. Our overall investment strategy is to stay fully invested (i.e., minimize cash balances). If additional cash is needed we have an ability to borrow funds available under our revolving credit facility.



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## Composition

We develop our investment strategies based on a number of factors, including estimated duration of reserve liabilities, short- and long-term liquidity needs, projected tax status, general economic conditions, expected rates of inflation and regulatory requirements. We administer our investment portfolio based on investment guidelines approved by management and the investment committee of our Board of Directors that comply with applicable statutory regulations.

The composition of our investment portfolio at December 31, 2015 is presented at carrying value in the following table:

(In Thousands)	Property & Casualty Insurance Segment		Life Insurance Segment		Total	
		Percent of Total		Percent of Total		Percent of Total
Fixed maturities: <sup>(1)</sup>						
Held-to-maturity	\$600	—	% \$72	—	% \$672	—
Available-for-sale	1,374,069	83.4	1,450,892	97.0	2,824,961	90.0
Trading securities	12,622	0.8	—	—	12,622	0.4
Equity securities:						
Available-for-sale	216,683	13.1	19,564	1.3	236,247	7.5
Trading securities	4,353	0.3	—	—	4,353	0.1
Mortgage loans	—	—	3,961	0.3	3,961	0.1
Policy loans	—	—	5,618	0.4	5,618	0.2
Other long-term investments	39,163	2.4	14,988	1.0	54,151	1.7
Short-term investments	175	—	—	—	175	—
Total	\$1,647,665	100.0	% \$1,495,095	100.0	% \$3,142,760	100.0

(1) Available-for-sale and trading fixed maturities are carried at fair value. Held-to-maturity fixed maturities are carried at amortized cost.

At December 31, 2015, we classified \$2.8 billion, or 99.5 percent, of our fixed maturities portfolio as available-for-sale, compared to \$2.8 billion, or 99.4 percent, at December 31, 2014. Available-for-sale securities are carried at fair value, with changes in fair value recognized as a component of accumulated other comprehensive income in stockholders' equity. We classify our remaining fixed maturities as held-to-maturity or trading. We record held-to-maturity securities at amortized cost. We record trading securities, primarily convertible redeemable preferred debt securities, at fair value, with any changes in fair value recognized in earnings.

As of December 31, 2015 and 2014, we did not have direct exposure to investments in subprime mortgages or other credit enhancement vehicles.

## Credit Quality

The following table shows the composition of fixed maturity securities held in our available-for-sale, held-to-maturity and trading security portfolios by credit rating at December 31, 2015 and 2014. Information contained in the table is generally based upon the issue credit ratings provided by Moody's, unless the rating is unavailable, in which case we obtain it from Standard & Poor's.

(In Thousands)	December 31, 2015		December 31, 2014	
	Carrying Value	% of Total	Carrying Value	% of Total
Rating				
AAA	\$838,318	29.6	% \$896,367	31.4
AA	724,023	25.5	637,305	22.3
A	670,098	23.6	621,293	21.7

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Baa/BBB	556,667	19.6		641,497	22.4	
Other/Not Rated	49,149	1.7		63,876	2.2	
	\$2,838,255	100.0	%	\$2,860,338	100.0	%

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## Duration

Our investment portfolio is invested primarily in fixed maturity securities whose fair value is susceptible to market risk, specifically interest rate changes. Duration is a measurement used to quantify our inherent interest rate risk and analyze our ability to match our invested assets to our reserve liabilities. If our invested assets and reserve liabilities have similar durations, then any change in interest rates will have an equal effect on these accounts. The primary purpose for matching invested assets and reserve liabilities is liquidity. With appropriate matching, our investments will mature when cash is needed, preventing the need to liquidate other assets prematurely. Mismatches in the duration of assets and liabilities can cause significant fluctuations in our results of operations.

## Group

The weighted average effective duration of our portfolio of fixed maturity securities was 5.2 years at December 31, 2015 compared to 5.0 years at December 31, 2014.

## Property and Casualty Insurance Segment

The weighted average effective duration of our portfolio of fixed maturity securities was 5.2 years at December 31, 2015 compared to 4.8 years at December 31, 2014.

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at December 31, 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.

(In Thousands)	Held-To-Maturity		Available-For-Sale		Trading	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2015						
Due in one year or less	\$—	\$—	\$54,476	\$54,804	\$1,526	\$2,001
Due after one year through five years	600	601	433,342	449,874	7,596	7,676
Due after five years through 10 years	—	—	318,714	324,604	130	404
Due after 10 years	—	—	380,222	387,649	2,223	2,541
Asset-backed securities	—	—	3,206	3,380	—	—
Mortgage-backed securities	—	—	14,946	15,286	—	—
Collateralized mortgage obligations	—	—	138,044	138,471	—	—
	\$600	\$601	\$1,342,950	\$1,374,068	\$11,475	\$12,622

## Life Insurance Segment

The weighted average effective duration of our portfolio of fixed maturity securities at December 31, 2015 was 5.3 years compared to 5.2 years at December 31, 2014.

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at December 31, 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.

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(In Thousands)	Held-To-Maturity		Available-For-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2015				
Due in one year or less	\$—	\$—	\$50,710	\$51,106
Due after one year through five years	—	—	386,276	390,418
Due after five years through 10 years	—	—	671,182	664,691
Due after 10 years	—	—	112,158	113,396
Asset-backed securities	—	—	2,255	2,286
Mortgage-backed securities	72	74	1,467	1,452
Collateralized mortgage obligations	—	—	226,071	227,544
	\$72	\$74	\$1,450,119	\$1,450,893

**Investment Results**

We invest the premiums received from our policyholders and annuitants in order to generate investment income, which is an important component of our revenues and profitability. The amount of investment income that we are able to generate is affected by many factors, some of which are beyond our control. Some of these factors are volatility in the financial markets, economic growth, inflation, changes in interest rates, world political conditions, terrorist attacks or threats of terrorism, adverse events affecting other companies in our industry or the industries in which we invest and other unpredictable national or world events. Net investment income decreased 3.7 percent in 2015, compared with the same period of 2014, due to the decline in invested assets and decline in reinvestment interest rates from the low interest rate environment. We expect to maintain our investment philosophy of purchasing quality investments rated investment grade or better.

We regularly 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 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 or based on the value calculated using a discounted cash flow model. 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.

Changes in unrealized gains and losses on available-for-sale securities do not affect net income and earnings per share but do impact comprehensive income, stockholders' equity and book value per share. We believe that any unrealized losses on our available-for-sale securities at December 31, 2015 are temporary based upon our current analysis of the issuers of the securities that we hold and current market conditions. It is possible that we could recognize impairment charges in future periods on securities that we own at December 31, 2015 if future events and information cause us to determine that a decline in value is other-than-temporary. However, we endeavor to invest in high quality assets to provide protection from future credit quality issues and corresponding other-than-temporary impairment write-downs.



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Our investment results are summarized in the following table:

(In Thousands)			% Change		
As of and for the Years Ended December 31,	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Investment income, net	\$100,781	\$104,609	\$112,799	(3.7)%	(7.3)%
Net realized investment gains (losses)					
Other-than-temporary impairment charges	\$(1,300 )	\$—	\$(139 )	—	NM
All other net realized gains	4,146	7,270	8,834	(43.0 )	(17.7 )
Total net realized investment gains	\$2,846	\$7,270	\$8,695	(60.9)%	(16.4)%
Net unrealized investment gains, after tax	\$128,369	\$149,623	\$116,601	(14.2)%	28.3%

NM=not meaningful

#### Net Investment Income

In 2015, our investment income, net of investment expenses, decreased \$3.8 million to \$100.8 million as compared to 2014, primarily due the decline in invested assets and decline in reinvestment interest rates from the low interest rate environment.

In 2014, our investment income, net of investment expenses, decreased \$8.2 million to \$104.6 million as compared to 2013, primarily due to a decrease in value of investments that are accounted for under the equity method of accounting and from declining investment yields.

The following table summarizes the components of net investment income:

(In Thousands)	2015	2014	2013
Years Ended December 31,			
Investment income			
Interest on fixed maturities	\$92,777	\$97,969	\$101,950
Dividends on equity securities	7,208	6,602	5,806
Income on other long-term investments			
Interest	2,567	1,927	1,194
Change in value <sup>(1)</sup>	3,266	1,917	7,030
Interest on mortgage loans	237	252	266
Interest on short-term investments	6	5	6
Interest on cash and cash equivalents	305	255	239
Other	1,452	1,998	1,632
Total investment income	\$107,818	\$110,925	\$118,123
Less investment expenses	7,037	6,316	5,324
Investment income, net	\$100,781	\$104,609	\$112,799

<sup>(1)</sup> Represents the change in value of our interests in limited liability partnerships that are recorded on the equity method of accounting.

In 2015, 86.0 percent of our gross investment income originated from interest on fixed maturities, compared to 88.3 percent and 86.3 percent in 2014 and 2013, respectively.



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The following table details our annualized yield on average invested assets for 2015, 2014 and 2013, which is based on our invested assets (including money market accounts) at the beginning and end of the year divided by net investment income:

(In Thousands)

Years ended December 31,	Average Invested Assets	Investment Income, Net	Annualized Yield on Average Invested Assets	
2015	\$3,181,311	\$100,781	3.2	%
2014	3,143,502	104,609	3.3	%
2013	3,088,962	112,799	3.7	

#### Net Realized Investment Gains and Losses

In 2015, 2014 and 2013, we reported net realized investment gains of \$2.8 million, \$7.3 million and \$8.7 million, respectively. The following table summarizes the components of our net realized investment gains or losses:

(In Thousands)

Years Ended December 31,	2015	2014	2013
Net realized investment gains (losses)			
Fixed maturities:			
Held-to-maturity	\$—	\$—	\$1
Available-for-sale	3,294	3,353	3,211
Trading securities			
Change in fair value	(1,353 )	609	1,183
Sales	1,381	1,339	788
Equity securities:			
Available-for-sale	2,521	1,732	3,739
Trading securities			
Change in fair value	(448 )	238	(126 )
Sales	66	(1 )	38
Other long-term investments	(1,315 )	—	—
Other-than-temporary-impairment charges:			
Fixed maturities	(1,300 )	—	(139 )
Total net realized investment gains	\$2,846	\$7,270	\$8,695

#### Net Unrealized Investment Gains and Losses

As of December 31, 2015, net unrealized investment gains, after tax, totaled \$128.4 million compared to \$149.6 million and \$116.6 million as of December 31, 2014 and 2013, respectively. The decrease in unrealized gains in 2015 is the result of a decrease in the fair value of the fixed maturity portfolio due to an increase in interest rates and the decrease in the equity portfolio due to a decline in the financial markets. The increase in unrealized gains in 2014 resulted from an increase in the fair value of both the fixed maturity portfolio and the equity portfolio.

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The following table summarizes the change in our net unrealized investment gains (losses):

(In Thousands)	2015	2014	2013
Years Ended December 31,			
Changes in net unrealized investment gains (losses):			
Available-for-sale fixed maturity securities	\$(37,621 )	\$51,814	\$(132,579 )
Equity securities	(6,459 )	15,781	48,176
Deferred policy acquisition costs	11,380	(16,789 )	42,102
Income tax effect	11,446	(17,784 )	14,806
Total change in net unrealized investment gains, net of tax	\$(21,254 )	\$33,022	\$(27,495 )

**Market Risk**

Our Consolidated Balance Sheets include financial instruments whose fair values are subject to market risk. The active management of market risk is integral to our operations. Market risk is the potential for loss due to a decrease in the fair value of securities resulting from uncontrollable fluctuations, such as: interest rate risk, equity price risk, foreign exchange risk, credit risk, inflation, or geopolitical conditions. Our primary market risk exposures are: changes in interest rates, deterioration of credit quality in specific issuers, sectors or the economy as a whole, and an unforeseen decrease in the liquidity of securities we hold. We have no foreign exchange risk.

**Interest Rate Risk**

Interest rate risk is the price sensitivity of a fixed income maturity security or portfolio of securities to changes in level of interest rates. Generally, there is an inverse relationship between changes in interest rates and changes in the price of a fixed income/maturity security. Plainly stated, if interest rates go up (down), bond prices go down (up). A vast majority of our holdings are fixed income maturity and other interest rate sensitive securities that will decrease (increase) in value as interest rates increase (decrease). While it is generally our intent to hold our investments in fixed maturity securities to maturity, we have classified a majority of our fixed maturity portfolio as available-for-sale. Available-for-sale fixed income maturity securities are carried at fair value on the Consolidated Balance Sheets with unrealized gains or losses reported net of tax in Accumulated Other Comprehensive Income. A change in the prevailing interest rates generally translates into a change in the fair value of our fixed income/maturity securities, and by extension, our overall book value.

**Market Risk and Duration**

We analyze potential changes in the value of our investment portfolio due to the market risk factors noted above within the overall context of asset and liability management. A technique we use in the management of our investment portfolio is the calculation of duration. Our actuaries estimate the payout pattern of our reserve liabilities to determine their duration, which is the present value of the weighted average payments expressed in years. We then establish a target duration for our investment portfolio so that at any given time the estimated cash generated by the investment portfolio will closely match the estimated cash required for the payment of the related reserves. We structure the investment portfolio to meet the target duration to achieve the required cash flow, based on liquidity and market risk factors.

Duration relates primarily to our life insurance segment because the long-term nature of these reserve liabilities increases the importance of projecting estimated cash flows over an extended time frame. At December 31, 2015, our life insurance segment had \$744.9 million in deferred annuity liabilities for which investments in fixed maturity securities were specifically allocated.

The duration of the life insurance segment's investment portfolio must take into consideration interest rate risk. This is accomplished through the use of sensitivity analysis, which measures the price sensitivity of the fixed maturities to changes in interest rates. The alternative valuations of the investment portfolio, given the various hypothetical interest rate changes utilized by the sensitivity analysis, allow management to revalue the potential cash flow from

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the investment portfolio under varying market interest rate scenarios. Duration can then be recalculated at the differing levels of projected cash flows.

Impact of Interest Rate Changes

The amounts set forth in the following table detail the impact of hypothetical interest rate changes on the fair value of fixed maturity securities held at December 31, 2015. The sensitivity analysis measures the change in fair values arising from immediate changes in selected interest rate scenarios. We employed hypothetical parallel shifts in the yield curve of plus or minus 100 and 200 basis points in the simulations. Additionally, based upon the yield curve shifts, we employ estimates of prepayment speeds for mortgage-related products and the likelihood of call or put options being exercised within the simulations. According to this analysis, at current levels of interest rates, the duration of the investments supporting the deferred annuity liabilities is 2.15 years longer than the projected duration of the liabilities. If interest rates increase by 100 or 200 basis points, the duration of the investments supporting the deferred annuity liabilities would be 3.38 years and 4.07 years longer, respectively, than the projected duration of the liabilities.

The selection of a 100-basis-point and 200-basis-point increase or decrease in interest rates should not be construed as a prediction by our management of future market events, but rather as an illustration of the potential impact of an event.

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December 31, 2015 (In Thousands)	-200 Basis Points	-100 Basis Points	Base	+100 Basis Points	+ 200 Basis Points
<b>HELD-TO-MATURITY</b>					
Fixed maturities					
Bonds					
Corporate bonds - Technology, Media & Telecommunications	\$486	\$468	\$451	\$435	\$420
Corporate bonds - financial services	155	153	150	147	145
Mortgage-backed securities	75	75	74	72	70
Total Held-to-Maturity Fixed Maturities	\$716	\$696	\$675	\$654	\$635
<b>AVAILABLE-FOR-SALE</b>					
Fixed maturities					
Bonds					
U.S. Treasury	\$22,680	\$22,156	\$21,649	\$21,161	\$20,689
U.S. government agency	242,324	239,424	233,030	216,894	199,210
States, municipalities and political subdivisions					
General obligations:					
Midwest	177,960	171,828	165,456	158,697	152,058
Northeast	64,832	61,690	58,445	54,975	51,592
South	140,437	134,864	128,789	122,276	115,985
West	119,117	112,934	106,814	100,728	94,924
Special revenue:					
Midwest	174,269	166,052	157,706	149,174	140,918
Northeast	28,253	26,392	24,599	22,843	21,169
South	166,982	157,646	148,437	139,295	130,561
West	90,784	86,390	82,041	77,698	73,517
Foreign bonds	88,243	85,321	82,528	79,861	77,316
Public utilities	238,873	226,909	215,683	205,148	195,286
Corporate bonds					
Energy	123,382	118,102	113,119	108,422	103,998
Industrials	248,292	235,896	224,255	213,328	203,094
Consumer goods and services	193,589	183,793	174,597	165,961	167,867
Health care	103,304	98,251	93,509	89,060	84,887
Technology, media and telecommunications	158,567	150,242	142,400	135,038	128,189
Financial services	289,255	275,996	263,485	251,577	240,349
Mortgage backed securities	21,194	18,763	16,738	15,011	13,502
Collateralized mortgage obligations	401,925	388,963	366,015	337,475	307,099
Asset-backed securities	5,970	5,786	5,666	5,558	5,457
Total Available-For-Sale Fixed Maturities	\$3,100,232	\$2,967,398	\$2,824,961	\$2,670,180	\$2,527,667
<b>TRADING</b>					
Fixed maturities					
Bonds					
Corporate bonds					
Industrial	\$3,795	\$3,674	\$3,558	\$3,448	\$3,343
Consumer	130	124	118	114	109
Health care	2,178	2,095	2,032	1,981	1,942
Financial services	4,337	4,235	4,094	3,899	3,700
Technology, media and telecommunications	416	372	335	304	278
Redeemable preferred stock	2,485	2,485	2,485	2,485	2,485

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Total Trading Fixed Maturities	\$13,341	\$12,985	\$12,622	\$12,231	\$11,857
Total Fixed Maturity Securities	\$3,114,289	\$2,981,079	\$2,838,258	\$2,683,065	\$2,540,159

To the extent actual results differ from the assumptions utilized, our duration and interest rate measures could be significantly affected. As a result, these calculations may not fully capture the impact of nonparallel changes in the relationship between short-term and long-term interest rates.

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## Equity Price Risk

Equity price risk is the potential loss arising from changes in the fair value (i.e., market price) of equity securities held in our portfolio. Changes in the price of an equity security may be due to a change in the future earnings capacity or strategic outlook of the security issuer, and what investors are willing to pay for those future earnings and related strategy. The carrying values of our equity securities are based on quoted market prices, from an independent source, as of the balance sheet date. Market prices of equity securities, in general, are subject to fluctuations that could cause the amount to be realized upon the future sale of the securities to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the security issuer, the relative price of alternative investments, general market conditions, and supply/demand factors related to a particular security.

## Impact of Price Change

The following table details the effect on the fair value of our investments in equity securities for a positive and negative 10 percent price change at December 31, 2015:

(In Thousands)	-10%	Base	+10%
Estimated fair value of equity securities	\$216,540	\$240,600	\$264,660

## Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk arises from the possibility that changes in foreign exchange rates will impact our transactions with foreign reinsurers relating to the settlement of amounts due to or from foreign reinsurers in the normal course of business. We consider this risk to be immaterial to our operations.

## Credit Risk

Credit risk is the willingness and ability of a borrower to repay on time and in full any principal and interest due to the lender. Losses related to credit risk are realized through the income statement and have a direct impact on the earnings of UFG. Given the vast majority of our holdings are fixed income maturity securities, we view credit risk as our primary investment risk. Our internal Investment Department has developed and maintains a rigorous underwriting process to analyze and measure the expected frequency and severity of loss (i.e., credit quality) for government, agency, municipal, structured security, and corporate bond issuers. The objective is to maintain the appropriate balance of risk in our portfolio, consistent with our Investment Policy Statement and conservative investment style, and ensure the portfolio is compensated appropriately for the credit risk it holds. We do have within our municipal bond holdings a small number of securities whose ratings were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default. A downgrade in the credit ratings of the insurers of these securities in 2015 and 2014 resulted in a corresponding downgrade in the ratings of the securities. Of the insured municipal securities in our investment portfolio, 99.3 percent and 98.9 percent were rated "A" or above, and 90.9 percent and 87.9 percent were rated "AA" or above at December 31, 2015 and 2014, respectively, without the benefit of insurance. Due to the underlying financial strength of the issuers of the securities, we believe that the loss of insurance would not have a material impact on our operations, financial position, or liquidity.

We have no direct exposure in any of the guarantors of our investments. Our largest indirect exposure with a single guarantor totaled \$68.5 million or 24.9 percent of our insured municipal securities at December 31, 2015, as compared to \$88.8 million or 25.8 percent at December 31, 2014. Our five largest indirect exposures to financial guarantors accounted for 71.4 percent and 74.8 percent of our insured municipal securities at December 31, 2015 and 2014, respectively.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

Liquidity measures our ability to generate sufficient cash flows to meet our short- and long-term cash obligations. Our cash inflows are primarily a result of the receipt of premiums, annuity deposits, reinsurance recoveries, sales or maturities of investments, and investment income. Cash provided from these sources is used to fund the payment of losses and loss settlement expenses, policyholder benefits under life insurance contracts, annuity withdrawals, the purchase of investments, operating expenses, dividends, pension plan contributions, and in recent years, common stock repurchases.

We monitor our capital adequacy to support our business on a regular basis. The future capital requirements of our business will depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Our ability to underwrite is largely dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. In particular, we require (1) sufficient capital to maintain our financial strength ratings, as issued by various rating agencies, at a level considered necessary by management to enable our insurance company subsidiaries to compete and (2) sufficient capital to enable our insurance company subsidiaries to meet the capital adequacy tests performed by regulatory agencies in the United States.

Cash outflows may be variable because of the uncertainty regarding settlement dates for losses. In addition, the timing and amount of individual catastrophe losses are inherently unpredictable and could increase our liquidity requirements. The timing and amount of reinsurance recoveries may be affected by reinsurer solvency and reinsurance coverage disputes.

Historically, we have generated substantial cash inflows from operations. It is our policy to invest the cash generated from operations in securities with maturities that, in the aggregate, correlate to the anticipated timing of payments for losses and loss settlement expenses and future policyholder benefits of the underlying insurance policies, and annuity withdrawals. The majority of our assets are invested in available-for-sale fixed maturity securities.

The following table displays a summary of cash sources and uses in 2015, 2014 and 2013:

Cash Flow Summary (In Thousands)	Years Ended December 31,		
	2015	2014	2013
Cash provided by (used in)			
Operating activities	\$189,998	\$151,291	\$161,491
Investing activities	(36,286 )	(58,878 )	(101,986 )
Financing activities	(137,837 )	(94,032 )	(74,778 )
Net increase (decrease) in cash and cash equivalents	\$15,875	\$(1,619 )	\$(15,273 )

**Operating Activities**

Net cash flows provided by operating activities totaled \$190.0 million, \$151.3 million and \$161.5 million in 2015, 2014 and 2013, respectively. Operating cash flows in 2015 reflect an increase in net income and the timing of the settlement of loss payments. Operating cash flows in 2014 reflect a higher level of property and casualty loss payments.

Our cash flows from operations were sufficient to meet our liquidity needs for 2015, 2014 and 2013.

**Investing Activities**

Cash in excess of operating requirements is generally invested in fixed maturity securities and equity securities. Fixed maturity securities provide regular interest payments and allow us to match the duration of our liabilities. Equity securities provide dividend income, potential dividend income growth and potential appreciation. For further discussion of our investments, including our philosophy and portfolio, see the "Investment Portfolio" section contained in this Item.

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In addition to investment income, possible sales of investments and proceeds from calls or maturities of fixed maturity securities also can provide liquidity. During the next five years, \$0.9 billion, or 31.0 percent of our fixed maturity portfolio will mature.

We invest funds required for short-term cash needs primarily in money market accounts, which are classified as cash equivalents. At December 31, 2015, our cash and cash equivalents included \$20.8 million related to these money market accounts, compared to \$28.1 million at December 31, 2014.

Net cash flows used in investing activities totaled \$36.3 million, \$58.9 million and \$102.0 million in 2015, 2014 and 2013, respectively. In 2015, we had cash inflows from scheduled and unscheduled investment maturities, redemptions, prepayments, and sales of investments that totaled \$674.9 million compared to \$567.7 million and \$508.3 million for the same period in 2014 and 2013, respectively. The cash inflows over the last three years primarily relate to redemptions of fixed maturity securities that are reinvested at lower interest rates as interest rates have been declining during this period.

Our cash outflows for investment purchases totaled \$701.5 million in 2015, compared to \$618.4 million and \$601.8 million for the same period in 2014 and 2013, respectively.

**Financing Activities**

Net cash flows used in financing activities totaled \$137.8 million, \$94.0 million and \$74.8 million in 2015, 2014 and 2013, respectively. In 2015, 2014 and 2013 we had \$118.4 million, \$63.5 million and 58.6 million, respectively, of net annuity withdrawals.

**Dividends**

Dividends paid to shareholders totaled \$21.7 million, \$19.7 million and \$17.5 million in 2015, 2014 and 2013, respectively. Our practice has been to pay quarterly cash dividends, which we have paid every quarter since March 1968.

Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors out of legally available funds.

As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at December 31, 2015, our insurance company subsidiary, United Fire & Casualty, was able to make a maximum of \$53.1 million in dividend payments without prior regulatory approval. These restrictions are not expected to have a material impact in meeting our cash obligations.

**Share Repurchases**

Under our share repurchase program, first announced in August 2007, we may purchase our common stock from time to time on the open market or through privately negotiated transactions. The amount and timing of any purchases will be at our discretion and will depend upon a number of factors, including the share price, economic and general market conditions, and corporate and regulatory requirements. Our share repurchase program may be modified or discontinued at any time.



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During 2015, 2014 and 2013, pursuant to authorization by our Board of Directors, we repurchased 79,396; 461,835; and 59,603 shares of our common stock respectively, which used cash totaling \$2.4 million in 2015, \$12.9 million in 2014 and \$1.6 million in 2013. At December 31, 2015, we were authorized to purchase an additional 1,528,886 shares of our common stock under our share repurchase program, which expires in August 2016.

**Credit Facilities**

On February 2, 2016, the Company, as borrower, entered into a Credit Agreement (the "New Credit Agreement") by and among the Company, with the lenders from time to time party thereto and KeyBank National Association ("Key Bank"), as administrative agent, swingline lender and letter of credit issuer. The New Credit Agreement provides for a \$50 million four-year unsecured revolving credit facility that includes a \$20 million letter of credit subfacility and a swingline subfacility in the amount up to \$5 million. The New Credit Agreement allows the Company to increase the aggregate amount of the commitments thereunder by up to \$100 million, provided that no event of default has occurred and is continuing and certain other conditions are satisfied.

The New Credit Agreement is available for the Company's general corporate purposes, including liquidity, acquisitions and working capital. All unpaid principal and accrued interest under the New Credit Agreement is due and payable in full at maturity on February 2, 2020. Based on the type of loan, advances under the New Credit Agreement would bear interest on either the London interbank offered rate ("LIBOR") or a base rate plus, in each case, a calculated margin amount.

The unused commitments under the New Credit Agreement will be subject to a commitment fee that will be calculated at a per annum rate. The applicable margins for borrowings under the New Credit Agreement and the commitment fee thereunder will be determined by reference to a pricing grid based on the Company's issuer credit rating by A.M. Best Company, Inc.

The New Credit Agreement contains customary representations, conditions to borrowing, covenants and events of default, including certain covenants that limit or restrict, subject to certain exceptions, the ability of the Company and its subsidiaries to sell or transfer assets, enter into a merger or consolidate with another company, create liens, impose restrictions on subsidiary dividends, enter into sale-leaseback transactions, make investments or acquisitions, enter into certain reinsurance agreements, pay dividends during any period of default, enter into transactions with affiliates, change the nature of its business, or incur indebtedness. The New Credit Agreement also includes financial covenants that require the Company to (i) maintain a minimum consolidated net worth, (ii) maintain a minimum consolidated statutory surplus and (iii) not exceed a 0.35 to 1.0 debt to total capitalization ratio, measured on a quarterly basis. In December 2011, United Fire & Casualty Company entered into a credit agreement with a syndicate of financial institutions as lenders, which terminated by expiration on its stated termination date of December 22, 2015. KeyBank National Association was the administrative agent, lead arranger, sole book runner, swingline lender, and letter of credit issuer, and Bankers Trust Company was the syndication agent. The four-year credit agreement provided for a \$100,000 unsecured revolving credit facility that included a \$20,000 letter of credit subfacility and a swing line subfacility in the amount of up to \$5,000.

On June 4, 2013, United Fire & Casualty Company, United Fire Group, Inc. and the syndicated lenders entered into an Assignment, Joinder, Assumption, and Release Agreement (the "Joinder Agreement") transferring the obligations under the credit agreement from United Fire & Casualty Company to United Fire Group, Inc. Effective with the execution of the Joinder Agreement, United Fire & Casualty Company was released from any further obligations under the credit agreement.

During the term of this credit agreement, we had the right to increase the total credit facility from \$100,000 up to \$125,000 if no event of default has occurred and is continuing and certain other conditions are satisfied. The credit facility was available for general corporate purposes, including working capital, acquisitions and liquidity purposes. Any principal outstanding under the credit facility was due in full at maturity, on December 22, 2015. The interest rate was based on our monthly choice of either a base rate or the LIBOR plus, in each case, a calculated margin amount. A commitment fee on each lender's unused commitment under the credit facility was also payable quarterly.



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The credit agreement contained customary representations, covenants and events of default, including certain covenants that limit or restrict our ability to engage in certain activities. Subject to certain exceptions, those activities included restricting our ability to sell or transfer assets or enter into a merger or consolidate with another company, grant certain types of security interests, incur certain types of liens, impose restrictions on subsidiary dividends, enter into leaseback transactions, or incur certain indebtedness. The credit agreement contained certain financial covenants including covenants that required us to maintain a minimum consolidated net worth, a debt to capitalization ratio and minimum stockholders' equity. We were in compliance with all covenants of the credit agreement until it terminated by expiration on its stated termination date of December 22, 2015.

**Stockholders' Equity**

Stockholders' equity increased 7.5 percent to \$878.9 million at December 31, 2015, from \$817.4 million at December 31, 2014. The increase was primarily attributable to net income of \$89.1 million along with the change in valuation of our retirement benefit obligations of \$10.5 million, partially offset by a decrease in net unrealized investment gains of \$21.3 million, net of tax, stockholder dividends of \$21.7 million and share repurchases of \$2.4 million. As of December 31, 2015, the book value per share of our common stock was \$34.94, compared to \$32.67 at December 31, 2014.

**Risk-Based Capital**

The NAIC adopted risk-based capital requirements, which requires us to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These "risk-based capital" results are used by state insurance regulators to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2015, all of our insurance companies had capital well in excess of required levels.

**Contractual Obligations and Commitments**

The following table shows our contractual obligations and commitments, including our estimated payments due by period, at December 31, 2015:

(In Thousands)	Payments Due By Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Contractual Obligations					
Future policy benefit reserves <sup>(1)</sup>	\$2,041,132	\$196,244	\$402,717	\$324,343	\$1,117,828
Loss and loss settlement expense reserves	1,003,895	330,912	298,683	130,917	243,383
Operating leases	20,097	5,935	10,359	3,649	154
Profit-sharing commissions	21,230	21,230	—	—	—
Pension plan contributions	6,384	6,384	—	—	—
Total	\$3,092,738	\$560,705	\$711,759	\$458,909	\$1,361,365

This projection of our obligation for future policy benefits considers only actual future cash outflows. The future (1) policy benefit reserves presented on the Consolidated Balance Sheets is the net present value of the benefits to be paid, less the net present value of future net premiums.

**Future Policy Benefits**

The amounts presented for future payments to be made to policyholders and beneficiaries must be actuarially estimated and are not determinable from the contract. The projected payments are based on our current assumptions for mortality, morbidity and policy lapse, but are not discounted with respect to interest. Additionally, the projected payments are based on the assumption that the holders of our annuities and life insurance policies will withdraw their account balances upon the expiration of their contracts. Policies must remain in force for the policyholder or beneficiary to receive the benefit under the policy. Depending on the terms of a particular policy, future premiums from the policyholder may be required for the policy to remain in force. In contrast, the future policy benefit reserves for our life insurance segment presented on the Consolidated Balance Sheets are generally based on historical assumptions for mortality and policy lapse rates and are on a discounted basis. Accordingly, the amounts



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presented above for future policy benefit reserves significantly exceeds the amount of future policy benefit reserves reported on our Consolidated Balance Sheets at December 31, 2015.

### Loss and Loss Settlement Expense Reserves

The amounts presented are estimates of the dollar amounts and time periods in which we expect to pay out our gross loss and loss settlement expense reserves. Because the timing of future payments may vary from the stated contractual obligation, these amounts are estimates based upon historical payment patterns and may not represent actual future payments. Refer to "Critical Accounting Policies: Loss and Loss Settlement Expenses — Property and Casualty Insurance Segment" in this section for further discussion.

### Operating Leases

Our operating lease obligations are for the rental of office space, vehicles, computer equipment and office equipment. For further discussion of our operating leases, refer to Part II, Item 8, Note 13 "Lease Commitments."

### Profit-Sharing Commissions

We offer our agents a profit-sharing plan as an incentive for them to place high-quality property and casualty insurance business with us. Based on business produced by the agencies in 2015, property and casualty agencies will receive profit-sharing payments of \$21.2 million in 2016.

### Pension Plan Payments

We estimated the pension contribution for 2016 in accordance with the Pension Protection Act of 2006 (the "Act"). Contributions for future years are dependent on a number of factors, including actual performance versus assumptions made at the time of the actuarial valuations and maintaining certain funding levels relative to regulatory requirements. Contributions in 2016, and in future years, are expected to be at least equal to the IRS minimum required contribution in accordance with the Act.

### Funding Commitments

At December 31, 2015, pursuant to an agreement with our limited liability partnership investments, we are contractually committed to make capital contributions up to \$10.3 million upon request of the partnerships through December 31, 2023.

## CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are representative of significant judgments and uncertainties and that may potentially result in materially different results under different assumptions and conditions. We base our discussion and analysis of our results of operations and financial condition on the amounts reported in our Consolidated Financial Statements, which we have prepared in accordance with GAAP. As we prepare these Consolidated Financial Statements, we must make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the reporting period. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on other assumptions we believe to be reasonable under the circumstances. Actual results could differ from those estimates. We believe our most critical accounting policies are as follows.

### Investment Valuation

Upon acquisition, we classify investments in marketable securities as held-to-maturity, available-for-sale, or trading. We record investments in held-to-maturity fixed maturity securities at amortized cost. We record investments in available-for-sale and trading fixed maturity securities and equity securities at fair value. Other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method

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of accounting. We record mortgage loans at their unpaid principal balance and policy loans at the outstanding loan amount due from policyholders.

In general, investment securities are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility risk. Therefore, it is reasonably possible that changes in the fair value of our investment securities that are reported at fair value will occur in the near term and such changes could materially affect the amounts reported in the Consolidated Financial Statements. Also, it is reasonably possible that changes in the value of our investments in trading securities and limited liability partnerships could occur in the future and such changes could materially affect our results of operations as reported in our Consolidated Financial Statements.

Fair Value Measurement

Current accounting guidance on fair value measurements includes the application of a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Our financial instruments that are recorded at fair value are categorized into a three-level hierarchy, which is based upon the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (i.e., Level 1) and the lowest priority to unobservable inputs (i.e., Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the financial instrument. Financial instruments recorded at fair value are categorized in the fair value hierarchy as follows:

Level 1: Valuations are based on unadjusted quoted prices in active markets for identical financial instruments that we have the ability to access.

Level 2: Valuations are based on quoted prices for similar financial instruments, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.

Level 3: Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

We review our fair value hierarchy categorizations on a quarterly basis at which time the classification of certain financial instruments may change if the input observations have changed. Transfers between levels, if any, are recorded as of the beginning of the reporting period.

To determine the fair value of the majority of our investments, we utilize prices obtained from independent, nationally recognized pricing services. We obtain one price for each security. When the pricing services cannot provide a determination of fair value for a specific security, we obtain non-binding price quotes from broker-dealers with whom we have had several years experience and who have demonstrated knowledge of the subject security. We request and utilize one broker quote per security.

In order to determine the proper classification in the fair value hierarchy for each security where the price is obtained from an independent pricing service, we obtain and evaluate the vendors' pricing procedures and inputs used to price the security, which include unadjusted quoted market prices for identical securities, such as a New York Stock Exchange closing price, and quoted prices for identical securities in markets that are not active. For fixed maturity securities, an evaluation of interest rates and yield curves observable at commonly quoted intervals, volatility, prepayment speeds, credit risks and default rates may also be performed. We have determined that these processes and inputs result in fair values and classifications consistent with the applicable accounting guidance on fair value measurements.

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We estimate the fair value of our financial instruments based on relevant market information or by discounting estimated future cash flows at estimated current market discount rates appropriate to the specific asset or liability. When possible, we use quoted market prices to determine the fair value of fixed maturities, equity securities, trading securities and short-term investments. When quoted market prices do not exist, we base estimates of fair value on market information obtained from independent pricing services and brokers or on valuation techniques that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument. Our valuation techniques are discussed in more detail throughout this section. The fair value of securities that are categorized as Level 1 is based on quoted market prices that are readily and regularly available.

We use a market-based approach for valuing all of our Level 2 securities except for our mortgage-backed securities, collateralized mortgage obligations and asset-backed securities, and submit them primarily to a third-party valuation service provider. Any of these securities not valued by this service provider are submitted to another third-party valuation service provider. Both service providers use a market approach to find pricing of similar financial instruments. The market inputs our service providers normally seek to value our securities include the following, listed in approximate order of priority: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. The method and inputs for these securities classified as Level 2 are the same regardless of industry category, credit quality, duration, geographical concentration or economic characteristics. For our mortgage-backed securities, collateralized mortgage obligations and asset-backed securities, our service providers use additional market inputs to value these securities, including the following: new issue data, periodic payment information, monthly payment information, collateral performance and real estate analysis from third parties. Our service providers prioritize inputs based on market conditions, and not all inputs listed are available for use in the evaluation process for each security evaluation on any given day.

At least annually, we review the methodologies and assumptions used by our valuation service providers and verify that they are reasonable and representative of the fair value of the underlying securities held in the investment portfolio. We validate the prices obtained from independent pricing services and brokers prior to their use for reporting purposes by evaluating their reasonableness on a monthly basis. Our validation process includes a review for unusual fluctuations. In our opinion, the pricing obtained at December 31, 2015 was reasonable. Unusual fluctuations outside of our expectations are independently corroborated with an additional third party sources that use similar valuation techniques as discussed above. In addition, we also randomly select securities and independently corroborate the valuations obtained from our third party valuation service providers.

For the period ended December 31, 2015, the change in our available-for-sale securities categorized as Level 1 and Level 2 was the result of investment purchases that were made using funds held in our money market accounts and disposals. During the period ended December 31, 2015, there were no securities transferred between Level 1 and Level 2.

Securities categorized as Level 3 include holdings in certain private placement fixed maturity and equity securities for which an active market does not currently exist. The fair value of our Level 3 private placement securities is determined by management relying on pricing received from our independent pricing services and brokers consistent with the process to estimate fair value for Level 2 securities. However, securities are categorized as Level 3 if these quotes cannot be corroborated by other market observable data due to the unobservable nature of the brokers' valuation processes. If pricing cannot be obtained from these sources, which occurs on a limited basis, management will perform a discounted cash flow analysis, using an appropriate risk-adjusted discount rate, on the underlying security to estimate fair value.

For further discussion on fair value measurements and disclosures refer to Note 3 "Fair Value of Financial Instruments" contained in Part II, Item 8, "Financial Statements and Supplementary Data."





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## Other-Than-Temporary Impairment Charges ("OTTI")

We continually monitor the difference between our cost basis and the estimated fair value of our investments. Our accounting policy for impairment recognition requires 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 or based on the value calculated using a discounted cash flow model. 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 determination of the amount of impairments varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Additionally, our management considers a wide range of factors about the instrument issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the instrument and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential.

At December 31, 2015 and 2014, we had a number of securities with fair value less than the cost basis. The total unrealized loss on these securities was \$28.1 million at December 31, 2015, compared with \$13.9 million at December 31, 2014. At December 31, 2015, the largest pre-tax unrealized loss on an individual equity security was \$0.2 million. Our rationale for not recording OTTI charges on these securities is discussed in Part II, Item 8, Note 2 "Summary of Investments."

## Deferred Policy Acquisition Costs ("DAC") — Property and Casualty Insurance Segment

We record an asset for certain costs of underwriting new business, primarily commissions, premium taxes and variable underwriting and policy issue expenses that have been deferred. The amount of underwriting compensation expense eligible for deferral is based on time studies and a ratio of success in policy placement. At December 31, 2015 and 2014, our DAC asset was \$90.5 million and \$72.9 million, respectively.

The DAC asset is amortized over the life of the policies written, generally one year. We assess the recoverability of DAC on a quarterly basis by line of business. This assessment is performed by comparing recorded unearned premium to the sum of unamortized DAC and estimates of expected losses and loss settlement expenses. If the sum of these costs exceeds the amount of recorded unearned premium (i.e., the line of business is expected to generate an operating loss), the excess is recognized as an offset against the established DAC asset. We refer to this offset as a premium deficiency charge.

To calculate the premium deficiency charge by line of business, we estimate an expected loss and loss settlement expense ratio which is based on our best estimate of future losses for each line of business. Shock losses and large catastrophe losses not expected to continue in the future are excluded from this analysis. This calculation is performed on a quarterly basis and developed in conjunction with our quarterly reserving process. The expected loss and loss settlement expense ratios are the only assumptions we utilize in our premium deficiency calculation. Changes in these assumptions can have a significant impact on the amount of premium deficiency charge recognized for a line of business. 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 \$2,144 and an increase to the DAC asset of \$3,830 for the period ended December 31, 2015 as compared to what we would have recognized had we not updated our model.

The following table illustrates the hypothetical impact on the premium deficiency charge recorded for the quarter ended December 31, 2015, of reasonably likely changes in the assumed loss and loss settlement expense ratios



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utilized for purposes of this calculation. The entire impact of these changes would be recognized through income as other underwriting expenses. The following table illustrates the impact of potential changes in the expected loss and loss settlement expense ratios for all lines of business on the premium deficiency charge. The base amount indicated below is the actual premium deficiency charge recorded as an offset against the DAC asset established as of the quarter ended December 31, 2015:

## Sensitivity Analysis — Impact of Changes in Projected Loss and Loss Settlement Expense Ratios

(In Thousands)	-10%	-5%	Base	+5%	+10%
Premium deficiency charge estimated	\$—	\$—	\$—	\$1,287	\$8,854

Actual future results could differ materially from our assumptions used to calculate the recorded DAC asset. Changes in our assumed loss and loss settlement expense ratios in the future would impact the amount of deferred costs in the period such changes in assumptions are made. The premium deficiency charge calculated for the quarter ended December 31, 2015 was \$0.0 million compared to the premium deficiency charge of \$4.0 million calculated for the same period of 2014. The improvement in the premium deficiency charge for the quarter ended December 31, 2015 as compared to the same period of 2014 was due to a combination of an improvement in incurred losses and the previously mentioned enhancements to the DAC model.

## Deferred Policy Acquisition Costs — Life Insurance Segment

Costs that vary with and relate to the successful acquisition of life insurance and annuity business are deferred. Such costs consist principally of commissions, premium taxes, and related variable underwriting, agency and policy issue expenses. The amount of underwriting compensation expense eligible for deferral is based on time studies and a ratio of success in policy placement. At December 31, 2015 and 2014, our DAC asset was \$77.7 million and \$66.9 million, respectively.

We defer and amortize policy acquisition costs on traditional life insurance policies over the premium-paying period in proportion to the ratio of the expected annual premium revenue to the expected total premium revenue. Expected annual 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.

We defer policy acquisition costs related to non-traditional business and amortize these costs in proportion to the ratio of the expected annual gross profits to the expected total gross profits. The assumptions used to determine expected gross profits include claims, interest rate spread, mortality experience, and expense margins and policy lapse experience. Of these factors, we anticipate that assumptions for claims, investment returns, expenses and persistency are reasonably likely to have a significant impact on the rate of DAC amortization each year. 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.

We periodically review estimates of expected profitability and evaluate the need to "unlock" or revise the assumptions for the amortization of the DAC asset related to our non-traditional business. The primary assumptions utilized when estimating future profitability relate to interest rate spread, operating expenses, mortality and policy lapse experience. The table below illustrates the impact that a reasonably likely change in our assumptions used to estimate expected gross profits would have on the DAC asset for our non-traditional business recorded as of December 31, 2015. The entire impact of the changes illustrated would be recognized through income as an increase or decrease to amortization expense:

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## Sensitivity Analysis — Impact of changes in assumptions on DAC asset

(In Thousands)

Changes in assumptions	-10%	+10%	
Mortality experience	\$2,668	\$(2,807	)
Policy lapse experience	1,859	(1,735	)
Changes in assumptions	-1%	+1%	
Interest rate spread	\$(1,547	)	\$1,498

A material change in these assumptions could have a significant negative or positive effect on our reported DAC asset, earnings and stockholders' equity.

The DAC asset recorded in connection with our non-traditional business is also adjusted with respect to estimated expected gross profits as a result of changes in the net unrealized gains or losses on available-for-sale fixed maturity securities allocated to support the block of deferred annuities and universal life policies. That is, because we carry available-for-sale fixed maturity securities at fair value, we make an adjustment to the DAC asset equal to the change in amortization that would have been recorded if we had sold such securities at their stated fair value and reinvested the proceeds at current yields. We include this adjustment, which is called "shadow" DAC, net of tax, as a component of accumulated other comprehensive income. At December 31, 2015 and 2014, the "shadow" DAC adjustment decreased our DAC asset by \$2.0 million and \$13.4 million, respectively.

## Loss and Loss Settlement Expenses — Property and Casualty Insurance Segment

Reserves for losses and loss settlement expenses are reported using our best estimate of ultimate liability for claims that occurred prior to the end of any given reporting period, but have not yet been paid. Before credit for reinsurance recoverables, these reserves were \$1,003.9 million and \$969.4 million at December 31, 2015 and 2014, respectively.

We purchase reinsurance to mitigate the impact of large losses and catastrophic events. Loss and loss settlement expense reserves ceded to reinsurers were \$54.7 million for 2015 and \$63.8 million for 2014. Our reserves, before credit for reinsurance recoverables, by line of business as of December 31, 2015, were as follows:

(In Thousands)	Case Basis	IBNR	Loss Settlement Expense	Total Reserves
Commercial lines				
Fire and allied lines	\$55,001	\$9,629	\$18,211	\$82,841
Other liability	164,744	129,333	201,866	495,943
Automobile	108,120	32,611	35,575	176,306
Workers' compensation	154,513	9,300	29,048	192,861
Fidelity and surety	2,299	2,520	345	5,164
Miscellaneous	306	561	346	1,213
Total commercial lines	\$484,983	\$183,954	\$285,391	\$954,328
Personal lines				
Automobile	\$7,460	\$1,229	\$1,615	\$10,304
Fire and allied lines	10,285	3,680	3,643	17,608
Miscellaneous	1,330	207	646	2,183
Total personal lines	\$19,075	\$5,116	\$5,904	\$30,095
Reinsurance assumed	14,314	5,105	53	19,472
Total	\$518,372	\$194,175	\$291,348	\$1,003,895

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### Case-Basis Reserves

For each of our lines of business, with respect to reported claims, we establish reserves on a case-by-case basis. Our experienced claims personnel estimate these case-basis reserves using adjusting guidelines established by management. Our goal is to set the case-basis reserves at the ultimate expected loss amount as soon as possible after information about the claim becomes available.

Establishing the case reserve for an individual claim is subjective and complex, requiring us to estimate future payments and values that will be sufficient to settle an individual claim. Setting a reserve for an individual claim is an inherently uncertain process. When we establish and adjust individual claim reserves, we do so based on our knowledge of the circumstances and facts of the claim. Upon notice of a claim, we establish a preliminary (average claim cost) reserve based on the limited claim information initially reported. Subsequently, we conduct an investigation of each reported claim, which allows us to more fully understand the factors contributing to the loss and our potential exposure. This investigation may extend over a long period of time. As our claim investigation progresses, and as our claims personnel identify trends in claims activity, we may refine and adjust our estimates of case reserves. To evaluate and refine our overall reserving process, we track and monitor all claims until they are settled and paid in full, with all salvage and subrogation claims being resolved.

Most of our insurance policies are written on an occurrence basis that provides coverage if a loss occurs during the policy period, even if the insured reports the loss many years later. For example, some liability claims for construction defect coverage are reported 10 years or more after the policy period, and the workers' compensation coverage provided by our policies pays unlimited medical benefits for the duration of the claimant's injury up to the lifetime of the claimant. In addition, final settlement of certain claims can be delayed for years due to litigation or other reasons. Reserves for these claims require us to estimate future costs, including the effect of judicial actions, litigation trends and medical cost inflation, among others. Reserve development can occur over time as conditions and circumstances change many years after the policy was issued and/or the loss occurred.

Our loss reserves include amounts related to both short-tail and long-tail lines of business. "Tail" refers to the time period between the occurrence of a loss and the ultimate settlement of the claim. A short-tail insurance product is one where ultimate losses are known and settled comparatively quickly. Ultimate losses under a long-tail insurance product are sometimes not known and settled for many years. The longer the time span between the incidence of a loss and the settlement of the claim, the more the ultimate settlement amount can vary from the reserves initially established. Accordingly, long-tail insurance products can have significant implications on the reserving process.

Our short-tail lines of business include fire and allied lines, homeowners, commercial property, auto physical damage and inland marine. The amounts of the case-based reserves that we establish for claims in these lines depend upon various factors, such as individual claim facts (including type of coverage and severity of loss), our historical loss experience and trends in general economic conditions (including changes in replacement costs, medical costs and inflation).

For short-tail lines of business, the estimation of case-basis loss reserves is less complex than for long-tail lines because the claims relate to tangible property. Because of the relatively short time from claim occurrence to settlement, actual losses typically do not vary significantly from reserve estimates.

Our long-tail lines of business include workers' compensation and other liability. In addition, certain product lines such as personal and commercial auto, commercial multi-peril and surety include both long-tail coverages and short-tail coverages. For many long-tail liability claims, significant periods of time, ranging up to several years, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement of the claim. As a result, loss experience in the more recent accident years for the long-tail liability coverages has limited statistical credibility in our reserving process because a relatively small proportion of losses in these accident years are reported claims and an even smaller proportion are paid losses. In addition, long-tail liability claims are more susceptible to litigation and can be significantly affected by changing contract interpretations and the legal environment. Consequently, the estimation of loss reserves for long-tail coverages is more complex and subject to a higher degree of variability than for short-tail coverages.



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The amounts of the case-basis loss reserves that we establish for claims in long-tail lines of business depends upon various factors, including individual claim facts (including type of coverage, severity of loss and underlying policy limits), Company historical loss experience, changes in underwriting practice, legislative enactments, judicial decisions, legal developments in the awarding of damages, changes in political attitudes and trends in general economic conditions, including inflation. As with our short-tail lines of business, we review and make changes to long-tail case-based reserves based on our review of continually evolving facts as they become available to us during the claims settlement process. Our adjustments to case-based reserves are reported in the financial statements in the period that new information arises about the claim. Examples of facts that become known that could cause us to change our case-based reserves include, but are not limited to: evidence that loss severity is different than previously assessed; new claimants who have presented claims; and the assessment that no coverage exists.

### Incurred But Not Reported ("IBNR") Reserves

On a quarterly basis, the Company's internal actuary performs a detailed analysis of IBNR reserves. This analysis uses various loss projection methods (paid and reported loss development) to provide several estimates of ultimate loss (or loss adjustment expense ("LAE")) for each individual year and line of business. The loss projection methods include paid loss development; reported loss development; expected loss emergence based on paid losses; and expected loss emergence based on reported losses. The two methods utilized by our internal actuary to project loss expenses are paid expenses development and development of the ratio of paid expense versus paid loss. Results of the projection methods are compared and a point estimate of ultimate loss (or LAE) is established. The specific projection methods used to establish point estimates vary depending on what is deemed most appropriate for a particular line of business and year. Results of several methods are averaged together to provide a final point estimate. IBNR estimates are derived by subtracting reported loss from projected ultimate loss.

Senior management meets with our internal actuary and controller quarterly to review the adequacy of carried IBNR reserves based on results from this actuarial analysis and makes adjustments for changes in business and other factors not completely captured by the data within the actuarial analysis. There are two fundamental types or sources of IBNR reserves. We record IBNR for "normal" types of claims and also specific IBNR reserves related to unique circumstances or events. A major hurricane is an example of an event that might necessitate specific IBNR reserves because an analysis of existing historical data would not provide an appropriate estimate. This method of establishing our IBNR reserves has consistently resulted in aggregate reserve levels that management believes are reasonable in comparison to the reserve estimates indicated by the actuarial analysis.

For our short-tail lines of business, IBNR reserves constitute a small portion of the overall reserves. These claims are generally reported and settled shortly after the loss occurs. In our long-tail lines of business, IBNR reserves constitute a relatively higher proportion of total reserves, because, for many liability claims, significant periods of time may elapse between the initial occurrence of the loss, the reporting of the loss to us, and the ultimate settlement of the claim.

### Loss Settlement Expense Reserves

Loss settlement expense reserves include amounts ultimately allocable to individual claims, as well as amounts required for the general overhead of the claims handling operation that are not specifically allocable to individual claims. We do not establish loss settlement expense reserves on a claim-by-claim basis. Instead, on a quarterly basis, our internal actuary performs a detailed statistical analysis (using historical data) to estimate the required reserve for unpaid loss settlement expenses. On a monthly basis, the required reserve estimate is adjusted to reflect additional earned exposure and expense payments that have occurred subsequent to completion of the quarterly analysis. Generally, the loss settlement expense reserves for long-tail lines of business are a greater portion of the overall reserves, as there are often substantial legal fees and other costs associated with the complex liability claims that are associated with long-tail coverages. Because short-tail lines of business settle much more quickly and the costs are easier to determine, loss settlement expense reserves for such claims constitute a smaller portion of the total reserves.





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## Reinsurance Reserves

The estimation of assumed and ceded reinsurance loss and loss settlement expense reserves is subject to the same factors as the estimation of loss and loss settlement expense reserves. In addition to those factors, which give rise to inherent uncertainties in establishing loss and loss settlement expense reserves, there exists a delay in our receipt of reported claims for assumed business due to the procedure of having claims first reported through one or more intermediary insurers or reinsurers.

## Key Assumptions

Our internal and external actuaries and management use a number of key assumptions in establishing an estimate of loss and loss settlement expense reserves, including the following assumptions: future loss settlement expenses can be estimated based on the Company's historical ratios of loss settlement expenses paid to losses; the Company's case-basis reserves reflect the most up-to-date information available about the unique circumstances of each individual claim; no new judicial decisions or regulatory actions will increase our case-basis obligations; historical aggregate claim reporting and payment patterns will continue into the future consistent with the observable past; significant unique and unusual claim events have been identified and appropriate adjustments have been made; and, to the best of our knowledge, there are no new latent trends that would impact our case-basis reserves.

Our key assumptions are subject to change as actual claims occur and as we gain additional information about the variables that underlie our assumptions. Accordingly, management reviews and updates these assumptions periodically to ensure that the assumptions continue to be valid. If necessary, management makes changes not only in the estimates derived from the use of these assumptions, but also in the assumptions themselves. Due to the inherent uncertainty in the loss reserving process, management believes that there is a reasonable chance that modification to key assumptions could individually, or in aggregate, result in reserve levels that are either significantly above or below the actual amount for which the related claims will eventually settle.

As an example, if our loss and loss settlement expense reserves of \$1,003.9 million as of December 31, 2015, is 10.0 percent inadequate, we would experience a reduction in future pre-tax earnings of up to \$100.4 million. This reduction could be recorded in one year or multiple years, depending on when we identify the deficiency. The deficiency would also affect our financial position in that our equity would be reduced by an amount equivalent to the reduction in net income. Any deficiency that would be recognized in our loss and loss settlement expense reserves usually does not have a material effect on our liquidity because the claims have not been paid. Conversely, if our estimates of ultimate unpaid loss and loss settlement expense reserves prove to be redundant, our future earnings and financial position would be improved. We believe our reserving philosophy, coupled with what we believe to be aggressive and successful claims management and loss settlement practices, has resulted in year-to-year redundancies in reserves. We believe our approach produces recorded reserves that are reasonable as to their relative position within a range of reasonable reserves from year-to-year.

We are unable to reasonably quantify the impact of changes in our key assumptions utilized to establish individual case-basis reserves on our total reported reserves because the impact of these changes would be unique to each specific case-basis reserve established. However, based on historical experience, we believe that aggregate case-basis reserve volatility levels of 5.0 percent and 10.0 percent can be attributed to the ultimate development of our net case-basis reserves. The impact to pre-tax earnings would be a decrease if the reserves were to be adjusted upwards and an increase if the reserves were to be adjusted downwards. The table below details the impact of this development volatility on our reported net case-basis reserves at December 31, 2015:

(In Thousands)

Change in level of net case-basis reserve development	5%	10%
Impact on reported net case-basis reserves	\$23,825	\$47,651

Due to the formula-based nature of our IBNR and loss settlement expense reserve calculations, changes in the key assumptions utilized to generate these reserves can result in a quantifiable impact on our reported results. It is not

possible to isolate and measure the potential impact of just one of these factors, and future loss trends could be

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partially impacted by all factors concurrently. Nevertheless, it is meaningful to view the sensitivity of the reserves to potential changes in these variables. To demonstrate the sensitivity of reserves to changes in significant assumptions, the following example is presented. The amounts reflect the pre-tax impact on earnings from a hypothetical percentage change in the calculation of IBNR and loss settlement expense reserves at December 31, 2015. The impact to pre-tax earnings would be a decrease if the reserves were to be adjusted upwards and an increase if the reserves were to be adjusted downwards. We believe that the changes presented are reasonably likely based upon an analysis of our historical IBNR and loss settlement expense reserve experience.

(In Thousands)

Change in claim frequency and claim severity assumptions	5%	10%
Impact due to change in IBNR reserving assumptions	\$9,527	\$19,055

(In Thousands)

Change in LAE paid to losses paid ratio	1%	2%
Impact due to change in LAE reserving assumptions	\$2,822	\$5,644

In 2015, we did not change the key method through which we develop our assumptions on which we based our reserving calculations. In estimating our 2015 loss and loss settlement expense reserves, we did not anticipate future events or conditions that were inconsistent with past development patterns.

Certain of our lines of business are subject to the potential for greater loss and loss settlement expense development than others, which are discussed below:

#### Other Liability Reserves

Other liability is considered a long-tail line of business, as it can take a relatively long period of time to settle claims from prior accident years. This is partly due to the lag time between the date a loss or event occurs that triggers coverage and the date when the claim is actually reported. Defense costs are also a part of the insured expenses covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims. For the majority of our products, defense costs are outside of the policy limit, meaning that the amounts paid for defense costs are not subtracted from the available policy limit.

Factors that can cause reserve uncertainty in estimating reserves in this line include: reporting time lags; the number of parties involved in the underlying tort action; whether the "event" triggering coverage is confined to only one time period or is spread over multiple time periods; the potential dollars involved in the individual claim actions; whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written (i.e., coverage disputes); and the potential for mass claim actions.

Claims with longer reporting time lags may result in greater inherent risk. This is especially true for alleged claims with a latency feature, particularly where courts have ruled that coverage is spread over multiple policy years, hence involving multiple defendants (and their insurers and reinsurers) and multiple policies (thereby increasing the potential dollars involved and the underlying settlement complexity). Claims with long latencies also increase the potential time lag between writing a policy in a certain market and the recognition that such policy has potential mass tort and/or latent claim exposure.

Our reserve for other liability claims at December 31, 2015, was \$495.9 million and consisted of 5,553 claims, compared with \$474.4 million, consisting of 5,610 claims at December 31, 2014. Of the \$495.9 million total reserve for other liability claims, \$162.6 million is identified as defense costs and \$33.6 million is identified as general overhead required in the settlement of claims.

Included in the other liability line of business are gross reserves for construction defect losses and loss settlement expenses. Construction defect is a liability allegation relating to defective work performed in the construction of structures such as commercial buildings, apartments, condominiums, single family dwellings or other housing, as

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well as the sale of defective building materials. These claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. At December 31, 2015, we had \$28.8 million in construction defect loss and loss settlement expense reserves, excluding IBNR reserves that are calculated for the overall other liability commercial line, which consisted of 1,721 claims. At December 31, 2014, our reserves, excluding IBNR reserves, totaled \$33.6 million, which consisted of 1,597 claims. The reporting of such claims can be delayed, as the statute of limitations can be up to 10 years. Court decisions in recent years have expanded insurers' exposure to construction defect claims. As a result, claims may be reported more than 10 years after a project has been completed, as litigation can proceed for several years before an insurance company is identified as a potential contributor. Claims have also emerged from parties claiming additional insured status on policies issued to other parties, such as contractors seeking coverage from a subcontractor's policy.

In addition to these issues, other variables also contribute to a high degree of uncertainty in establishing reserves for construction defect claims. These variables include: whether coverage exists; when losses occur; the size of each loss; expectations for future interpretive rulings concerning contract provisions; and the extent to which the assertion of these claims will expand geographically. In recent years, we have implemented various underwriting measures that we anticipate will mitigate the amount of construction defect losses experienced. These initiatives include increased care regarding additional insured endorsements; stricter underwriting guidelines on the writing of residential contractors; and an increased utilization of loss control.

**Asbestos and Environmental Reserves**

Included in the other liability and assumed reinsurance lines of business are reserves for asbestos and other environmental losses and loss settlement expenses. At December 31, 2015 and 2014, we had \$4.8 million and \$5.0 million, respectively, in direct and assumed asbestos and environmental loss reserves. The estimation of loss reserves for environmental claims and claims related to long-term exposure to asbestos and other substances is one of the most difficult aspects of establishing reserves, especially given the inherent uncertainties surrounding such claims.

Although we record our best estimate of loss and loss settlement expense reserves, the ultimate amounts paid upon settlement of such claims may be more or less than the amount of the reserves, because of the significant uncertainties involved and the likelihood that these uncertainties will not be resolved for many years.

**Workers' Compensation Reserves**

Like the other liability line of business, workers' compensation losses and loss settlement expense reserves are based upon variables that create imprecision in estimating the ultimate reserve. Estimates for workers' compensation are particularly sensitive to assumptions about medical cost inflation, which has been steadily increasing over the past few years. Other variables that we consider and that contribute to the uncertainty in establishing reserves for workers' compensation claims include: state legislative and regulatory environments; trends in jury awards; and mortality rates. Because of these variables, the process of reserving for the ultimate loss and loss settlement expense to be incurred requires the use of informed judgment and is inherently uncertain. Consequently, actual loss and loss settlement expense reserves may deviate from our estimates. Such deviations may be significant. Our reserve for workers' compensation claims at December 31, 2015 was \$192.9 million and consisted of 2,211 claims, compared with \$196.1 million, consisting of 2,551 claims, at December 31, 2014.

**Reserve Development**

The following reserve development section should be read in conjunction with the "Consolidated Results of Operations" section of this Item 7.

In 2015, 2014 and 2013, we recognized a favorable development in our net reserves for prior accident years totaling \$40.4 million, \$56.7 million and \$57.5 million, respectively.

The factors contributing to our year-to-year redundancy include: establishing reserves at their ultimate expected loss amount as soon as practicable after information becomes available, which produces, on average, prudently conservative case reserves; using claims negotiation to control the size of settlements; assuming that we have liability for all claims, even though the issue of liability may, in some cases, be resolved in our favor; promoting



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claims management services to encourage return-to-work programs; case management by nurses for serious injuries and management of medical provider services and billings; and using programs and services to help prevent fraud and to assist in favorably resolving cases.

Based upon our comparison of carried reserves to actual claims experience over the last several years, we believe that using our Company's historical premium and claims data to establish reserves for losses and loss settlement expenses results in adequate and reasonable reserves. Reserve development is discussed in more detail under the heading "Reserve Development" in the "Property and Casualty Insurance Segment" of the "Consolidated Results of Operations" section in this Item.

The following table details the pre-tax impact on our property and casualty insurance segment's financial results and financial condition of reasonably likely reserve development. Our lines of business that have historically been most susceptible to significant volatility in reserve development have been shown separately and utilize hypothetical levels of volatility of 5.0 percent and 10.0 percent. Our other, less volatile, lines of business have been aggregated and utilize hypothetical levels of volatility of 3.0 percent and 5.0 percent.

(In Thousands)

Hypothetical Reserve Development Volatility Levels	-10%	-5%	+5%	+10%
Impact on loss and loss settlement expenses				
Other liability	\$(49,594 )	\$(24,797 )	\$24,797	\$49,594
Workers' compensation	(19,286 )	(9,643 )	9,643	19,286
Automobile	(18,661 )	(9,331 )	9,331	18,661
Hypothetical Reserve Development Volatility Levels	-5%	-3%	+3%	+5%
Impact on loss and loss settlement expenses				
All other lines	\$(6,424 )	\$(3,854 )	\$3,584	\$6,424

Independent Actuary

We engage an independent actuarial firm to render an opinion as to the reasonableness of the statutory reserves internal management establishes. During 2015 and 2014, we engaged the services of Regnier Consulting Group, Inc. ("Regnier") as our independent actuarial firm for the property and casualty insurance segment. We anticipate that this engagement will continue in 2016.

It is management's policy to utilize staff adjusters to develop our estimate of case-basis loss reserves. IBNR and loss settlement expense reserves are established through various formulae that utilize pertinent, recent Company historical data. The calculations are supplemented with knowledge of current trends and events that could result in adjustments to the level of IBNR and loss settlement expense reserves. On a quarterly basis, we compare our estimate of total reserves to the estimates prepared by Regnier by line of business to ensure that our estimates are within the actuary's acceptable range. Regnier performs a review of loss and loss settlement expense reserves at each year end using generally accepted actuarial guidelines to ensure that the recorded reserves appear reasonable. Our net reserves for losses and loss settlement expenses as of December 31, 2015 and 2014 were \$949.2 million and \$905.7 million, respectively. In 2015 and 2014, after considering the independent actuary's range of reasonable estimates, management believes that carried reserves were reasonable and therefore did not adjust the recorded amount.

Regnier uses four projection methods in its actuarial analysis of our loss reserves and uses two projection methods in its actuarial analysis of our loss settlement expense reserves. Based on the results of the projection methods, the actuaries select an actuarial point estimate of the reserves, which is compared to our carried reserves to evaluate the reasonableness of the carried reserves. The four methods utilized by Regnier to project losses are: paid loss development; reported loss development; expected loss emergence based on paid losses; and expected loss emergence based on reported losses. The two methods utilized by Regnier to project loss expenses are: paid expenses-to-paid loss and paid expense-to-ultimate loss.



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## Future Policy Benefits and Losses, Claims and Loss Settlement Expenses — Life Insurance Segment

We establish reserves for amounts that are payable under traditional insurance policies, including traditional life products, disability income and income annuities. Reserves are calculated as the present value of future benefits expected to be paid, reduced by the present value of future expected premiums. Our estimates use methods and underlying assumptions that are in accordance with GAAP and applicable actuarial standards. The key assumptions that we utilize in establishing reserves are mortality, morbidity, policy lapse, renewal, retirement, investment returns, inflation and expenses. Future investment return assumptions are determined based upon prevailing investment yields as well as estimated reinvestment yields. Mortality, morbidity and policy lapse assumptions are based on our experience. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium-paying period. These assumptions are established at the time the policy is issued, are consistent with the assumptions for determining DAC amortization for these contracts, and are generally not changed during the policy coverage period. However, if actual experience emerges in a manner that is significantly adverse relative to the original assumptions, adjustments to reserves (or DAC) may be required resulting in a charge to earnings which could have a material adverse effect on our operating results and financial condition.

For limited pay traditional life products, we periodically determine if any profit occurs at the issuance of a contract that should be deferred over the life of that contract. To the extent that this occurs, we establish an unearned revenue liability at issuance that is amortized over the anticipated life of the contract.

We periodically review the adequacy of these reserves and recoverability of DAC for these contracts on an aggregate basis using actual experience. In the event that actual experience is significantly adverse compared to the original assumptions, any remaining unamortized DAC asset must be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. The effects of changes in reserve estimates are reported in the results of operations in the period in which the changes are determined. We have made no changes in our methods in the past three years, other than minor changes in assumptions for new issues in each of the past three years, mostly relating to anticipated mortality rates and investment yields. We anticipate that changes in mortality, investment and reinvestment yields, and policy termination assumptions are the factors that would most likely require an adjustment to these reserves or related DAC asset.

Liabilities for future policy benefits for disability claims are estimated using the present value of benefits method and experience assumptions as to claim terminations, expenses and interest.

Other reserves include claims that have been reported but not settled and IBNR reserves for claims on life and disability income insurance. We use our own historical experience and other assumptions such as any known or anticipated developments or trends to establish reserves for these unsettled or unreported claims. The effects of changes in our estimated reserves are included in our results of operations in the period in which the changes occur. Our reserves for universal life and deferred annuity contracts are based upon the policyholders' current account value. Acquisition expenses are amortized in relation to expected gross profits forecasted based upon current best estimates of anticipated premium income, investment earnings, benefits and expenses. Annually, we review our estimates of reserves and the related DAC asset and compare them with actual experience. Differences between actual experience and the assumptions that we used in the pricing of these policies, guarantees and riders, and in the establishment of the related reserves will result in variances in profit for the underlying contract. The effects of the changes in such estimated reserves are included in our results of operations in the period in which the changes occur.

The following table reflects the estimated pre-tax impact to DAC, net of unearned revenue liabilities to our universal life and fixed annuity products that could occur in a twelve-month period because of an unlocking adjustment due to reasonably likely changes in significant assumptions. Changes in assumptions of the same magnitude in the opposite direction would have an impact of a similar magnitude but opposite direction of the examples provided.



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Assumption	Determination Methodology	Potential One-Time Effect on DAC Asset, Net of Unearned Revenue Liabilities
Mortality Experience	Based on our mortality experience with consideration given to industry experience and trends	A 10.0% increase in expected mortality experience for all future years would result in a reduction in DAC and an increase in current period amortization expense of \$2.8 million.
Surrender Rates	Based on our policy surrender experience with consideration given to industry experience and trends	A 10.0% increase in expected surrender rates for all future years would result in a reduction in DAC and an increase in current period amortization expense of \$1.9 million.
Interest Spreads	Based on our expected future investment returns and expected future crediting rates applied to policyholder account balances; future crediting rates include constraints imposed by policy guarantees	A 10-basis-point reduction in future interest rate spreads would result in a reduction in DAC and an increase in current period amortization expense of \$1.5 million.
Maintenance Expenses	Based on our experience using an internal expense allocation methodology	A 10.0% increase in future maintenance expenses would result in a reduction in DAC and an increase in current period amortization expense of \$0.6 million.

## Independent Actuary

We engage an independent actuarial firm to assist us in establishing our future policy benefit reserves for statutory and GAAP reporting and our DAC asset and related amortization for GAAP reporting and to render an opinion as to the reasonableness of the statutory reserves we establish. Statutory reserves are established using prescribed assumptions which are considerably more conservative assumptions regarding future investment earnings and contractual benefit payments than are used for GAAP reserves. During 2015 and 2014, we engaged the services of Griffith, Ballard and Company as our independent actuarial firm for the life insurance segment. We anticipate that this engagement will continue in 2016.

## Pension and Postretirement Benefit Obligations

The process of estimating our pension and postretirement benefit obligations and related benefit expense is inherently uncertain, and the actual cost of benefits may vary materially from the estimates recorded. These liabilities are particularly volatile due to their long-term nature and are based on several assumptions. The main assumptions used in the valuation of our benefit obligations are: estimated mortality of the employees and retirees eligible for benefits; estimated expected long-term rates of returns on investments; estimated compensation increases; estimated employee turnover; estimated medical trend rate; and estimated rate used to discount the ultimate estimated liability to a present value. We engage a consulting actuary from Principal Financial Group, an independent firm, to assist in evaluating and establishing assumptions used in the valuation of our benefit obligations.

A change in any one or more of these assumptions is likely to result in an ultimate liability different from the original actuarial estimate. Such changes in estimates may be material. For example, a 100 basis point decrease in our estimated discount rate would increase the pension and postretirement benefit obligation at December 31, 2015, by \$28.0 million and \$14.9 million, respectively, while a 100 basis point increase in the rate would decrease the benefit obligation at December 31, 2015, by \$22.1 million and \$11.6 million, respectively.

In addition, for the postretirement benefit plan, a 100 basis point decrease in the medical trend rate would decrease the postretirement benefit obligation at December 31, 2015, by \$11.3 million, while a 100 basis point increase in the medical trend rate would increase the benefit obligation at December 31, 2015, by \$14.2 million.

A 100 basis point decrease in our estimated long-term rate of return on pension plan assets would increase the benefit expense for the year ended December 31, 2015, by \$1.1 million, while a 100 basis point increase in the rate would decrease benefit expense by \$1.1 million, for the same period.



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For the postretirement benefit plan, an increase in our estimated medical trend rate would increase the benefit expense for the year ended December 31, 2015, by \$1.6 million, while a 100 basis point decrease in the rate would decrease benefit expense by \$1.2 million, for the same period.

### 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.

#### Pending Adoption of Accounting Standards

#### Income Taxes

In December 2015, the FASB issued guidance on the balance sheet classification of deferred taxes. The new guidance eliminates the requirement to split deferred tax liabilities and assets between current and non-current in a classified balance sheet. The new guidance allows deferred tax liabilities and assets to be included in non-current accounts. The Company will adopt the new guidance on January 1, 2017 and is currently evaluating the impact on the Company's financial position and results of operations.

#### 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 include the new annual disclosures beginning with the December 31, 2016 annual financial statements. The adoption of the new guidance will change disclosures regarding short duration contracts, but 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.

#### 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. Management currently does not expect the adoption of the new guidance to have an



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impact on the Company's financial position or 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. 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.

### 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, 2016 and interim periods within annual periods beginning after December 15, 2016. 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 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. Management currently does not expect the adoption of the new guidance to have a material impact on the Company's financial position or 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 portions, of the guidance, if any, applies to the Company.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item 7A is incorporated by reference from Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings "Investments" and "Market Risk."

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

United Fire Group, Inc.  
Consolidated Balance Sheets

(In Thousands, Except Share Data)	December 31, 2015	2014
Assets		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value \$675 in 2015 and \$404 in 2014)	\$ 672	\$ 397
Available-for-sale, at fair value (amortized cost \$2,793,069 in 2015 and \$2,773,566 in 2014)	2,824,961	2,843,079
Trading securities, at fair value (amortized cost \$11,475 in 2015 and \$14,363 in 2014)	12,622	16,862
Equity securities		
Available-for-sale, at fair value (cost \$68,514 in 2015 and \$71,651 in 2014)	236,247	245,843
Trading securities, at fair value (cost \$4,443 in 2015 and \$3,708 in 2014)	4,353	4,066
Mortgage loans	3,961	4,199
Policy loans	5,618	5,916
Other long-term investments	54,151	50,424
Short-term investments	175	175
	3,142,760	3,170,961
Cash and cash equivalents	106,449	90,574
Accrued investment income	25,136	25,989
Premiums receivable (net of allowance for doubtful accounts of \$867 in 2015 and \$618 in 2014)	276,517	249,030
Deferred policy acquisition costs	168,264	139,719
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$46,590 in 2015 and \$41,492 in 2014)	53,241	49,247
Reinsurance receivables and recoverables	73,527	86,810
Prepaid reinsurance premiums	3,790	3,632
Goodwill and net intangible assets	25,509	26,278
Other assets	15,183	14,449
Total assets	\$3,890,376	\$3,856,689
Liabilities and stockholders' equity		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	\$ 1,003,895	\$ 969,437
Life insurance	1,372,358	1,447,764
Unearned premiums	415,057	378,725
Accrued expenses and other liabilities	200,599	212,577
Income taxes payable	4,917	5,012
Deferred income taxes	14,653	25,759
Total liabilities	\$3,011,479	\$3,039,274
Stockholders' equity		
Common stock, \$0.001 par value; authorized 75,000,000 shares; 25,151,428 and 25,019,415 shares issued and outstanding in 2015 and 2014, respectively	\$ 25	\$ 25
Additional paid-in capital	207,426	202,676
Retained earnings	591,009	523,541



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Accumulated other comprehensive income, net of tax	80,437	91,173
Total stockholders' equity	\$878,897	\$817,415
Total liabilities and stockholders' equity	\$3,890,376	\$3,856,689

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

Table of ContentsUnited Fire Group, Inc.  
Consolidated Statements of Income and Comprehensive Income

(In Thousands, Except Share Data)	For the Years Ended December 31,		
	2015	2014	2013
Revenues			
Net premiums earned	\$930,890	\$828,330	\$754,846
Investment income, net of investment expenses	100,781	104,609	112,799
Net realized investment gains (losses)			
Other-than-temporary impairment charges	(1,300 )	—	(139 )
All other net realized gains (includes reclassifications for net unrealized gains on available-for-sale securities of \$4,513 in 2015; \$5,085 in 2014; and \$6,812 in 2013 previously included in accumulated other comprehensive income)	4,146	7,270	8,834
Total net realized investment gains	2,846	7,270	8,695
Other income	401	1,685	702
Total revenues	\$1,034,918	\$941,894	\$877,042
Benefits, losses and expenses			
Losses and loss settlement expenses	\$549,088	\$536,243	\$458,814
Increase in liability for future policy benefits	50,945	36,623	37,625
Amortization of deferred policy acquisition costs	186,817	167,449	153,677
Other underwriting expenses (includes reclassifications for employee benefit costs of \$7,468 in 2015; \$3,072 in 2014; and \$5,868 in 2013 previously included in accumulated other comprehensive income)	102,937	94,871	89,861
Interest on policyholders' accounts	23,680	30,245	35,163
Total benefits, losses and expenses	\$913,467	\$865,431	\$775,140
Income before income taxes	\$121,451	\$76,463	\$101,902
Federal income tax expense (includes reclassifications of \$1,034 in 2015; (\$704) in 2014; and (\$331) in 2013 previously included in accumulated other comprehensive income)	32,325	17,326	25,762
Net income	\$89,126	\$59,137	\$76,140
Other comprehensive income (loss)			
Change in net unrealized appreciation on investments	\$(28,185 )	\$55,888	\$(35,489 )
Change in liability for underfunded employee benefit plans	8,714	(47,685 )	24,066
Other comprehensive income (loss), before tax and reclassification adjustments	(19,471 )	8,203	(11,423 )
Income tax effect	6,814	(2,871 )	3,998
Other comprehensive income (loss), after tax, before reclassification adjustments	(12,657 )	5,332	(7,425 )
Reclassification adjustment for net realized gains included in income	(4,513 )	(5,085 )	(6,812 )
Reclassification adjustment for employee benefit costs included in expense	7,468	3,072	5,868
Total reclassification adjustments, before tax	2,955	(2,013 )	(944 )
Income tax effect	(1,034 )	704	331
Total reclassification adjustments, after tax	1,921	(1,309 )	(613 )

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Comprehensive income	\$78,390	\$63,160	\$68,102
Weighted average common shares outstanding	25,047,405	25,230,854	25,325,695
Basic earnings per common share	\$3.56	\$2.34	\$3.01
Diluted earnings per common share	3.53	2.32	2.98

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

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

(In Thousands, Except Share Data)	For the Years Ended December 31,		
	2015	2014	2013
<b>Common stock</b>			
Balance, beginning of year	\$25	\$25	\$25
Shares repurchased (79,396 in 2015; 461,835 in 2014; and 59,603 in 2013)	—	—	—
Shares issued for stock-based awards (202,882 in 2015; 108,679 in 2014; and 193,033 in 2013)	—	—	—
Balance, end of year	\$25	\$25	\$25
<b>Additional paid-in capital</b>			
Balance, beginning of year	\$202,676	\$211,574	\$208,536
Compensation expense and related tax benefit for stock-based award grants	1,677	1,784	1,289
Shares repurchased	(2,423	)(12,942	)(1,644
Shares issued for stock-based awards	5,496	2,260	3,393
Balance, end of year	\$207,426	\$202,676	\$211,574
<b>Retained earnings</b>			
Balance, beginning of year	\$523,541	\$484,084	\$425,428
Net income	89,126	59,137	76,140
Dividends on common stock (\$0.86 per share in 2015; \$0.78 per share in 2014; \$0.69 per share in 2013)	(21,658	)(19,680	)(17,484
Balance, end of year	\$591,009	\$523,541	\$484,084
<b>Accumulated other comprehensive income, net of tax</b>			
Balance, beginning of year	\$91,173	\$87,150	\$95,188
Change in net unrealized investment appreciation <sup>(1)</sup>	(21,254	)33,022	(27,495
Change in liability for underfunded employee benefit plans <sup>(2)</sup>	10,518	(28,999	)19,457
Balance, end of year	\$80,437	\$91,173	\$87,150
<b>Summary of changes</b>			
Balance, beginning of year	\$817,415	\$782,833	\$729,177
Net income	89,126	59,137	76,140
All other changes in stockholders' equity accounts	(27,644	)(24,555	)(22,484
Balance, end of year	\$878,897	\$817,415	\$782,833

(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 income taxes.

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

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United Fire Group, Inc.

Consolidated Statements of Cash Flows

(In Thousands)	For the Years Ended December 31,		
	2015	2014	2013
Cash Flows From Operating Activities			
Net income	\$89,126	\$59,137	\$76,140
Adjustments to reconcile net income to net cash provided by operating activities			
Net accretion of bond premium	13,745	14,434	15,291
Depreciation and amortization	6,473	6,891	5,603
Stock-based compensation expense	2,510	1,944	1,777
Net realized investment gains	(2,846 )	(7,270 )	(8,695 )
Net cash flows from trading investments	3,080	(6,855 )	3,852
Deferred income tax expense (benefit)	(4,496 )	1,926	(368 )
Changes in:			
Accrued investment income	853	1,934	2,452
Premiums receivable	(27,487 )	(30,395 )	(30,346 )
Deferred policy acquisition costs	(17,165 )	(6,417 )	(2,690 )
Reinsurance receivables	13,283	641	26,948
Prepaid reinsurance premiums	(158 )	(472 )	(197 )
Income taxes receivable	—	1,786	14,750
Other assets	(734 )	581	(1,417 )
Future policy benefits and losses, claims and loss settlement expenses	77,471	47,928	21,251
Unearned premiums	36,332	38,261	28,814
Accrued expenses and other liabilities	4,095	25,287	8,499
Income taxes payable	(95 )	5,012	—
Deferred income taxes	(829 )	(249 )	6,983
Other, net	(3,160 )	(2,813 )	(7,156 )
Total adjustments	\$100,872	\$92,154	\$85,351
Net cash provided by operating activities	\$189,998	\$151,291	\$161,491
Cash Flows From Investing Activities			
Proceeds from sale of available-for-sale investments	\$11,543	\$3,091	\$23,007
Proceeds from call and maturity of held-to-maturity investments	175	260	1,004
Proceeds from call and maturity of available-for-sale investments	658,728	561,434	477,071
Proceeds from short-term and other investments	4,421	2,883	7,170
Purchase of held-to-maturity investments	(450 )	—	—
Purchase of available-for-sale investments	(695,351 )	(614,044 )	(587,412 )
Purchase of short-term and other investments	(5,656 )	(4,351 )	(14,375 )
Net purchases and sales of property and equipment	(9,696 )	(8,151 )	(8,451 )
Net cash used in investing activities	\$(36,286 )	\$(58,878 )	\$(101,986 )
Cash Flows From Financing Activities			
Policyholders' account balances			
Deposits to investment and universal life contracts	\$99,486	\$180,487	\$150,272
Withdrawals from investment and universal life contracts	(217,905 )	(243,997 )	(208,827 )
Payment of cash dividends	(21,658 )	(19,680 )	(17,484 )
Repurchase of common stock	(2,423 )	(12,942 )	(1,644 )
Issuance of common stock	5,496	2,260	3,393
Tax impact from issuance of common stock	(833 )	(160 )	(488 )

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Net cash used in financing activities	\$(137,837 )	\$(94,032 )	\$(74,778 )
Net Change in Cash and Cash Equivalents	\$15,875	\$(1,619 )	\$(15,273 )
Cash and Cash Equivalents at Beginning of Year	90,574	92,193	107,466
Cash and Cash Equivalents at End of Year	\$106,449	\$90,574	\$92,193

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

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UNITED FIRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, unless otherwise noted)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United Fire Group, Inc. ("UFG", "United Fire", 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, plus the District of Columbia, and as a life insurer in 37 states.

Principles of Consolidation

The accompanying Consolidated Financial Statements include United Fire and its wholly owned subsidiaries: United Fire & Casualty Company, United Real Estate Holdings Company, LLC, United Life Insurance Company ("United Life"), Addison Insurance Company, Lafayette Insurance Company, United Fire & Indemnity Company, United Fire Lloyds, UFG Specialty Insurance Company (formerly known as Texas General Indemnity Company), Financial Pacific Insurance Company, Franklin Insurance Company, Mercer Insurance Company, and Mercer Insurance Company of New Jersey, Inc.

United Fire Lloyds, an affiliate of United Fire & Indemnity Company, is organized as a Texas Lloyds plan, which is an aggregation of underwriters who, under a common name, engage in the business of insurance through a corporate attorney-in-fact. United Fire Lloyds is financially and operationally controlled by United Fire & Indemnity Company, its corporate attorney-in-fact, pursuant to three types of agreements: trust agreements between United Fire & Indemnity Company and certain individuals who agree to serve as trustees; articles of agreement among the trustees who agree to act as underwriters to establish how the Lloyds plan will be operated; and powers of attorney from each of the underwriters appointing a corporate attorney-in-fact, who is authorized to operate the Lloyds plan. Because United Fire & Indemnity Company can name the trustees, the Lloyds plan is perpetual, subject only to United Fire & Indemnity Company's desire to terminate it.

United Fire & Indemnity Company provides all of the statutory capital necessary for the formation of the Lloyds plan by contributing capital to each of the trustees. The trust agreements require the trustees to become underwriters of the Lloyds plan, to contribute the capital to the Lloyds plan, to sign the articles of agreement and to appoint the attorney-in-fact. The trust agreements also require the trustees to pay to United Fire & Indemnity Company all of the profits and benefits received by the trustees as underwriters of the Lloyds plan, which means that United Fire & Indemnity Company has the right to receive 100 percent of the gains and profits from the Lloyds plan. The trustees serve at the pleasure of United Fire & Indemnity Company, which may remove a trustee and replace that trustee at any time. Termination of a trustee must be accompanied by the resignation of the trustee as an underwriter, so that the trustee can obtain the capital contribution from the Lloyds plan to reimburse United Fire & Indemnity Company. By retaining the ability to terminate trustees, United Fire & Indemnity Company possesses the ability to name and remove the underwriters.

United Real Estate Holdings, LLC, formed in 2013, is a wholly owned subsidiary of United Fire & Casualty Company and is organized as an Iowa limited liability corporation, an unincorporated association formed for the purpose of holding United Fire & Casualty Company's ownership in commercial real estate.

In 2015, the Company dissolved three of its holding companies in order to flatten our organizational chart. The companies dissolved were American Indemnity Financial Corporation, Mercer Insurance Group, Inc. and Financial Pacific Insurance Group, Inc. In addition, Texas General Indemnity Company was renamed UFG Specialty Insurance Company on July 1, 2015.



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Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared on the basis of U.S. generally accepted accounting principles ("GAAP"), which differ in some respects from those followed in preparing our statutory reports to insurance regulatory authorities. Our stand-alone financial statements submitted to insurance regulatory authorities are presented on the basis of accounting practices prescribed or permitted by the insurance departments of the states in which we are domiciled ("statutory accounting principles").

Use of Estimates

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 (for net realizable value); future policy benefits and losses, claims and loss settlement expenses; and pension and postretirement benefit obligations.

Property and Casualty Insurance Business

Premiums written are deferred and recorded as earned premium on a daily pro rata basis over the terms of the respective policies. Unearned premium reserves are established for the portion of premiums written applicable to the unexpired term of insurance policies in force. Premiums receivable are presented net of an estimated allowance for doubtful accounts, which is based on a periodic evaluation of the aging and collectability of amounts due from agents and policyholders.

To establish loss and loss settlement expense reserves, we make estimates and assumptions about the future development of claims. Actual results could differ materially from those estimates, which are subjective, complex and inherently uncertain. When we establish and adjust reserves, we do so given our knowledge at the time of the circumstances and facts of known claims. To the extent that we have overestimated or underestimated our loss and loss settlement expense reserves, we adjust the reserves in the period in which such adjustment is determined.

We record our best estimate of reserves for claim litigation that arises in the ordinary course of business. We consider all of our pending litigation as of December 31, 2015 to be ordinary, routine and incidental to our business.

Life Insurance Business

Our whole life and term insurance (i.e., traditional business) premiums are reported as earned when due and benefits and expenses are associated with premium income in order to result in the recognition of profits over the lives of the related contracts. Premiums receivable are presented net of an estimated allowance for doubtful accounts. Income annuities with life contingencies (single premium immediate annuities and supplementary contracts) have premium recorded and any related expense charge fees recorded as income and expense when the contract is issued. On universal life and deferred annuity policies (i.e., non-traditional business), income and expenses are reported when charged and credited to policyholder account balances in order to result in recognition of profits over the lives of the related contracts. We accomplish this by means of a provision for future policy benefits and the deferral and subsequent amortization of policy acquisition costs.

Liabilities for future policy benefits for traditional products are computed by the net level premium method, using interest assumptions ranging from 4.2 percent to 6.0 percent and withdrawal, mortality and morbidity assumptions appropriate at the time the policies were issued. Liabilities for non-traditional business are stated at policyholder account values before surrender charges. Liabilities for traditional immediate annuities are based primarily upon future anticipated cash flows using assumptions for mortality and interest rates. Liabilities for deferred annuities are carried at the account value.

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Reinsurance

Premiums earned and losses and loss settlement expenses incurred are reported net of reinsurance ceded. Ceded insurance business is accounted for on a basis consistent with the original policies issued and the terms of the reinsurance contracts. Refer to Note 4 "Reinsurance" for a discussion of our reinsurance activities.

Investments

Investments in fixed maturities include bonds and redeemable preferred stocks. Our investments in held-to-maturity fixed maturities are recorded at amortized cost. Our investments in available-for-sale fixed maturities and trading securities are recorded at fair value.

Investments in equity securities, which include common and non-redeemable preferred stocks, are classified as available-for-sale or trading and are recorded at fair value.

Changes in unrealized appreciation and depreciation, with respect to available-for-sale fixed maturities and equity securities, are reported as a component of accumulated other comprehensive income, net of applicable deferred income taxes, in stockholders' equity. Changes in unrealized appreciation and depreciation, with respect to trading securities, are reported as a component of income.

Other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting. Mortgage loans are recorded at their unpaid principal balance. Policy loans are recorded at the outstanding loan amount due from policyholders. Included in investments at December 31, 2015 and 2014, are securities on deposit with, or available to, various regulatory authorities as required by law, with fair values of \$1,515,193 and \$1,643,369, respectively.

In 2015 we recorded a pre-tax realized loss of \$1,300 as a result of the recognition of other-than-temporary impairment ("OTTI") charges on a certain holding in our investment portfolio. The OTTI charge does not have a noncredit related loss component. In 2014 we did not record any OTTI charges in our investment portfolio. In 2013, we recorded a pre-tax realized loss of \$139 as a result of the recognition of OTTI charges on certain holdings in our investment portfolio. None of the OTTI charges were considered to have a noncredit related loss component. We review all of our investment holdings for appropriate valuation on an ongoing basis. Refer to Note 2 "Summary of Investments" for a discussion of our accounting policy for impairment recognition.

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.

In 2015, 2014, and 2013, we made payments for income taxes of \$39,497, \$9,626 and \$13,628, respectively. In addition, we received federal tax refunds of \$919, \$615 and \$8,744 in 2015, 2014 and 2013, respectively, that resulted from the utilization of our 2011 net operating losses and net capital losses in the carryback period. We made no interest payments in 2015, 2014 and 2013. These payments exclude 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 that are reported in the accompanying Consolidated Financial Statements.

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Property & Casualty Insurance	2015	2014	2013
Recorded asset at beginning of year	\$72,861	\$67,663	\$64,947
Underwriting costs deferred	197,869	166,508	149,891
Amortization of deferred policy acquisition costs	(180,183 )	(161,310 )	(147,175 )
Recorded asset at end of year	\$90,547	\$72,861	\$67,663
 Life Insurance			
Recorded asset at beginning of year	\$66,858	\$82,429	\$40,353
Underwriting costs deferred	6,113	7,357	6,476
Amortization of deferred policy acquisition costs	(6,634 )	(6,139 )	(6,502 )
	\$66,337	\$83,647	\$40,327
Change in "shadow" deferred policy acquisition costs	11,380	(16,789 )	42,102
Recorded asset at end of year	\$77,717	\$66,858	\$82,429
 Total			
Recorded asset at beginning of year	\$139,719	\$150,092	\$105,300
Underwriting costs deferred	203,982	173,865	156,367
Amortization of deferred policy acquisition costs	(186,817 )	(167,449 )	(153,677 )
	\$156,884	\$156,508	\$107,990
Change in "shadow" deferred policy acquisition costs	11,380	(16,789 )	42,102
Recorded asset at end of year	\$168,264	\$139,719	\$150,092

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 \$2,144 and an increase to the DAC asset of \$3,830 for the period ended December 31, 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, or "shadow" DAC, to net unrealized investment appreciation as of the balance sheet date. The "shadow" DAC adjustment decreased the DAC asset by \$2,003 and decreased the DAC asset by \$13,383 at December 31, 2015 and 2014, respectively.



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## Property, Equipment and Depreciation

Property and equipment is presented at cost less accumulated depreciation. The following table is a summary of the components of the property and equipment that are reported in the accompanying Consolidated Financial Statements.

	2015	2014
Real Estate:		
Land	\$7,999	\$7,414
Buildings	37,451	32,004
Furniture and fixtures	3,954	3,308
Computer equipment and software	2,452	3,289
Airplane	1,385	3,232
Total property and equipment	\$53,241	\$49,247

Expenditures for maintenance and repairs on property and equipment are generally expensed as incurred. We periodically review these assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the underlying asset may not be recoverable. A loss would be recognized if the estimated fair value of the asset were less than its carrying value.

Depreciation is computed primarily by the straight-line method over the following estimated useful lives:

	Useful Life
Computer equipment and software	Three years
Furniture and fixtures	Seven years
Leasehold improvements	Shorter of the lease term or useful life of the asset
Real estate	Seven to thirty-nine years
Airplane	Five years

Depreciation expense totaled \$5,704, \$6,122 and \$4,391 for 2015, 2014 and 2013, respectively.

## Goodwill and Other Intangible Assets

Goodwill and other intangible assets arise as a result of business combinations and consist of the excess of the fair value of consideration paid over the tangible assets acquired and liabilities assumed. All of our goodwill and the majority of our intangible assets relate to the Mercer acquisition in 2011. We evaluate goodwill and other intangible assets for impairment at least on an annual basis or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount of goodwill and other intangible assets may exceed its implied fair value. Goodwill is evaluated at the reporting unit level. Any impairment is charged to operations in the period that the impairment is identified. In 2015 we performed a quantitative assessment of our goodwill and in 2014 and 2013, we performed a qualitative assessment of our goodwill. As a result of these assessments, we did not recognize an impairment charge on our goodwill in 2015, 2014 or 2013.

Our other intangible assets, which consist primarily of agency relationships, trade names, licenses, and software, are being amortized by the straight-line method over periods ranging from 2 years to 15 years, with the exception of licenses, which are indefinite-lived and not amortized. We performed a qualitative assessment of our definite lived intangible assets and a quantitative assessment of our indefinite lived intangible assets. As a result of this assessment, we did not recognize an impairment charge on our intangible assets in 2015, 2014 and 2013. Amortization expense, which is allocated to the property and casualty insurance segment, totaled \$769, \$769 and \$1,212 for 2015, 2014 and 2013, respectively.

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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 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.

The Company performs a quarterly review of its tax positions and makes a determination whether it is more likely than not that the tax position will be sustained upon examination. If based on this review, it appears not more likely than not that the position will be sustained, the Company will calculate any unrecognized tax benefits and calculate any interest and penalties. At December 31, 2015, 2014, and 2013 the Company did not recognize any liability for unrecognized tax benefits. 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.

Stock-Based Compensation

We currently have two equity compensation plans. One plan allows us to grant restricted and unrestricted stock, stock appreciation rights, incentive stock options, and non-qualified stock options to employees. The other plan allows us to grant restricted and non-qualified stock options to non-employee directors.

We utilize the Black-Scholes option pricing method to establish the fair value of non-qualified stock options granted under our equity compensation plans. Our determination of the fair value of stock options on the date of grant using this option-pricing model is affected by our stock price, as well as assumptions regarding a number of complex and subjective variables, which include the expected volatility in our stock price, the expected term of the award, the expected dividends to be paid over the term of the award and the expected risk-free interest rate. Any changes in these assumptions may materially affect the estimated fair value of the award. For our restricted and unrestricted stock awards, we utilize the fair value of our common stock on the date of grant to establish the fair value of the award. Refer to Note 9 "Stock-Based Compensation" for further discussion.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period except those resulting from investments by and dividends to stockholders.

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.

On February 2, 2016, the Company, as borrower, entered into a Credit Agreement by and among the Company, with the lenders from time to time party thereto and KeyBank National Association, as administrative agent, swingline lender and letter of credit issuer. A more detailed discussion regarding this Credit Agreement is contained in Part II, Item 8, Note 14 "Credit Facility."

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### 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.

#### Pending Adoption of Accounting Standards

##### Income Taxes

In December 2015, the FASB issued guidance on the balance sheet classification of deferred taxes. The new guidance eliminates the requirement to split deferred tax liabilities and assets between current and non-current in a classified balance sheet. The new guidance allows deferred tax liabilities and assets to be included in non-current accounts. The Company will adopt the new guidance on January 1, 2017 and is currently evaluating the impact on the Company's financial position and results of operations.

##### 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 include the new annual disclosures beginning with the December 31, 2016 annual financial statements. The adoption of the new guidance will change disclosures regarding short duration contracts, but 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.

##### 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. 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.





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### 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. Management does not currently 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, 2016 and interim periods within annual periods beginning after December 15, 2016. 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 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. Management currently does not expect the adoption of the new guidance to have a material impact on the Company's financial position or 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 portions of the guidance, if any, applies to the Company.



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## NOTE 2. SUMMARY OF INVESTMENTS

## Fair Value of Investments

The table that follows is 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 available-for-sale equity securities as of December 31, 2015 and 2014.

December 31, 2015

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
<b>HELD-TO-MATURITY</b>				
Fixed maturities				
Bonds				
Corporate bonds				
Technology, Media & Telecommunications	\$450	\$1	\$—	\$451
Financial services	150	—	—	150
Mortgage-backed securities	72	2	—	74
Total Held-to-Maturity Fixed Maturities	\$672	\$3	\$—	\$675
<b>AVAILABLE-FOR-SALE</b>				
Fixed maturities				
Bonds				
U.S. Treasury	\$21,587	\$100	\$38	\$21,649
U.S. government agency States, municipalities and political subdivisions	232,808	2,622	2,400	233,030
General obligations:				
Midwest	160,484	4,990	18	165,456
Northeast	56,449	1,996	—	58,445
South	125,565	3,358	134	128,789
West	103,721	3,160	67	106,814
Special revenue:				
Midwest	152,780	4,956	30	157,706
Northeast	23,892	919	212	24,599
South	144,183	4,281	27	148,437
West	78,935	3,150	44	82,041
Foreign bonds	82,580	2,405	2,457	82,528
Public utilities	213,233	3,701	1,251	215,683
Corporate bonds				
Energy	116,800	1,032	4,713	113,119
Industrials	227,589	3,329	6,663	224,255
Consumer goods and services	172,529	2,844	776	174,597
Health care	92,132	2,168	791	93,509
Technology, media and telecommunications	142,431	1,972	2,003	142,400
Financial services	259,382	5,246	1,143	263,485

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Mortgage-backed securities	16,413	376	51	16,738
Collateralized mortgage obligations	364,115	6,168	4,268	366,015
Asset-backed securities	5,461	221	16	5,666
Total Available-For-Sale Fixed Maturities	\$2,793,069	\$58,994	\$27,102	\$2,824,961
Equity securities				
Common stocks				
Public utilities	\$7,231	\$12,022	\$193	\$19,060
Energy	6,103	5,374	266	11,211
Industrials	13,251	31,872	313	44,810
Consumer goods and services	10,301	13,017	3	23,315
Health care	7,763	20,454	—	28,217
Technology, media and telecommunications	5,931	7,538	105	13,364
Financial services	17,392	78,411	109	95,694
Nonredeemable preferred stocks	542	34	—	576
Total Available-for-Sale Equity Securities	\$68,514	\$168,722	\$989	\$236,247
Total Available-for-Sale Securities	\$2,861,583	\$227,716	\$28,091	\$3,061,208

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December 31, 2014

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
<b>HELD-TO-MATURITY</b>				
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
<b>AVAILABLE-FOR-SALE</b>				
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
Equity securities				
Common stocks				



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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 December 31, 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.

December 31, 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	\$—	\$—	\$105,186	\$105,910	\$1,526	\$2,001
Due after one year through five years	600	601	819,617	840,292	7,596	7,676
Due after five years through 10 years	—	—	989,897	989,295	130	404
Due after 10 years	—	—	492,380	501,045	2,223	2,541
Asset-backed securities	—	—	5,461	5,666	—	—
Mortgage-backed securities	72	74	16,413	16,738	—	—
Collateralized mortgage obligations	—	—	364,115	366,015	—	—
	\$672	\$675	\$2,793,069	\$2,824,961	\$11,475	\$12,622

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## Net Realized Investment Gains and Losses

Net realized gains (losses) on disposition of investments are computed using the specific identification method and are included in the computation of net income. A summary of net realized investment gains (losses) for 2015, 2014 and 2013, is as follows:

	2015	2014	2013
Net realized investment gains (losses)			
Fixed maturities:			
Held-to-maturity	\$—	\$—	\$1
Available-for-sale	3,294	3,353	3,211
Trading securities			
Change in fair value	(1,353	) 609	1,183
Sales	1,381	1,339	788
Equity securities:			
Available-for-sale	2,521	1,732	3,739
Trading securities			
Change in fair value	(448	) 238	(126
Sales	66	(1	) 38
Other long-term investments	(1,315	) —	—
Other-than-temporary-impairment charges:			
Fixed maturities	(1,300	) —	(139
Total net realized investment gains	\$2,846	\$7,270	\$8,695

The proceeds and gross realized gains (losses) on the sale of available-for-sale securities for 2015, 2014 and 2013, were as follows:

	2015	2014	2013
Proceeds from sales	\$11,543	\$3,091	\$23,007
Gross realized gains	1,134	900	451
Gross realized losses	—	(56	) —

There were no sales of held-to-maturity securities in 2015, 2014 and 2013.

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 and losses. Our portfolio of trading securities had a fair value of \$16,975 and \$20,928 at December 31, 2015 and 2014, respectively.



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## Net Investment Income

Net investment income for the years ended December 31, 2015, 2014 and 2013, is comprised of the following:

Years Ended December 31,	2015	2014	2013
Investment income			
Interest on fixed maturities	\$92,777	\$97,969	\$101,950
Dividends on equity securities	7,208	6,602	5,806
Income on other long-term investments			
Investment income	2,567	1,927	1,194
Change in value <sup>(1)</sup>	3,266	1,917	7,030
Interest on mortgage loans	237	252	266
Interest on short-term investments	6	5	6
Interest on cash and cash equivalents	305	255	239
Other	1,452	1,998	1,632
Total investment income	\$107,818	\$110,925	\$118,123
Less investment expenses	7,037	6,316	5,324
Net investment income	\$100,781	\$104,609	\$112,799

(1) Represents the change in value of our interests in limited liability partnerships that are recorded on the equity method of accounting.

## Funding Commitment

At December 31, 2015, pursuant to an agreement with our limited liability partnership investments, we are contractually committed to make capital contributions up to \$10,307 upon request of the partnerships through December 31, 2023.

## Unrealized Appreciation and Depreciation

A summary of changes in net unrealized investment appreciation for 2015, 2014 and 2013, is as follows:

	2015	2014	2013
Change in net unrealized investment appreciation			
Available-for-sale fixed maturities	\$(37,621 )	\$51,814	\$(132,579 )
Available-for-sale equity securities	(6,459 )	15,781	48,176
Deferred policy acquisition costs	11,380	(16,789 )	42,102
Income tax effect	11,446	(17,784 )	14,806
Total change in net unrealized investment appreciation, net of tax	\$(21,254 )	\$33,022	\$(27,495 )

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 or based on the value calculated using a discounted cash flow model. Credit-related impairments on fixed maturity securities that we do not plan to sell, and for which we are not more likely than not to be required to sell, are recognized in net income. Any non-credit related impairment is recognized as a component of other comprehensive income. 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 December 31, 2015 and 2014. The securities are presented by the length of time they have been

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continuously in an unrealized loss position. It is possible that we could recognize OTTI charges in future periods on securities held at December 31, 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 which resulted in the recognition of a \$1,300 credit loss OTTI on an energy sector fixed maturity security in our Consolidated Statements of Income and Comprehensive Income for the year ended December 31, 2015. There were no OTTI losses on fixed maturity securities recognized in 2014. In 2013, we recognized an OTTI credit loss of \$139 in our Consolidated Statements of Income and Comprehensive Income. All fixed maturity securities in the investment portfolio continue to pay the expected coupon payments under the contractual terms of the securities. 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 intention 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 unless otherwise noted, these losses do not warrant the recognition of an OTTI charge at December 31, 2015. There were no OTTI losses on equity securities recognized in 2015, 2014 or 2013. Our largest unrealized loss greater than 12 months on an individual equity security at December 31, 2015, 2014 and 2013 was \$225, \$54 and \$58, respectively. 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.

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December 31, 2015	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
<b>AVAILABLE-FOR-SALE</b>								
Fixed maturities								
Bonds								
U.S. Treasury	6	\$6,408	\$ 26	2	\$1,634	\$ 12	\$8,042	\$ 38
U.S. government agency States, municipalities and political subdivisions	38	104,621	1,771	6	18,821	629	123,442	2,400
General obligations								
Midwest	4	2,417	12	1	528	6	2,945	18
South	3	4,805	55	8	3,743	79	8,548	134
West	4	8,927	23	2	2,274	44	11,201	67
Special revenue								
Midwest	—	—	—	1	2,494	30	2,494	30
Northeast	1	4,755	212	—	—	—	4,755	212
South	4	7,445	26	2	1,851	1	9,296	27
West	4	6,851	44	—	—	—	6,851	44
Foreign bonds	9	16,991	1,289	2	4,036	1,168	21,027	2,457
Public utilities	35	72,680	880	5	2,840	371	75,520	1,251
Corporate bonds								
Energy	29	61,496	3,286	4	7,991	1,427	69,487	4,713
Industrials	38	78,588	3,631	3	6,649	3,032	85,237	6,663
Consumer goods and services	24	64,661	770	4	2,491	6	67,152	776
Health care	18	43,992	652	2	3,737	139	47,729	791
Technology, media and telecommunications	22	59,503	1,478	2	8,940	525	68,443	2,003
Financial services	49	92,814	1,143	—	—	—	92,814	1,143
Mortgage-backed securities	9	7,423	43	4	183	8	7,606	51
Collateralized mortgage obligations	52	97,912	1,605	31	71,876	2,663	169,788	4,268
Asset-backed securities	1	985	16	—	—	—	985	16
<b>Total Available-for-Sale Fixed Maturities</b>	<b>350</b>	<b>\$743,274</b>	<b>\$ 16,962</b>	<b>79</b>	<b>\$140,088</b>	<b>\$ 10,140</b>	<b>\$883,362</b>	<b>\$ 27,102</b>
Equity securities								
Common stocks								
Public utilities	—	\$—	\$—	3	\$115	\$ 193	\$115	\$ 193
Energy	10	2,868	266	—	—	—	2,868	266
Industrials	3	177	44	5	193	269	370	313
Consumer goods and services	—	—	—	2	14	3	14	3
Technology, media and telecommunications	9	438	91	2	12	14	450	105
Financial services	6	326	51	1	136	58	462	109
	28	\$3,809	\$ 452	13	\$470	\$ 537	\$4,279	\$ 989

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

378	\$747,083	\$ 17,414	92	\$140,558	\$ 10,677	\$887,641	\$ 28,091
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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
<b>AVAILABLE-FOR-SALE</b>								
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
<b>Total Available-for-Sale Fixed Maturities</b>	<b>105</b>	<b>\$220,309</b>	<b>\$ 2,209</b>	<b>185</b>	<b>\$334,960</b>	<b>\$ 11,160</b>	<b>\$555,269</b>	<b>\$ 13,369</b>
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

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Total Available-for-Sale Equity Securities	12	\$ 1,361	\$ 451	10	\$ 991	\$ 108	\$ 2,352	\$ 559
Total Available-for-Sale Securities	117	\$ 221,670	\$ 2,660	195	\$ 335,951	\$ 11,268	\$ 557,621	\$ 13,928

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## NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Current accounting guidance on fair value measurements includes the application of a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Our financial instruments that are recorded at fair value are categorized into a three-level hierarchy, which is based upon the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (i.e., Level 1) and the lowest priority to unobservable inputs (i.e., Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the financial instrument. Financial instruments recorded at fair value are categorized in the fair value hierarchy as follows:

Level 1: Valuations are based on unadjusted quoted prices in active markets for identical financial instruments that we have the ability to access.

Level 2: Valuations are based on quoted prices for similar financial instruments, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.

Level 3: Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

We review our fair value hierarchy categorizations on a quarterly basis at which time the classification of certain financial instruments may change if the input observations have changed. Transfers between levels, if any, are recorded as of the beginning of the reporting period.

To determine the fair value of the majority of our investments, we utilize prices obtained from independent, nationally recognized pricing services. We obtain one price for each security. When the pricing services cannot provide a determination of fair value for a specific security, we obtain non-binding price quotes from broker-dealers with whom we have had several years experience and who have demonstrated knowledge of the subject security. We request and utilize one broker quote per security.

In order to determine the proper classification in the fair value hierarchy for each security where the price is obtained from an independent pricing service, we obtain and evaluate the vendors' pricing procedures and inputs used to price the security, which include unadjusted quoted market prices for identical securities, such as a New York Stock Exchange closing price, and quoted prices for identical securities in markets that are not active. For fixed maturity securities, an evaluation of interest rates and yield curves observable at commonly quoted intervals, volatility, prepayment speeds, credit risks and default rates may also be performed. We have determined that these processes and inputs result in fair values and classifications consistent with the applicable accounting guidance on fair value measurements.

We estimate the fair value of our financial instruments based on relevant market information or by discounting estimated future cash flows at estimated current market discount rates appropriate to the specific asset or liability. When possible, we use quoted market prices to determine the fair value of fixed maturities, equity securities, trading securities and short-term investments. When quoted market prices do not exist, we base estimates of fair value on market information obtained from independent pricing services and brokers or on valuation techniques that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument. Our valuation techniques are discussed in more detail throughout this section.

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The fair value of our mortgage loans is determined by modeling performed by us based on the stated principal and coupon payments provided for in the loan agreements. These cash flows are then discounted using an appropriate risk-adjusted discount rate to determine the security's fair value, which is a Level 3 fair value measurement.

The fair value of our policy loans is equivalent to carrying value, which is a reasonable estimate of fair value and is classified as Level 2. We do not make policy loans for amounts in excess of the cash surrender value of the related policy. In all instances, the policy loans are fully collateralized by the related liability for future policy benefits for traditional insurance policies or by the policyholders' account balance for non-traditional policies.

Our other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting. The fair value of the partnerships is obtained from the fund managers, which is based on the fair value of the underlying investments held in the partnerships. In management's opinion, these values represent a reasonable estimate of fair value. We have not adjusted the net asset value provided by the fund managers. For cash and cash equivalents and accrued investment income, carrying value is a reasonable estimate of fair value due to the short-term nature of these financial instruments.

Policy reserves are developed and recorded for deferred annuities, which is an interest-sensitive product, and income annuities. The fair value of the reserve liability for these annuity products is based upon an estimate of the discounted pretax cash flows that are forecast for the underlying business, which is a Level 3 fair value measurement. We base the discount rate on the current U.S. Treasury spot yield curve, which is then risk-adjusted for nonperformance risk and, for interest-sensitive business, market risk factors. The risk-adjusted discount rate is developed using interest rates that are available in the market and representative of the risks applicable to the underlying business.

A summary of the carrying value and estimated fair value of our financial instruments at December 31, 2015 and 2014 is as follows:

	December 31, 2015		December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets				
Investments				
Fixed maturities:				
Held-to-maturity securities	\$675	\$672	\$404	\$397
Available-for-sale securities	2,824,961	2,824,961	2,843,079	2,843,079
Trading securities	12,622	12,622	16,862	16,862
Equity securities:				
Available-for-sale securities	236,247	236,247	245,843	245,843
Trading securities	4,353	4,353	4,066	4,066
Mortgage loans	4,237	3,961	4,559	4,199
Policy loans	5,618	5,618	5,916	5,916
Other long-term investments	54,151	54,151	50,424	50,424
Short-term investments	175	175	175	175
Cash and cash equivalents	106,449	106,449	90,574	90,574
Corporate-owned life insurance	1,716	1,716	918	918
Liabilities				
Policy reserves				
Annuity (accumulations) <sup>(1)</sup>	\$707,190	\$744,931	\$865,802	\$863,606
Annuity (benefit payments)	131,899	95,467	176,592	99,121

(1) Annuity accumulations represent deferred annuity contracts that are currently earning interest.





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The following tables present the categorization for our financial instruments measured at fair value on a recurring basis in our Consolidated Balance Sheets at December 31, 2015 and 2014:

Description	December 31, 2015	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>AVAILABLE-FOR-SALE</b>				
Fixed maturities				
Bonds				
U.S. Treasury	\$21,649	\$—	\$21,649	\$—
U.S. government agency States, municipalities and political subdivisions	233,030	—	233,030	—
General obligations				
Midwest	165,456	—	165,456	—
Northeast	58,445	—	58,445	—
South	128,789	—	128,789	—
West	106,814	—	106,814	—
Special revenue				
Midwest	157,706	—	157,363	343
Northeast	24,599	—	24,599	—
South	148,437	—	148,437	—
West	82,041	—	82,041	—
Foreign bonds	82,528	—	82,528	—
Public utilities	215,683	—	215,683	—
Corporate bonds				
Energy	113,119	—	113,119	—
Industrials	224,255	—	224,255	—
Consumer goods and services	174,597	—	173,364	1,233
Health care	93,509	—	93,509	—
Technology, media and telecommunications	142,400	—	142,400	—
Financial services	263,485	—	253,823	9,662
Mortgage-backed securities	16,738	—	16,738	—
Collateralized mortgage obligations	366,015	—	366,015	—
Asset-backed securities	5,666	—	4,630	1,036
Total Available-For-Sale Fixed Maturities	\$2,824,961	\$—	\$2,812,687	\$12,274
Equity securities				
Common stocks				
Public utilities	\$19,060	\$19,060	\$—	\$—
Energy	11,211	11,211	—	—
Industrials	44,810	44,810	—	—
Consumer goods and services	23,315	23,315	—	—
Health care	28,217	28,217	—	—
Technology, media and telecommunications	13,364	13,364	—	—
Financial services	95,694	91,588	128	3,978
Nonredeemable preferred stocks	576	576	—	—
Total Available-for-Sale Equity Securities	\$236,247	\$232,141	\$128	\$3,978

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Total Available-for-Sale Securities	\$3,061,208	\$232,141	\$2,812,815	\$16,252
TRADING				
Fixed maturities				
Bonds				
Corporate bonds				
Industrials	\$3,558	\$—	\$3,558	\$—
Consumer goods and services	118	—	118	—
Health care	2,032	—	2,032	—
Technology, media and telecommunications	335	—	335	—
Financial services	4,094	—	4,094	—
Redeemable preferred stocks	2,485	2,485	—	—
Equity securities				
Energy	267	267	—	—
Industrials	986	986	—	—
Consumer goods and services	942	942	—	—
Health care	304	304	—	—
Financial Services	229	229	—	—
Nonredeemable preferred stocks	1,625	1,625	—	—
Total Trading Securities	\$16,975	\$6,838	\$10,137	\$—
Short-Term Investments	\$175	\$175	\$—	\$—
Money Market Accounts	\$20,805	\$20,805	\$—	\$—
Corporate-Owned Life Insurance	\$1,716	\$—	\$1,716	\$—
Total Assets Measured at Fair Value	\$3,100,879	\$259,959	\$2,824,668	\$16,252

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Description	December 31, 2014	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>AVAILABLE-FOR-SALE</b>				
Fixed maturities				
Bonds				
U.S. Treasury	\$25,972	\$—	\$25,972	\$—
U.S. government agency States, municipalities and political subdivisions	351,672	—	351,672	—
General obligations				
Midwest	185,920	—	185,920	—
Northeast	61,154	—	61,154	—
South	126,220	—	126,220	—
West	78,433	—	78,433	—
Special revenue				
Midwest	131,402	—	130,883	519
Northeast	12,631	—	12,631	—
South	111,222	—	111,222	—
West	71,303	—	71,303	—
Foreign bonds	140,173	—	140,173	—
Public utilities	212,357	—	212,357	—
Corporate bonds				
Energy	137,133	—	137,133	—
Industrials	215,475	—	215,475	—
Consumer goods and services	177,001	—	175,682	1,319
Health care	89,035	—	89,035	—
Technology, media and telecommunications	134,529	—	134,529	—
Financial services	223,582	—	212,589	10,993
Mortgage-backed securities	17,558	—	17,558	—
Collateralized mortgage obligations	337,289	—	337,289	—
Asset-backed securities	3,018	—	1,406	1,612
Total Available-For-Sale Fixed Maturities	\$2,843,079	\$—	\$2,828,636	\$14,443
Equity securities				
Common stocks				
Public utilities	\$20,290	\$20,290	\$—	\$—
Energy	13,717	13,717	—	—
Industrials	45,459	45,458	1	—
Consumer goods and services	23,314	23,314	—	—
Health care	30,356	30,356	—	—
Technology, media and telecommunications	13,995	13,995	—	—
Financial services	93,663	89,719	72	3,872
Nonredeemable preferred stocks	5,049	558	4,491	—
Total Available-for-Sale Equity Securities	\$245,843	\$237,407	\$4,564	\$3,872
Total Available-for-Sale Securities	\$3,088,922	\$237,407	\$2,833,200	\$18,315

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## TRADING

## Fixed maturities

## Bonds

## Corporate bonds

Industrials	\$3,352	\$—	\$3,352	\$—
Health care	2,425	—	2,425	—
Technology, media and telecommunications	338	—	338	—
Financial services	5,997	—	5,997	—
Redeemable preferred stocks	4,750	4,750	—	—
Equity securities				
Energy	411	411	—	—
Consumer goods and services	1,034	1,034	—	—
Health care	327	327	—	—
Technology, media and telecommunications	411	411	—	—
Nonredeemable preferred stocks	1,883	1,883	—	—
Total Trading Securities	\$20,928	\$8,816	\$12,112	\$—
Short-Term Investments	\$175	\$175	\$—	\$—
Money Market Accounts	\$28,095	\$28,095	\$—	\$—
Corporate-Owned Life Insurance	\$918	\$—	\$918	\$—
Total Assets Measured at Fair Value	\$3,139,038	\$274,493	\$2,846,230	\$18,315

The fair value of securities that are categorized as Level 1 is based on quoted market prices that are readily and regularly available.

We use a market-based approach for valuing all of our Level 2 securities except for our mortgage-backed securities, collateralized mortgage obligations and asset-backed securities, and submit them primarily to a third-party valuation service provider. Any of these securities not valued by this service provider are submitted to another third-party valuation service provider. Both service providers use a market approach to find pricing of similar financial instruments. The market inputs our service providers normally seek to value our securities include the following, listed in approximate order of priority: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. The method and inputs for these securities classified as Level 2 are the same regardless of industry category, credit quality, duration, geographical concentration or economic characteristics. For our mortgage-backed securities, collateralized mortgage obligations and asset-backed securities, our service providers use additional market inputs to value these securities, including the following: new issue data, periodic payment information, monthly payment information, collateral performance and real estate analysis from third parties. Our service providers prioritize inputs based on market conditions, and not all inputs listed are available for use in the valuation process for each security on any given day.

At least annually, we review the methodologies and assumptions used by our valuation service providers and verify that they are reasonable and representative of the fair value of the underlying securities held in the investment portfolio. We validate the prices obtained from independent pricing services and brokers prior to their use for reporting purposes by evaluating their reasonableness on a monthly basis. Our validation process includes a review for unusual fluctuations. In our opinion, the pricing obtained at December 31, 2015 and 2014 was reasonable. Unusual fluctuations outside of our expectations are independently corroborated with additional third-party sources that use similar valuation techniques as discussed above. In addition, we also randomly select securities and independently corroborate the valuations obtained from our third-party valuation service providers.



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For the year ended December 31, 2015, the change in our available-for-sale securities categorized as Level 1 and Level 2 was the result of investment purchases that were made using funds held in our money market accounts, disposals and the change in unrealized gains on both fixed maturities and equity securities. During the twelve month period ended December 31, 2015, there were no securities transferred between Level 1 and Level 2. Securities categorized as Level 3 include holdings in certain private placement fixed maturity and equity securities for which an active market does not currently exist. The fair value of our Level 3 private placement securities is determined by management relying on pricing received from our independent pricing services and brokers consistent with the process to estimate fair value for Level 2 securities. However, securities are categorized as Level 3 if these quotes cannot be corroborated by other market observable data due to the unobservable nature of the brokers' valuation processes. If pricing cannot be obtained from these sources, which occurs on a limited basis, management will perform a discounted cash flow analysis, using an appropriate risk-adjusted discount rate, on the underlying security to estimate fair value. During the twelve month period ended December 31, 2015, there were no securities transferred in or out of Level 3.

The following table provides a summary of the changes in fair value of our Level 3 securities for 2015:

	States, municipalities and political subdivisions	Corporate bonds	Asset-backed securities	Equities	Total
Balance at January 1, 2015	\$ 519	\$ 12,312	\$ 1,612	\$ 3,872	\$ 18,315
Realized gains (losses) <sup>(1)</sup>	—	(142 )	—	—	(142 )
Unrealized gains (losses) <sup>(1)</sup>	(26 )	—	(39 )	—	(65 )
Purchases	—	100	—	121	221
Disposals	(150 )	(1,375 )	(537 )	(15 )	(2,077 )
Balance at December 31, 2015	\$ 343	\$ 10,895	\$ 1,036	\$ 3,978	\$ 16,252

(1) Realized gains (losses) are recorded as a component of earnings, whereas unrealized gains (losses) are recorded as a component of comprehensive income.

The following table provides a summary of the changes in fair value of our Level 3 securities for 2014:

	States, municipalities and political subdivisions	Corporate bonds	Asset-backed securities	Equities	Total
Balance at January 1, 2014	\$ 698	\$ 13,480	\$ 2,029	\$ 3,781	\$ 19,988
Realized gains (losses) <sup>(1)</sup>	—	11	—	(56 )	(45 )
Unrealized gains (losses) <sup>(1)</sup>	(34 )	(85 )	50	47	(22 )
Purchases	—	4	—	144	148
Disposals	(145 )	(1,098 )	(467 )	(44 )	(1,754 )
Balance at December 31, 2014	\$ 519	\$ 12,312	\$ 1,612	\$ 3,872	\$ 18,315

(1) Realized gains (losses) are recorded as a component of earnings, whereas unrealized gains (losses) are recorded as a component of comprehensive income.

The fixed maturities reported as disposals relate to the receipt of principal on calls or sinking fund bonds, in accordance with the indentures.

#### Corporate-Owned Life Insurance

The Company formed a rabbi trust in 2014 to fund obligations under the United Fire & Casualty Company Non-qualified Deferred Compensation Plan and United Fire Group Supplemental Executive Retirement and Deferral Plan (collectively the "Executive Retirement Plans"). Within the rabbi trust, corporate-owned life insurance ("COLI")

policies are utilized as an investment vehicle and source of funding for the Company's Executive Retirement Plans.



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The COLI policies invest in mutual funds, which are priced daily by independent sources. As of December 31, 2015, the cash surrender value of the COLI policies was \$1,716, which is equal to the fair value measured using Level 2 inputs, based on the underlying assets of the COLI policies, and is included in other assets in the Consolidated Balance Sheets.

## NOTE 4. REINSURANCE

## Property and Casualty Insurance Segment

## Ceded and Assumed Reinsurance

Reinsurance is a contract by which one insurer, called the reinsurer, agrees to cover, under certain defined circumstances, a portion of the losses incurred by a primary insurer if a claim is made under a policy issued by the primary insurer. Our property and casualty insurance companies follow the industry practice of reinsuring a portion of their exposure by ceding to reinsurers a portion of the premium received and a portion of the risk under the policies written. We purchase reinsurance to reduce the net liability on individual risks to predetermined limits and to protect us against catastrophic losses, such as a hurricane or tornado. We do not engage in any reinsurance transactions classified as finite risk reinsurance.

We account for premiums, written and earned, and losses incurred net of reinsurance ceded. The ceding of insurance does not legally discharge us from primary liability under our policies, and we must pay the loss if the reinsurer fails to meet its obligation. We periodically monitor the financial condition of our reinsurers to confirm that they are financially stable. We believe that all of our reinsurers are in an acceptable financial condition and there were no reinsurance balances at December 31, 2015 for which collection is at risk that would result in a material impact on our Consolidated Financial Statements. The amount of reinsurance recoverable on paid losses totaled \$11,887 and \$15,595 at December 31, 2015 and 2014, respectively.

We also assume both property and casualty insurance from other insurance or reinsurance companies. Most of the business we have assumed is property insurance, with an emphasis on catastrophe coverage.

Premiums and losses and loss settlement expenses related to our ceded and assumed business are as follows:

Years Ended December 31,	2015	2014	2013
Ceded Business			
Ceded premiums written	\$56,916	\$50,290	\$50,711
Ceded premiums earned	56,758	49,818	50,514
Loss and loss settlement expenses ceded <sup>(1)</sup>	3,868	9,728	(8,552 )
Assumed Business			
Assumed premiums written	\$18,290	\$16,421	\$18,938
Assumed premiums earned	18,396	16,265	185,485
Loss and loss settlement expenses assumed	14,415	7,727	8,268

(1) In 2013, a reduction in our direct IBNR reserves caused a corresponding reduction in ceded IBNR reserves. This factor, coupled with a lack of significant large losses exceeding our reinsurance retentions resulted in negative loss and loss settlement expenses ceded for the year.

In 2015, we renewed our participation in all of our assumed programs and added one new program to our portfolio. The new assumed program is for international catastrophes excluding the United States with the largest exposure to European wind perils. Loss and loss settlement expenses ceded decreased in 2015 as compared to 2014 primarily due to a decrease in significant large losses and catastrophe losses.

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In 2014, we renewed our participation in all but one of our assumed programs and added one new program to our portfolio. Loss and loss settlement expenses ceded increased in 2014 as compared to 2013 primarily due to an increase in catastrophe losses. We increased participation in one program in our assumed portfolio to replace lost premium from the program not renewed.

In 2013, we renewed our participation in all but one of our assumed programs and added two new programs to our portfolio. Loss and loss settlement expenses assumed decreased in 2013 as compared to 2012 primarily due to a decrease in catastrophe losses. We added two new programs to replace the lost premium from the program not renewed and to take advantage of areas where we had exposure capacity. One of the new programs has worldwide exposure and the other has exposure in the United Kingdom and Japan.

Refer to Note 5 "Reserves for Losses and Loss Settlement Expenses" for an analysis of changes in our overall property and casualty insurance reserves.

**Reinsurance Programs and Retentions**

We have several programs that provide reinsurance coverage. This reinsurance coverage limits the risk of loss that we retain by reinsuring direct risks in excess of our retention limits. The following table provides a summary of our primary reinsurance programs. Retention amounts reflect the accumulated retentions and co-participation of all layers within a program. In 2013, we added a \$3,000 aggregate annual deductible to our core program multi-line (casualty excess and property excess) which was increased to \$4,000 in 2014.

Type of Reinsurance	2015 Reinsurance Programs		
	Stated Retention	Limits	Coverage
Casualty excess of loss	\$2,000	\$40,000	100 % of \$38,000
Property excess of loss	2,000	25,000	100 % of \$23,000
Surety excess of loss	1,500	36,000	96 % of \$34,500
Property catastrophe, excess	20,000	200,000	100 % of \$180,000
Property catastrophe, excess	200,000	250,000	90.5 % of \$50,000
Boiler and machinery	N/A	50,000	100 % of \$50,000

Type of Reinsurance	2014 Reinsurance Programs		
	Stated Retention	Limits	Coverage
Casualty excess of loss	\$2,000	\$40,000	100 % of \$38,000
Property excess of loss	2,000	15,000	100 % of \$13,000
Surety excess of loss	1,500	28,000	91 % of \$26,500
Property catastrophe, excess	20,000	200,000	100 % of \$180,000
Property catastrophe, excess	200,000	250,000	90.5 % of \$50,000
Boiler and machinery	N/A	50,000	100 % of \$50,000

Type of Reinsurance	2013 Reinsurance Programs		
	Stated Retention	Limits	Coverage
Casualty excess of loss	\$2,000	\$40,000	100 % of \$38,000
Property excess of loss	2,000	15,000	100 % of \$13,000
Surety excess of loss	1,500	28,000	91 % of \$26,500
Property catastrophe, excess	20,000	200,000	95 % of \$180,000
Boiler and machinery	N/A	50,000	100 % of \$50,000

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If we incur catastrophe losses and loss settlement expenses that exceed the coverage limits of our reinsurance program, our property catastrophe program provides one guaranteed reinstatement. In such an instance, we are required to pay the reinsurers a reinstatement premium equal to the full amount of the original premium, which will reinstate the full amount of reinsurance available under the property catastrophe program.

## Life Insurance Segment

## Ceded and Assumed Reinsurance

United Life purchases reinsurance to limit the dollar amount of any one risk of loss. Our retention on standard individual life cases is \$300. Our accidental death benefit rider on an individual policy is reinsured at 100 percent, up to a maximum benefit of \$250. Our group coverage, both life and accidental death and dismemberment, is reinsured at 50.0 percent with a retention of \$75 for United Fire internal group coverage. Catastrophe excess reinsurance coverage applies when three or more insureds die in a catastrophic accident. For catastrophe excess claims, we retain the first \$1,000 of ultimate net loss and the reinsurer agrees to indemnify us for the excess up to a maximum of \$5,000. We supplement this coverage when appropriate with "known concentration" coverage. Known concentration coverage is typically tied to a specific event and time period, with a threshold of a minimum number of lives involved in the event, minimum event deductible (stated retention limit) and a maximum payout.

Premiums and losses and loss settlement expenses related to our ceded business are as follows:

Years Ended December 31,	2015	2014	2013
Ceded Business			
Ceded insurance in-force	\$ 1,165,868	\$ 1,130,059	\$ 1,112,688
Ceded premiums earned	3,161	2,959	2,792
Loss and loss settlement expenses ceded	2,113	3,467	1,971

The ceding of insurance does not legally discharge United Life from primary liability under its policies. United Life must pay the loss if the reinsurer fails to meet its obligations. We periodically monitor the financial condition of our reinsurers to confirm that they are financially stable and have strong credit ratings. We believe that all of our reinsurers are in an acceptable financial condition. Approximately 99.0 percent of ceded life insurance in force as of December 31, 2015 was ceded to five reinsurers.

**NOTE 5. RESERVES FOR LOSSES AND LOSS SETTLEMENT EXPENSES**

Because property and casualty insurance reserves are estimates of the unpaid portions of incurred losses that have been reported to us, as well as losses that have been incurred but not reported ("IBNR"), the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses and related loss settlement expenses may vary materially from recorded amounts, which are based on management's best estimates. We regularly update our reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported as a component of losses and loss settlement expenses incurred in the period such changes are determined.

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The following table provides an analysis of changes in our property and casualty losses and loss settlement expense reserves for 2015, 2014 and 2013 (net of reinsurance amounts):

Years Ended December 31,	2015	2014	2013
Gross liability for losses and loss settlement expenses at beginning of year	\$969,437	\$960,651	\$971,911
Ceded losses and loss settlement expenses	(63,757	) (75,150	) (103,870
Net liability for losses and loss settlement expenses at beginning of year	\$905,680	\$885,501	\$868,041
Losses and loss settlement expenses incurred for claims occurring during			
Current year	\$560,482	\$566,555	\$494,841
Prior years	(40,395	) (56,744	) (57,487
Total incurred	\$520,087	\$509,811	\$437,354
Losses and loss settlement expense payments for claims occurring during			
Current year	\$225,022	\$247,651	\$203,868
Prior years	251,503	241,981	216,026
Total paid	\$476,525	\$489,632	\$419,894
Net liability for losses and loss settlement expenses at end of year	\$949,242	\$905,680	\$885,501
Ceded loss and loss settlement expenses	54,653	63,757	75,150
Gross liability for losses and loss settlement expenses at end of year	\$1,003,895	\$969,437	\$960,651

There are a multitude of factors that can impact loss reserve development. Those factors include, but are not limited to: historical data, the potential impact of various loss reserve development factors and trends including historical loss experience, legislative enactments, judicial decisions, legal developments in imposition of damages, experience with alternative dispute resolution, results of our medical bill review process, the potential impact of salvage and subrogation and changes and trends in general economic conditions, including the effects of inflation. All of these factors influence our estimates of required reserves and for long tail lines these factors can change over the course of the settlement of the claim. However, there is no precise method for evaluating the specific dollar impact of any individual factor on the development of reserves.

The significant drivers of the favorable reserve development in 2015 were our long-tail liability lines, workers compensation, and automobile (physical damage). The favorable development is attributable to reductions in reserves for reported claims as well as reductions in required reserves for IBNR claims combined with continued successful management of litigation expenses. These reserve decreases were more than sufficient to offset claim payments. The favorable development was partially offset by adverse development, the majority coming from three lines which included property, assumed reinsurance and commercial auto liability. No other single line of business contributed a significant portion of the total development.

The significant drivers of the favorable reserve development in 2014 were our long-tail liability lines, workers compensation, and automobile (both liability and physical damage). Much of the favorable long-tail liability development came from loss adjustment expense and is attributed to our litigation management initiative. Workers' compensation favorable development was due to the combination of claim reserve decreases along with favorable changes affecting loss adjustment expense. Changes in reserve development patterns have shown increased

redundancies in reserves for reported claims along with relatively less need for IBNR claim reserves. Loss adjustment expense, closely tied to loss, generally decreases when loss decreases. Commercial auto liability continues to benefit from loss control and re-underwriting initiatives over the past two years as well as favorable changes affecting loss adjustment expense as reserve development patterns also showed a redundancy in reserves along with less need for IBNR claim reserves.

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The favorable reserve development in 2013 on prior year reserves was primarily related to our long-tail lines of commercial business including other liability, workers' compensation and auto liability. The significant driver of the favorable reserve development in 2013 was the other liability line, primarily due to additional recognition of relatively recent changes in reserve development patterns which have shown increased redundancies in reserves for reported claims along with relatively less need for IBNR claim reserves. Also, contributing to the favorable development in 2013, only to a lesser extent than the other liability line of business, were workers' compensation, commercial auto liability and surety lines of business.

Generally, we base reserves for each claim on the estimated ultimate exposure for that claim. We believe that it is appropriate and reasonable to establish a best estimate for reserves within a range of reasonable estimates, especially when we are reserving for claims for bodily injury, disabilities and similar claims, for which settlements and verdicts can vary widely. Our reserving philosophy may result in favorable reserve development in future years that will decrease losses and loss settlement expenses for prior year claims in the year of adjustment. We realize that this philosophy, coupled with what we believe to be aggressive and successful claims management and loss settlement practices, has resulted in year-to-year redundancies in reserves. We believe our approach produces recorded reserves that are reasonably consistent as to their relative position within a range of reasonable reserves from year-to-year. However, conditions and trends that have affected the reserve development for a given year do change. Therefore, such development cannot be used to project future reserve redundancies or deficiencies.

We are not aware of any significant contingent liabilities related to environmental issues. Because of the type of property coverage we write, we have potential exposure to environmental pollution, mold and asbestos claims. Our underwriters are aware of these exposures and use riders or endorsements to limit exposure.

**NOTE 6. STATUTORY REPORTING, CAPITAL REQUIREMENTS AND DIVIDENDS AND RETAINED EARNINGS RESTRICTIONS**

Statutory capital and surplus in regards to policyholders at December 31, 2015, 2014 and 2013 and statutory net income for the years then ended are as follows:

	Statutory Capital and Surplus	Statutory Net Income
2015		
Property and casualty <sup>(1)</sup>	\$722,404	\$75,554
Life, accident and health	138,855	(1,524 )
2014		
Property and casualty <sup>(1)</sup>	\$685,866	\$54,233
Life, accident and health	155,667	3,517
2013		
Property and casualty <sup>(1)</sup>	\$665,772	\$84,255
Life, accident and health	157,974	5,942

Because United Fire & Casualty Company owns United Life Insurance Company, the property and casualty (1) statutory capital and surplus includes life, accident and health statutory capital and surplus, and therefore represents our total consolidated statutory capital and surplus.

State insurance holding company laws and regulations generally require approval from the insurer's domicile state insurance Commissioner for any material transaction or extraordinary dividend. For property and casualty insurers, a material transaction is defined as any sale, loan, exchange, transfer or guarantee with an affiliate where the aggregate value of the transaction exceeds 25 percent of the insurer's policyholders' surplus or three percent of its admitted assets (measured at December 31 of the preceding year), whichever is less. For life insurers, a material transaction with an affiliate is defined as a transaction with an aggregate value exceeding three percent of the life insurer's admitted assets (measured at December 31 of the preceding year).

State laws and regulations generally limit the amount of funds that an insurance company may distribute to a parent as a dividend without Commissioner approval. As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay



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dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at December 31, 2015, our insurance company subsidiary, United Fire & Casualty Company, is able to make a maximum of \$53,054 in dividend payments without prior approval. At December 31, 2015, we were in compliance with applicable state laws and regulations. These restrictions will not have a material impact in meeting our cash obligations. In addition, United Fire Group, Inc. maintains a credit agreement, as discussed in Part II, Note 14 "Credit Facility", which permits us to borrow up to an aggregate principal amount of \$50,000 and allows the Company to increase the aggregate amount of the commitments thereunder by up to \$100,000.

We paid dividends to our common shareholders of \$21,658, \$19,680 and \$17,484 in 2015, 2014 and 2013, respectively. Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors, out of funds legally available, and subject to any other restrictions that may be applicable to us.

In 2015, 2014 and 2013, United Fire & Casualty Company received dividends from its wholly owned subsidiaries of \$16,500, \$13,500 and \$26,335, respectively. In 2015, 2014 and 2013, United Fire & Casualty Company paid dividends to United Fire Group, Inc. totaling \$22,500, \$29,000 and \$13,175, respectively. These intercompany dividend payments are eliminated for reporting in our Consolidated Financial Statements.

A majority of our custodial assets are subject to a tri-party agreement between one of our subsidiary companies, United Life Insurance Company ("United Life"), the custodian, and the Iowa Insurance Commissioner. Under this agreement, as long as United Life maintains the minimum aggregate value of securities in the account (based on its legal reserve requirements), it is free to invest, withdraw or loan these funds or pay dividends using these funds without approval from the Commissioner. Investment of these funds is subject to the same limitations on asset class and credit quality imposed by the Commissioner on all insurance company invested assets. Investment income derived from these custodied funds is available for general corporate purposes and to satisfy corporate obligations without approval from the Commissioner.

At December 31, 2015, United Life had net admitted assets, on a statutory basis, of \$1,535,950, \$195,380 in excess of its legal reserve requirement. Therefore, any restriction on funds deposited by United Life with the Iowa Insurance Commissioner would not materially affect its financial position or results of operations and its cash flows are sufficient to meet its operational requirements. Under the material transaction and dividend standards described above, United Life currently is not able to enter into an affiliate transaction and/or pay a dividend without approval from the Commissioner.

Our property and casualty and life insurance subsidiaries are required to prepare and file statutory-basis financial statements in conformity with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director. The accounting principles used to prepare these statutory-basis financial statements follow prescribed or permitted accounting practices that differ from GAAP. Prescribed statutory accounting principles include state laws, regulations and general administrative rules issued by the state of domicile, as well as a variety of publications and manuals of the NAIC. Permitted accounting practices encompass all accounting practices not prescribed, but allowed by the state of domicile. No material permitted accounting practices were used to prepare our statutory-basis financial statements during 2015, 2014 and 2013. Statutory accounting principles primarily differ from GAAP in that policy acquisition and certain sales inducement costs are charged to expense as incurred, goodwill is amortized, life insurance reserves are established based on different actuarial assumptions and the values reported for investments, pension obligations and deferred taxes are established on a different basis.





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We are directed by the state insurance departments' solvency regulations to calculate a required minimum level of statutory capital and surplus based on insurance risk factors. The risk-based capital results are used by the NAIC and state insurance departments to identify companies that merit regulatory attention or the initiation of regulatory action. Both United Life and United Fire & Casualty Company and its property and casualty insurance subsidiaries and affiliates had statutory capital and surplus in regards to policyholders well in excess of their required levels at December 31, 2015.

## NOTE 7. FEDERAL INCOME TAX

Federal income tax expense (benefit) is composed of the following:

Years Ended December 31,	2015	2014	2013
Current	\$37,649	\$15,649	\$19,146
Deferred	(5,324)	) 1,677	6,616
Total	\$32,325	\$17,326	\$25,762

A reconciliation of income tax expense computed at the applicable federal tax rate of 35.0 percent to the amount recorded in the accompanying Consolidated Statements of Income and Comprehensive Income is as follows:

Years Ended December 31,	2015	2014	2013
Computed expected income tax expense	\$42,508	\$26,762	\$35,666
Tax-exempt municipal bond interest income	(7,669)	) (7,417)	) (7,732)
Nontaxable dividend income	(1,337)	) (1,232)	) (1,053)
Valuation allowance reduction	(548)	) (548)	) (548)
Other, net	(629)	) (239)	) (571)
Federal income tax expense	\$32,325	\$17,326	\$25,762

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The significant components of our net deferred tax liability at December 31, 2015 and 2014 are as follows:

December 31,	2015	2014
Deferred tax liabilities		
Net unrealized appreciation on investment securities:		
Equity securities	\$58,674	\$60,952
All other securities	11,159	24,308
Deferred policy acquisition costs	53,960	44,271
Prepaid pension cost	1,920	2,973
Net bond discount accretion	1,430	1,925
Depreciation	1,791	2,667
Revaluation of investment basis <sup>(1)</sup>	1,824	2,611
Identifiable intangible assets <sup>(1)</sup>	3,560	3,808
Other	7,627	8,152
Gross deferred tax liability	\$141,945	\$151,667
Deferred tax assets		
Financial statement reserves in excess of income tax reserves	\$34,535	\$35,800
Unearned premium adjustment	28,679	26,146
Net operating loss carryforwards	1,265	1,813
Underfunded benefit plan obligation	25,810	31,473
Postretirement benefits other than pensions	17,838	14,374
Other-than-temporary impairment of investments	5,609	5,222
Contingent ceding commission accrual	3,342	3,573
Compensation expense related to stock options	4,627	4,582
Other	6,852	4,738
Gross deferred tax asset	\$128,557	\$127,721
Valuation allowance	(1,265	) (1,813
Deferred tax asset	\$127,292	\$125,908
Net deferred tax liability	\$14,653	\$25,759

(1) Related to our acquisition of Mercer Insurance Group.

Due to our determination that we may not be able to fully realize the benefits of the net operating losses ("NOLs") acquired in the purchase of American Indemnity Financial Corporation in 1999, which are only available to offset the future taxable income of our property and casualty insurance operations and are further limited as to the amount that can be utilized in any given year, we have recorded a valuation allowance against these NOLs that totaled \$1,265 and \$1,813, respectively, at December 31, 2015 and 2014. Based on a yearly review, we determine whether the benefit of the NOLs can be realized, and, if so, the decrease in the valuation allowance is recorded as a reduction to current federal income tax expense. If NOLs expire during the year, the decrease in the valuation allowance is offset with a corresponding decrease to the deferred income tax asset. The valuation allowance was reduced by \$548 during 2014 and 2015, respectively, due to the realization of \$1,565 in NOLs. No portion of the NOLs expired in 2014 or 2015 or will expire in 2016. At December 31, 2015, we had no alternative minimum tax ("AMT") credit carryforwards.

**NOTE 8. EMPLOYEE BENEFITS**

We offer various benefits to our employees including a noncontributory defined benefit pension plan, an employee/retiree health and dental benefit plan, a profit-sharing plan and an employee stock ownership plan.



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Pension and Postretirement Benefit Plans

We offer a noncontributory defined benefit pension plan in which all of our employees are eligible to participate after they have completed one year of service, attained 21 years of age and have met the hourly service requirements. Retirement benefits under our pension plan are based on the number of years of service and level of compensation. Our policy to fund the pension plan on a current basis is to not less than the minimum amounts required by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended, is to assure that plan assets will be adequate to provide retirement benefits. We estimate that we will contribute approximately \$6,384 to the pension plan in 2016.

We also offer a health and dental benefit plan to all of our eligible employees and retirees that consists of two programs: (1) the self-funded employee health and dental benefit plan and (2) the self-funded (pre-65) and fully-funded (post-65) retiree health and dental benefit plan (the "postretirement benefit plan"). The postretirement benefit plan provides health and dental benefits to our retirees (and covered dependents) who have met the service and participation requirements stipulated by the postretirement benefit plan. The third party administrators for the postretirement benefit plan are responsible for making medical and dental care benefit payments. Participants are required to submit claims for reimbursement or payment to the claims administrator within twelve months after the end of the calendar year in which the charges were incurred. An unfunded benefit obligation is reported for the postretirement benefit plan in the accompanying Consolidated Balance Sheets.

Investment Policies and Strategies

Our investment policy and objective for the pension plan is to generate long-term capital growth and income by way of a diversified investment portfolio along with appropriate employer contributions, which will allow us to provide for the pension plan's benefit obligation.

The investments held by the pension plan at December 31, 2015 include the following asset categories:

• Fixed income securities, which may include bonds, and convertible securities;

• Equity securities, which may include various types of stock, such as large-cap, mid-cap, small-cap, and international stocks;

• Pooled separate accounts, which includes two separate funds, a core plus bond separate account and a real estate separate account;

• An arbitrage fund, which is a fund that takes advantage of price discrepancies, primarily equity securities, for the same asset in different markets;

• A group annuity contract that is administered by United Life, a subsidiary of United Fire; and

• Cash and cash equivalents, which include money market funds.

We have an internal investment/retirement committee, which includes our Chief Executive Officer, Chief Investment Officer, and Chief Operating Officer, all of whom receive monthly information on the value of the pension plan assets and their performance. Quarterly, the committee meets to review and discuss the performance of the pension plan assets as well as the allocation of investments within the pension plan.

As of December 31, 2015, we had six external investment managers that are allowed to exercise investment discretion, subject to limitations, if any, established by the investment/retirement committee. We utilize multiple investment managers in order to maximize the pension plan's investment return while mitigating risk. None of our investment managers uses leverage in managing the pension plan. Annually, the investment/retirement committee meets with each investment manager to review the investment manager's goals, objectives and the performance of the assets they manage. The decision to establish or terminate a relationship with an investment manager is at the discretion of our investment/retirement committee.

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We consider historical experience for comparable investments and the target allocations we have established for the various asset categories of the pension plan to determine the expected long-term rate of return, which is an assumption as to the average rate of earnings expected on the pension plan funds invested, or to be invested, by the pension plan, to provide for the settlement of benefits included in the projected pension benefit obligation. Investment securities, in general, are exposed to various risks, such as fluctuating interest rates, credit standing of the issuer of the security and overall market volatility. Annually, we perform an analysis of expected long-term rates of return based on the composition and allocation of our pension plan assets and recent economic conditions.

The following is a summary of the pension plan's actual and target asset allocations at December 31, 2015 and 2014 by asset category:

Pension Plan Assets	2015		2014		Target Allocation		
		% of Total		% of Total			
Fixed maturity securities - corporate bonds	\$6,894	6.5 %	\$9,035	8.8 %	0 %	- 15 %	
Redeemable preferred stock	3,744	3.5	2,254	2.2	0	- 10	%
Equity securities	58,613	55.0	58,223	56.6	50	- 70	%
Pooled separate accounts							
Core Plus Bond separate account fund	6,605	6.2	6,417	6.3	0	- 40	%
U.S. property separate account fund	11,252	10.5	9,895	9.6	0	- 25	%
Arbitrage fund	7,856	7.4	7,637	7.4	0	- 10	%
United Life annuity	8,931	8.4	8,506	8.3	5	- 10	%
Cash and cash equivalents	2,705	2.5	833	0.8	0	- 10	%
Total plan assets	\$106,600	100.0 %	\$102,800	100.0 %			

The investment return expectations for the pension plan are used to develop the asset allocation based on the specific needs of the pension plan. Accordingly, equity securities comprise the largest portion of our pension plan assets, as they yield the highest rate of return. The United Life annuity, which is the third largest asset category and was originally written by our life insurance subsidiary in 1976, provides a guaranteed rate of return. The interest rate on the group annuity contract is determined annually.

The availability of assets held in cash and cash equivalents enables the pension plan to mitigate market risk that is associated with other types of investments and allows the pension plan to maintain liquidity both for the purpose of making future benefit payments to participants and their beneficiaries and for future investment opportunities.

Valuation of InvestmentsFixed Maturity and Equity Securities

Investments in fixed maturity and equity securities are stated at fair value based upon quoted market prices reported on recognized securities exchanges on the last business day of the year. Purchases and sales of securities are recorded as of the trade date.

Pooled Separate Accounts

The pension plan invests in two pooled separate account funds, a core plus bond separate account fund and a U.S. property separate account fund. Investments in the core plus bond separate account fund are stated at fair value as provided by the administrator of the fund based on the fair value of the underlying assets owned by the fund. The fair value measurement is classified within Level 2 of the fair value hierarchy. The fair value of the investments in the U.S. property separate account fund is provided by the administrator of the fund based on the net asset value of the fund. The net asset value is based on the fair value of the underlying properties included in the fund. The fair value of the underlying properties are based on property appraisals conducted by an independent third party. The fair value measurement is classified within Level 3 of the fair value hierarchy. We have not adjusted the net asset value provided by the custodian.



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## Arbitrage Fund

The fair value of the arbitrage fund is determined based on its net asset value, which is obtained from the custodian and determined monthly with issuances and redemptions of units of the fund made, based on the net asset value per unit as determined on the valuation date. We have not adjusted the net asset value provided by the custodian.

## United Life Annuity

The United Life group annuity contract, which is a deposit administration contract, is stated at contract value as determined by United Life. Under the group annuity contract, the plan's investment account is credited with compound interest on the average account balance for the year. The interest rate is equivalent to the ratio of net investment income to mean assets of United Life, net of investment expenses.

## Cash and Cash Equivalents

Cash and cash equivalents primarily consist of insured cash and money market funds held with various financial institutions. Interest is earned on a daily basis. The fair value of these funds approximates their cost basis due to their short-term nature.

## Fair Value Measurement

The following tables present the categorization of the pension plan's assets measured at fair value on a recurring basis at December 31, 2015 and 2014:

Description	December 31, 2015	Fair Value Measurements		
		Level 1	Level 2	Level 3
Fixed maturity securities - corporate bonds	\$6,894	\$—	\$6,894	\$—
Redeemable preferred stock	3,744	3,744	—	—
Equity securities	58,613	58,613	—	—
Pooled separate accounts				
Core plus bond separate account fund	6,605	—	6,605	—
U.S. property separate account fund	11,252	—	—	11,252
Arbitrage fund	7,856	—	7,856	—
Money market funds	2,619	2,619	—	—
Total assets measured at fair value	\$97,583	\$64,976	\$21,355	\$11,252

Description	December 31, 2014	Fair Value Measurements		
		Level 1	Level 2	Level 3
Fixed maturity securities - corporate bonds	\$9,035	\$—	\$9,035	\$—
Redeemable preferred stock	2,254	2,254	—	—
Equity securities	58,223	58,223	—	—
Pooled separate accounts				
Core plus bond separate account fund	6,417	—	6,417	—
U.S. property separate account fund	9,895	—	—	9,895
Arbitrage fund	7,637	—	7,637	—
Money market funds	826	826	—	—
Total assets measured at fair value	\$94,287	\$61,303	\$23,089	\$9,895

There were no transfers of assets in or out of Level 1 or Level 2 during the period.



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The fair value of investments categorized as Level 1 is based on quoted market prices that are readily and regularly available.

The fair value of fixed maturity securities categorized as Level 2 is determined by management based on fair value information reported in the custodial statements, which is derived from recent trading activity of the underlying security in the financial markets. These securities represent various taxable bonds held by the pension plan. These securities categorized as Level 2 are valued in the same manner as described in Part II, Item 8, Note 3 and have the same controls in place.

The fair value of the arbitrage fund and bond and mortgage pooled separate account fund are categorized as Level 2 since there are no restrictions as to the pension plan's ability to redeem its investment at the net asset value of the fund as of the reporting date.

The following tables provide a summary of the changes in fair value of the pension plan's Level 3 securities:

	U.S. property separate account fund
Balance at January 1, 2015	\$9,895
Unrealized gains	1,357
Balance at December 31, 2015	\$11,252

	U.S. property separate account fund
Balance at January 1, 2014	\$8,763
Unrealized gains	1,132
Balance at December 31, 2014	\$9,895

#### Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires us to make various estimates and assumptions that affect the reporting of net periodic benefit cost, plan assets and plan obligations for each plan at the date of the financial statements. Actual results could differ from these estimates. One significant estimate relates to the calculation of the benefit obligation for each plan. We annually establish the discount rate, which is an estimate of the interest rate at which these benefits could be effectively settled, that is used to determine the present value of the respective plan's benefit obligations as of December 31. In estimating the discount rate, we look to rates of return on high-quality, fixed-income investments currently available and expected to be available during the period to maturity of the respective plan's benefit obligations.

In October 2014, the Society of Actuaries finalized a new mortality table and a new mortality improvement scale. The mortality improvement scale was further refined by the Society of Actuaries in 2015. These updated tables reflect improved life expectancies and an expectation that the trend will continue. We have reviewed these updated tables and have updated the mortality assumptions based on this information and also based on research provided by our external actuaries. We will continue to monitor mortality assumptions and make changes as appropriate to reflect additional research and our resulting best estimate of future mortality rates.

#### Assumptions Used to Determine Benefit Obligations

The following actuarial assumptions were used to determine the reported plan benefit obligations at December 31:

Weighted-average assumptions as of	Pension Benefits		Postretirement Benefits		
	2015	2014	2015	2014	
December 31,					
Discount rate	4.21	% 3.86	% 4.21	% 3.86	%
Rate of compensation increase	3.00	3.00	N/A	N/A	



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Increasing interest rates resulted in an increase in the discount rates we use to value our respective plan's benefit obligations at December 31, 2015 compared to December 31, 2014.

Assumptions Used to Determine Net Periodic Benefit Cost

The following actuarial assumptions were used at January 1 to determine our reported net periodic benefit costs for the year ended December 31:

Weighted-average assumptions as of January 1,	Pension Benefits			Postretirement Benefits				
	2015	2014	2013	2015	2014	2013		
Discount rate	3.86	% 4.84	% 4.00	% 3.86	% 4.84	% 4.00		%
Expected long-term rate of return on plan assets	7.50	7.50	7.50	N/A	N/A	N/A		
Rate of compensation increase	3.00	3.50	3.50	N/A	N/A	N/A		
Assumed Health Care Cost Trend Rates								
Years Ended December 31,	Health Care Benefits			Dental Claims				
	2015	2014		2015	2014			
Health care cost trend rates assumed for next year	7.00	% 7.00	% 4.00	% 4.00	% 4.00			%
Rate to which the health care trend rate is assumed to decline (ultimate trend rate)	4.50	% 4.50	% N/A		N/A			
Year that the rate reaches the ultimate trend rate	2024	2023		N/A	N/A			

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. A 1.0 percent change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease	
Effect on the net periodic postretirement health care benefit cost	\$1,595	\$(1,239	)
Effect on the accumulated postretirement benefit obligation	14,178	(11,270	)



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## Benefit Obligation and Funded Status

The following table provides a reconciliation of benefit obligations, plan assets and funded status of our plans:

Years Ended December 31,	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Reconciliation of benefit obligation				
Benefit obligation at beginning of year	\$157,600	\$123,352	\$74,552	\$48,954
Service cost	6,675	5,210	5,220	3,696
Interest cost	5,999	5,874	2,856	2,342
Actuarial (gain) loss	(5,678)	) 26,590	(9,253)	) 20,730
Benefit payments and adjustments	(4,206)	) (3,426)	) (1,200)	) (1,170)
Benefit obligation at end of year <sup>(1)</sup>	\$160,390	\$157,600	\$72,175	\$74,552
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of year	\$102,800	\$92,219	\$—	\$—
Actual return on plan assets	1,654	6,591	—	—
Employer contributions	6,352	7,416	(1,200)	) (1,170)
Benefit payments and adjustments	(4,206)	) (3,426)	) 1,200	1,170
Fair value of plan assets at end of year	\$106,600	\$102,800	\$—	\$—
Funded status at end of year	\$(53,790)	) \$(54,800)	) \$(72,175)	) \$(74,552)

<sup>(1)</sup> For the pension plan, the benefit obligation is the projected benefit obligation. For the postretirement benefit plan, the benefit obligation is the accumulated postretirement benefit obligation.

Our accumulated pension benefit obligation was \$141,550 and \$138,180 at December 31, 2015 and 2014, respectively.

The following table displays the effect that the unrecognized prior service cost and unrecognized actuarial loss of our plans had on accumulated other comprehensive income ("AOCI"), as reported in the accompanying Consolidated Balance Sheets:

Years Ended December 31	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Amounts recognized in AOCI				
Unrecognized prior service cost	\$—	\$—	\$—	\$—
Unrecognized actuarial loss	52,936	56,943	20,806	32,979
Total amounts recognized in AOCI	\$52,936	\$56,943	\$20,806	\$32,979

We anticipate amortization of the net actuarial losses for our pension plan in 2016 to be \$3,967. We anticipate amortization of the net actuarial losses for our postretirement benefit plan in 2016 to be \$1,518.



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## Net Periodic Benefit Cost

The components of the net periodic benefit cost for our pension and postretirement benefit plans are as follows:

Years Ended December 31,	Pension Plan			Postretirement Benefit Plan		
	2015	2014	2013	2015	2014	2013
Net periodic benefit cost						
Service cost	\$6,675	\$5,210	\$6,300	\$5,220	\$3,696	\$3,875
Interest cost	5,999	5,874	5,175	2,856	2,342	1,759
Expected return on plan assets	(7,800 )	(6,956 )	(5,772 )	—	—	—
Amortization of net loss	4,546	2,174	4,989	2,920	898	879
Net periodic benefit cost	\$9,420	\$6,302	\$10,692	\$10,996	\$6,936	\$6,513

## Projected Benefit Payments

The following table summarizes the expected benefits to be paid from our plans over the next 10 years:

	2016	2017	2018	2019	2020	2021 - 2025
Pension benefits	\$4,680	\$5,060	\$5,420	\$5,930	\$6,500	\$43,200
Postretirement benefits	\$1,140	\$1,340	\$1,560	\$1,810	\$2,080	\$15,170

## Profit-Sharing Plan and Employee Stock Ownership Plan

We have a profit-sharing plan in which employees who meet service requirements are eligible to participate. The amount of our contribution is discretionary and is determined annually, but cannot exceed the amount deductible for federal income tax purposes. Our contribution to the profit-sharing plan for 2015, 2014 and 2013, was \$7,706, \$3,847 and \$6,029, respectively.

Prior to October 31, 2015 we had an employee stock ownership plan (the "ESOP") for the benefit of eligible employees and their beneficiaries. In June 2015, the plan administrator decided to merge the ESOP into the United Fire Group, Inc. 401K Plan effective October 31, 2015. Participant ESOP account balances were transferred to each participant's 401K Plan.

All employees were eligible to participate in the ESOP upon completion of one year of service, meeting the hourly employment requirements and attaining 21 years of age. Contributions to the ESOP were made at our discretion. When made, these contributions were based upon a percentage of total payroll and are allocated to participants on the basis of compensation. We can make contributions in stock or cash, which the trustee uses to acquire shares of our stock to allocate to participants' accounts. Prior to merger of the plan into the United Fire Group, Inc. 401K Plan, the ESOP owned 214,614 shares of United Fire common stock. As of December 31, 2014, the ESOP owned 214,637 shares of United Fire common stock. Shares owned by the ESOP were included in shares issued and outstanding for purposes of calculating earnings per share, and dividends paid on the shares are charged to retained earnings. We made contributions to the ESOP of \$150 and \$250 in 2015 and 2014, respectively. We did not make any contributions to the ESOP in 2013.

## NOTE 9. STOCK-BASED COMPENSATION

## Non-Qualified Employee Stock Award Plan

The United Fire Group, Inc. 2008 Stock Plan (the "2008 Stock Plan") authorized the issuance of restricted and unrestricted stock awards, stock appreciation rights, incentive stock options, and non-qualified stock options for up to 1,900,000 shares of United Fire common stock to employees. In May 2014, the Registrant's shareholders approved an additional 1,500,000 shares of United Fire common stock issuable at any time and from time to time pursuant to the 2008 Stock Plan, among other amendments, and renamed such plan as the United Fire Group, Inc.

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Stock Plan, (as amended, the "Stock Plan"). At December 31, 2015, there were 1,394,578 authorized shares remaining available for future issuance. The Stock Plan is administered by the Board of Directors, which determines those employees who will receive awards, when awards will be granted, and the terms and conditions of the awards. The Board of Directors may also take any action it deems necessary and appropriate for the administration of the Stock Plan. Pursuant to the Stock Plan, the Board of Directors may, at its sole discretion, grant awards to our employees who are in positions of substantial responsibility with United Fire.

Options granted pursuant to the Stock Plan are granted to buy shares of United Fire's common stock at the market value of the stock on the date of grant. All outstanding option awards vest and are exercisable in installments of 20.0 percent of the number of shares covered by the option award each year from the grant date, unless the Board of Directors authorizes the acceleration of vesting. To the extent not exercised, vested option awards accumulate and are exercisable by the awardee, in whole or in part, in any subsequent year included in the option period, but not later than 10 years from the grant date. Restricted and unrestricted stock awards granted pursuant to the Stock Plan are granted at the market value of our common stock on the date of the grant. Restricted stock awards fully vest after 5 years from the date of issuance, unless accelerated upon the approval of the Board of Directors, at which time United Fire common stock will be issued to the awardee. All awards are generally granted free of charge to the eligible employees of United Fire as designated by the Board of Directors.

The activity in the Stock Plan is displayed in the following table:

Authorized Shares Available for Future Award Grants	Year Ended December 31, 2015	From Inception to December 31, 2015
Beginning balance	1,646,947	1,900,000
Additional shares authorized	—	1,500,000
Number of awards granted	(366,419 )	(2,362,928 )
Number of awards forfeited or expired	114,050	357,506
Ending balance	1,394,578	1,394,578
Number of option awards exercised	182,956	650,519
Number of unrestricted stock awards granted	1,065	6,345
Number of restricted stock awards vested	—	18,576

#### Non-Qualified Non-Employee Director Stock Option and Restricted Stock Plan

The United Fire Group, Inc. 2005 Non-Qualified Non-Employee Director Stock Option and Restricted Stock Plan (the "Director Plan") authorizes the issuance of restricted stock awards and non-qualified stock options to purchase shares of United Fire's common stock to non-employee directors. At December 31, 2015, we had 69,938 authorized shares available for future issuance.

The Board of Directors has the authority to determine which non-employee directors receive awards, when options and restricted stock shall be granted, the option price, the option expiration date, the date of grant, the vesting schedule of options or whether the options shall be immediately vested, the terms and conditions of options and restricted stock (other than those terms and conditions set forth in the plan) and the number of shares of common stock to be issued pursuant to an option agreement or restricted stock agreement (subject to limits set forth in the plan). The Board of Directors may also take any action it deems necessary and appropriate for the administration of the Director Plan.





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The activity in the Director Plan is displayed in the following table:

Authorized Shares Available for Future Award Grants	Year Ended December 31, 2015	From Inception to December 31, 2015
Beginning balance	87,194	300,000
Number of awards granted	(17,256 )	(236,065 )
Number of awards forfeited or expired	—	6,003
Ending balance	69,938	69,938
Number of option awards exercised	10,132	14,807
Number of restricted stock awards vested	8,729	20,171

## Stock-Based Compensation Expense

In 2015, 2014 and 2013, we recognized stock-based compensation expense of \$2,510, \$1,944 and \$1,777, respectively. Stock-based compensation expense is recognized over the vesting period of the stock options.

As of December 31, 2015, we had \$5,911 in stock-based compensation expense that has yet to be recognized through our results of operations. We expect this compensation to be recognized in subsequent years according to the following table, except with respect to awards that are accelerated by the Board of Directors, in which case we will recognize any remaining compensation expense in the period in which the awards are accelerated.

2016	\$2,080
2017	1,851
2018	1,333
2019	584
2020	63
Total	\$5,911

## Analysis of Award Activity

The analysis below details the award activity for 2015 and the awards outstanding at December 31, 2015, for both of our plans and ad hoc options, which were granted prior to the adoption of the other plans:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	1,358,289	\$ 28.70		
Granted	332,729	29.17		
Exercised	(193,088 )	27.96		
Forfeited or expired	(114,050 )	31.84		
Outstanding at December 31, 2015	1,383,880	\$ 28.66	5.84	\$13,435
Exercisable at December 31, 2015	667,106	\$ 29.76	3.44	\$5,785

Intrinsic value is the difference between our share price on the last day of trading (i.e., December 31, 2015) and the price of the options when granted and represents the value that would have been received by option holders had they exercised their options on that date. These values change based on the fair market value of our shares. The intrinsic value of options exercised totaled \$1,546, \$790 and \$1,383 in 2015, 2014 and 2013, respectively.

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The analysis below details the award activity for the restricted stock awards outstanding at December 31, 2015:

Restricted stock awards	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2015	114,313	\$25.67
Granted	49,881	32.16
Vested	(8,729)	) 27.88
Forfeited	(10,702)	) 25.20
Non-vested at December 31, 2015	144,763	\$27.81

In 2015, 2014 and 2013 we recognized \$924, \$588 and \$407, respectively, in compensation expense related to the restricted stock awards. At December 31, 2015, we had \$2,350 in compensation expense that has yet to be recognized through our results of operations related to the restricted stock awards. The intrinsic value of the non-vested restricted stock awards outstanding totaled \$1,520, \$459 and \$358 at December 31, 2015, 2014 and 2013, respectively.

Assumptions

The weighted-average grant-date fair value of the options granted under our plans has been estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

December 31,	2015		2014		2013	
Risk-free interest rate	1.94	%	2.19	%	1.37	%
Expected volatility	21.92	%	36.58	%	34.32	%
Expected option life (in years)	7		7		7	
Expected dividends (in dollars)	\$0.80		\$0.78		\$0.69	
Weighted-average grant-date fair value of options granted during the year (in dollars)	\$4.98		\$9.15		\$6.64	

The following table summarizes information regarding the stock options outstanding and exercisable at December 31, 2015:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding (in shares)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable (in shares)	Weighted-Average Exercise Price
\$15.01 - 21.00	194,832	5.23	\$ 20.21	129,536	\$ 19.96
21.01 - 28.00	234,221	6.49	23.38	117,226	22.98
28.01 - 35.00	745,327	7.23	30.16	213,344	32.31
35.01 - 41.00	209,500	0.75	37.10	207,000	37.11
\$15.01 - 41.00	1,383,880	5.84	\$ 28.66	667,106	\$ 29.76

NOTE 10. SEGMENT INFORMATION

We have two reportable business segments in our operations: property and casualty insurance and life insurance. The property and casualty insurance segment has seven domestic locations from which it conducts its business. The life insurance segment operates from our home office. Because all of our insurance is sold domestically, we have no revenues allocable to foreign operations. The accounting policies of the segments are the same as those described in Note 1 to our Consolidated Financial Statements. We analyze results based on profitability (i.e., loss ratios), expenses and return on equity.

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Property and Casualty Insurance Segment

We write both commercial and personal lines of property and casualty insurance. We focus on our commercial lines, which represented 91.9% of our property and casualty insurance premiums earned for 2015. Our personal lines represented 8.1% of our property and casualty insurance premiums earned for 2015.

Products

Our primary commercial policies are tailored business packages that include the following coverages: fire and allied lines, other liability, automobile, workers' compensation and surety. Our personal lines consist primarily of automobile and fire and allied lines coverage, including homeowners.

Pricing

Pricing levels for our property and casualty insurance products are influenced by many factors, including an estimation of expected losses, the expenses of producing, issuing and servicing business and managing claims, the time value of money associated with such loss and expense cash flows, and a reasonable allowance for profit. We have a disciplined approach to underwriting and risk management that emphasizes profitable growth rather than premium volume or market share. Our insurance company subsidiaries are subject to state laws and regulations regarding rate and policy form approvals. The applicable state laws and regulations establish standards in certain lines of business to ensure that rates are not excessive, inadequate, unfairly discriminatory, or used to engage in unfair price competition. Our ability to increase rates and the relative timing of the process are dependent upon each respective state's requirements, as well as the competitive market environment.

Seasonality

Our property and casualty insurance segment experiences some seasonality with regard to premiums written, which are generally highest in January and July and lowest during the fourth quarter. Although we experience some seasonality in our premiums written, premiums are earned ratably over the period of coverage. Losses and loss settlement expenses incurred tend to remain consistent throughout the year, with the exception of catastrophe losses which generally are highest in the second and third quarters. Catastrophes inherently are unpredictable and can occur at any time during the year from man-made or natural disaster events that include, but are not limited to, hail, tornadoes, hurricanes and windstorms.

Life Insurance Segment

Products

United Life Insurance Company underwrites all of our life insurance business and sells annuities. Our principal products are single premium annuities, universal life products and traditional life (primarily single premium whole life insurance) products. We also underwrite and market other traditional products, including term life insurance and whole life insurance. We do not write variable annuities or variable insurance products.

Life insurance in force, before ceded reinsurance, totaled \$5,491,932 and \$5,366,061 as of December 31, 2015 and 2014, respectively. Traditional life insurance products represented 68.5 percent and 67.7 percent of our insurance in-force at December 31, 2015 and 2014, respectively. Universal life insurance represented 26.3 percent and 27.3 percent of insurance in force at December 31, 2015 and 2014, respectively.

Pricing

Premiums for our life and health insurance products are based on assumptions with respect to mortality, morbidity, investment yields, expenses, and lapses and are also affected by state laws and regulations, as well as competition. Pricing assumptions are based on our experience, as well as the industry in general, depending upon the factor being considered. The actual profit or loss produced by a product will vary from the anticipated profit if the actual experience differs from the assumptions used in pricing the product.

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## Premiums Earned by Segment

The following table sets forth our net premiums earned by segment before intersegment eliminations:

Years Ended December 31,	2015	2014	2013
<b>Property and Casualty Insurance Segment</b>			
Net premiums earned			
Other liability	\$261,303	\$228,426	\$199,548
Fire and allied lines	246,450	226,086	208,030
Automobile	210,090	187,813	169,211
Workers' compensation	95,672	88,522	81,616
Fidelity and surety	21,362	19,212	18,746
Reinsurance assumed	13,639	13,145	14,406
Other	3,179	3,735	2,635
Total net premiums earned	\$851,695	\$766,939	\$694,192
<b>Life Insurance Segment</b>			
Net premiums earned			
Ordinary life (excluding universal life)	\$53,114	\$35,557	\$38,875
Universal life policy fees	12,834	13,190	11,871
Immediate annuities with life contingencies	12,223	11,639	8,837
Accident and health	1,425	1,274	1,302
Other	388	261	261
Total net premiums earned	\$79,984	\$61,921	\$61,146

Total revenue by segment includes sales to external customers and intersegment sales that are eliminated to arrive at the total revenues as reported in the accompanying Consolidated Statements of Income and Comprehensive Income. We account for intersegment sales on the same basis as sales to external customers.

The following table sets forth certain data for each of our business segments and is reconciled to our Consolidated Financial Statements. Depreciation and amortization expense and property and equipment acquisitions for 2015, 2014 and 2013 are reported in the property and casualty insurance segment.

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	2015	2014	2013
Property and Casualty Insurance:			
Revenues:			
Net premiums earned	\$851,695	\$766,939	\$694,192
Investment income, net of investment expenses	46,606	44,219	46,279
Net realized investment gains	1,124	4,177	6,260
Other income (loss)	(107	) 910	88
Total revenues before eliminations	\$899,318	\$816,245	\$746,819
Intersegment eliminations	(47	) 18	53
Total revenues	\$899,271	\$816,263	\$746,872
Net income before income taxes:			
Revenues	\$899,318	\$816,245	\$746,819
Benefit, losses and expenses	784,691	750,768	658,645
Total net income before eliminations	\$114,627	\$65,477	\$88,174
Intersegment eliminations	743	548	545
Income before income taxes	\$115,370	\$66,025	\$88,719
Income tax expense	30,050	13,649	21,263
Net income	\$85,320	\$52,376	\$67,456
Assets			
Total segment	\$2,490,138	\$2,360,764	\$2,218,464
Intersegment eliminations	(209,464	) (233,141	) (223,395
Total assets	\$2,280,674	\$2,127,623	\$1,995,069
Life Insurance:			
Revenues:			
Net premiums earned	\$79,984	\$61,921	\$61,146
Investment income, net of investment expenses	54,222	60,373	66,467
Net realized investment gains	1,722	3,093	2,434
Other income	508	774	614
Total revenues before eliminations	\$136,436	\$126,161	\$130,661
Intersegment eliminations	(789	) (530	) (491
Total revenues	\$135,647	\$125,631	\$130,170
Net income before income taxes:			
Revenues	\$136,436	\$126,161	\$130,661
Benefit, losses and expenses	129,771	115,361	117,159
Total net income before eliminations	\$6,665	\$10,800	\$13,502
Intersegment eliminations	(584	) (362	) (319
Income before income taxes	\$6,081	\$10,438	\$13,183
Income tax expense	2,275	3,677	4,499
Net income	\$3,806	\$6,761	\$8,684
Assets			
Total segment	\$1,609,702	\$1,729,066	\$1,725,603
Consolidated Totals:			
Total revenues	\$1,034,918	\$941,894	\$877,042
Total net income	\$89,126	\$59,137	\$76,140
Total assets	\$3,890,376	\$3,856,689	\$3,720,672



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## NOTE 11. QUARTERLY SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth our selected unaudited quarterly financial information:

(In Thousands Except Share Data)

Quarters	First	Second	Third	Fourth	Total
Year Ended December 31, 2015					
Total revenues	\$238,484	\$255,918	\$264,560	\$275,956	\$1,034,918
Income before income taxes	31,831	19,533	26,824	43,263	121,451
Net income	\$23,679	\$15,018	\$19,534	\$30,895	\$89,126
Basic earnings per share <sup>(1)</sup>	\$0.95	\$0.60	\$0.78	\$1.23	\$3.56
Diluted earnings per share <sup>(1)</sup>	0.94	0.59	0.77	1.21	3.53
Year Ended December 31, 2014					
Total revenues	\$222,904	\$232,673	\$235,865	\$250,452	\$941,894
Income before income taxes	15,897	13,056	(2,845)	50,355	76,463
Net income	\$13,331	\$10,685	\$325	\$34,796	\$59,137
Basic earnings per share <sup>(1)</sup>	\$0.53	\$0.42	\$0.01	\$1.39	\$2.34
Diluted earnings per share <sup>(1)</sup>	0.52	0.42	0.01	1.38	2.32

(1)The sum of the quarterly reported amounts may not equal the full year, as each is computed independently.

## NOTE 12. EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share gives effect to all dilutive common shares outstanding during the reporting period. The dilutive shares we consider in our diluted earnings per share calculation relate to our outstanding stock options and restricted stock awards.

We determine the dilutive effect of our outstanding stock options using the "treasury stock" method. Under this method, we assume the exercise of all of the outstanding stock options whose exercise price is less than the weighted-average market value of our common stock during the reporting period. This method also assumes that the proceeds from the hypothetical stock option exercises are used to repurchase shares of our common stock at the weighted-average market value of the stock during the reporting period. The net of the assumed stock options exercised and assumed common shares repurchased represents the number of dilutive common shares, which we add to the denominator of the earnings per share calculation.

The components of basic and diluted earnings per share were as follows:

(In Thousands Except Share and Per Share Data)	Years Ended December 31,					
	2015		2014		2013	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income	\$89,126	\$89,126	\$59,137	\$59,137	\$76,140	\$76,140
Weighted-average common shares outstanding	25,047,405	25,047,405	25,230,854	25,230,854	25,325,695	25,325,695
Add dilutive effect of restricted stock awards	—	122,840	—	114,313	—	59,849
Add dilutive effect of stock options	—	65,751	—	148,496	—	145,831
Weighted-average common shares	25,047,405	25,235,996	25,230,854	25,493,663	25,325,695	25,531,375
Earnings per common share	\$3.56	\$3.53	\$2.34	\$2.32	\$3.01	\$2.98
Awards excluded from diluted calculation <sup>(1)</sup>	—	343,390	—	835,610	—	638,478

(1) Outstanding awards that are not "in-the-money" are excluded from the diluted earnings per share calculation because the effect of including them would have been anti-dilutive.





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## NOTE 13. LEASE COMMITMENTS

At December 31, 2015, we were obligated under noncancelable operating lease agreements for office space, vehicles, computer equipment and office equipment. Most of our leases include renewal options, purchase options or both. These provisions may be exercised by us upon the expiration of the related lease agreements. Rental expense under our operating lease agreements was \$6,256, \$7,040 and \$6,521 for 2015, 2014 and 2013, respectively. Our most significant lease commitment is for office space for our regional office in Webster, Texas. This lease was signed in January of 2014 and is good for 7 years. The monthly lease payments for this office space is \$88.

At December 31, 2015, our future minimum rental payments were as follows:

2016	\$5,935
2017	5,583
2018	4,776
2019	2,162
2020	1,487
Thereafter	154
Total	\$20,097

## NOTE 14. CREDIT FACILITY

On February 2, 2016, the Company, as borrower, entered into a Credit Agreement (the "New Credit Agreement") by and among the Company, with the lenders from time to time party thereto and KeyBank National Association ("Key Bank"), as administrative agent, swingline lender and letter of credit issuer. The New Credit Agreement provides for a \$50,000 four-year unsecured revolving credit facility that includes a \$20,000 letter of credit subfacility and a swingline subfacility in the amount up to \$5,000. The New Credit Agreement allows the Company to increase the aggregate amount of the commitments thereunder by up to \$100,000, provided that no event of default has occurred and is continuing and certain other conditions are satisfied.

The New Credit Agreement is available for the Company's general corporate purposes, including liquidity, acquisitions and working capital. All unpaid principal and accrued interest under the New Credit Agreement is due and payable in full at maturity on February 2, 2020. Based on the type of loan, advances under the New Credit Agreement would bear interest on either the London interbank offered rate ("LIBOR") or a base rate plus, in each case, a calculated margin amount.

The unused commitments under the New Credit Agreement will be subject to a commitment fee that will be calculated at a per annum rate. The applicable margins for borrowings under the New Credit Agreement and the commitment fee thereunder will be determined by reference to a pricing grid based on the Company's issuer credit rating by A.M. Best Company, Inc.

The New Credit Agreement contains customary representations, conditions to borrowing, covenants and events of default, including certain covenants that limit or restrict, subject to certain exceptions, the ability of the Company and its subsidiaries to sell or transfer assets, enter into a merger or consolidate with another company, create liens, impose restrictions on subsidiary dividends, enter into sale-leaseback transactions, make investments or acquisitions, enter into certain reinsurance agreements, pay dividends during any period of default, enter into transactions with affiliates, change the nature of its business, or incur indebtedness. The New Credit Agreement also includes financial covenants that require the Company to (i) maintain a minimum consolidated net worth, (ii) maintain a minimum consolidated statutory surplus and (iii) not exceed a 0.35 to 1.0 debt to total capitalization ratio.

In December 2011, United Fire & Casualty Company entered into a credit agreement with a syndicate of financial institutions as lenders, which terminated by expiration on its stated termination date of December 22, 2015. KeyBank National Association was the administrative agent, lead arranger, sole book runner, swingline lender, and letter of credit issuer, and Bankers Trust Company was the syndication agent. The four-year credit agreement

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provided for a \$100,000 unsecured revolving credit facility that included a \$20,000 letter of credit subfacility and a swing line subfacility in the amount of up to \$5,000.

On June 4, 2013, United Fire & Casualty Company, United Fire Group, Inc. and the syndicated lenders entered into an Assignment, Joinder, Assumption, and Release Agreement (the "Joinder Agreement") transferring the obligations under the credit agreement from United Fire & Casualty Company to United Fire Group, Inc. Effective with the execution of the Joinder Agreement, United Fire & Casualty Company was released from any further obligations under the credit agreement.

During the term of this credit agreement, we had the right to increase the total credit facility from \$100,000 up to \$125,000 if no event of default has occurred and is continuing and certain other conditions are satisfied. The credit facility was available for general corporate purposes, including working capital, acquisitions and liquidity purposes. Any principal outstanding under the credit facility was due in full at maturity, on December 22, 2015. The interest rate was based on our monthly choice of either a base rate or the LIBOR plus, in each case, a calculated margin amount. A commitment fee on each lender's unused commitment under the credit facility was also payable quarterly.

The credit agreement contained customary representations, covenants and events of default, including certain covenants that limit or restrict our ability to engage in certain activities. Subject to certain exceptions, those activities included restricting our ability to sell or transfer assets or enter into a merger or consolidate with another company, grant certain types of security interests, incur certain types of liens, impose restrictions on subsidiary dividends, enter into leaseback transactions, or incur certain indebtedness. The credit agreement contained certain financial covenants including covenants that required us to maintain a minimum consolidated net worth, a debt to capitalization ratio and minimum stockholders' equity.

There was no outstanding balance on the credit facility at December 31, 2015 or 2014. We did not incur any interest expense related to this credit facility in 2015, 2014 or 2013. We were in compliance with all covenants of the credit agreement until it terminated by expiration on its stated termination date of December 22, 2015.

## NOTE 15. INTANGIBLE ASSETS

The carrying value of our goodwill was \$15,091 at both December 31, 2015 and 2014, respectively. The goodwill is fully allocated to our property and casualty insurance segment.

Our major classes of intangible assets are presented in the following table:

	Year Ended December 31,	
	2015	2014
Agency relationships	\$10,338	\$10,338
Accumulated amortization - agency relationships	(4,292 )	(3,654 )
	\$6,046	\$6,684
Software	\$3,260	\$3,260
Accumulated amortization - software	(3,260 )	(3,260 )
	\$—	\$—
Trade names	\$1,978	\$1,978
Accumulated amortization - trade names	(626 )	(495 )
	\$1,352	\$1,483
Favorable contract	\$286	\$286
Accumulated amortization - favorable contract	(286 )	(286 )
	\$—	\$—
State insurance licenses <sup>(1)</sup>	\$3,020	\$3,020
Net intangible assets	\$10,418	\$11,187

(1) The intangible asset for licenses has an indefinite life and therefore is not amortized.

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The estimated useful lives assigned to our major classes of amortizable intangible assets are as follows:

	Useful Life
Agency relationships	Fifteen years
Software	Two years
Trade names	Fifteen years
Favorable contract	Two years

Our estimated aggregate amortization expense for each of the next five years is as follows:

2016	\$769
2017	769
2018	719
2019	709
2020	709

## NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table shows the changes in the components of our accumulated other comprehensive income (loss), net of tax, for the years ended December 31, 2015, 2014 and 2013:

	Net unrealized appreciation on investments		Liability for underfunded employee benefit costs		Total
Balance as of January 1, 2013	\$144,096		\$(48,908)	)	\$95,188
Change in accumulated other comprehensive income before reclassifications	(23,068)	)	15,643		(7,425)
Reclassification adjustments from accumulated other comprehensive income	(4,427)	)	3,814		(613)
Balance as of December 31, 2013	\$116,601		\$(29,451)	)	\$87,150
Change in accumulated other comprehensive income before reclassifications	36,328		(30,996)	)	5,332
Reclassification adjustments from accumulated other comprehensive income	(3,306)	)	1,997		(1,309)
Balance as of December 31, 2014	\$149,623		\$(58,450)	)	\$91,173
Change in accumulated other comprehensive income before reclassifications	(18,321)	)	5,664		(12,657)
Reclassification adjustments from accumulated other comprehensive income	(2,933)	)	4,854		1,921
Balance as of December 31, 2015	\$128,369		\$(47,932)	)	\$80,437

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
United Fire Group, Inc.

We have audited the accompanying consolidated balance sheets of United Fire Group, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Fire Group, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), United Fire Group, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report, dated February 26, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Ernst & Young LLP

Des Moines, Iowa  
February 26, 2016

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this report, were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of United Fire Group, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. United Fire Group, Inc.'s internal control over financial reporting is a process designed under the supervision of its Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its Consolidated Financial Statements for external purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2015, United Fire Group, Inc.'s management assessed the effectiveness of United Fire Group Inc.'s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, United Fire Group, Inc.'s management determined that effective internal control over financial reporting was maintained as of December 31, 2015, based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the Consolidated Financial Statements of United Fire Group, Inc. included in this Annual Report on Form 10-K, has audited the effectiveness of internal control over financial reporting as of December 31, 2015. Their attestation report, which expresses an unqualified opinion on the effectiveness of United Fire Group, Inc.'s internal control over financial reporting as of December 31, 2015, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Dated: February 26, 2016

/s/ Randy A. Ramlo

Randy A. Ramlo

Chief Executive Officer

/s/ Dawn M. Jaffray

Dawn M. Jaffray

Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

United Fire Group, Inc.

We have audited United Fire Group, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). United Fire Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, United Fire Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2015 and 2014 and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 of United Fire Group, Inc. and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Ernst & Young LLP

Des Moines, Iowa  
February 26, 2016



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CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15 and 15d-15) that occurred during the fiscal quarter ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 regarding the Company's executive officers is included in "Executive Officers of the Company" under Part I, Item 1 of this report.

The information required by this Item regarding our directors and corporate governance matters is included under the captions "Board of Directors," subheading "Corporate Governance" and "Proposal One-Election of Directors," in our definitive Proxy Statement for our annual meeting of shareholders to be held on May 18, 2016 (the "2016 Proxy Statement") and is incorporated herein by reference.

The information required by this Item regarding our Code of Ethics is included under the caption "Board of Directors," subheading "Corporate Governance," subpart "Code of Ethics" in our 2016 Proxy Statement and is incorporated herein by reference.

The information required by this Item regarding compliance with Section 16(a) of the Exchange Act is included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our 2016 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this Item regarding our executive compensation and our Compensation Committee Report is included under the caption "Executive Compensation" and the subheading "Report of the Compensation Committee" in our 2016 Proxy Statement and is incorporated herein by reference. The information required by this Item regarding Compensation Committee interlocks and insider participation is included under the caption "Board of Directors," subheading "Committees of the Board," subheading "Compensation Committee," subpart "Compensation Committee Interlocks and Insider Participation" in our 2016 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required under this Item is included under the captions "Security Ownership of Certain Beneficial Owners," "Security Ownership of Management" and "Securities Authorized for Issuance under Equity Compensation Plans" in our 2016 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required under this Item is included under the captions "Board of Directors" and "Transactions with Related Persons" in our 2016 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required under this Item is included under the caption "Proposal Three - Ratification of the Audit Committee's Appointment of Independent Registered Public Accounting Firm," subheading "Information About Our Independent Registered Public Accounting Firm" in our 2016 Proxy Statement and is incorporated herein by reference.

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PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

We have filed the following documents as part of this Annual Report on Form 10-K:

	Page
<u>(a) 1. Financial Statements</u>	
<u>Consolidated Balance Sheets at December 31, 2015 and 2014</u>	<u>82</u>
<u>Consolidated Statements of Income and Comprehensive Income for the three years ended December 31, 2015</u>	<u>83</u>
<u>Consolidated Statements of Stockholders' Equity for the three years ended December 31, 2015</u>	<u>84</u>
<u>Consolidated Statements of Cash Flows for the three years ended December 31, 2015</u>	<u>85</u>
<u>Notes to Consolidated Financial Statements</u>	<u>87</u>
 <u>(a) 2. Financial Statement Schedules required to be filed by Item 8 of this Form:</u>	
<u>Schedule I. Summary of Investments — Other than Investments in Related Parties</u>	<u>142</u>
<u>Schedule II. Condensed Financial Statements of Parent Company</u>	<u>143</u>
<u>Schedule III: Supplementary Insurance Information</u>	<u>146</u>
<u>Schedule IV: Reinsurance</u>	<u>147</u>
<u>Schedule V: Valuation and Qualifying Accounts</u>	<u>148</u>
<u>Schedule VI: Supplemental Information Concerning Property and Casualty Insurance Operations</u>	<u>149</u>
All other schedules have been omitted as not required, not applicable, not deemed material or because the information is included in the Consolidated Financial Statements.	
<u>(a) 3. See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.</u>	

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## Schedule I. Summary of Investments — Other than Investments in Related Parties

December 31, 2015

(In thousands)

Type of Investment	Cost or Amortized Cost	Fair Value	Amounts at Which Shown in Balance Sheet
Fixed maturities			
Bonds			
United States Government and government agencies and authorities	\$254,395	\$254,679	\$254,679
States, municipalities and political subdivisions	846,009	872,287	872,287
Foreign governments	82,580	82,528	82,528
Public utilities	213,233	215,683	215,683
All other bonds	1,406,431	1,410,596	1,410,593
Redeemable preferred stock	2,568	2,485	2,485
Total fixed maturities	\$2,805,216	\$2,838,258	\$2,838,255
Equity securities			
Common stocks			
Public utilities	\$7,231	\$19,060	\$19,060
Banks, trusts and insurance companies	17,615	95,923	95,923
Industrial, miscellaneous and all other	46,031	123,416	123,416
Nonredeemable preferred stocks	2,080	2,201	2,201
Total equity securities	\$72,957	\$240,600	\$240,600
Mortgage loans on real estate	\$3,961	\$4,237	\$3,961
Policy loans	5,618	5,618	5,618
Other long-term investments	46,357	54,151	54,151
Short-term investments	175	175	175
Total investments	\$2,934,284	\$3,143,039	\$3,142,760

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## Schedule II. Condensed Financial Statements of Parent Company

United Fire Group, Inc. (parent company only)

Condensed Balance Sheets

	December 31,	
(In thousands, except share data)	2015	2014
Assets		
Fixed maturities, held-to-maturity, at amortized cost (fair value \$150 in 2015 and \$200 in 2014)	\$150	\$200
Investment in subsidiary	871,590	814,569
Cash and cash equivalents	6,565	2,263
Federal income tax receivable	591	383
Accrued investment income	1	1
Total assets	\$878,897	\$817,416
Liabilities and stockholders' equity		
Liabilities	\$—	\$1
Stockholders' equity		
Common stock, \$0.001 par value, authorized 75,000,000 shares; 25,151,428 and 25,019,415 issued and outstanding in 2015 and 2014, respectively	\$25	\$25
Additional paid-in capital	207,426	202,676
Retained earnings	591,009	523,541
Accumulated other comprehensive income, net of tax	80,437	91,173
Total stockholders' equity	\$878,897	\$817,415
Total liabilities and stockholders' equity	\$878,897	\$817,416

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8 of this Annual Report on Form 10-K.



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## Schedule II. Condensed Financial Statements of Parent Company (continued)

United Fire Group, Inc. (parent company only)  
Condensed Statements of Income and Comprehensive Income

(In thousands)	For the Years Ended December 31,		
	2015	2014	2013
Revenues			
Investment income	\$25	\$22	\$23
Total revenues	25	22	23
Expenses			
Other operating expenses	\$116	\$297	\$172
Total expenses	116	297	172
Loss before income taxes and equity in net income of subsidiary	(91	)(275	)(149
Federal income tax benefit	(42	)(107	)(49
Net loss before equity in net income of subsidiary	\$(49	)\$ (168	)\$ (100
Equity in net income of subsidiary	89,175	59,305	76,240
Net income	\$89,126	\$59,137	\$76,140
Other comprehensive income (loss)			
Change in unrealized appreciation on investments held by subsidiary	\$(28,185	)\$55,888	\$(35,489
Change in liability for underfunded employee benefit plans of subsidiary	8,714	(47,685	)24,066
Other comprehensive income (loss), before tax and reclassification adjustments	\$(19,471	)\$8,203	\$(11,423
Income tax effect	6,814	(2,871	)3,998
Other comprehensive income (loss), after tax, before reclassification adjustments	\$(12,657	)\$5,332	\$(7,425
Reclassification adjustment for net realized gains of the subsidiary included in income	(4,513	)(5,085	)(6,812
Reclassification adjustment for employee benefit costs of the subsidiary included in expense	7,468	3,072	5,868
Total reclassification adjustments, before tax	\$2,955	\$(2,013	)\$ (944
Income tax effect	(1,034	)704	331
Total reclassification adjustments, after tax	\$1,921	\$(1,309	)\$ (613
Comprehensive income	\$78,390	\$63,160	\$68,102

On February 1, 2012, we completed a holding company reorganization (the "Reorganization") of United Fire Group, Inc., United Fire & Casualty Company, and UFC MergeCo, Inc., an Iowa corporation formed for the purpose of facilitating the Reorganization. The Reorganization agreement was approved and adopted by United Fire & Casualty Company's shareholders at a special meeting held on January 24, 2012.

United Fire Group, Inc. and its subsidiaries file a consolidated federal income tax return. The federal income tax provision represents an allocation under its tax allocation agreements.

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8 of this Annual Report on Form 10-K.



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## Schedule II. Condensed Financial Statements of Parent Company (continued)

United Fire Group, Inc. (parent company only)  
Condensed Statements of Cash Flows

(In thousands)	For the Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Net income	\$89,126	\$59,137	\$76,140
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in net income of subsidiary	(89,175	)(59,305	)(76,240
Dividends received from subsidiary	22,500	29,000	13,175
Other, net	1,269	700	1,261
Total adjustments	\$(65,406	)(29,605	)(61,804
Net cash provided by operating activities	\$23,720	\$29,532	\$14,336
Cash flows from investing activities			
Purchase of held-to-maturity investments	\$—	\$—	\$—
Net cash used in investing activities	\$—	\$—	\$—
Cash flows from financing activities			
Repurchase of common stock	\$(2,423	)(12,942	)(1,644
Issuance of common stock	5,496	2,260	3,393
Tax impact from issuance of common stock	(833	)(160	)(488
Payment of cash dividends	(21,658	)(19,680	)(17,484
Net cash used in financing activities	\$(19,418	)(30,522	)(16,223
Net change in cash and cash equivalents	\$4,302	\$(990	)(1,887
Cash and cash equivalents at beginning of period	2,263	3,253	5,140
Cash and cash equivalents at end of year	\$6,565	\$2,263	\$3,253

On February 1, 2012, we completed a holding company reorganization (the "Reorganization") of United Fire Group, Inc., United Fire & Casualty Company, and UFC MergeCo, Inc., an Iowa corporation formed for the purpose of facilitating the Reorganization. The Reorganization agreement was approved and adopted by United Fire & Casualty Company's shareholders at a special meeting held on January 24, 2012.

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8 of this Form 10-K.

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## Schedule III. Supplementary Insurance Information

(In thousands)	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Expenses	Unearned Premiums	Earned Premium Revenue	Investment Income, Net	Benefits, Claims, and Settlement Expenses	Amortization of Deferred Policy Acquisition Costs <sup>(3)</sup>	Other Underwriting Expenses	Interest on Policyholders Accounts	Premiums Written <sup>(2)</sup>
Year Ended December 31, 2015										
Property and casualty	\$90,547	\$1,003,895	\$414,971	\$851,695	\$46,559	\$520,087	\$180,183	\$83,631	\$—	\$887,874
Life, accident and health <sup>(1)</sup>	77,717	1,372,358	86	79,195	54,222	79,946	6,634	19,306	23,680	—
Total Year Ended December 31, 2015	\$168,264	\$2,376,253	\$415,057	\$930,890	\$100,781	\$600,033	\$186,817	\$102,937	\$23,680	\$887,874
Year Ended December 31, 2014										
Property and casualty	\$72,861	\$969,437	\$378,635	\$766,939	\$44,236	\$509,811	\$161,310	\$79,117	\$—	\$804,715
Life, accident and health <sup>(1)</sup>	66,858	1,447,764	90	61,391	60,373	63,055	6,139	15,754	30,245	—
Total Year Ended December 31, 2014	\$139,719	\$2,417,201	\$378,725	\$828,330	\$104,609	\$572,866	\$167,449	\$94,871	\$30,245	\$804,715
Year Ended December 31, 2013										
Property and casualty	\$67,663	\$960,651	\$340,387	\$694,192	\$46,332	\$437,354	\$147,175	\$73,626	\$—	\$722,821
Life, accident and health <sup>(1)</sup>	82,429	1,472,132	77	60,654	66,467	59,085	6,502	16,235	35,163	—
Total Year Ended December 31, 2013	\$150,092	\$2,432,783	\$340,464	\$754,846	\$112,799	\$496,439	\$153,677	\$89,861	\$35,163	\$722,821

(1) Annuity deposits are included in future policy benefits, losses, claims and loss expenses.

(2) Pursuant to Regulation S-X, premiums written does not apply to life insurance companies.



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## Schedule IV. Reinsurance

(In thousands)	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net Earned	
Year Ended December 31, 2015						
Life insurance in force	\$5,491,932	\$1,165,868	\$—	\$4,326,064		
Premiums earned						
Property and casualty insurance	\$890,057	\$56,758	\$18,396	\$851,695	2.16	%
Life, accident and health insurance	82,356	3,161	—	79,195	—	%
Total	\$972,413	\$59,919	\$18,396	\$930,890	1.98	%
Year Ended December 31, 2014						
Life insurance in force	\$5,366,061	\$1,130,059	\$—	\$4,236,002		
Premiums earned						
Property and casualty insurance	\$800,492	\$49,818	\$16,265	\$766,939	2.12	%
Life, accident and health insurance	64,350	2,959	—	61,391	—	%
Total	\$864,842	\$52,777	\$16,265	\$828,330	1.96	%
Year Ended December 31, 2013						
Life insurance in force	\$5,300,305	\$1,112,688	\$4	\$4,187,621		
Premiums earned						
Property and casualty insurance	\$726,221	\$50,514	\$18,485	\$694,192	2.66	%
Life, accident and health insurance	63,446	2,792	—	60,654	—	%
Total	\$789,667	\$53,306	\$18,485	\$754,846	2.45	%

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## Schedule V. Valuation And Qualifying Accounts

(In thousands)	Balance at beginning of period	Charged to costs and expenses	Deductions	Balance at end of period
Description				
Allowance for bad debts				
Year Ended December 31, 2015	\$618	\$249	\$—	\$867
Year Ended December 31, 2014	896	—	278	618
Year Ended December 31, 2013	866	30	—	896
Deferred tax asset valuation allowance <sup>(1)</sup>				
Year Ended December 31, 2015	\$1,813	\$—	\$548	\$1,265
Year Ended December 31, 2014	2,361	—	548	1,813
Year Ended December 31, 2013	2,909	—	548	2,361

(1) Recorded in connection with the purchase of American Indemnity Financial Corporation in 1999.

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Schedule VI. Supplemental Information Concerning Property and Casualty Insurance Operations

(In thousands)

Affiliation with Registrant: United Fire & Casualty Company and consolidated property and casualty subsidiaries	Deferred Policy Acquisition Costs	Reserves for Unpaid Claims and Claim Adjustment Expenses	Unearned Premiums	Earned Premiums	Net Realized Gains	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related to:		Amortization of Deferred Policy Acquisition Costs <sup>(1)</sup>	Paid Claims and Claim Adjustment Expenses	Premium Written
							Current Year	Prior Years			
2015	\$90,547	\$1,003,895	\$414,971	\$851,695	\$1,124	\$46,559	\$560,482	\$(40,395)	\$180,183	\$476,525	\$887,874
2014	\$72,861	\$969,437	\$378,635	\$766,939	\$4,177	\$44,236	\$566,555	\$(56,744)	\$161,310	\$489,631	\$804,715
2013	\$67,663	\$960,651	\$340,387	\$694,192	\$6,260	\$46,332	\$494,841	\$(57,487)	\$147,175	\$419,894	\$722,821

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED FIRE GROUP, INC.

By: /s/ Randy A. Ramlo  
Randy A. Ramlo, Chief Executive Officer, Director and Principal  
Executive Officer

Date: 2/26/2016

By: /s/ Dawn M. Jaffray  
Dawn M. Jaffray, Senior Vice President, Chief Financial Officer,  
Principal Financial Officer and Principal Accounting Officer

Date: 2/26/2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By /s/ Jack B. Evans  
Jack B. Evans, Chairman and Director  
Date 2/26/2016

By /s/ John P. Besong  
John P. Besong, Director  
Date 2/26/2016

By /s/ Scott L. Carlton  
Scott L. Carlton, Director  
Date 2/26/2016

By: /s/ Christopher R. Drahozal  
Christopher R. Drahozal, Director  
Date 2/26/2016

By /s/ Douglas M. Hultquist  
Douglas M. Hultquist, Director  
Date 2/26/2016

By /s/ Casey D. Mahon  
Casey D. Mahon, Director  
Date 2/26/2016

By /s/ George D. Milligan  
George D. Milligan, Director  
Date 2/26/2016

By /s/ James W. Noyce  
James W. Noyce, Vice Chairman and Director  
Date 2/26/2016

By /s/ Mary K. Quass  
Mary K. Quass, Director  
Date 2/26/2016

By /s/ Kyle D. Skogman  
Kyle D. Skogman, Director  
Date 2/26/2016

By /s/ Susan E. Voss  
Susan E. Voss, Director  
Date 2/26/2016

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Exhibit Index

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference			Filing date
			Form	Period ending	Exhibit	
2.1	Agreement and Plan of Reorganization among United Fire & Casualty Company, United Fire Group, Inc. and UFC MergeCo, Inc.		8-K		2.1	5/25/2011
3.1	Articles of Incorporation of United Fire Group, Inc.		S-4		Annex II	5/25/2011
3.2	Articles of Amendment to Articles of Incorporation of United Fire Group, Inc.		8-K		3.1	5/26/2015
3.3	Bylaws of United Fire Group, Inc.		S-4		Annex III	5/25/2011
10.1	Employee Stock Purchase Plan		10-K	12/31/2007	10.2	2/27/2008
10.2	* Stock Option and Restricted Stock Plan (as amended)		DEF14A		Exhibit A	4/18/2011
10.4	* United Fire Group, Inc. Amended and Restated Annual Incentive Plan (Amended February 24, 2012)		10-K	12/31/2011	10.4	3/15/2012
10.5	* Non-qualified Deferred Compensation Plan		10-Q	9/30/2007	10.3	10/25/2007
10.6	* United Fire Group, Inc. Stock Plan, amended as of February 21, 2014 (amending and restating the United Fire & Casualty Company 2008 Stock Plan) (the "Stock Plan")		DEF14A		App A	4/8/2014
10.7	* Form of Non-qualified Employee Stock Option Agreement under the Stock Plan		10-K	12/31/2007	10.7	2/27/2008
10.8	* Form of Option Issued Pursuant to the 2005 Non-qualified Non-employee Director Stock Option and Restricted Stock Plan		10-K	12/31/2007	10.8	2/27/2008
10.9	* Form of Stock Award Agreement under the Stock Plan		8-K		99.2	5/22/2008
10.10	* Form of Non-qualified Stock Option Agreement for the Purchase of Stock under the Stock Plan		8-K		99.3	5/22/2008
10.11	* Form of Incentive Stock Option Agreement for the Purchase of Stock under the Stock Plan		8-K		99.4	5/22/2008
10.12	* Amendment to Non-qualified Stock Option Agreements for John A. Rife		8-K/A		99.1	2/24/2009
10.13	* Form of Restricted Stock Agreement under the 2005 Non-qualified Non-employee Director Stock Option and Restricted Stock Plan		10-K	12/31/2011	10.14	3/15/2012
10.14	* United Fire Group, Inc. Plan for Allocation of Equity Compensation to Management Team		10-K	12/31/2011	10.15	3/15/2012
10.15	* Deferred Compensation Plan for United Fire Group, Inc. Non-Employee Directors		8-K		10.1	11/19/2012
10.16	* United Fire Group, Inc. Executive Nonqualified Excess Plan		8-K		0.0101	5/22/2014
10.17	*		8-K		0.0102	5/22/2014



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		United Fire & Casualty Company Executive Nonqualified Excess Plan Adoption Agreement			
10.18	*	United Fire & Casualty Company Rabbi Directed Trust Agreement	8-K	0.0103	5/22/2014
10.19	*	United Fire Group, Inc. Template Change in Control Severance Agreement	8-K	0.0104	5/22/2014
10.20	*	Amendment Number One to United Fire & Casualty Company Nonqualified Deferred Compensation Plan	8-K	0.0105	5/22/2014

\*Indicates a management contract or compensatory plan or arrangement.

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Exhibit Index

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference			Filing date
			Form	Period ending	Exhibit	
10.21 *	Form of Non-Qualified Employee Stock Option Agreement under the United Fire Group, Inc. Stock Plan		10-Q	6/30/14	10.7	8/5/2014
10.22 *	Form of Stock Award Agreement under the United Fire Group, Inc. Stock Plan		10-Q	6/30/14	10.8	8/5/2014
10.23 *	Employment Release Agreement, dated December 26, 2014, between United Fire Group, Inc. and Dianne M. Lyons		10-K	12/31/14	10.28	3/2/2015
10.24	Credit Agreement between United Fire & Casualty Company and syndicated lenders		8-K		10.1	12/23/2011
10.25	First Amendment to Credit Agreement between United Fire & Casualty Company and syndicated lenders		8-K		10.1	1/30/2012
10.26	Second Amendment to Credit Agreement between United Fire & Casualty Company and syndicated lenders		8-K		10.1	12/21/2012
10.27	Assignment, Joinder, Assumption, and Release Agreement, between and among United Fire Group, Inc., United Fire & Casualty Company, a syndicate of financial institutions, as lenders party thereto, and KeyBank National Association, as Administrative Agent, Lead Arranger, Sole Book Runner, Swingline Lender, and Letter of Credit Issuer		8-K		10.1	6/5/2013
10.28	Credit Agreement dated as of February 2, 2016, by and among United Fire Group, Inc., as borrower, the lenders from time to time party thereto, and KeyBank National Association, as administrative agent, swingline lender and letter of credit issuer.		8-K		10.1	2/5/2016
11	Statement Re Computation of Per Share Earnings. All information required by Exhibit 11 is presented within Note 12 of the Notes to Consolidated Financial Statements	X				
12	Statement Re Computation of Ratios	X				
14	Code of Ethics		8-K/A		14.1	1/31/2013
21	Subsidiaries of the Registrant	X				
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm	X				
23.2	Consent of Griffith, Ballard & Company, Independent Actuary	X				
23.3	Consent of Regnier Consulting Group, Inc., Independent Actuary	X				

31.1 Certification of Randy A. Ramlo Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002 X

\*Indicates a management contract or compensatory plan or arrangement.

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## Exhibit Index

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference			Filing date
			Form	Period ending	Exhibit	
31.2	Certification of Dawn M. Jaffray Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of Randy A. Ramlo Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of Dawn M. Jaffray Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.1	The following financial information from United Fire Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015 formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2015 and 2014; (ii) Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2015, 2014 and 2013; (iii) Consolidated Statement of Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013; and (v) Notes to Consolidated Financial Statements.	X				