

UNITED FIRE GROUP INC  
Form 10-Q  
May 10, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended March 31, 2012

Commission File Number 001-34257

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

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Iowa  
(State of Incorporation)

45-2302834  
(IRS Employer Identification No.)

118 Second Avenue, S.E., Cedar Rapids, Iowa 52407  
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
YES R NO o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

As of May 7, 2012, 25,508,614 shares of common stock were outstanding.

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FORWARD-LOOKING INFORMATION

It is important to note that our actual results could differ materially from those projected in our forward-looking statements. Information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A “Risk Factors.”

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.

Consolidated Balance Sheets

| (In Thousands, Except Per Share Data and Number of Shares)   | March 31,<br>2012<br>(unaudited) | December 31,<br>2011 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| Investments  |                                  |                      |
| Fixed maturities   |                                  |                      |
| Held-to-maturity, at amortized cost (fair value \$4,148 in 2012 and \$4,161 in 2011)   | \$4,072                          | \$4,143              |
| Available-for-sale, at fair value (amortized cost \$2,661,561 in 2012 and \$2,562,786 in 2011)   | 2,791,622                        | 2,697,248            |
| Equity securities, at fair value (amortized cost \$70,059 in 2012 and \$68,559 in 2011)  | 176,057                          | 159,451              |
| Trading securities, at fair value (amortized cost \$15,015 in 2012 and \$13,429 in 2011)   | 15,230                           | 13,454               |
| Mortgage loans   | 4,781                            | 4,829                |
| Policy loans   | 7,168                            | 7,209                |
| Other long-term investments  | 22,154                           | 20,574               |
| Short-term investments   | 1,100                            | 1,100                |
|  | \$3,022,184                      | \$2,908,008          |
| Cash and cash equivalents  | \$74,000                         | \$144,527            |
| Accrued investment income  | 32,563                           | 32,219               |
| Premiums receivable (net of allowance for doubtful accounts of \$700 in 2012 and \$825 in 2011)  | 186,908                          | 172,348              |
| Deferred policy acquisition costs  | 105,231                          | 106,654              |
| Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$36,040 in 2012 and \$35,248 in 2011) | 44,888                           | 45,644               |
| Reinsurance receivables and recoverables   | 150,520                          | 128,574              |
| Prepaid reinsurance premiums   | 3,541                            | 6,191                |
| Income taxes receivable  | 22,816                           | 26,742               |
| Goodwill and intangible assets   | 30,166                           | 30,801               |
| Other assets   | 14,525                           | 17,216               |
| <b>TOTAL ASSETS</b>  | <b>\$3,687,342</b>               | <b>\$3,618,924</b>   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                  |                      |
| Liabilities  |                                  |                      |
| Future policy benefits and losses, claims and loss settlement expenses   |                                  |                      |
| Property and casualty insurance  | \$954,860                        | \$945,051            |
| Life insurance   | 1,493,772                        | 1,476,281            |
| Unearned premiums  | 304,219                          | 288,991              |
| Accrued expenses and other liabilities   | 143,288                          | 138,210              |
| Deferred income taxes  | 19,234                           | 13,624               |
| Debt   | 45,000                           | 45,000               |
| Trust preferred securities   | 7,579                            | 15,626               |

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|   |             |             |
|---|-------------|-------------|
| TOTAL LIABILITIES   | \$2,967,952 | \$2,922,783 |
| Stockholders' Equity  |             |             |
| Common stock, \$0.001 par value; authorized 75,000,000 shares; 25,507,809 and 25,505,350 shares issued and outstanding in 2012 and 2011, respectively | \$26        | \$25        |
| Additional paid-in capital  | 213,492     | 213,045     |
| Retained earnings   | 415,843     | 400,485     |
| Accumulated other comprehensive income, net of tax  | 90,029      | 82,586      |
| TOTAL STOCKHOLDERS' EQUITY  | \$719,390   | \$696,141   |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$3,687,342 | \$3,618,924 |

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 Per Share Data and Number of Shares)    | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2012                         | 2011       |
| <b>Revenues</b>   |                              |            |
| Net premiums earned   | \$ 161,503                   | \$ 114,204 |
| Investment income, net of investment expenses                 | 29,146                       | 27,063     |
| Net realized investment gains                                 | 2,794                        | 2,653      |
| Other income  | 256                          | 156        |
|   | \$ 193,699                   | \$ 144,076 |
| <b>Benefits, Losses and Expenses</b>                          |                              |            |
| Losses and loss settlement expenses                           | \$ 91,484                    | \$ 76,182  |
| Future policy benefits  | 10,138                       | 8,182      |
| Amortization of deferred policy acquisition costs             | 34,551                       | 26,046     |
| Other underwriting expenses                                   | 21,994                       | 16,057     |
| Interest on policyholders' accounts                           | 10,656                       | 10,670     |
|   | \$ 168,823                   | \$ 137,137 |
| <b>Income before income taxes</b>                             |                              |            |
|   | \$ 24,876                    | \$ 6,939   |
| Federal income tax expense                                    | 5,692                        | 1,129      |
| Net income  | \$ 19,184                    | \$ 5,810   |
| <b>Other comprehensive income</b>                             |                              |            |
| Change in net unrealized appreciation on investments          | 13,603                       | 1,500      |
| Adjustment for net realized gains included in income          | (2,794)                      | (2,653)    |
| Adjustment for costs included in employee benefit expense     | 643                          | 554        |
|   | \$ 11,452                    | \$ (599)   |
| Income tax effect of components of other comprehensive income | (4,009)                      | 209        |
|   | \$ 7,443                     | \$ (390)   |
| Comprehensive income  | \$ 26,627                    | \$ 5,420   |
| <b>Weighted average common shares outstanding</b>             |                              |            |
|   | 25,505,962                   | 26,195,552 |
| Basic earnings per common share                               | 0.75                         | 0.22       |
| Diluted earnings per common share                             | 0.75                         | 0.22       |
| Cash dividends declared per common share                      | 0.15                         | 0.15       |

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



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Consolidated Statement of Stockholders' Equity (Unaudited)

| (In Thousands, Except Per Share Data)                                     | Three Months Ended<br>March 31, 2012 |
|---|--------------------------------------|
| Common stock  |                                      |
| Balance, beginning of year  | \$25                                 |
| Shares repurchased  | —                                    |
| Shares issued for stock-based awards (97,000 shares)                      | 1                                    |
| Balance, end of period  | \$26                                 |
| Additional paid-in capital  |                                      |
| Balance, beginning of year  | \$213,045                            |
| Compensation expense and related tax benefit for stock-based award grants | 405                                  |
| Shares repurchased  | —                                    |
| Shares issued for stock-based awards                                      | 42                                   |
| Balance, end of period  | \$213,492                            |
| Retained earnings   |                                      |
| Balance, beginning of year  | \$400,485                            |
| Net income  | 19,184                               |
| Dividends on common stock (\$0.15 per share)                              | (3,826 )                             |
| Balance, end of period  | \$415,843                            |
| Accumulated other comprehensive income, net of tax                        |                                      |
| Balance, beginning of year  | \$82,586                             |
| Change in net unrealized appreciation <sup>(1)</sup>                      | 7,025                                |
| Change in underfunded status of employee benefit plans <sup>(2)</sup>     | 418                                  |
| Balance, end of period  | \$90,029                             |
| Summary of changes  |                                      |
| Balance, beginning of year  | \$696,141                            |
| Net income  | 19,184                               |
| All other changes in stockholders' equity accounts                        | 4,065                                |
| Balance, end of period  | \$719,390                            |

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

(2) The recognition of the underfunded status of employee benefit plans is net of 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, |              |
|--|------------------------------|--------------|
|  | 2012                         | 2011         |
| Cash Flows From Operating Activities   |                              |              |
| Net income   | \$ 19,184                    | \$ 5,810     |
| Adjustments to reconcile net income to net cash provided by operating activities |                              |              |
| Net accretion of bond premium  | 3,520                        | 1,705        |
| Depreciation and amortization  | 2,285                        | 706          |
| Stock-based compensation expense   | 396                          | 489          |
| Net realized investment gains  | (2,794)                      | (2,653)      |
| Net cash flows from trading investments  | (1,343)                      | (205)        |
| Deferred income tax expense  | 5,011                        | 117          |
| Changes in:  |                              |              |
| Accrued investment income  | (344)                        | 400          |
| Premiums receivable  | (14,560)                     | (8,447)      |
| Deferred policy acquisition costs  | 1,526                        | (1,719)      |
| Reinsurance receivables  | (23,199)                     | 830          |
| Prepaid reinsurance premiums   | 2,650                        | (135)        |
| Income taxes receivable  | 3,926                        | 1,018        |
| Other assets   | 2,691                        | 6,355        |
| Future policy benefits and losses, claims and loss settlement expenses           | 20,596                       | 7,146        |
| Unearned premiums  | 15,228                       | 9,090        |
| Accrued expenses and other liabilities   | 5,721                        | 11,507       |
| Deferred income taxes  | (3,409)                      | 2            |
| Other, net   | (1,200)                      | (747)        |
| Total adjustments  | \$ 16,701                    | \$ 25,459    |
| Net cash provided by operating activities  | \$ 35,885                    | \$ 31,269    |
| Cash Flows From Investing Activities   |                              |              |
| Proceeds from sale of available-for-sale investments                             | \$ 3,000                     | \$ 4,847     |
| Proceeds from call and maturity of held-to-maturity investments                  | 75                           | 486          |
| Proceeds from call and maturity of available-for-sale investments                | 149,285                      | 197,447      |
| Proceeds from short-term and other investments                                   | 2,590                        | 1,548        |
| Purchase of available-for-sale investments                                       | (252,345)                    | (154,923)    |
| Purchase of short-term and other investments                                     | (2,950)                      | (454)        |
| Net purchases and sales of property and equipment                                | (893)                        | (100)        |
| Acquisition of property and casualty company, net of cash acquired               | —                            | (172,620)    |
| Net cash used in investing activities  | \$ (101,238)                 | \$ (123,769) |
| Cash Flows From Financing Activities   |                              |              |
| Policyholders' account balances  |                              |              |
| Deposits to investment and universal life contracts                              | \$ 40,390                    | \$ 31,242    |
| Withdrawals from investment and universal life contracts                         | (33,743)                     | (28,984)     |
| Borrowings of short-term debt  | —                            | 79,900       |
| Repayment of trust preferred securities  | (8,047)                      | —            |
| Payment of cash dividends  | (3,826)                      | (3,929)      |
| Issuance of common stock   | 43                           | —            |
| Tax impact from issuance of common stock   | 9                            | (14)         |
| Net cash (used in) provided by financing activities                              | \$ (5,174)                   | \$ 78,215    |

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|  |            |   |            |   |
|--|------------|---|------------|---|
| Net Change in Cash and Cash Equivalents          | \$ (70,527 | ) | \$ (14,285 | ) |
| Cash and Cash Equivalents at Beginning of Period | 144,527    |   | 180,057    |   |
| Cash and Cash Equivalents at End of Period       | \$ 74,000  |   | \$ 165,772 |   |

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

The terms “United Fire,” “we,” “us,” or “our” refer to United Fire Group, Inc., and its consolidated subsidiaries and affiliates, as the context requires. We 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. We are licensed as a property and casualty insurer in 43 states plus the District of Columbia and as a life insurer in 35 states.

Basis of Presentation

We maintain our records in conformity with the accounting practices prescribed or permitted by the insurance departments of the states in which we are domiciled. To the extent that certain of these practices differ from U.S. generally accepted accounting principles (“GAAP”), we have made adjustments to present the accompanying unaudited Consolidated Financial Statements in conformity with GAAP. 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 Securities and Exchange Commission (“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 (for net realizable value); goodwill and intangible assets (for recoverability); and future policy benefits and losses, claims and loss settlement expenses.

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

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

In the opinion of the management of United Fire, 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, 2011. The review report of Ernst & Young LLP as of and for the three-month period ended March 31, 2012, accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 “Financial Statements.”

Cash and Cash Equivalents

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

For the three-month period ended March 31, 2012, we made payments for income taxes totaling \$0.2 million, compared to no income tax payments for the same period of 2011. We received no tax refunds in either period. On April 6, 2012 we received a federal tax refund of \$15.5 million. The refund resulted from the utilization of our 2009

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net operating losses and net capital losses in the carryback period.

For the three-month period ended March 31, 2012, we made interest payments totaling \$0.4 million, compared to no payments for interest for the same period of 2011. These payments exclude interest credited to policyholders' accounts.

Deferred Policy Acquisition Costs

The costs associated with underwriting new business – primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts – are deferred and amortized over the terms of the underlying policies. The table below shows the reconciliation of the components of our deferred policy acquisition costs asset, including the related amortization recognized for the three-month period ended March 31, 2012.

| (In Thousands)   | Property &<br>Casualty |   | Life Insurance |   | Total     |   |
|--|------------------------|---|----------------|---|-----------|---|
| Deferred policy acquisition costs at December 31, 2011       | \$60,668               |   | \$45,986       |   | \$106,654 |   |
| Amortization of value of business acquired                   | (1,674                 | ) | —              |   | (1,674    | ) |
| Current deferred costs                                       | 31,279                 |   | 1,745          |   | 33,024    |   |
| Current amortization   | (30,739                | ) | (2,138         | ) | (32,877   | ) |
| Ending unamortized deferred policy acquisition costs         | \$59,534               |   | \$45,593       |   | \$105,127 |   |
| Change in "shadow" deferred policy acquisition costs         | —                      |   | 104            |   | 104       |   |
| Recorded deferred policy acquisition costs at March 31, 2012 | \$59,534               |   | \$45,697       |   | \$105,231 |   |

In October 2010, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be incremental and directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. Acquisition costs that are not eligible for deferral are to be charged to expense in the period incurred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs.

Effective January 1, 2012, we adopted the updated accounting guidance and elected to do so on a prospective basis. As a result of the change, the amount of underwriting expenses eligible for deferral has decreased. After consideration of our normal recoverability assessment, which we refer to as a premium deficiency charge, and the amortization pattern of our deferred policy acquisition costs, we recognized approximately \$4.2 million of additional expense on a pretax basis, in the three-month period ended March 31, 2012 than we would have recognized had the rules remained the same. The impact of the adoption on the Consolidated Statements of Income and Comprehensive Income for the three-month period ended March 31, 2012 was an increase to other underwriting expenses of \$6.5 million, a decrease to amortization of deferred policy acquisition recoverability of \$2.3 million and a decrease to net income of \$2.7 million. The decrease to net income represents \$0.11 per share.

The impact of the new accounting rules on our results for the full year will be influenced by a number of factors including: the volume of premiums written; our assessment of successful acquisition efforts; the profitability of our lines of property and casualty business, which impacts the level of premium deficiency charge recorded; and the normal amortization pattern of these deferred policy acquisition costs, which is generally over one year. The greatest impact will be experienced in the most current quarter as the recorded deferred policy acquisitions costs would amortize to expense in succeeding quarters to offset a portion of the initial impact when assessed on an annual basis. Accordingly, the impact of the new accounting rules on our results reported for the three-month period ended March 31, 2012 should not be considered to be representative of the impact for the full year.



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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.

We reported a federal income tax expense of \$5.7 million and \$1.1 million for the three-month periods ended March 31, 2012 and 2011, respectively. Our effective tax rate is different than the federal statutory rate of 35.0 percent due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

We have recognized no liability for unrecognized tax benefits at March 31, 2012 or December 31, 2011. 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 2006. There is an ongoing examination of income tax returns by the State of Florida of the 2008 through 2010 tax years.

Recently Issued Accounting Standards

Adopted Accounting Standards

Comprehensive Income

In June and December 2011, the FASB issued guidance amending the presentation of comprehensive income and its components. Under the new guidance, a reporting entity has the option to present comprehensive income in a single continuous statement or in two separate but consecutive statements. This new guidance is to be applied retrospectively. We adopted the new guidance in the first quarter of 2012 by electing to report comprehensive income in a single continuous statement as shown in the accompanying Consolidated Statements of Income and Comprehensive Income. The new guidance affects presentation only and therefore had no impact on our results of operations or financial position.

Fair Value Measurements

In May 2011, the FASB issued updated accounting guidance that changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between GAAP and International Financial Reporting Standards. The guidance also expands the disclosures for fair value measurements that are estimated using significant unobservable (i.e., Level 3) inputs. We adopted the updated guidance on a prospective basis effective January 1, 2012. The adoption did not have any impact on our financial position or results of operations. The additional disclosures required have been provided in "Note 3. Fair Value of Financial Instruments".

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities as of March 31, 2012 and December 31, 2011, is as follows:

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| March 31, 2012                                    | (Dollars in Thousands) |                               |                               |             |
|---|------------------------|-------------------------------|-------------------------------|-------------|
| 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 | \$3,729                | \$56                          | \$—                           | \$3,785     |
| Mortgage-backed securities                        | 305                    | 19                            | —                             | 324         |
| Collateralized mortgage obligations               | 38                     | 1                             | —                             | 39          |
| Total Held-to-Maturity Fixed Maturities           | \$4,072                | \$76                          | \$—                           | \$4,148     |
| <b>AVAILABLE-FOR-SALE</b>                         |                        |                               |                               |             |
| Fixed maturities                                  |                        |                               |                               |             |
| Bonds   |                        |                               |                               |             |
| U.S. Treasury                                     | \$42,067               | \$1,173                       | \$26                          | \$43,214    |
| U.S. government agency                            | 78,383                 | 358                           | 604                           | 78,137      |
| States, municipalities and political subdivisions | 699,745                | 56,614                        | 658                           | 755,701     |
| Foreign bonds                                     | 225,686                | 9,857                         | 306                           | 235,237     |
| Public utilities                                  | 250,079                | 14,592                        | 559                           | 264,112     |
| Corporate bonds                                   |                        |                               |                               |             |
| Energy  | 188,677                | 7,053                         | 253                           | 195,477     |
| Industrials                                       | 323,822                | 12,014                        | 736                           | 335,100     |
| Consumer goods and services                       | 195,916                | 8,605                         | 286                           | 204,235     |
| Health care                                       | 112,081                | 6,514                         | —                             | 118,595     |
| Technology, media and telecommunications          | 118,364                | 5,460                         | 371                           | 123,453     |
| Financial services                                | 287,327                | 9,113                         | 1,988                         | 294,452     |
| Mortgage-backed securities                        | 31,869                 | 1,080                         | 5                             | 32,944      |
| Collateralized mortgage obligations               | 101,826                | 3,641                         | 627                           | 104,840     |
| Asset-backed securities                           | 5,341                  | 453                           | 55                            | 5,739       |
| Redeemable preferred stocks                       | 378                    | 8                             | —                             | 386         |
| Total Available-For-Sale Fixed Maturities         | \$2,661,561            | \$136,535                     | \$6,474                       | \$2,791,622 |
| Equity securities                                 |                        |                               |                               |             |
| Common stocks                                     |                        |                               |                               |             |
| Public utilities                                  | \$7,231                | \$7,059                       | \$141                         | \$14,149    |
| Energy  | 5,094                  | 7,247                         | —                             | 12,341      |
| Industrials                                       | 13,030                 | 20,582                        | 102                           | 33,510      |
| Consumer goods and services                       | 10,373                 | 8,239                         | 87                            | 18,525      |
| Health care                                       | 8,212                  | 9,316                         | 157                           | 17,371      |
| Technology, media and telecommunications          | 5,367                  | 5,242                         | 77                            | 10,532      |
| Financial services                                | 17,118                 | 49,146                        | 175                           | 66,089      |
| Nonredeemable preferred stocks                    | 3,634                  | 118                           | 212                           | 3,540       |
| Total Available-for-Sale Equity Securities        | \$70,059               | \$106,949                     | \$951                         | \$176,057   |
| Total Available-for-Sale Securities               | \$2,731,620            | \$243,484                     | \$7,425                       | \$2,967,679 |





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| December 31, 2011                                 | (Dollars in Thousands) |                               |                               |             |
|---|------------------------|-------------------------------|-------------------------------|-------------|
| 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 | \$3,739                | \$52                          | \$61                          | \$3,730     |
| Mortgage-backed securities                        | 356                    | 25                            | —                             | 381         |
| Collateralized mortgage obligations               | 48                     | 2                             | —                             | 50          |
| Total Held-to-Maturity Fixed Maturities           | \$4,143                | \$79                          | \$61                          | \$4,161     |
| <b>AVAILABLE-FOR-SALE</b>                         |                        |                               |                               |             |
| Fixed maturities                                  |                        |                               |                               |             |
| Bonds   |                        |                               |                               |             |
| U.S. Treasury                                     | \$42,530               | \$1,421                       | \$—                           | \$43,951    |
| U.S. government agency                            | 95,813                 | 582                           | —                             | 96,395      |
| States, municipalities and political subdivisions | 687,039                | 61,076                        | 8                             | 748,107     |
| Foreign bonds                                     | 206,872                | 8,766                         | 823                           | 214,815     |
| Public utilities                                  | 254,822                | 15,562                        | 313                           | 270,071     |
| Corporate bonds                                   |                        |                               |                               |             |
| Energy  | 189,902                | 7,567                         | 277                           | 197,192     |
| Industrials                                       | 285,696                | 10,631                        | 650                           | 295,677     |
| Consumer goods and services                       | 203,948                | 8,872                         | 646                           | 212,174     |
| Health care                                       | 109,219                | 6,497                         | 45                            | 115,671     |
| Technology, media and telecommunications          | 108,315                | 4,951                         | 318                           | 112,948     |
| Financial services                                | 258,526                | 9,075                         | 2,300                         | 265,301     |
| Mortgage-backed securities                        | 34,353                 | 1,041                         | 4                             | 35,390      |
| Collateralized mortgage obligations               | 79,545                 | 3,490                         | 184                           | 82,851      |
| Asset-backed securities                           | 5,801                  | 495                           | —                             | 6,296       |
| Redeemable preferred stocks                       | 405                    | 4                             | —                             | 409         |
| Total Available-For-Sale Fixed Maturities         | \$2,562,786            | \$140,030                     | \$5,568                       | \$2,697,248 |
| Equity securities                                 |                        |                               |                               |             |
| Common stocks                                     |                        |                               |                               |             |
| Public utilities                                  | \$7,231                | \$7,602                       | \$98                          | \$14,735    |
| Energy  | 5,094                  | 7,116                         | —                             | 12,210      |
| Industrials                                       | 12,678                 | 16,153                        | 275                           | 28,556      |
| Consumer goods and services                       | 10,750                 | 7,982                         | 168                           | 18,564      |
| Health care                                       | 8,212                  | 8,008                         | 232                           | 15,988      |
| Technology, media and telecommunications          | 5,368                  | 4,796                         | 146                           | 10,018      |
| Financial services                                | 15,592                 | 41,041                        | 543                           | 56,090      |
| Nonredeemable preferred stocks                    | 3,634                  | 40                            | 384                           | 3,290       |
| Total Available-for-Sale Equity Securities        | \$68,559               | \$92,738                      | \$1,846                       | \$159,451   |
| Total Available-for-Sale Securities               | \$2,631,345            | \$232,768                     | \$7,414                       | \$2,856,699 |



Table of Contents**Maturities**

The amortized cost and fair value of held-to-maturity, available-for-sale and trading securities at March 31, 2012, 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 |
| March 31, 2012                        |                  |            |                    |             |                |            |
| Due in one year or less               | \$396            | \$397      | \$263,128          | \$267,824   | \$1,891        | \$1,920    |
| Due after one year through five years | 3,333            | 3,388      | 1,045,934          | 1,103,107   | 6,708          | 6,649      |
| Due after five years through 10 years | —                | —          | 1,052,661          | 1,114,410   | 1,864          | 1,808      |
| Due after 10 years                    | —                | —          | 160,802            | 162,758     | 4,552          | 4,853      |
| Asset-backed securities               | —                | —          | 5,341              | 5,739       | —              | —          |
| Mortgage-backed securities            | 305              | 324        | 31,869             | 32,944      | —              | —          |
| Collateralized mortgage obligations   | 38               | 39         | 101,826            | 104,840     | —              | —          |
|                                       | \$4,072          | \$4,148    | \$2,661,561        | \$2,791,622 | \$15,015       | \$15,230   |

**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) resulting from investment sales and calls is as follows:

| (In Thousands)                         | Three Months Ended March 31, |         |
|--|------------------------------|---------|
|  | 2012                         | 2011    |
| Net realized investment gains (losses) |                              |         |
| Fixed maturities                       | \$1,531                      | \$1,386 |
| Equity securities                      | 701                          | 1,116   |
| Trading securities                     | 562                          | 316     |
| Other long-term investments            | —                            | (165)   |
| Total net realized investment gains    | \$2,794                      | \$2,653 |

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

| (In Thousands)        | Three Months Ended March 31, |         |
|-----------------------|------------------------------|---------|
|                       | 2012                         | 2011    |
| Proceeds from sales   | \$3,000                      | \$4,847 |
| Gross realized gains  | 470                          | 90      |
| Gross realized losses | 25                           | 516     |

There were no sales of held-to-maturity securities during the three-month periods ended March 31, 2012 and 2011.

Our investment portfolio includes trading securities with embedded derivatives. These securities, which are primarily convertible redeemable preferred debt securities, 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 \$15.2 million and \$13.5 million at March 31, 2012 and December 31, 2011, respectively.

**Off-Balance Sheet Arrangements**

Pursuant to an agreement with one of our limited liability partnership funds, we are contractually committed to make



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capital contributions up to \$15.0 million, upon request by the partnership, through December 31, 2017. Our remaining potential contractual obligation was \$8.7 million at March 31, 2012.

#### Unrealized Appreciation and Depreciation

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

| (In Thousands)   | Three Months Ended March 31, |            |
|--|------------------------------|------------|
|  | 2012                         | 2011       |
| Change in net unrealized investment appreciation                   |                              |            |
| Available-for-sale fixed maturities and equity securities          | \$ 10,705                    | \$(5,083 ) |
| Deferred policy acquisition costs                                  | 104                          | 3,930      |
| Income tax effect  | (3,784 )                     | 403        |
| Total change in net unrealized investment appreciation, net of tax | \$ 7,025                     | \$(750 )   |

In the above table, the amount reported as changes in deferred policy acquisition costs for our life insurance segment represents the impact of fluctuations that occur in the interest rate environment from time to time.

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

The tables on the following pages summarize our fixed maturity and equity securities that were in an unrealized loss position at March 31, 2012 and December 31, 2011. 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, 2012, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We believe the unrealized depreciation in value of securities in our fixed maturity portfolio is primarily attributable to changes in market interest rates and not the credit quality of the issuer. We have no intent to sell and it is more likely than not that we will not be required to sell these securities until such time as the fair value recovers to at least equal our cost basis or the securities mature.

We have evaluated the unrealized losses reported for all of our equity securities at March 31, 2012, and have concluded that the duration and severity of these losses do not warrant the recognition of an OTTI charge at March 31, 2012. Our largest unrealized loss greater than 12 months on an individual equity security at March 31, 2012 was \$0.1 million. 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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(In Thousands)

March 31, 2012

| Type of Investment   | Less than 12 months    |               |                                     | 12 months or longer    |               |                                     | Total<br>Fair<br>Value | Gross<br>Unrealized<br>Depreciation |
|--|------------------------|---------------|-------------------------------------|------------------------|---------------|-------------------------------------|------------------------|-------------------------------------|
|  | Number<br>of<br>Issues | Fair<br>Value | Gross<br>Unrealized<br>Depreciation | Number<br>of<br>Issues | Fair<br>Value | Gross<br>Unrealized<br>Depreciation |                        |                                     |
| <b>AVAILABLE-FOR-SALE</b>  |                        |               |                                     |                        |               |                                     |                        |                                     |
| Fixed maturities   |                        |               |                                     |                        |               |                                     |                        |                                     |
| Bonds  |                        |               |                                     |                        |               |                                     |                        |                                     |
| U.S. Treasury  | 5                      | \$3,961       | \$ 26                               | —                      | \$—           | \$ —                                | \$3,961                | \$ 26                               |
| U.S. government agency<br>States, municipalities and<br>political subdivisions | 19                     | 52,880        | 604                                 | —                      | —             | —                                   | 52,880                 | 604                                 |
| Foreign bonds  | 37                     | 19,242        | 658                                 | —                      | —             | —                                   | 19,242                 | 658                                 |
| Public utilities   | 12                     | 23,193        | 285                                 | 1                      | 836           | 21                                  | 24,029                 | 306                                 |
| Corporate bonds  | 15                     | 27,734        | 498                                 | 1                      | 1,159         | 61                                  | 28,893                 | 559                                 |
| Energy   | 9                      | 24,102        | 253                                 | —                      | —             | —                                   | 24,102                 | 253                                 |
| Industrials  | 16                     | 35,852        | 633                                 | 1                      | 2,897         | 103                                 | 38,749                 | 736                                 |
| Consumer goods and services  | 10                     | 15,223        | 267                                 | 1                      | 1,397         | 19                                  | 16,620                 | 286                                 |
| Technology, media and<br>telecommunications                                    | 7                      | 21,860        | 371                                 | —                      | —             | —                                   | 21,860                 | 371                                 |
| Financial services   | 16                     | 42,725        | 571                                 | 22                     | 22,202        | 1,417                               | 64,927                 | 1,988                               |
| Mortgage-backed securities   | 6                      | 636           | 5                                   | —                      | —             | —                                   | 636                    | 5                                   |
| Collateralized mortgage<br>obligations   | 18                     | 32,649        | 627                                 | —                      | —             | —                                   | 32,649                 | 627                                 |
| Asset-backed securities  | 1                      | 193           | 55                                  | —                      | —             | —                                   | 193                    | 55                                  |
| Total Available-For-Sale Fixed<br>Maturities                                   | 171                    | \$300,250     | \$ 4,853                            | 26                     | \$28,491      | \$ 1,621                            | \$328,741              | \$ 6,474                            |
| Equity securities  |                        |               |                                     |                        |               |                                     |                        |                                     |
| Common stocks  |                        |               |                                     |                        |               |                                     |                        |                                     |
| Public utilities   | 3                      | \$167         | \$ 141                              | —                      | \$—           | \$ —                                | \$167                  | \$ 141                              |
| Industrials  | 6                      | 497           | 42                                  | 6                      | 487           | 60                                  | 984                    | 102                                 |
| Consumer goods and services  | 11                     | 687           | 83                                  | 1                      | —             | 4                                   | 687                    | 87                                  |
| Health care  | 2                      | 488           | 36                                  | 4                      | 473           | 121                                 | 961                    | 157                                 |
| Technology, media and<br>telecommunications                                    | 9                      | 596           | 66                                  | 1                      | 8             | 11                                  | 604                    | 77                                  |
| Financial services   | 2                      | 120           | 17                                  | 5                      | 940           | 158                                 | 1,060                  | 175                                 |
| Nonredeemable preferred<br>stocks  | 2                      | 144           | 1                                   | 2                      | 1,021         | 211                                 | 1,165                  | 212                                 |
| Total Available-for-Sale<br>Equity Securities                                  | 35                     | \$2,699       | \$ 386                              | 19                     | \$2,929       | \$ 565                              | \$5,628                | \$ 951                              |
| Total Available-for-Sale<br>Securities   | 206                    | \$302,949     | \$ 5,239                            | 45                     | \$31,420      | 2,186                               | \$334,369              | \$ 7,425                            |

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(In Thousands)

| December 31, 2011                                 | Less than 12 months |            |                               | 12 months or longer |            |                               | Total      | Gross                   |
|---|---------------------|------------|-------------------------------|---------------------|------------|-------------------------------|------------|-------------------------|
| Type of Investment                                | Number of Issues    | Fair Value | Gross Unrealized Depreciation | Number of Issues    | Fair Value | Gross Unrealized Depreciation | Fair Value | Unrealized Depreciation |
| <b>HELD-TO-MATURITY</b>                           |                     |            |                               |                     |            |                               |            |                         |
| Fixed maturities                                  |                     |            |                               |                     |            |                               |            |                         |
| Bonds   |                     |            |                               |                     |            |                               |            |                         |
| States, municipalities and political subdivisions | —                   | \$—        | \$—                           | 1                   | \$473      | \$ 61                         | \$473      | \$ 61                   |
| Total Held-to-Maturity Fixed Maturities           | —                   | \$—        | \$—                           | 1                   | \$473      | \$ 61                         | \$473      | \$ 61                   |
| <b>AVAILABLE-FOR-SALE</b>                         |                     |            |                               |                     |            |                               |            |                         |
| Fixed maturities                                  |                     |            |                               |                     |            |                               |            |                         |
| Bonds   |                     |            |                               |                     |            |                               |            |                         |
| States, municipalities and political subdivisions | 6                   | 3,555      | 6                             | 1                   | 619        | 2                             | 4,174      | 8                       |
| Foreign bonds                                     | 13                  | 18,001     | 488                           | 6                   | 14,123     | 335                           | 32,124     | 823                     |
| Public utilities                                  | 6                   | 9,579      | 160                           | 1                   | 1,068      | 153                           | 10,647     | 313                     |
| Corporate bonds                                   |                     |            |                               |                     |            |                               |            |                         |
| Energy  | 2                   | 5,436      | 53                            | 1                   | 5,223      | 224                           | 10,659     | 277                     |
| Industrials                                       | 9                   | 25,664     | 359                           | 3                   | 8,135      | 291                           | 33,799     | 650                     |
| Consumer goods and services                       | 5                   | 5,360      | 514                           | 5                   | 3,932      | 132                           | 9,292      | 646                     |
| Health care                                       | 2                   | 5,027      | 45                            | —                   | —          | —                             | 5,027      | 45                      |
| Technology, media and telecommunications          | 13                  | 14,148     | 318                           | —                   | —          | —                             | 14,148     | 318                     |
| Financial services                                | 23                  | 20,073     | 292                           | 26                  | 28,892     | 2,008                         | 48,965     | 2,300                   |
| Mortgage-backed securities                        | 5                   | 684        | 4                             | —                   | —          | —                             | 684        | 4                       |
| Collateralized mortgage obligations               | 7                   | 4,466      | 141                           | 3                   | 5,209      | 43                            | 9,675      | 184                     |
| Total Available-For-Sale Fixed Maturities         | 91                  | \$111,993  | \$ 2,380                      | 46                  | \$67,201   | \$ 3,188                      | \$179,194  | \$ 5,568                |
| Equity securities                                 |                     |            |                               |                     |            |                               |            |                         |
| Common stocks                                     |                     |            |                               |                     |            |                               |            |                         |
| Public utilities                                  | 3                   | \$210      | \$ 98                         | —                   | \$—        | \$—                           | \$210      | \$ 98                   |
| Industrials                                       | 7                   | 975        | 155                           | 8                   | 577        | 120                           | 1,552      | 275                     |
| Consumer goods and services                       | 12                  | 625        | 150                           | 3                   | 431        | 18                            | 1,056      | 168                     |
| Health care                                       | 5                   | 768        | 94                            | 4                   | 455        | 138                           | 1,223      | 232                     |
| Technology, media and telecommunications          | 7                   | 571        | 124                           | 2                   | 144        | 22                            | 715        | 146                     |
| Financial services                                | 16                  | 1,876      | 319                           | 6                   | 746        | 224                           | 2,622      | 543                     |
| Nonredeemable preferred stocks                    | 3                   | 1,171      | 31                            | 2                   | 878        | 353                           | 2,049      | 384                     |
| Total Available-for-Sale Equity Securities        | 53                  | \$6,196    | \$ 971                        | 25                  | \$3,231    | \$ 875                        | \$9,427    | \$ 1,846                |
| Total Available-for-Sale Securities               | 144                 | \$118,189  | \$ 3,351                      | 71                  | \$70,432   | 4,063                         | \$188,621  | \$ 7,414                |
| Total   | 144                 | \$118,189  | \$ 3,351                      | 72                  | \$70,905   | \$ 4,124                      | \$189,094  | \$ 7,475                |





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## NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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. In most cases, 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 fair values 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.

The fair value of our mortgage loans is determined by modeling performed by us based on the stated principal and coupon payments as per the loan agreement. 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 estimated fair value of policy loans is equivalent to carrying value. 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 holdings in limited liability partnership funds that are valued by the various fund managers and are recorded on the equity method of accounting. In management's opinion, these values represent fair value.

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 pre-tax 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 March 31, 2012 and December 31, 2011 is as follows:

| (In Thousands)                         | March 31, 2012 |                | December 31, 2011 |                |
|--|----------------|----------------|-------------------|----------------|
|  | Fair Value     | Carrying Value | Fair Value        | Carrying Value |
| Assets                                 |                |                |                   |                |
| Investments                            |                |                |                   |                |
| Held-to-maturity fixed maturities      | \$4,148        | \$4,072        | \$4,161           | \$4,143        |
| Available-for-sale fixed maturities    | 2,791,622      | 2,791,622      | 2,697,248         | 2,697,248      |
| Trading securities                     | 15,230         | 15,230         | 13,454            | 13,454         |
| Equity securities                      | 176,057        | 176,057        | 159,451           | 159,451        |
| Mortgage loans                         | 5,312          | 4,781          | 5,219             | 4,829          |
| Policy loans                           | 7,168          | 7,168          | 7,209             | 7,209          |
| Other long-term investments            | 22,154         | 22,154         | 20,574            | 20,574         |
| Short-term investments                 | 1,100          | 1,100          | 1,100             | 1,100          |
| Cash and cash equivalents              | 74,000         | 74,000         | 144,527           | 144,527        |
| Accrued investment income              | 32,563         | 32,563         | 32,219            | 32,219         |
| Liabilities                            |                |                |                   |                |
| Policy reserves                        |                |                |                   |                |
| Annuity (accumulations) <sup>(1)</sup> | \$1,083,711    | \$1,006,363    | \$1,074,661       | \$999,534      |
| Annuity (benefit payments)             | 139,640        | 97,211         | 133,921           | 94,465         |



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

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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.

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.

We validate the prices obtained from 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 March 31, 2012 was reasonable.

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 current accounting guidance on fair value measurements.

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.

The following tables present the categorization for our financial instruments measured at fair value on a recurring basis in our consolidated balance sheets at March 31, 2012 and December 31, 2011:

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| (In Thousands)<br>Description  | March 31, 2012 | Fair Value Measurements |             |          |
|--|----------------|-------------------------|-------------|----------|
|  |                | Level 1                 | Level 2     | Level 3  |
| <b>AVAILABLE-FOR-SALE</b>  |                |                         |             |          |
| Fixed maturities   |                |                         |             |          |
| Bonds  |                |                         |             |          |
| U.S. Treasury  | \$43,214       | \$—                     | \$43,214    | \$—      |
| U.S. government agency<br>States, municipalities and political<br>subdivisions | 78,137         | —                       | 78,137      | —        |
| Foreign bonds  | 755,701        | —                       | 754,821     | 880      |
| Public utilities   | 235,237        | —                       | 234,401     | 836      |
| Corporate bonds  | 264,112        | —                       | 264,112     | —        |
| Energy   | 195,477        | —                       | 195,477     | —        |
| Industrials  | 335,100        | —                       | 332,203     | 2,897    |
| Consumer goods and services  | 204,235        | —                       | 202,838     | 1,397    |
| Health care  | 118,595        | —                       | 118,595     | —        |
| Technology, media and<br>telecommunications                                    | 123,453        | —                       | 123,453     | —        |
| Financial services   | 294,452        | —                       | 278,671     | 15,781   |
| Mortgage-backed securities   | 32,944         | —                       | 32,944      | —        |
| Collateralized mortgage obligations  | 104,840        | —                       | 104,840     | —        |
| Asset-backed securities  | 5,739          | —                       | 5,424       | 315      |
| Redeemable preferred stocks  | 386            | 386                     | —           | —        |
| Total Available-For-Sale Fixed<br>Maturities                                   | \$2,791,622    | \$386                   | \$2,769,130 | \$22,106 |
| Equity securities  |                |                         |             |          |
| Common stocks  |                |                         |             |          |
| Public utilities   | \$14,149       | \$14,149                | \$—         | \$—      |
| Energy   | 12,341         | 12,341                  | —           | —        |
| Industrials  | 33,510         | 33,360                  | 150         | —        |
| Consumer goods and services  | 18,525         | 18,525                  | —           | —        |
| Health care  | 17,371         | 17,371                  | —           | —        |
| Technology, media and<br>telecommunications                                    | 10,532         | 10,532                  | —           | —        |
| Financial services   | 66,089         | 62,613                  | —           | 3,476    |
| Nonredeemable preferred stocks   | 3,540          | 3,285                   | 255         | —        |
| Total Available-for-Sale Equity<br>Securities                                  | \$176,057      | \$172,176               | \$405       | \$3,476  |
| Total Available-for-Sale Securities  | \$2,967,679    | \$172,562               | \$2,769,535 | \$25,582 |
| <b>TRADING</b>   |                |                         |             |          |
| Fixed maturities   |                |                         |             |          |
| Bonds  |                |                         |             |          |
| Foreign bonds  | \$2,894        | \$—                     | \$2,894     | \$—      |
| Corporate bonds  |                |                         |             |          |
| Industrials  | 1,315          | —                       | 1,315       | —        |
| Consumer goods and services  | 1,612          | —                       | 1,612       | —        |
| Health care  | 1,789          | —                       | 1,789       | —        |
| Technology, media and<br>telecommunications                                    | 1,611          | —                       | 1,611       | —        |

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|                             |         |         |         |     |
|-----------------------------|---------|---------|---------|-----|
| Financial services          | 2,350   | —       | 2,350   | —   |
| Redeemable preferred stocks | \$3,659 | \$2,252 | \$1,407 | \$— |

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|                                     |             |            |             |          |
|-------------------------------------|-------------|------------|-------------|----------|
| Total Trading Fixed Maturities      | \$ 15,230   | \$2,252    | \$ 12,978   | \$—      |
| Short-Term Investments              | \$ 1,100    | \$ 1,100   | \$—         | \$—      |
| Money Market Accounts               | \$ 17,859   | \$ 17,859  | \$—         | \$—      |
| Total Assets Measured at Fair Value | \$3,001,868 | \$ 193,773 | \$2,782,513 | \$25,582 |



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| (In Thousands)<br>Description                     | December 31,<br>2011 | Fair Value Measurements |             |          |
|---|----------------------|-------------------------|-------------|----------|
|   |                      | Level 1                 | Level 2     | Level 3  |
| <b>AVAILABLE-FOR-SALE</b>                         |                      |                         |             |          |
| Fixed maturities                                  |                      |                         |             |          |
| Bonds   |                      |                         |             |          |
| U.S. Treasury                                     | \$43,951             | \$—                     | \$43,951    | \$—      |
| U.S. government agency                            | 96,395               | —                       | 96,395      | —        |
| States, municipalities and political subdivisions | 748,107              | —                       | 747,227     | 880      |
| Foreign bonds                                     | 214,815              | —                       | 213,979     | 836      |
| Public utilities                                  | 270,071              | —                       | 270,071     | —        |
| Corporate bonds                                   |                      |                         |             |          |
| Energy  | 197,192              | —                       | 197,192     | —        |
| Industrials                                       | 295,677              | —                       | 292,780     | 2,897    |
| Consumer goods and services                       | 212,174              | —                       | 210,759     | 1,415    |
| Health care                                       | 115,671              | —                       | 115,671     | —        |
| Technology, media and telecommunications          | 112,948              | —                       | 112,948     | —        |
| Financial services                                | 265,301              | —                       | 249,328     | 15,973   |
| Mortgage-backed securities                        | 35,390               | —                       | 35,390      | —        |
| Collateralized mortgage obligations               | 82,851               | —                       | 82,851      | —        |
| Asset-backed securities                           | 6,296                | —                       | 5,981       | 315      |
| Redeemable preferred stocks                       | 409                  | 409                     | —           | —        |
| Total Available-For-Sale Fixed Maturities         | \$2,697,248          | \$409                   | \$2,674,523 | \$22,316 |
| Equity securities                                 |                      |                         |             |          |
| Common stocks                                     |                      |                         |             |          |
| Public utilities                                  | \$14,735             | \$14,735                | \$—         | \$—      |
| Energy  | 12,210               | 12,210                  | —           | —        |
| Industrials                                       | 28,556               | 28,556                  | —           | —        |
| Consumer goods and services                       | 18,564               | 18,564                  | —           | —        |
| Health care                                       | 15,988               | 15,988                  | —           | —        |
| Technology, media and telecommunications          | 10,018               | 10,018                  | —           | —        |
| Financial services                                | 56,090               | 52,564                  | —           | 3,526    |
| Nonredeemable preferred stocks                    | 3,290                | 3,032                   | 258         | —        |
| Total Available-for-Sale Equity Securities        | \$159,451            | \$155,667               | \$258       | \$3,526  |
| Total Available-for-Sale Securities               | \$2,856,699          | \$156,076               | \$2,674,781 | \$25,842 |
| <b>TRADING</b>                                    |                      |                         |             |          |
| Fixed maturities                                  |                      |                         |             |          |
| Bonds   |                      |                         |             |          |
| Foreign bonds                                     | \$2,906              | \$—                     | \$2,906     | \$—      |
| Corporate bonds                                   |                      |                         |             |          |
| Industrials                                       | 1,443                | —                       | 1,443       | —        |
| Consumer goods and services                       | 1,059                | —                       | 1,059       | —        |
| Health care                                       | 1,450                | —                       | 1,450       | —        |
|   | 1,458                | —                       | 1,458       | —        |

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|  |          |         |          |     |
|--|----------|---------|----------|-----|
| Technology, media and telecommunications |          |         |          |     |
| Financial services                       | 2,063    | —       | 2,063    | —   |
| Redeemable preferred stocks              | 3,075    | 1,659   | 1,416    | —   |
| Total Trading Fixed Maturities           | \$13,454 | \$1,659 | \$11,795 | \$— |
| Short-Term Investments                   | \$1,100  | \$1,100 | \$—      | \$— |

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|                                     |             |           |             |          |
|-------------------------------------|-------------|-----------|-------------|----------|
| Money Market Accounts               | \$62,899    | \$62,899  | \$—         | \$—      |
| Total Assets Measured at Fair Value | \$2,934,152 | \$221,734 | \$2,686,576 | \$25,842 |

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

The fair value of securities that are categorized as Level 2 is determined by management after reviewing market prices obtained from independent pricing services and brokers. Such estimated fair values do not necessarily represent the values for which these securities could have been sold at the reporting date. Our independent pricing services and brokers obtain prices from reputable pricing vendors in the marketplace. They continually monitor and review the external pricing sources, while actively participating to resolve any pricing issues that may arise.

For the three-month period ended March 31, 2012, the change in our available-for-sale securities categorized as Level 1 and Level 2 is the result of investment purchases, which were made using funds held in our money market accounts, disposals and the change in unrealized gains on both fixed maturities and equity securities. There were no significant transfers of securities between Level 1 and Level 2 during the period.

Securities that may be categorized as Level 3 include holdings in certain private placement fixed maturity and equity securities and certain other securities that were determined to be other-than-temporarily impaired in a prior period and 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. If pricing could not be obtained from these sources, management performed an analysis of the contractual cash flows of the underlying security to estimate fair value.

The fair value of our Level 3 impaired securities was determined primarily based upon management's assumptions regarding the timing and amount of future cash inflows. If a security has been written down or the issuer is in bankruptcy, management relies in part on outside opinions from rating agencies, our lien position on the security, general economic conditions and management's expertise to determine fair value. We have the ability and the positive intent to hold securities until such time that we are able to recover all or a portion of our original investment. If there is no market for the impaired security at the balance sheet date, management will estimate the security's fair value based on other securities in the market. Management will continue to monitor securities after the balance sheet date to confirm that their estimated fair value is reasonable.

The following table provides a summary of the changes in fair value of our Level 3 securities for the three-month period ended March 31, 2012:

| (In Thousands)                  | States,<br>municipalities<br>and political<br>subdivisions | Foreign<br>bonds | Corporate<br>bonds | Asset-backed<br>securities | Equities | Total     |
|---------------------------------|--|------------------|--------------------|----------------------------|----------|-----------|
| Balance at December 31, 2011    | \$ 880   | \$ 836           | \$ 20,285          | \$ 315                     | \$ 3,526 | \$ 25,842 |
| Realized gains <sup>(1)</sup>   | —  | —                | —                  | —                          | —        | —         |
| Unrealized gains <sup>(1)</sup> | —  | —                | 40                 | —                          | —        | 40        |
| Amortization                    | —  | —                | —                  | —                          | —        | —         |
| Purchases                       | —  | —                | —                  | —                          | —        | —         |
| Disposals                       | —  | —                | (250 )             | —                          | (50 )    | (300 )    |
| Transfers in                    | —  | —                | —                  | —                          | —        | —         |
| Transfers out                   | —  | —                | —                  | —                          | —        | —         |
| Balance at March 31, 2012       | \$ 880   | \$ 836           | \$ 20,075          | \$ 315                     | \$ 3,476 | \$ 25,582 |

(1) Realized gains are recorded as a component of current operations whereas unrealized gains are recorded as a component of comprehensive income.

The reported "disposals" relate to the sale of an equity security and receipt of principal on calls or sinking fund bonds, in accordance with the indentures.



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## NOTE 4. EMPLOYEE BENEFITS

## Net Periodic Benefit Cost

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

| (In Thousands)                     | Pension Plan |          | Postretirement Benefit Plan |       |
|------------------------------------|--------------|----------|-----------------------------|-------|
| Three Months Ended March 31,       | 2012         | 2011     | 2012                        | 2011  |
| Net periodic benefit cost          |              |          |                             |       |
| Service cost                       | \$791        | \$713    | \$496                       | \$379 |
| Interest cost                      | 1,190        | 1,143    | 398                         | 356   |
| Expected return on plan assets     | (1,322 )     | (1,132 ) | —                           | —     |
| Amortization of prior service cost | 3            | 3        | (8 )                        | (14 ) |
| Amortization of net loss           | 592          | 545      | 56                          | 20    |
| Net periodic benefit cost          | \$1,254      | \$1,272  | \$942                       | \$741 |

## Employer Contributions

We previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 that we expected to contribute \$7.0 million to the pension plan for the 2012 plan year. For the three-month period ended March 31, 2012, we contributed \$1.5 million to the pension plan. We anticipate that the total contribution for the 2012 plan year will not vary significantly from our expected contribution.

## NOTE 5. STOCK-BASED COMPENSATION

## Non-qualified Employee Stock Award Plan

The United Fire Group, Inc. 2008 Stock Plan (the "2008 Stock Plan") authorizes 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, with 557,011 authorized shares available for future issuance at March 31, 2012. The 2008 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 2008 Stock Plan. Pursuant to the 2008 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 2008 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 2008 Stock Plan are granted at the market value of our 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 2008 Stock Plan is displayed in the following table:

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| Authorized Shares Available for Future Award Grants | Three Months Ended<br>March 31, 2012 | Inception to Date |
|---|--------------------------------------|-------------------|
| Beginning balance                                   | 653,511                              | 1,900,000         |
| Number of awards granted                            | (97,000 )                            | (1,442,689 )      |
| Number of awards forfeited or expired               | 500                                  | 99,700            |
| Ending balance                                      | 557,011                              | 557,011           |
| Number of option awards exercised                   | 459                                  | 178,476           |
| Number of unrestricted stock awards vested          | 90                                   | 2,575             |
| Number of restricted stock awards vested            | —                                    | —                 |

## 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 and unrestricted stock and non-qualified stock options to purchase shares of United Fire's common stock to non-employee directors. At March 31, 2012, we had 160,009 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 and unrestricted 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. The Board of Directors may also take any action it deems necessary and appropriate for the administration of the Director Plan.

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

| Authorized Shares Available for Future Award Grants | Three Months Ended<br>March 31, 2012 | Inception to Date |
|---|--------------------------------------|-------------------|
| Beginning balance                                   | 160,009                              | 300,000           |
| Number of awards granted                            | —                                    | (145,994 )        |
| Number of awards forfeited or expired               | —                                    | 6,003             |
| Ending balance                                      | 160,009                              | 160,009           |
| Number of option awards exercised                   | —                                    | —                 |

## Stock-Based Compensation Expense

For the three-month periods ended March 31, 2012 and 2011, we recognized stock-based compensation expense of \$0.4 million and \$0.5 million, respectively.

As of March 31, 2012, we had \$4.0 million in stock-based compensation expense that has yet to be recognized through our results of operations. We expect this compensation to be recognized over the remainder of 2012 and 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.

(In Thousands)

|       |         |
|-------|---------|
| 2012  | \$1,151 |
| 2013  | 1,108   |
| 2014  | 878     |
| 2015  | 646     |
| 2016  | 171     |
| 2017  | 14      |
| Total | \$3,968 |





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## NOTE 6. 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 six domestic locations from which it conducts its business. All offices target a similar customer base, market the same products and use the same marketing strategies and are therefore aggregated. 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.

We evaluate the two segments on the basis of both statutory accounting practices prescribed or permitted by our states of domicile and GAAP. We analyze results based on profitability (i.e., loss ratios), expenses, and return on equity. The basis we use to determine and analyze segments and to measure segment profit or loss have not changed from that reported in our Annual Report on Form 10-K for the year ended December 31, 2011.

The following tables for the three-month periods ended March 31, 2012 and 2011 have been reconciled to the amounts reported in our unaudited Consolidated Financial Statements to adjust for intersegment eliminations.

| (In Thousands)                                | Property and<br>Casualty Insurance | Life Insurance | Total        |
|---|------------------------------------|----------------|--------------|
| Three Months Ended March 31, 2012             |                                    |                |              |
| Net premiums earned                           | \$ 146,756                         | \$ 14,858      | \$ 161,614   |
| Investment income, net of investment expenses | 10,678                             | 18,508         | 29,186       |
| Net realized investment gains                 | 1,133                              | 1,614          | 2,747        |
| Other income                                  | 100                                | 156            | 256          |
| Total reportable segment                      | \$ 158,667                         | \$ 35,136      | \$ 193,803   |
| Intersegment eliminations                     | 7                                  | (111)          | (104)        |
| Total revenues                                | \$ 158,674                         | \$ 35,025      | \$ 193,699   |
| Net income                                    | \$ 16,636                          | \$ 2,548       | \$ 19,184    |
| Assets  | \$ 1,901,748                       | \$ 1,785,427   | \$ 3,687,175 |
| Invested assets                               | \$ 1,325,793                       | \$ 1,696,391   | \$ 3,022,184 |
| Three Months Ended March 31, 2011             |                                    |                |              |
| Net premiums earned                           | \$ 101,764                         | \$ 12,532      | \$ 114,296   |
| Investment income, net of investment expenses | 8,781                              | 18,329         | 27,110       |
| Net realized investment gains                 | 1,208                              | 1,445          | 2,653        |
| Other income                                  | 8                                  | 148            | 156          |
| Total reportable segment                      | \$ 111,761                         | \$ 32,454      | \$ 144,215   |
| Intersegment eliminations                     | (44)                               | (95)           | (139)        |
| Total revenues                                | \$ 111,717                         | \$ 32,359      | \$ 144,076   |
| Net income                                    | \$ 3,350                           | \$ 2,460       | \$ 5,810     |
| Assets  | \$ 1,864,823                       | \$ 1,684,706   | \$ 3,549,529 |
| Invested assets                               | \$ 1,302,553                       | \$ 1,540,424   | \$ 2,842,977 |

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## NOTE 7. 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 fair 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 fair 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 for the three-month periods ended March 31, 2012 and 2011:

| (In Thousands Except Per Share Data)                        | Three Months Ended March 31, |          |         |         |
|---|------------------------------|----------|---------|---------|
|   | 2012                         |          | 2011    |         |
|   | Basic                        | Diluted  | Basic   | Diluted |
| Net income  | \$19,184                     | \$19,184 | \$5,810 | \$5,810 |
| Weighted-average common shares outstanding                  | 25,506                       | 25,506   | 26,196  | 26,196  |
| Add dilutive effect of restricted stock awards              | —                            | 50       | —       | 50      |
| Add dilutive effect of stock options                        | —                            | 16       | —       | 6       |
| Weighted-average common shares for EPS calculation          | 25,506                       | 25,572   | 26,196  | 26,252  |
| Earnings per common share                                   | \$0.75                       | \$0.75   | \$0.22  | \$0.22  |
| Awards excluded from diluted EPS calculation <sup>(1)</sup> | —                            | 1,086    | —       | 978     |

(1) Outstanding awards were excluded from the diluted earnings per share calculation because the effect of including them would have been anti-dilutive.

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## NOTE 8. DEBT

In the fourth quarter of 2011, United Fire entered into a credit agreement with a syndicate of financial institutions as lenders, KeyBank National Association as administrative agent, lead arranger, sole book runner, swingline lender, and letter of credit issuer, and Bankers Trust Company as syndication agent. The four-year credit agreement provides for a \$100.0 million unsecured revolving credit facility that includes a \$20.0 million letter of credit subfacility and a swing line subfacility in the amount of up to \$5.0 million.

During the term of this credit facility, we have the right to increase the total facility from \$100.0 million up to \$125.0 million if, no event of default has occurred and is continuing and certain other conditions are satisfied. The credit facility is available for general corporate purposes, including working capital, acquisitions and liquidity purposes. Principal of the credit facility is due in full at maturity, on December 22, 2015. The interest rate is based on our monthly choice of either a base rate or the London Interbank Offered Rate (“LIBOR”) plus, in each case, a calculated margin amount. A commitment fee on each lender's unused commitment under the credit facility is also payable quarterly.

The credit agreement contains 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, these activities include 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 contains certain financial covenants including covenants that require us to maintain a minimum consolidated net worth, a debt to capitalization ratio and minimum stockholders equity.

The outstanding balance on the line of credit was \$45.0 million at March 31, 2012 at an interest rate of 2.0 percent. For the three-month period ended March 31, 2012, we have incurred \$0.4 million in interest expense related to this line of credit. We were in compliance with all covenants for the credit agreement at March 31, 2012.

## NOTE 9. TRUST PREFERRED SECURITIES

In connection with our acquisition of Mercer Insurance Group, we acquired three issuances of Trust Preferred Securities with an outstanding balance as of the acquisition date of \$15.5 million. During the three-month period ending March 31, 2012, we redeemed two of the issuances totaling \$8.0 million. The following Trust Preferred Security was outstanding as of March 31, 2012:

| (In Thousands)                        | Issue Date | Amount  | Interest Rate | Maturity Date |
|---------------------------------------|------------|---------|---------------|---------------|
| Financial Pacific Statutory Trust III | 9/30/2003  | \$7,579 | LIBOR + 4.05% | 9/30/2033     |

Financial Pacific Statutory Trust III (“Trust III”) is a Delaware statutory business trust. Trust III issued 7.5 million shares of the Trust Preferred Securities at a price of \$1 per share for \$7.5 million and purchased \$7.7 million in Junior Subordinated Debentures from Mercer Insurance Group that mature on September 30, 2033. The annual effective rate of interest at March 31, 2012 is 4.63 percent.

We redeemed this issuance in full on April 2, 2012.

Total interest expense for the three-month period ended March 31, 2012 was \$0.2 million.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of  
United Fire Group, Inc.

We have reviewed the consolidated balance sheet of United Fire Group, Inc. as of March 31, 2012, and the related consolidated statements of income and comprehensive income for the three-month periods ended March 31, 2012 and 2011, the consolidated statements of cash flows for the three-month periods ended March 31, 2012 and 2011, and the consolidated statement of stockholders' equity for the three-month period ended March 31, 2012. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Fire Group, Inc. as of December 31, 2011, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated March 15, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP  
Ernst & Young LLP

Chicago, Illinois  
May 10, 2012

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

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 and the Securities Exchange Act of 1934 for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ materially from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about our company, 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,” “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. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed in such forward-looking statements. Information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Part II Item 1A, “Risk Factors” of this document. Among the factors that could cause our actual outcomes and results to differ are:

- The frequency and severity of claims, including those related to catastrophe losses, and the impact those claims have on our loss reserve adequacy.

- Developments in the domestic and global financial markets that could affect our investment portfolio and financing plans.

- The calculation and recovery of deferred policy acquisition costs (“DAC”).

- The valuation of pension and other postretirement benefit obligations.

- Our relationship with our agencies and agents.

- Our relationship with our reinsurers.

- The financial strength rating of our reinsurers.

- Changes in industry trends and significant industry developments.

- Our exposure to international catastrophes through our assumed reinsurance program.

- 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.

- NASDAQ policies or regulations relating to corporate governance and the cost to comply.

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, 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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### CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates are defined as those that are representative of significant judgments and uncertainties and that potentially may 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 that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Our critical accounting estimates are: the valuation of investments; the valuation of reserves for losses, claims, and loss settlement expenses and the related valuation of reinsurance recoverable on paid and unpaid losses; the valuation of reserves for future policy benefits; the calculation of the deferred policy acquisition costs asset; the recoverability of goodwill and other intangible assets; and the valuation of pension and postretirement benefit obligations. These critical accounting estimates are more fully described in our Management's Discussion and Analysis of Results of Operations and Financial Condition presented in our Annual Report on Form 10-K for the year ended December 31, 2011.

### INTRODUCTION

The purpose of the Management's Discussion and Analysis is to provide an understanding of our results of operations and consolidated financial position. Our Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and related notes, including those in our Annual Report on Form 10-K for the year ended December 31, 2011. When we provide information on a statutory basis, we label it as such, otherwise, all other data is presented in accordance with GAAP.

This discussion and analysis is presented in these sections:

Our Business

Consolidated Financial Highlights

Results of Operations for Property and Casualty Insurance, Life Insurance and Investment Portfolio

Liquidity and Capital Resources

Measurement of Results

### OUR BUSINESS

Founded in 1946 as United Fire & Casualty Company we provide insurance protection for individuals and businesses through several regional companies. We are licensed as a property and casualty insurer in 43 states plus the District of Columbia and are represented by more than 1,300 independent agencies. Our life insurance subsidiary is licensed in 35 states and is represented by more than 900 independent agencies.

#### Segments

We operate two business segments, each with a wide range of products:

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

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

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

For the three-month period ended March 31, 2012, property and casualty business accounted for 90.9 percent of our net premiums earned, of which 89.4 percent was generated from commercial lines. Life insurance business made up 9.1 percent of our net premiums earned, of which 66.8 percent was generated from traditional life insurance products.

### Pooling Arrangement

All of our property and casualty insurance subsidiaries, with the exception of Texas General Indemnity Company, are members of an intercompany reinsurance pooling arrangement. The insurance entities of Mercer Insurance Group participated in their own pooling arrangement in 2011, which was in place when we acquired Mercer Insurance Group on March 28, 2011. Effective January 1, 2012, one pooling arrangement covers all participating insurance subsidiaries of United Fire Group, Inc. 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.

### Geographic Concentration

For the three-month period ended March 31, 2012, more than half of our property and casualty direct premiums were written in Iowa, Texas, California, New Jersey, and Missouri, and over three-fourths of our life insurance premiums, excluding annuities, were written in Iowa, Nebraska, Illinois, Wisconsin, and Minnesota.

### Segment 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 the Management's Discussion and Analysis is reported on a pre-tax basis. Additional segment information is presented in Part I, Item 1, Note 6 "Segment Information" to the unaudited Consolidated Financial Statements.

Our primary sources of revenue are premiums and investment income. Major categories of expenses include losses and loss settlement expenses, changes in reserves for future policy benefits, operating expenses and interest on policyholders' accounts.

#### Profit Factors

The profitability of our company is influenced by many factors, including price, competition, economic conditions, interest rates, catastrophic events and other natural disasters, man-made disasters, state regulations, court decisions, and changes in the law. Unless a connection between future increased extreme weather events and climate change is ultimately proven true, management believes that climate change considerations will not have a material impact on our profitability.

#### How We Achieve Profitability

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, and effective and efficient use of technology.

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## CONSOLIDATED FINANCIAL HIGHLIGHTS

| (In Thousands)                                    | Three Months Ended March 31, |                     |                   |   |
|---|------------------------------|---------------------|-------------------|---|
|   | 2012                         | 2011 <sup>(1)</sup> | %                 |   |
| <b>Revenues</b>                                   |                              |                     |                   |   |
| Net premiums earned                               | \$161,503                    | \$114,204           | 41.4              | % |
| Investment income, net of investment expenses     | 29,146                       | 27,063              | 7.7               |   |
| Net realized investment gains                     | 2,794                        | 2,653               | 5.3               |   |
| Other income                                      | 256                          | 156                 | 64.1              |   |
|   | \$193,699                    | \$144,076           | 34.4              | % |
| <b>Benefits, Losses and Expenses</b>              |                              |                     |                   |   |
| Losses and loss settlement expenses               | \$91,484                     | \$76,182            | 20.1              | % |
| Future policy benefits                            | 10,138                       | 8,182               | 23.9              |   |
| Amortization of deferred policy acquisition costs | 34,551                       | 26,046              | 32.7              |   |
| Other underwriting expenses                       | 21,994                       | 16,057              | 37.0              |   |
| Interest on policyholders' accounts               | 10,656                       | 10,670              | (0.1)             | ) |
|   | \$168,823                    | \$137,137           | 23.1              | % |
| Income before income taxes                        | \$24,876                     | \$6,939             | NM <sup>(2)</sup> |   |
| Federal income tax expense                        | 5,692                        | 1,129               | NM <sup>(2)</sup> |   |
| Net income  | \$19,184                     | \$5,810             | 230.2             | % |

(1) The information presented for 2011 includes Mercer Insurance Group's results after the March 28, 2011 acquisition date.

(2) Not meaningful

The following is a summary of our financial performance for the three-month period ended March 31, 2012:

## Consolidated Results of Operations

Net income was \$19.2 million, compared to \$5.8 million for the same period of 2011. The improvement is primarily due to the following:

Net premiums earned increased to \$161.5 million, compared to \$114.2 million for the same period of 2011. The increase is primarily attributable to the acquisition of Mercer Insurance Group, which accounted for \$34.9 million of the earned premium increase. Excluding Mercer Insurance Group, our organic growth was \$10.9 million over the same period of 2011.

Losses and loss settlement expenses increased due primarily to our acquisition of Mercer Insurance Group, but our profitability improved as shown by our property and casualty loss ratio of 59.5 percent for the three-month period ended March 31, 2012 compared to 70.4 percent for the same period of 2011. This improvement occurred despite a large property and casualty segment catastrophe loss the last week of February 2012 of \$11.9 million net of reinsurance that related to our commercial fire and allied lines for storms in the Midwest.

Pre-tax catastrophe losses totaled \$14.1 million for the three-month period ended March 31, 2012, compared to \$16.2 million in the same period of 2011. The 2012 catastrophe amount is primarily due to severe storm losses that occurred in the Midwest the last week of February that resulted in \$11.9 million of losses and loss settlement expenses net of reinsurance related to our commercial fire and allied lines.

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Effective January 1, 2012, we elected to adopt the updated accounting guidance that limits the amount of underwriting expenses eligible for deferral on a prospective basis. The adoption of the updated accounting guidance resulted in the recognition of approximately \$4.2 million (\$3.7 million for our property and casualty insurance segment; \$0.5 million for our Life insurance segment) of additional expense in the three-month period ended March 31, 2012 than we would have recognized had the accounting rules remained the

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same. This represents a net of tax reduction to net income of \$0.11 per share. Refer to the results of operations section of this item for further discussion of the impact of the new accounting rules related to deferred policy acquisition costs on our results.

Consolidated Financial Condition

Deferred annuity deposits increased 55.4 percent in the three-month period ended March 31, 2012, compared to the same period of 2011. We attribute the increase to some consumers seeking products with guaranteed rates of return as equity markets remain volatile. While deferred annuity deposits are not recorded as a component of net premiums written or net premiums earned, they do generate investment income.

Net cash outflow related to our annuity business was \$0.3 million in the three-month period ended March 31, 2012, compared to \$6.2 million in the same period of 2011. We attribute this to the activity described above.

As of March 31, 2012, the book value per share of our common stock was \$28.20. There were no shares repurchased in the three-month period ended March 31, 2012. Under our share repurchase program, which expires in August 2013, we are authorized to purchase an additional 469,879 shares of common stock.

Net unrealized investment gains totaled \$131.4 million as of March 31, 2012, an increase of \$7.0 million or 5.7 percent since December 31, 2011. An increase in the value of our equity portfolio more than offset a decline in the value of our fixed maturity portfolio.

Our stockholders' equity increased to \$719.4 million at March 31, 2012, from \$696.1 million at December 31, 2011. The improvement was primarily attributable to net income of \$19.2 million, along with the increase in net unrealized gains of \$7.0 million, which was somewhat offset by stockholder dividends of \$3.8 million.

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## RESULTS OF OPERATIONS

## Property and Casualty Insurance Segment Results

| (In Thousands)                                    | Three Months Ended March 31, |   |                     |   |
|---|------------------------------|---|---------------------|---|
|   | 2012                         |   | 2011 <sup>(1)</sup> |   |
| Net premiums written <sup>(2)</sup>               | \$164,633                    |   | \$110,726           |   |
| Net premiums earned                               | \$146,756                    |   | \$101,764           |   |
| Losses and loss settlement expenses               | (87,310                      | ) | (71,665             | ) |
| Amortization of deferred policy acquisition costs | (32,413                      | ) | (24,030             | ) |
| Other underwriting expenses                       | (17,868                      | ) | (12,726             | ) |
| Underwriting gain (loss) <sup>(2)</sup>           | \$9,165                      |   | \$(6,657            | ) |
| Investment income, net of investment expenses     | 10,638                       |   | 8,737               |   |
| Net realized investment gains                     | 1,180                        |   | 1,208               |   |
| Other income                                      | 100                          |   | 8                   |   |
| Income before income taxes                        | \$21,083                     |   | \$3,296             |   |
| GAAP Ratios:                                      |                              |   |                     |   |
| Net loss ratio                                    | 49.9                         | % | 54.5                | % |
| Catastrophes - effect on net loss ratio           | 9.6                          |   | 15.9                |   |
| Net loss ratio                                    | 59.5                         | % | 70.4                | % |
| Expense ratio <sup>(3)</sup>                      | 34.3                         |   | 36.1                |   |
| Combined ratio                                    | 93.8                         | % | 106.5               | % |

(1) The information presented for 2011 includes Mercer Insurance Group's results after the March 28, 2011 acquisition date.

(2) The Measurement of Results section of this report defines data prepared in accordance with statutory accounting practices which is a comprehensive basis of accounting other than U.S. GAAP.

(3) Includes policyholder dividends.

Net premiums earned increased 44.2 percent in the first quarter of 2012, compared to the first quarter of 2011, due to:

Acquisition of Mercer Insurance Group - Total net premiums earned increased by \$45.0 million. The acquisition of Mercer Insurance Group contributed \$34.9 million of the increase, with \$30.0 million and \$4.9 million, respectively, in commercial and personal lines.

Organic growth - The additional increase in our net premiums earned is the result of a combination of rate increases across most lines, coupled with the internal growth initiatives we implemented at the beginning of 2011, such as appointing new agencies in geographic markets where United Fire Group was under-represented. Those new agencies produced nearly \$5.0 million in new business, exceeding our \$4.0 million goal.

Commercial lines pricing increased for the second consecutive quarter, with average increases in the low- to mid-single digits. Competitive market conditions continued to ease with respect to renewals, but persisted on new business during the quarter.

Personal lines pricing remains steady, averaging mid-single digit pricing increases for both homeowners and personal auto rates.

Policy retention rates remained very strong for both commercial and personal lines, with approximately 82.3 percent of our policies renewing.

GAAP combined ratio decreased 12.7 percentage points to 93.8 percent for the three-month period ended March 31, 2012, compared with the same period of 2011. This is attributable to the following:

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Net loss ratio, a component of the combined ratio, decreased by 10.9 percentage points. The net loss ratio was affected positively by the growth in net premiums earned and reduced losses related to our workers' compensation line of business.

Expense ratio, a component of the combined ratio, decreased 1.8 percentage points. This ratio is higher than our historical expense ratio, which is attributable to:

Amortization of deferred policy acquisition costs increased 34.9 percent primarily due to our acquisition of Mercer Insurance Group and the impact of amortization of the value of business acquired ("VOBA") asset. As of March 31, 2012, the remaining \$1.7 million VOBA asset was fully amortized.

Other underwriting expenses increased 40.4 percent primarily due to our acquisition of Mercer Insurance Group. In addition, in the first quarter of 2011, we incurred \$7.9 million of nonrecurring transaction costs related to the acquisition. There were no such transaction costs in the first quarter of 2012.

Accounting rules related to deferred policy acquisition costs - Effective January 1, 2012, we adopted the updated accounting guidance related to deferred policy acquisition costs and elected to do so on a prospective basis. As a result, the amount of underwriting expenses eligible for deferral has decreased. After consideration of our normal recoverability assessment, which we refer to as a premium deficiency charge, and the amortization pattern of our deferred policy acquisition costs, we recognized approximately \$3.7 million of additional expense in the three-month period ended March 31, 2012 than we would have recognized had the accounting rules remained the same.

The impact of the new accounting rules on our results for the full year will be influenced by a number of factors including: the volume of premiums written; our assessment of successful acquisition efforts; the profitability of our lines of property and casualty business, which impacts the level of premium deficiency charge recorded; and the normal amortization pattern of these deferred policy acquisition costs, which is generally over one year. The greatest impact will be experienced in the most current quarter as the recorded deferred policy acquisitions costs would amortize to expense in succeeding quarters to offset a portion of the initial impact when assessed on an annual basis. Accordingly, the impact of the new accounting rules on our results reported for the three-month period ended March 31, 2012 should not be considered to be representative of the impact for the full year.

For a detailed discussion of our consolidated investment results, refer to the "Investment Portfolio" section of this item.

The following tables display our premiums earned, losses and loss settlement expenses and loss ratio by line of business:

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| Three Months Ended March 31,         |           | 2012   |            |   | 2011      |  |                   |   |
|--------------------------------------|-----------|--|------------|---|-----------|--|-------------------|---|
| (In Thousands)                       | Premiums  | Losses and Loss Settlement Expenses Incurred | Loss Ratio |   | Premiums  | Losses and Loss Settlement Expenses Incurred | Loss Ratio        |   |
| Unaudited                            | Earned    |  |            |   | Earned    |  |                   |   |
| <b>Commercial lines</b>              |           |  |            |   |           |  |                   |   |
| Other liability <sup>(1)</sup>       | \$46,120  | \$22,348                                     | 48.5       | % | \$27,929  | \$11,181                                     | 40.0              | % |
| Fire and allied lines <sup>(2)</sup> | 31,546    | 25,842                                       | 81.9       |   | 23,898    | 19,668                                       | 82.3              |   |
| Automobile                           | 31,609    | 23,269                                       | 73.6       |   | 22,694    | 13,658                                       | 60.2              |   |
| Workers' compensation                | 15,609    | 5,492  | 35.2       |   | 11,638    | 9,891  | 85.0              |   |
| Fidelity and surety                  | 4,297     | (44 )  | (1.0 )     |   | 4,061     | (9 )   | (0.2 )            |   |
| Miscellaneous                        | 232       | 1  | 0.4        |   | 203       | 217  | 106.9             |   |
| Total commercial lines               | \$129,413 | \$76,908                                     | 59.4       | % | \$90,423  | \$54,606                                     | 60.4              | % |
| <b>Personal lines</b>                |           |  |            |   |           |  |                   |   |
| Fire and allied lines <sup>(3)</sup> | \$10,153  | \$3,618                                      | 35.6       | % | \$6,247   | \$2,199                                      | 35.2              | % |
| Automobile                           | 5,129     | 3,136  | 61.1       |   | 3,744     | 1,863  | 49.8              |   |
| Miscellaneous                        | 222       | 185  | 83.3       |   | 123       | 2  | 1.6               |   |
| Total personal lines                 | \$15,504  | \$6,939                                      | 44.8       | % | \$10,114  | \$4,064                                      | 40.2              | % |
| Reinsurance assumed                  | \$1,839   | \$3,463                                      | 188.3      | % | \$1,227   | \$12,995                                     | NM <sup>(4)</sup> |   |
| Total                                | \$146,756 | \$87,310                                     | 59.5       | % | \$101,764 | \$71,665                                     | 70.4              | % |

(1) "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.

(2) "Fire and allied lines" includes fire, allied lines, commercial multiple peril, and inland marine.

(3) "Fire and allied lines" includes fire, allied lines, homeowners, and inland marine.

(4) Not meaningful

- Other liability - The loss ratio deteriorated by 8.5 percentage points to 48.5 percent in the three-month period ended March 31, 2012, compared to the same period of 2011. The deterioration in this line was due to the addition of Mercer Insurance Group and their higher loss ratio influencing this line.

- Commercial Automobile - The loss ratio deteriorated by 13.4 percentage points to 73.6 percent as compared to the same period of 2011, due primarily to adverse development on four severe claims that occurred in 2011.

- Workers' compensation - The loss ratio improved by 49.8 percentage points to 35.2 percent in the three-month period ended March 31, 2012, compared to the same period of 2011. The improvement in this line reflects the high severity and frequency that occurred in the first quarter of 2011, as well as adverse development incurred in first quarter 2011 on claims that occurred in 2010.



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## Life Insurance Segment Results

| (In Thousands)                                    | Three Months Ended March 31, |                 |
|---|------------------------------|-----------------|
|   | 2012                         | 2011            |
| <b>Revenues</b>                                   |                              |                 |
| Net premiums earned                               | \$14,747                     | \$12,440        |
| Investment income, net                            | 18,508                       | 18,326          |
| Net realized investment gains                     | 1,614                        | 1,445           |
| Other income                                      | 156                          | 148             |
| <b>Total revenues</b>                             | <b>\$35,025</b>              | <b>\$32,359</b> |
| <b>Benefits, Losses and Expenses</b>              |                              |                 |
| Losses and loss settlement expenses               | \$4,174                      | \$4,517         |
| Future policy benefits                            | 10,138                       | 8,182           |
| Amortization of deferred policy acquisition costs | 2,138                        | 2,016           |
| Other underwriting expenses                       | 4,126                        | 3,331           |
| Interest on policyholders' accounts               | 10,656                       | 10,670          |
| <b>Total benefits, losses and expenses</b>        | <b>\$31,232</b>              | <b>\$28,716</b> |
| <b>Income before income taxes</b>                 | <b>\$3,793</b>               | <b>\$3,643</b>  |

Income before income taxes increased \$0.2 million in the three-month period ended March 31, 2012 to \$3.8 million from \$3.6 million in the same period of 2011 as a result of the following factors:

Net premiums earned increased 18.5 percent during the three-month period ended March 31, 2012. This was due to our focus on increasing sales of our single premium whole life product.

Investment income increased \$0.2 million in the three-month period ended March 31, 2012. While the annualized net investment yield rate was 4.4 percent for the three-month period ended March 31, 2012, compared to 4.6 percent for the same period in 2011, we had approximately \$99 million more of average invested assets in the first quarter of 2012 compared to a year ago. In early 2011 we began the process of increasing the duration of our investment portfolio in order to more closely match our liabilities, which have increased in conjunction with sales of our single premium whole life product. We are maintaining the quality of our investments while we achieve our duration goals.

Increase in liability for future policy benefits increased 23.9 percent in the first quarter of 2012, due to an increase in sales as mentioned above, and the demographics of our insureds.

Other underwriting expenses increased \$0.5 million in the first quarter of 2012, due to the change in accounting rules related to deferred policy acquisition costs previously discussed.

Deferred annuity deposits increased 55.4 percent in the three-month period ended March 31, 2012, as compared with the same period of 2011. We attribute this to some consumers seeking products with guaranteed rates of return as interest rates remain low. While deferred annuity deposits are not recorded as a component of net premiums written or net premiums earned, they do generate investment income.

Net cash outflow related to our annuity business was \$0.3 million in the three-month period ended March 31, 2012, compared to \$6.2 million in the same period of 2011. We attribute this to the activity described above.



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## Investment Portfolio

Our invested assets totaled \$3,022.2 million at March 31, 2012, compared to 2,908.0 million at December 31, 2011, an increase of \$114.2 million, which is due primarily to investing the cash we had on hand at year-end and a change in philosophy to keep less cash on hand in the low interest rate environment. If extra cash is needed we have an ability to borrow funds available on our revolving credit facility.

At March 31, 2012, fixed maturity securities and equity securities comprised 92.5 percent and 5.8 percent of the value of our investment portfolio, respectively. Because the primary purpose of our investment portfolio is to fund future claims payments, we follow a conservative investment philosophy, investing in a diversified portfolio of high quality, intermediate-term taxable corporate bonds, taxable U.S. government bonds and tax-exempt U.S. municipal bonds.

## 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 March 31, 2012, is presented at carrying value in the following table:

|                                 | Property & Casualty<br>Insurance Segment |                     | Life Insurance Segment |                     | Total          |                     |   |
|---------------------------------|--|---------------------|------------------------|---------------------|----------------|---------------------|---|
| (Dollars in Thousands)          |  | Percent<br>of Total |                        | Percent<br>of Total |                | Percent<br>of Total |   |
| Fixed maturities <sup>(1)</sup> | \$ 1,134,428                             | 85.6                | % \$ 1,661,266         | 97.9                | % \$ 2,795,694 | 92.5                | % |
| Equity securities               | 156,205                                  | 11.8                | 19,852                 | 1.2                 | 176,057        | 5.8                 |   |
| Trading securities              | 15,230                                   | 1.1                 | —                      | —                   | 15,230         | 0.5                 |   |
| Mortgage loans                  | —  | —                   | 4,781                  | 0.3                 | 4,781          | 0.2                 |   |
| Policy loans                    | —  | —                   | 7,168                  | 0.4                 | 7,168          | 0.2                 |   |
| Other long-term investments     | 18,830                                   | 1.4                 | 3,324                  | 0.2                 | 22,154         | 0.8                 |   |
| Short-term investments          | 1,100                                    | 0.1                 | —                      | —                   | 1,100          | —                   |   |
| Total                           | \$ 1,325,793                             | 100.0               | % \$ 1,696,391         | 100.0               | % \$ 3,022,184 | 100.0               | % |

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

At March 31, 2012, we classified \$2,791.6 million, or 99.3 percent, of our fixed maturities portfolio as available-for-sale, compared to 2,697.2 million, or 99.4 percent, at December 31, 2011. 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 March 31, 2012 and December 31, 2011, 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 March 31, 2012 and December 31, 2011. 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.

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| (In Thousands)<br>Rating | March 31, 2012 |            | December 31, 2011 |            |   |
|--------------------------|----------------|------------|-------------------|------------|---|
|                          | Carrying Value | % of Total | Carrying Value    | % of Total |   |
| AAA                      | \$408,677      | 14.5       | \$409,124         | 15.0       | % |
| AA                       | 650,421        | 23.1       | 631,250           | 23.3       |   |
| A                        | 653,246        | 23.3       | 626,927           | 23.1       |   |
| Baa/BBB                  | 996,593        | 35.5       | 929,188           | 34.2       |   |
| Other/Not Rated          | 101,987        | 3.6        | 118,356           | 4.4        |   |
|                          | \$2,810,924    | 100.0      | \$2,714,845       | 100.0      | % |

**Duration**

Our investment portfolio is comprised primarily of 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 claims liabilities. If our invested assets and claims liabilities have similar durations, then any change in interest rates will have an equal and opposite effect on these accounts. Mismatches in the duration of assets and liabilities can cause significant fluctuations in our results of operations. The primary purpose for matching invested assets and claims liabilities is liquidity. With appropriate matching, our investments will mature when cash is needed, preventing the need to liquidate other assets prematurely.

**Group**

The weighted average effective duration of our portfolio of fixed maturity securities, at March 31, 2012, is 4.1 years compared to 3.6 years at December 31, 2011.

**Property and Casualty Insurance Segment**

The weighted average effective duration of our portfolio of fixed maturity securities, at March 31, 2012, is 4.4 years compared to 4.0 years at December 31, 2011.

**Life Insurance Segment**

The weighted average effective duration of our portfolio of fixed maturity securities, at March 31, 2012 is 3.9 years compared to 3.4 years at December 31, 2011.

**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, 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. In our life insurance segment, net investment income increased 1.0 percent in the three-month period ended March 31, 2012, compared with the same period of 2011, due to an increase in our average invested assets of approximately \$99 million compared to the same period a year ago. In early 2011 we began the process of increasing the duration of our investment portfolio in order to more closely match our liabilities, which have increased in conjunction with sales of our single premium whole life product. In the process of achieving our duration goals we are maintaining the quality of our investments.

In our property and casualty insurance segment, our acquisition of Mercer Insurance Group and an increase in the value of our investments in limited liability partnership funds contributed to the 21.8 percent increase in net investment income in the three-month period ended March 31, 2012, compared to with the same period of 2011. The increase was somewhat offset by the impact of low interest rates. Our property and casualty insurance segment holds

certain investments in limited liability partnerships that are accounted for under the equity method of accounting, with changes in the value of these investments recorded in investment income.

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Net realized investment gains were \$2.8 million in the three-month period ended March 31, 2012, compared to \$2.7 million in the same period of 2011. No other-than-temporary impairment ("OTTI") charges were incurred in the three-month periods ended March 31, 2012 and 2011.

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. 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 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 March 31, 2012, are temporary based upon our current analysis of the issuers of the securities that we hold and current market events. It is possible that we could recognize impairment losses in future periods on securities that we own at March 31, 2012, 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 impairment write-downs.

**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 premiums, annuity deposits, reinsurance recoveries, sales or maturities of investments, and investment income. Cash provided from these sources is used primarily to fund loss and loss settlement expenses, policyholder benefits under life insurance contracts, annuity withdrawals, operating expenses, dividends, pension plan contributions, and in recent years, common stock repurchases.

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 correlate to the anticipated timing of payments for losses and loss settlement expenses of the underlying insurance policies. 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 2012 and 2011.

| Cash Flow Summary<br>(In Thousands)       | Three Months Ended March 31, |             |
|---|------------------------------|-------------|
|   | 2012                         | 2011        |
| Cash used in                              |                              |             |
| Operating activities                      | \$35,885                     | \$31,269    |
| Investing activities                      | (101,238                     | ) (123,769  |
| Financing activities                      | (5,174                       | ) 78,215    |
| Net decrease in cash and cash equivalents | \$(70,527                    | ) \$(14,285 |
| Operating Activities                      |                              |             |

Net cash flows provided by operating activities totaled \$35.9 million and \$31.3 million for the three-month periods ended March 31, 2012 and 2011, respectively. Cash flows for the three-month period ended March 31, 2012, reflected a higher level of property and casualty insurance premiums collected, which was offset by loss and loss settlement expense payments and operating expenses paid, compared to the same period of 2011.





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Our cash flows from operations were sufficient to meet our liquidity needs for the three-month periods ended March 31, 2012 and 2011.

Investing Activities

Cash in excess of operating requirements is generally invested in fixed maturity securities and equity securities. Fixed maturities 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. 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, \$1.3 billion, or 45.8 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 March 31, 2012, our cash and cash equivalents included \$17.9 million related to these money market accounts, compared to \$62.9 million at December 31, 2011.

Net cash flows used in investing activities totaled \$101.2 million and \$123.8 million for the three-month periods ended March 31, 2012 and 2011, respectively. In the three-month period ended March 31, 2012, we had cash inflows from scheduled and unscheduled investment maturities, redemptions, prepayments, and sales of investments that totaled \$155.0 million compared to \$204.3 million for the same period in 2011.

Our cash outflows for investment purchases totaled \$255.3 million for the three-month period ended March 31, 2012, compared to \$155.4 million for the same period in 2011. In 2012, we continued to purchase a higher level of fixed maturity securities, which are more profitable than other investment vehicles when market interest rates are low.

Financing Activities

Net cash flows provided by financing activities totaled \$5.2 million and \$78.2 million for the three-month periods ended March 31, 2012 and 2011, respectively. In the three-month period ended March 31, 2012 we repaid \$8.0 million of the trust preferred securities outstanding. In the three-month period ended March 31, 2011, we borrowed funds totaling \$79.9 million related to our acquisition of Mercer Insurance Group. For further discussion of our outstanding debt, please see Part I, Item 1, Note 8 "Debt."

In the three-month period ended March 31, 2012, net cash inflows from our life insurance segment's annuity and universal life deposits totaled \$6.6 million, compared to \$2.3 million for the same period of 2011, as a result of consumers seeking products with a guaranteed rate of return when the equity markets are volatile.

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### Credit Facilities

In the fourth quarter of 2011, United Fire entered into a credit agreement with a syndicate of financial institutions as lenders, KeyBank National Association as administrative agent, lead arranger, sole book runner, swingline lender, and letter of credit issuer, and Bankers Trust Company as syndication agent. The four-year credit agreement provides for a \$100.0 million unsecured revolving credit facility that includes a \$20.0 million letter of credit subfacility and a swing line subfacility in the amount of up to \$5.0 million.

During the term of this credit facility, we have the right to increase the total facility from \$100.0 million up to \$125.0 million if, no event of default has occurred and is continuing and certain other conditions are satisfied. The credit facility is available for general corporate purposes, including working capital, acquisitions and liquidity purposes. Principal of the credit facility is due in full at maturity, on December 22, 2015. The interest rate is based on our monthly choice of either a base rate or the London Interbank Offered Rate (“LIBOR”) plus, in each case, a calculated margin amount. A commitment fee on each lender's unused commitment under the credit facility is also payable quarterly.

The credit agreement contains 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, these activities include 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 contains certain financial covenants including covenants that require us to maintain a minimum consolidated net worth, a debt to capitalization ratio and minimum stockholders equity.

As of March 31, 2012, we were in compliance with all covenants for the credit agreement.

### Stockholders' Equity

Stockholders' equity increased 3.3 percent to \$719.4 million at March 31, 2012, from \$696.1 million at December 31, 2011. The increase was primarily attributable to net income of \$19.2 million and unrealized investment appreciation of \$7.0 million, net of tax, offset by stockholder dividends of \$3.8 million. As of March 31, 2012, the book value per share of our common stock was \$28.20 compared to \$27.29 at December 31, 2011.

### Off-Balance Sheet Arrangements

Pursuant to an agreement with one of our limited liability partnership funds, we are contractually committed to make capital contributions up to \$15.0 million, upon request by the partnership, through December 31, 2017. As of March 31, 2012, our remaining potential contractual obligation was \$8.7 million.

## MEASUREMENT OF RESULTS

Our consolidated financial statements are prepared on the basis of GAAP. We also prepare financial statements for each of our insurance subsidiaries based on statutory accounting principles that are filed with insurance regulatory authorities in the states where they do business. We believe that disclosure of certain Non-GAAP financial measures enhances investor understanding of our financial performance.

Management evaluates our operations by monitoring key measures of growth and profitability. The following provides further explanation of the key measures management uses to evaluate the results:

Premiums written is a statutory measure of our overall business volume. Premiums written is an important measure of business production for the period under review. Net premiums written comprise direct and assumed premiums written, less ceded premiums written. Direct premiums written is the amount of premiums charged for policies issued during the period. For the property and casualty insurance segment there are no differences between direct statutory premiums written and direct premiums written under GAAP. However, for the life insurance segment, deferred annuity deposits (i.e., sales) are included in direct statutory premiums written, whereas they are excluded

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for GAAP.

Assumed premiums written is consideration or payment we receive in exchange for insurance we provide to other insurance companies. We report these premiums as revenue as they are earned over the underlying policy period.

Ceded premiums written is the portion of direct premiums written that we cede to our reinsurers under our reinsurance contracts.

| (In Thousands)                            | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2012                         | 2011       |
| Net premiums written                      | \$ 179,380                   | \$ 123,159 |
| Net change in unearned premium            | (14,806 )                    | (9,090 )   |
| Net change in prepaid reinsurance premium | (3,071 )                     | 135        |
| Net premiums earned                       | \$ 161,503                   | \$ 114,204 |

Combined ratio is a commonly used statutory 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 two separately calculated ratios, the loss and loss settlement expense ratio (the “net loss ratio”) and the underwriting expense ratio (the “expense ratio”). If the combined ratio is at or above 100.0 percent, an insurance company is not underwriting profitably and may not be profitable unless investment income is sufficient to offset underwriting losses. When prepared in accordance with GAAP, the net loss ratio is calculated as the ratio of losses and loss settlement expenses incurred to net premiums earned and measures the underwriting profitability of a company’s insurance business. 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.

When prepared in accordance with GAAP, the underwriting expense ratio is calculated as the ratio of amortization of deferred policy acquisition costs and nondeferred underwriting expenses to net premiums earned. The underwriting expense ratio measures a company’s operational efficiency in producing, underwriting and administering its insurance business.

When prepared in accordance with statutory accounting principles, the net loss ratio is calculated by dividing the sum of losses and loss settlement expenses by net premiums earned; the expense ratio is calculated by dividing underwriting expenses by net premiums written.

Catastrophe losses is a commonly used non-GAAP financial measure, which utilize the designations of the Insurance Services Office (ISO) and are reported with loss 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 periodic earnings.

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| (In Thousands)                      | Three Months Ended March 31, |          |
|-------------------------------------|------------------------------|----------|
|                                     | 2012                         | 2011     |
| ISO catastrophes                    | \$13,988                     | \$4,165  |
| Non-ISO catastrophes <sup>(1)</sup> | 110                          | 12,065   |
| Total catastrophes                  | \$14,098                     | \$16,230 |

(1) This number includes international assumed losses.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have exposure to market risk arising from potential losses in our investment portfolio due to adverse changes in interest rates and market prices. However, we have the ability to hold fixed maturity investments to maturity. Our investment guidelines define the overall framework for managing our market and other investment risks including accountability and controls. In addition, each of our subsidiaries has specific investment policies that delineate the investment limits and strategies that are appropriate given each entity's liquidity, surplus, product, and regulatory requirements. We respond to market risk by managing the character of investment purchases.

It is our philosophy that we do not utilize financial instrument hedges or derivative financial instruments to manage risks, nor do we enter into any swap, forward or option contracts, but attempt to mitigate our exposure through active portfolio management. In addition, we place the majority of our investments in high-quality, liquid securities and limit the amount of credit exposure to any one issuer. At March 31, 2012, we did not hold investments in sub-prime mortgages, credit default swaps, or other credit-enhancement exposures.

While our primary market risk exposure is to changes in interest rates, we do have exposure to changes in equity prices and limited exposure to foreign currency exchange rates.

There have been no material changes in our market risk or market risk factors from that reported in our Annual Report on Form 10-K for the year ended December 31, 2011.

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have 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 Securities Exchange Act of 1934, as amended) 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 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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.

**Changes in Internal Control Over Financial Reporting**

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on this evaluation, no such change in our internal control over financial reporting occurred during the fiscal quarter to which this report relates.



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## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We consider all our litigation pending as of March 31, 2012, to be ordinary, routine, and incidental to our business.

## ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, including those identified in Part I, Item 1A of our 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2012, that could have a material effect on our business, results of operations, financial condition, and/or liquidity and that could cause our operating results to vary significantly from period to period. The risks described in the above mentioned document are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also have a material effect on our business, results of operations, financial condition and/or liquidity.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Under our Share Repurchase Program, first announced in August 2007, we may purchase United Fire 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. We will generally consider repurchasing our common stock on the open market if (i) the trading price on NASDAQ drops below 130 percent of its book value, (ii) sufficient excess capital is available to purchase the stock, and (iii) we are optimistic about future market trends and the performance of our company. Our Share Repurchase Program may be modified or discontinued at any time.

We are authorized to purchase 469,879 shares at March 31, 2012, with the program scheduled to end in August 2013.

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 Securities Exchange Act of 1934, during the three-month period ended March 31, 2012.

| Period               | Total<br>Number of<br>Shares Purchased | Average Price<br>Paid per Share | Total Number of Shares<br>Purchased as a Part of<br>Publicly Announced<br>Plans or Programs | Maximum Number of<br>Shares that may be<br>Purchased Under the<br>Plans or Programs |
|----------------------|--|---------------------------------|---|---|
| 1/1/2012 - 1/31/2012 | —                                      | \$—                             | —   | 469,879   |
| 2/1/2012 - 2/29/2012 | —                                      | —                               | —   | 469,879   |
| 3/1/2012 - 3/31/2012 | —                                      | —                               | —   | 469,879   |

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

None.

## ITEM 5. OTHER INFORMATION

None.



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## ITEM 6. EXHIBITS

| Exhibit number | Exhibit description   | Filed herewith |
|----------------|---|----------------|
| 11             | Statement Re Computation of Per Share Earnings. All information required by Exhibit 11 is presented within Note 7 of the Notes to Unaudited Consolidated Financial Statements, in accordance with the FASB guidance on Earnings per Share   | X              |
| 31.1           | Certification of Randy A. Ramlo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   | X              |
| 31.2           | Certification of Dianne M. Lyons 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 Dianne M. Lyons 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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in XBRL: (i) Consolidated Balance Sheets at March 31, 2012 (unaudited) and December 31, 2012; (ii) Consolidated Statements of Income (unaudited) for the three months ended March 31, 2012; (iii) Consolidated Statement of Stockholders' Equity (unaudited) for the three months ended March 31, 2012; (iv) Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2012 and 2011; and (v) Notes to Unaudited Consolidated Financial Statements, tagged as a block of text. | X              |



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SIGNATURES

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

UNITED FIRE GROUP, INC.  
(Registrant)

/s/ Randy A. Ramlo  
Randy A. Ramlo  
President, Chief Executive Officer,  
Director and Principal Executive Officer

/s/ Dianne M. Lyons  
Dianne M. Lyons  
Vice President, Chief Financial Officer and  
Principal Accounting Officer

May 10, 2012  
(Date)

May 10, 2012  
(Date)