

UNITED FIRE GROUP INC
Form 10-Q
May 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2018

or

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

Commission File Number 001-34257

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

Iowa 45-2302834
(State of Incorporation) (IRS Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

YES

NO

As of May 7, 2018, 24,926,648 shares of common stock were outstanding.

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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," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. See Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 and Part II, Item 1A "Risk Factors" of this report for more information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

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

- The frequency and severity of claims, including those related to catastrophe losses and the impact those claims have on our loss reserve adequacy; the occurrence of catastrophic events, including international events, significant severe weather conditions, climate change, acts of terrorism, acts of war and pandemics;
- The adequacy of our reserves for property and casualty insurance losses and loss settlement expenses;
- Geographic concentration risk in the property and casualty insurance business;
- 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; changes in 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 — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Data)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value \$150 in 2018 and \$150 in 2017)	\$ 150	\$ 150
Available-for-sale, at fair value (amortized cost \$1,577,448 in 2018 and \$1,516,610 in 2017)	1,563,996	1,535,070
Trading securities, at fair value (amortized cost \$13,229 in 2018 and \$14,582 in 2017)	15,379	16,842
Equity securities at fair value (cost \$65,481 in 2018 and \$63,275 in 2017)	280,362	287,344
Other long-term investments	44,998	49,352
Short-term investments	175	175
	1,905,060	1,888,933
Cash and cash equivalents	316,852	95,562
Accrued investment income	15,083	13,841
Premiums receivable (net of allowance for doubtful accounts of \$1,082 in 2018 and \$1,255 in 2017)	339,007	328,513
Deferred policy acquisition costs	89,836	88,102
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$52,693 in 2018 and \$51,603 in 2017)	71,929	68,992
Reinsurance receivables and recoverables	63,506	63,194
Prepaid reinsurance premiums	4,002	3,749
Income taxes receivable	—	6,031
Goodwill and intangible assets	23,783	23,971
Other assets	16,306	16,409
Assets held for sale	—	1,586,134
TOTAL ASSETS	\$2,845,364	\$ 4,183,431
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Losses and loss settlement expenses	\$1,219,981	\$ 1,224,183
Unearned premiums	476,912	465,391
Accrued expenses and other liabilities	158,811	167,396
Income taxes payable	17,581	—
Deferred income taxes	1,386	5,953
Liabilities held for sale	—	1,347,135
TOTAL LIABILITIES	\$1,874,671	\$ 3,210,058
Stockholders' Equity		
Common stock, \$0.001 par value; authorized 75,000,000 shares; 24,912,748 and 24,916,806 shares issued and outstanding in 2018 and 2017, respectively	\$25	\$ 25
Additional paid-in capital	194,504	196,334
Retained earnings	832,031	608,700

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Accumulated other comprehensive income (loss), net of tax	(55,867) 168,314
TOTAL STOCKHOLDERS' EQUITY	\$970,693	\$ 973,373
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,845,364	\$ 4,183,431

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

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United Fire Group, Inc.

Consolidated Statements of Income and Comprehensive Income (Unaudited)

(In Thousands, Except Share Data)	Three Months Ended	
	March 31, 2018	2017
Revenues		
Net premiums earned	\$245,167	\$236,444
Investment income, net of investment expenses	13,492	12,585
Net realized investment gains (losses) (includes reclassifications for net unrealized investment gains on available-for-sale securities of \$37 in 2018 and \$3,405 in 2017; previously included in accumulated other comprehensive income)	(7,864)	2,249
Total revenues	\$250,795	\$251,278
Benefits, Losses and Expenses		
Losses and loss settlement expenses	\$144,728	\$156,552
Amortization of deferred policy acquisition costs	49,639	50,461
Other underwriting expenses (includes reclassifications for employee benefit costs of \$1,660 in 2018 and \$1,352 in 2017; previously included in accumulated other comprehensive income)	34,855	21,259
Total benefits, losses and expenses	\$229,222	\$228,272
Income from continuing operations before income taxes	\$21,573	\$23,006
Federal income tax expense (includes reclassifications of \$341 in 2018 and (\$718) in 2017; previously included in accumulated other comprehensive income)	1,209	4,422
Income from continuing operations	\$20,364	\$18,584
Income (loss) from discontinued operations, net of taxes	(1,912)	1,352
Gain on sale of discontinued operations, net of taxes	27,307	—
Net income	\$45,759	\$19,936
Other comprehensive income		
Change in net unrealized appreciation on investments	\$(51,814)	\$14,966
Change in liability for underfunded employee benefit plans	—	—
Other comprehensive income, before tax and reclassification adjustments	\$(51,814)	\$14,966
Income tax effect	10,881	(5,238)
Other comprehensive income, after tax, before reclassification adjustments	\$(40,933)	\$9,728
Reclassification adjustment for net realized investment gains included in income	\$(37)	\$(3,405)
Reclassification adjustment for employee benefit costs included in expense	1,660	1,352
Total reclassification adjustments, before tax	\$1,623	\$(2,053)
Income tax effect	(341)	718
Total reclassification adjustments, after tax	\$1,282	\$(1,335)
Comprehensive income	\$6,108	\$28,329
Diluted weighted average common shares outstanding	25,458,090	25,854,181
Earnings per common share from continuing operations:		
Basic	\$0.82	\$0.73
Diluted	0.80	0.72
Earnings per common share:		
Basic	\$1.84	\$0.78
Diluted	1.80	0.77

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

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

(In Thousands, Except Share Data)	Three Months Ended March 31, 2018
Common stock	
Balance, beginning of year	\$25
Shares repurchased (120,372 shares)	—
Shares issued for stock-based awards (116,314 shares)	—
Balance, end of period	\$25
Additional paid-in capital	
Balance, beginning of year	\$ 196,334
Compensation expense and related tax benefit for stock-based award grants	1,281
Shares repurchased	(5,404)
Shares issued for stock-based awards	2,293
Balance, end of period	\$ 194,504
Retained earnings	
Balance, beginning of year	\$ 608,700
Cumulative effect of change in accounting principle	191,244
Net unrealized investment depreciation of discontinued operations, sold	(6,714)
Net income	45,759
Dividends on common stock (\$0.28 per share)	(6,958)
Balance, end of period	\$ 832,031
Accumulated other comprehensive income (loss), net of tax	
Balance, beginning of year	\$ 168,314
Cumulative effect of change in accounting principle	(191,244)
Change in net unrealized investment appreciation ⁽¹⁾	(34,248)
Change in liability for underfunded employee benefit plans ⁽²⁾	1,311
Balance, end of period	\$ (55,867)
Summary of changes	
Balance, beginning of year	\$ 973,373
Net income	45,759
All other changes in stockholders' equity accounts	(48,439)
Balance, end of period	\$ 970,693

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

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

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

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United Fire Group, Inc.

Consolidated Statements of Cash Flows (Unaudited)

(In Thousands)	Three Months Ended	
	March 31, 2018	2017
Cash Flows From Operating Activities		
Net income	\$45,759	\$19,936
Less net income (loss) from discontinued operations, net of taxes	(1,912)	1,352
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	2,178	2,252
Depreciation and amortization	1,159	1,165
Stock-based compensation expense	1,281	1,044
Net realized investment (gains) losses	7,864	(2,249)
Net cash flows from trading investments	383	(610)
Deferred income tax benefit	(3,879)	(975)
Changes in:		
Accrued investment income	(1,242)	(1,329)
Premiums receivable	(10,494)	(18,226)
Deferred policy acquisition costs	(1,734)	(2,623)
Reinsurance receivables	(312)	(582)
Prepaid reinsurance premiums	(253)	(59)
Income taxes receivable	6,031	4,751
Other assets	104	(341)
Losses and loss settlement expenses	(4,202)	16,823
Unearned premiums	11,521	23,231
Accrued expenses and other liabilities	(6,925)	(9,065)
Income taxes payable	17,581	—
Deferred income taxes	(14,039)	2,526
Other, net	1,708	(1,504)
Cash from operating activities - continuing operations	6,730	14,229
Cash from operating activities - discontinued operations	4,024	6,394
Cash from operating activities - gain on sale of discontinued operations	(34,851)	—
Total adjustments	\$(24,097)	\$20,623
Net cash provided by operating activities	\$23,574	\$39,207
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	\$—	\$1,096
Proceeds from call and maturity of available-for-sale investments	30,320	40,055
Proceeds from short-term and other investments	3,078	1,665
Proceeds from the sale of discontinued operations	276,055	—
Purchase of available-for-sale investments	(93,115)	(80,097)
Purchase of short-term and other investments	(676)	(1,590)
Net purchases and sales of property and equipment	(3,851)	(1,392)
Cash from investing activities - continuing operations	211,811	(40,263)
Cash from investing activities - discontinued operations	14,343	12,035
Net cash provided by (used in) investing activities	\$226,154	\$(28,228)
Cash Flows From Financing Activities		
Payment of cash dividends	\$(6,960)	\$(6,367)
Repurchase of common stock	(5,404)	(5,749)
Issuance of common stock	2,293	1,244

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Cash from financing activities - continuing operations	(10,071)	(10,872)
Cash from financing activities - discontinued operations	(11,547)	(17,304)
Net cash used in financing activities	\$(21,618)	\$(28,176)
Net Change in Cash and Cash Equivalents	\$228,110	\$(17,197)
Less: increase in cash and cash equivalents - discontinued operations	(6,820)	(1,125)
Net increase (decrease) in cash and cash equivalents - continuing operations	221,290	(18,322)
Cash and Cash Equivalents at Beginning of Period - Continuing Operations	95,562	89,194
Cash and Cash Equivalents at End of Period - Continuing Operations	\$316,852	\$70,872

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

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UNITED FIRE GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance through a network of independent agencies. Our insurance company subsidiaries are licensed as a property and casualty insurer in 46 states and the District of Columbia.

Discontinued Operations

We have historically reported our operations in two business segments: property and casualty insurance and life insurance. On September 18, 2017, the Company signed a definitive agreement to sell its subsidiary, United Life Insurance Company ("United Life"), to Kuvare US Holdings, Inc. ("Kuvare") and on March 30, 2018 the sale closed. As a result, our life insurance business, previously a separate segment, was considered held for sale and reported as discontinued operations in the Consolidated Balance Sheets, Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Cash Flows for all periods presented in this Form 10-Q (collectively, the "Consolidated Financial Statements"). Subsequent to the announcement of this sale, our continuing operations were reported as one business segment. All current and prior periods reflected in this Form 10-Q have been presented as continuing and discontinued operations, unless otherwise noted. For more information, refer to Note 11. Discontinued Operations.

Basis of Presentation

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

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

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

Management of UFG believes the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017. The review report of Ernst & Young LLP as of March 31, 2018 and for the three-month periods ended March 31, 2018 and 2017 accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 "Financial Statements."

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Cash and Cash Equivalents

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

For the three-month periods ended March 31, 2018 and 2017, we made payments for income taxes for continuing operations totaling \$19 and \$9, respectively. We received a tax refund of \$1,503 during the three-month period ended March 31, 2018. We did not receive a tax refund during the three-month period ended March 31, 2017.

For the three-month periods ended March 31, 2018 and 2017, we made no interest payments (excluding interest credited to policyholders' accounts).

Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC, including the related amortization recognized for the three-month period ended March 31, 2018.

	Continuing Operations	Discontinued Operations	Total
	Property & Life Casualty Insurance	Insurance	
Recorded asset at beginning of period	\$88,102	\$ 71,151	\$ 159,253
Underwriting costs deferred	51,373	1,376	52,749
Amortization of deferred policy acquisition costs	(49,639)	(1,895)	(51,534)
Ending unamortized deferred policy acquisition costs	\$89,836	\$ 70,632	\$ 160,468
Impact of unrealized gains and losses on available-for-sale securities	—	7,274	7,274
Sale of discontinued operations	—	(77,906)	(77,906)
Recorded asset at March 31, 2018	\$89,836	\$ —	\$89,836

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.

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

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

The effect on DAC that results from the assumed realization of unrealized gains (losses) on investments allocated to non-traditional life insurance business is recognized with an offset to net unrealized investment appreciation as of the balance sheet date. The impact of unrealized gains and losses on available-for-sale securities decreased the DAC asset by \$6,294 at December 31, 2017. There was no impact of unrealized gains and losses on available-for-sale

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securities on the DAC asset at March 31, 2018 because the non-traditional life insurance business is part of discontinued operations, which was sold on March 30, 2018.

Income Taxes

The Tax Cuts and Jobs Act of 2017 (the "Tax Act") was enacted on December 22, 2017. The Tax Act significantly revised the U.S. corporate income tax laws including lowering the U.S. federal corporate tax rate from 35 percent to 21 percent, effective January 1, 2018.

In December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118, which addresses how a company recognizes provisional amounts when a company does not have the necessary information available, prepared or analyzed in reasonable detail to complete its accounting for the effect of the changes in the Tax Act. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. As of March 31, 2018 we had not completed accounting for the tax effects of enactment of the Tax Act, however for certain items, we have made a reasonable estimate of the effects on our deferred tax balances. For other items where we could not make a reasonable estimate, we are still using existing accounting guidance and the provisions of the tax laws that were in place prior to the enactment. The Company will continue to refine this estimated provisional adjustment as we gain a more thorough understanding of the tax law and the Company will take future guidance into consideration when it becomes available.

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.

We reported consolidated federal income tax expense from continuing and discontinued operations of \$9,316 and \$5,153 for the three-month periods ended March 31, 2018 and 2017, respectively. Our effective tax rate is different than the federal statutory rate of 21 percent, due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

The Company performs a quarterly review of its tax positions and makes a determination of whether it is more likely than not that the tax position will be sustained upon examination. If, based on review, it appears not more likely than not that the positions will be sustained, the Company will calculate any unrecognized tax benefits and, if necessary, calculate and accrue any related interest and penalties. We did not recognize any liability for unrecognized tax benefits at March 31, 2018 or December 31, 2017. 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.

With regard to the sale of our life insurance subsidiary, federal income taxes were allocated to continuing and discontinued operations in accordance with the Company's tax allocation agreement and the terms of the definitive agreement related to the sale.

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 2014.

Subsequent Events

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

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Recently Issued Accounting Standards

Accounting Standards Adopted in 2018

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 adopted the guidance as of January 1, 2018. The adoption of the new guidance had no impact on the Company's reporting and disclosure of net premiums earned from insurance contracts, net investment income or net realized gains and losses, as these revenue streams are not within the scope of this new guidance. The remaining revenue streams are immaterial and not impacted by the new standard.

Financial Instruments

In January 2016, the FASB issued guidance updating certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (for example, trading or available-for-sale) and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The new guidance also simplifies the impairment process for equity investments without readily determinable fair values. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company adopted the new guidance as of January 1, 2018. The adoption of the new guidance resulted in a reclassification from accumulated other comprehensive income to retained earnings of \$191.2 million after tax, which is equal to the amount of net unrealized gains and losses on available-for-sale equity securities on January 1, 2018. Also, in the three months ended March 31, 2018, the Company recognized \$8.1 million after-tax of net realized investment losses in net income from the change in value of equity securities due to the adoption of this new accounting guidance.

Statement of Cash Flows - Classification of Certain Cash Receipts and Payments

In August 2016, the FASB issued an update that clarifies the classification of certain cash receipts and payments in the Statement of Cash Flows. The update addresses eight existing cash flow issues by clarifying the correct classification to establish uniformity in practice. The updated guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company adopted the new guidance as of January 1, 2018. The adoption had no impact on the Company's financial position and results of operations.

Defined Benefit Retirement Plan Cost

In March 2017, the FASB issued guidance on the presentation of net periodic benefit costs of defined benefit retirement benefit plans in the Statements of Income. The new guidance requires the service cost component of net periodic benefit cost of defined benefit plans to be presented in the same line in the Statements of Income as other employee compensation expenses. Also, under the new guidance, the service cost component of the net periodic benefit costs will be the only portion of costs subject to be capitalized in assets. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company adopted the new guidance as of January 1, 2018. The adoption of the new guidance resulted in a change in the capitalization of deferred acquisition costs to only include the pension and post retirement service costs in place of the total net periodic benefit costs. The adoption had an immaterial impact on the Company's financial position and results of operations. Additionally, the adoption did not impact the Company's presentation in the Statements of Income as all

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net periodic benefit costs and employee compensation expenses are included within the same category in the Statements of Income.

Share-Based Payments

In May 2017, the FASB issued new guidance which clarifies and addresses the diversity in practice when there is a change in the terms of a share-based payment award. The updated guidance clarifies when to use modification accounting when there is a change in the terms of a share-based payment and provides three conditions where modification accounting should not be applied. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company adopted the new guidance as of January 1, 2018. The adoption had no impact on the Company's financial position and results of operations.

Pending Adoption of Accounting Standards

Leases

In February 2016, the FASB issued guidance on the accounting for leases. The new guidance requires lessees to place a right-of-use asset and a lease liability, for all leases with terms greater than 12 months, on their balance sheets. The lease liability will be based on the present value of the future lease payments and the asset will be based on the liability. Expenses will be recognized on the income statement in a similar manner as previous methods. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2019. The Company has created an inventory of its operating leases and has calculated the undiscounted future minimum lease payments, which are disclosed in Note 13. Lease Commitments of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The undiscounted future minimum lease payments at December 31, 2017 is \$22.5 million, which represents less than 1.0 percent of the Company's total assets at December 31, 2017. The Company is reviewing and updating its processes and controls under the new guidance. Management currently believes that the adoption will not have a significant impact on the Company's financial position and results of operations.

Financial Instruments - Credit Losses

In June 2016, the FASB issued new guidance on the measurement of credit losses for most financial instruments. The new guidance replaces the current incurred loss model for recognizing credit losses with an expected loss model for instruments measured at amortized cost and requires allowances to be recorded for available-for-sale debt securities rather than reduce the carrying amount. These allowances will be remeasured each reporting period. The new guidance is effective for annual periods beginning after December 15, 2020 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2021 and is currently evaluating the impact on the Company's financial position, results of operations and key processes.

Income Taxes - Intra-entity Transfers

In October 2016, the FASB issued new guidance on the income tax treatment of intra-entity transfers. The new guidance replaces the current guidance which prohibits the recognition of current and deferred income taxes of intra-entity transfers until the asset is sold externally. Under the new guidance, the exemption is eliminated and income taxes will be recognized on transfers of intra-entity assets. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2019 and is currently evaluating the impact on the Company's financial position and results of operations.

Goodwill

In January 2017, the FASB issued new guidance which simplifies the test for goodwill impairment. The new guidance eliminates the implied fair value calculation when measuring a goodwill impairment charge. Under the new guidance, impairment charges will be based on the excess of the carrying value over fair value of goodwill. The new guidance is effective for annual and interim periods beginning after December 15, 2019. The Company will

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adopt the new guidance as of January 1, 2020 and it currently believes the adoption will have no impact on the Company's financial position and results of operations.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities, presented on a consolidated basis, including both continuing and discontinued operations as of March 31, 2018 and December 31, 2017, is as follows:

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March 31, 2018

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
Corporate bonds - financial services	\$ 150	\$ —	\$ —	\$ 150
Mortgage-backed securities	—	—	—	—
Total Held-to-Maturity Fixed Maturities	\$ 150	\$ —	\$ —	\$ 150
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	\$ 15,995	\$ 1	\$ 270	\$ 15,726
U.S. government agency	135,379	606	1,556	134,429
States, municipalities and political subdivisions				
General obligations:				
Midwest	105,376	1,019	1,060	105,335
Northeast	46,132	468	196	46,404
South	134,796	916	1,993	133,719
West	112,871	976	1,516	112,331
Special revenue:				
Midwest	143,823	1,495	1,188	144,130
Northeast	64,020	481	1,443	63,058
South	250,757	1,707	4,404	248,060
West	149,928	1,294	2,757	148,465
Foreign bonds	10,826	156	—	10,982
Public utilities	48,024	249	632	47,641
Corporate bonds				
Energy	22,516	157	228	22,445
Industrials	33,214	200	427	32,987
Consumer goods and services	31,044	217	291	30,970
Health care	12,170	93	37	12,226
Technology, media and telecommunications	15,447	74	265	15,256
Financial services	55,489	226	1,203	54,512
Mortgage-backed securities	8,763	71	152	8,682
Collateralized mortgage obligations				
Government national mortgage association	74,000	280	2,086	72,194
Federal home loan mortgage corporation	56,578	73	1,822	54,829
Federal national mortgage association	47,104	142	1,100	46,146
Asset-backed securities	3,196	318	45	3,469
Total Available-for-Sale Fixed Maturities	\$ 1,577,448	\$ 11,219	\$ 24,671	\$ 1,563,996

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December 31, 2017

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
Corporate bonds - financial services	\$ 150	\$ —	\$ —	\$ 150
Mortgage-backed securities	34	—	—	34
Total Held-to-Maturity Fixed Maturities	\$ 184	\$ —	\$ —	\$ 184
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	\$ 17,073	\$ 4	\$ 186	\$ 16,891
U.S. government agency	121,574	1,311	717	122,168
States, municipalities and political subdivisions				
General obligations:				
Midwest	107,689	2,446	439	109,696
Northeast	47,477	1,174	10	48,641
South	139,870	2,462	813	141,519
West	111,123	2,351	463	113,011
Special revenue:				
Midwest	155,475	3,620	351	158,744
Northeast	79,028	1,351	619	79,760
South	260,145	5,218	1,851	263,512
West	156,576	2,929	1,198	158,307
Foreign bonds	51,361	1,441	49	52,753
Public utilities	206,028	3,386	270	209,144
Corporate bonds				
Energy	93,191	1,972	110	95,053
Industrials	218,067	3,881	241	221,707
Consumer goods and services	183,253	3,498	494	186,257
Health care	74,125	1,312	29	75,408
Technology, media and telecommunications	146,853	2,376	250	148,979
Financial services	277,824	5,769	442	283,151
Mortgage-backed securities	13,828	101	238	13,691
Collateralized mortgage obligations				
Government national mortgage association	157,836	1,921	2,274	157,483
Federal home loan mortgage corporation	201,320	1,879	4,047	199,152
Federal national mortgage association	104,903	1,703	1,174	105,432
Asset-backed securities	4,282	362	8	4,636
Total Available-for-Sale Fixed Maturities	\$ 2,928,901	\$ 52,467	\$ 16,273	\$ 2,965,095
Equity securities:				
Common stocks				

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Public utilities	\$6,394	\$16,075	\$30	\$22,439
Energy	6,514	8,171	120	14,565
Industrials	13,117	53,522	120	66,519
Consumer goods and services	10,110	15,742	164	25,688
Health care	7,763	32,340	—	40,103
Technology, media and telecommunications	6,067	11,556	115	17,508
Financial services	11,529	104,985	67	116,447
Nonredeemable preferred stocks	992	305	—	1,297
Total Available-for-Sale Equity Securities	\$62,486	\$242,696	\$616	\$304,566
Total Available-for-Sale Securities	\$2,991,387	\$295,163	\$16,889	\$3,269,661

The following table 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 equity securities for continuing and discontinued operations by investment type at March 31, 2018 and December 31, 2017:

March 31, 2018

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Continuing operations	\$ 150	\$ —	\$ —	\$ 150
Discontinued operations	—	—	—	—
Total Held-to-Maturity Fixed Maturities	\$ 150	\$ —	\$ —	150
AVAILABLE-FOR-SALE				
Fixed maturities:				
Continuing operations	\$1,577,448	\$ 11,219	\$ 24,671	\$1,563,996
Discontinued operations	—	—	—	—
Total Available-for-Sale Fixed Maturities	\$1,577,448	\$ 11,219	\$ 24,671	\$1,563,996

Note: The sale of our life insurance business was completed on March 30, 2018.

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December 31, 2017

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Continuing operations	\$ 150	\$ —	\$ —	\$ 150
Discontinued operations	34	—	—	34
Total Held-to-Maturity Fixed Maturities	\$ 184	\$ —	\$ —	\$ 184
AVAILABLE-FOR-SALE				
Fixed maturities:				
Continuing operations	\$ 1,516,610	\$ 27,412	\$ 8,952	\$ 1,535,070
Discontinued operations	1,412,291	25,055	7,321	1,430,025
Total Available-for-Sale Fixed Maturities	2,928,901	52,467	16,273	2,965,095
Equity securities:				
Continuing operations	\$ 57,387	\$ 224,065	\$ 539	\$ 280,913
Discontinued operations	5,099	18,631	77	23,653
Total Available-for-Sale Equity Securities	62,486	242,696	616	304,566
Total Available-for-Sale Securities	\$ 2,991,387	\$ 295,163	\$ 16,889	\$ 3,269,661

Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at March 31, 2018, by contractual maturity, are shown in the following tables. The table below includes investments from continuing operations. 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.

Maturities

March 31, 2018	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	\$ —	\$ —	\$ 48,086	\$ 48,368	\$ 2,359	\$ 2,629
Due after one year through five years	150	150	187,837	189,107	8,750	10,497
Due after five years through 10 years	—	—	447,086	447,598	1,100	965
Due after 10 years	—	—	704,798	693,603	1,020	1,288
Asset-backed securities	—	—	3,196	3,469	—	—
Mortgage-backed securities	—	—	8,763	8,682	—	—
Collateralized mortgage obligations	—	—	177,682	173,169	—	—
	\$ 150	\$ 150	\$ 1,577,448	\$ 1,563,996	\$ 13,229	\$ 15,379

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Net Realized Investment Gains and Losses

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

	Three Months Ended March 31, 2018 2017	
Net realized investment gains (losses) from continuing operations:		
Fixed maturities:		
Available-for-sale	\$4	\$424
Trading securities		
Change in fair value	(111)	371
Sales	556	57
Equity securities		
Change in fair value	(9,188)	111
Sales	875	1,286
Total net realized investment gains (losses) from continuing operations	\$(7,864)	\$2,249
Total net realized investment gains (losses) from discontinued operations	(1,057)	1,705
Total net realized investment gains (losses)	\$(8,921)	\$3,954

The proceeds and gross realized gains on the sale of available-for-sale fixed maturity securities from continuing operations are as follows:

	Three Months Ended March 31, 2018	2017
Proceeds from sales	\$—	\$1,095
Gross realized gains	—	1,046
Gross realized losses	—	—

The proceeds and gross realized gains on the sale of available-for-sale fixed maturity securities from discontinued operations are as follows:

	Three Months Ended March 31, 2018	2017
Proceeds from sales	\$—	\$3,964
Gross realized gains	—	1,254
Gross realized losses	—	(78)

Note: The sale of our life insurance business was completed on March 30, 2018.

There were no sales of held-to-maturity securities during the three-month periods ended March 31, 2018 and 2017.

Our investment portfolio includes trading securities with embedded derivatives. These securities are primarily convertible securities which are recorded at fair value. Income or loss, including the change in the fair value of these trading securities, is recognized currently in earnings as a component of net realized investment gains. Our portfolio of trading securities had a fair value of \$15,379 and \$16,842 at March 31, 2018 and December 31, 2017, respectively.

Funding Commitment

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed through December 31, 2023 to make capital contributions upon request of the partnership. Our remaining potential contractual obligation was \$1,499 at March 31, 2018.

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Unrealized Appreciation

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

	Three Months Ended March 31,	
	2018	2017
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities	\$(59,126)	\$7,043
Available-for-sale equity securities	—	5,795
Deferred policy acquisition costs	7,274	(1,277)
Income tax effect	10,890	(4,046)
Net unrealized investment depreciation of discontinued operations, sold	6,714	—
Cumulative change in accounting principles	(191,244)	—
Total change in net unrealized investment appreciation, net of tax	\$(225,492)	\$7,515

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 on a consolidated basis, including both continuing and discontinued operations at March 31, 2018 and December 31, 2017. The securities are presented by the length of time they have been continuously in an unrealized loss position. It is possible that we could recognize OTTI charges in future periods on securities held at March 31, 2018, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We have evaluated the near-term prospects of the issuers of our fixed maturity securities in relation to the severity and duration of the unrealized loss and determined that these losses did not warrant the recognition of an OTTI charge at March 31, 2018 or at March 31, 2017. We have no intent to sell, and it is more likely than not that we will not be required to sell, these securities until the fair value recovers to at least equal our cost basis or the securities mature.

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March 31, 2018	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	Gross Unrealized Depreciation
AVAILABLE-FOR-SALE							
Fixed maturities:							
Bonds							
U.S. Treasury	5	\$10,263	\$ 141	1	\$4,711	\$ 129	\$14,974 \$ 270
U.S. government agency States, municipalities and political subdivisions	15	81,651	1,232	2	7,675	324	89,326 1,556
General obligations							
Midwest	12	15,917	144	3	19,209	916	35,126 1,060
Northeast	4	13,214	94	1	3,546	102	16,760 196
South	18	38,686	466	11	28,716	1,527	67,402 1,993
West	13	31,285	406	8	25,021	1,110	56,306 1,516
Special revenue							
Midwest	20	37,637	334	7	18,561	854	56,198 1,188
Northeast	4	12,466	162	11	27,722	1,281	40,188 1,443
South	24	50,787	866	27	67,940	3,538	118,727 4,404
West	16	30,075	331	21	52,243	2,426	82,318 2,757
Public utilities							
Corporate bonds	13	33,171	632	—	—	—	33,171 632
Energy	5	10,567	228	—	—	—	10,567 228
Industrials	6	20,349	427	—	—	—	20,349 427
Consumer goods and services	5	15,823	291	—	—	—	15,823 291
Health care	2	3,694	37	—	—	—	3,694 37
Technology, media and telecommunications	3	9,745	265	—	—	—	9,745 265
Financial services	13	34,617	977	1	5,374	226	39,991 1,203
Mortgage-backed securities	16	2,828	70	10	2,123	82	4,951 152
Collateralized mortgage obligations							
Government national mortgage association	20	47,898	1,351	6	12,087	735	59,985 2,086
Federal home loan mortgage corporation	13	35,124	1,050	4	12,590	772	47,714 1,822
Federal national mortgage association	13	33,515	722	1	6,963	378	40,478 1,100
Asset-backed securities	1	2,837	45	—	—	—	2,837 45
Total Available-for-Sale Fixed Maturities	241	\$572,149	\$ 10,271	114	\$294,481	\$ 14,400	\$866,630 \$ 24,671

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December 31, 2017	Less than 12 months		12 months or longer		Total			
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
AVAILABLE-FOR-SALE								
Fixed maturities:								
Bonds								
U.S. Treasury	5	\$ 10,370	\$ 67	2	\$ 5,765	\$ 119	\$ 16,135	\$ 186
U.S. government agency States, municipalities and political subdivisions	11	64,842	390	5	19,372	327	84,214	717
General obligations								
Midwest	2	2,177	8	3	19,729	431	21,906	439
Northeast	—	—	—	1	3,644	10	3,644	10
South	3	7,959	32	11	29,545	781	37,504	813
West	2	5,944	18	8	25,755	445	31,699	463
Special revenue								
Midwest	2	3,486	15	7	19,130	336	22,616	351
Northeast	1	4,471	37	11	28,476	582	32,947	619
South	8	7,749	107	27	69,917	1,744	77,666	1,851
West	3	5,424	16	22	56,753	1,182	62,177	1,198
Foreign bonds	1	857	49	—	—	—	857	49
Public utilities	8	19,186	79	5	8,446	191	27,632	270
Corporate bonds								
Energy	1	2,236	13	1	1,606	97	3,842	110
Industrials	10	27,773	146	2	4,275	95	32,048	241
Consumer goods and services	14	32,781	248	3	6,813	246	39,594	494
Health care	4	9,947	29	—	—	—	9,947	29
Technology, media and telecommunications	12	35,319	122	3	10,413	128	45,732	250
Financial services	22	50,144	256	4	11,389	186	61,533	442
Mortgage-backed securities	10	2,458	18	10	6,641	220	9,099	238
Collateralized mortgage obligations								
Government national mortgage association	20	49,764	629	17	46,969	1,645	96,733	2,274
Federal home loan mortgage corporation	11	37,543	577	20	75,679	3,470	113,222	4,047
Federal national mortgage association	11	31,958	342	11	20,123	832	52,081	1,174
Asset-backed securities	1	992	8	—	—	—	992	8
Total Available-for-Sale Fixed Maturities	162	\$ 413,380	\$ 3,206	173	\$ 470,440	\$ 13,067	\$ 883,820	\$ 16,273
Equity securities:								
Common stocks								
Public utilities	—	\$ —	\$ —	1	\$ 278	\$ 30	\$ 278	\$ 30
Energy	2	528	120	—	—	—	528	120
Industrials	1	99	13	5	193	107	292	120
Consumer goods and services	—	—	—	2	151	164	151	164
	2	466	95	1	4	20	470	115

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Technology, media and telecommunications								
Financial services	2	193	55	1	9	12	202	67
Total Available-for-Sale Equity Securities	7	\$ 1,286	\$ 283	10	\$ 635	\$ 333	\$ 1,921	\$ 616
Total Available-for-Sale Securities	169	\$ 414,666	\$ 3,489	183	\$ 471,075	\$ 13,400	\$ 885,741	\$ 16,889

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The tables on the following pages are a reconciliation for continuing and discontinued operations of our total fixed maturity and equity securities that were in an unrealized loss position at March 31, 2018 and December 31, 2017. The sale of our life insurance business was completed on March 30, 2018. The securities are presented by the length of time they have been continuously in an unrealized loss position:

March 31, 2018 Type of Investment	Less than 12 months		12 months or longer		Total		Gross Unrealized Depreciation	
	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation		Fair Value
AVAILABLE-FOR-SALE								
Fixed maturities:								
Continuing operations	241	\$572,149	\$ 10,271	114	\$294,481	\$ 14,400	\$866,630	\$ 24,671
Discontinued operations	—	—	—	—	—	—	—	—
Total Available-for-Sale Fixed Maturities	241	\$572,149	\$ 10,271	114	\$294,481	\$ 14,400	\$866,630	\$ 24,671

Note: The sale of our life insurance business was completed on March 30, 2018.

December 31, 2017 Type of Investment	Less than 12 months		12 months or longer		Total		Gross Unrealized Depreciation	
	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation		Fair Value
AVAILABLE-FOR-SALE								
Fixed maturities:								
Continuing operations	88	\$232,489	\$ 1,791	112	\$302,815	\$ 7,161	\$535,304	\$ 8,952
Discontinued operations	74	180,891	1,415	61	167,625	5,906	348,516	7,321
Total Available-for-Sale Fixed Maturities	162	\$413,380	\$ 3,206	173	\$470,440	\$ 13,067	\$883,820	\$ 16,273
Equity securities:								
Continuing operations	5	\$1,129	\$ 236	6	\$385	\$ 303	\$1,514	\$ 539
Discontinued operations	2	157	47	4	250	30	407	77
Total Available-for-Sale Equity Securities	7	\$1,286	\$ 283	10	\$635	\$ 333	\$1,921	\$ 616
Total Available-for-Sale Securities	169	\$414,666	\$ 3,489	183	\$471,075	\$ 13,400	\$885,741	\$ 16,889

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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.

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 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.

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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.

The Company formed a rabbi trust in 2014 to fund obligations under the United Fire & Casualty Company Supplemental Executive Retirement and Deferral Plan (the "Executive Retirement Plan"). 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 Plan. The COLI policies invest in mutual funds, which are priced daily by independent sources. As of March 31, 2018, the cash surrender value of the COLI policies was \$4,404, 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.

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 and 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.

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A summary of the carrying value and estimated fair value of our financial instruments from continuing operations at March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets				
Investments				
Fixed maturities:				
Held-to-maturity securities	\$ 150	\$ 150	\$ 150	\$ 150
Available-for-sale securities	1,563,996	1,563,996	1,535,070	1,535,070
Trading securities	15,379	15,379	16,842	16,842
Equity securities	280,362	280,362	287,344	287,344
Other long-term investments	44,998	44,998	49,352	49,352
Short-term investments	175	175	175	175
Cash and cash equivalents	316,852	316,852	95,562	95,562
Corporate-owned life insurance	4,404	4,404	4,029	4,029

A summary of the carrying value and estimated fair value of our financial instruments from discontinued operations at March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets				
Investments				
Fixed maturities:				
Held-to-maturity securities	\$ —	\$ —	—\$ 34	\$ 34
Available-for-sale securities	—	—	1,430,025	1,430,025
Equity securities:				
Available-for-sale securities	—	—	23,653	23,653
Mortgage loans	—	—	3,594	3,435
Policy loans	—	—	5,815	5,815
Other long-term investments	—	—	16,437	16,437
Cash and cash equivalents	—	—	15,851	15,851
Liabilities				
Policy reserves				
Annuity (accumulations) ⁽¹⁾	\$ —	\$ —	—\$ 591,702	\$ 611,866
Annuity (benefit payments)	—	—	147,038	93,560

Note: The sale of our life insurance business was completed on March 30, 2018.

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The following tables present the categorization for our financial instruments measured at fair value on a recurring basis. The table includes financial instruments from both continuing and discontinued operations at March 31, 2018 and December 31, 2017:

Description	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
March 31, 2018				
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	\$15,726	\$—	\$15,726	\$—
U.S. government agency	134,429	—	134,429	—
States, municipalities and political subdivisions				
General obligations				
Midwest	105,335	—	105,335	—
Northeast	46,404	—	46,404	—
South	133,719	—	133,719	—
West	112,331	—	112,331	—
Special revenue				
Midwest	144,130	—	144,130	—
Northeast	63,058	—	63,058	—
South	248,060	—	248,060	—
West	148,465	—	148,465	—
Foreign bonds	10,982	—	10,982	—
Public utilities	47,641	—	47,641	—
Corporate bonds				
Energy	22,445	—	22,445	—
Industrials	32,987	—	32,987	—
Consumer goods and services	30,970	—	30,970	—
Health care	12,226	—	12,226	—
Technology, media and telecommunications	15,256	—	15,256	—
Financial services	54,512	—	54,412	100
Mortgage-backed securities	8,682	—	8,682	—
Collateralized mortgage obligations				
Government national mortgage association	72,194	—	72,194	—
Federal home loan mortgage corporation	54,829	—	54,829	—
Federal national mortgage association	46,146	—	46,146	—
Asset-backed securities	3,469	—	2,837	632
Total Available-for-Sale Fixed Maturities	\$1,563,996	\$—	\$1,563,264	\$732
TRADING				
Fixed maturities:				
Bonds				
Corporate bonds				
Industrials	\$1,968	\$—	\$1,968	\$—
Consumer goods and services	1,846	—	1,846	—
Health care	3,739	—	3,739	—

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Technology, media and telecommunications	2,212	—	2,212	—
Financial services	2,133	—	2,133	—
Redeemable preferred stocks	3,481	3,481	—	—
Total Trading Securities	\$15,379	\$3,481	\$11,898	\$—
EQUITY SECURITIES				
Common stocks				
Public utilities	\$15,095	\$15,095	\$—	\$—
Energy	12,782	12,782	—	—
Industrials	58,724	58,724	—	—
Consumer goods and services	24,414	24,414	—	—
Health care	39,025	39,025	—	—
Technology, media and telecommunications	14,410	14,410	—	—
Financial services	111,761	111,761	—	—
Nonredeemable preferred stocks	4,151	3,331	—	820
Total Equity Securities	\$280,362	\$279,542	\$—	\$820
Short-Term Investments	\$175	\$175	\$—	\$—
Money Market Accounts	\$285,804	\$285,804	\$—	\$—
Corporate-Owned Life Insurance	\$4,404	\$—	\$4,404	\$—
Total Assets Measured at Fair Value	\$2,150,120	\$569,002	\$1,579,566	\$1,552

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December 31, 2017	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Description				
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	\$ 16,891	\$—	\$ 16,891	\$ —
U.S. government agency	122,168	—	122,168	—
States, municipalities and political subdivisions				
General obligations				
Midwest	109,696	—	109,696	—
Northeast	48,641	—	48,641	—
South	141,519	—	141,519	—
West	113,011	—	113,011	—
Special revenue				
Midwest	158,744	—	158,744	—
Northeast	79,760	—	79,760	—
South	263,512	—	263,512	—
West	158,307	—	158,307	—
Foreign bonds	52,753	—	52,753	—