UNITED FIRE GROUP INC
Form 10-K
March 02, 2015
Table of Contents

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

FORM 10-K
R Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014
OR

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

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

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

118 Second Avenue SE
Cedar Rapids, Iowa 52401
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (319) 399-5700
Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value	The NASDAQ Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

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 £

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

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

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

Large accelerated filer £	Accelerated filer R	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 R

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2014 was approximately $697.3 million. For purposes of this calculation, all directors and executive officers of the registrant are considered affiliates. As of February 27, 2015, 24,988,503 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for its annual shareholder meeting to be held on May 20, 2015.

Table of Contents

FORM 10-K TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING INFORMATION

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

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

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

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

1

Table of Contents

PART I.

ITEM 1. BUSINESS

GENERAL DESCRIPTION

United Fire Group, Inc. ("United Fire", the "Registrant", the "Company", "we", "us", or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. Our insurance company subsidiaries are currently licensed as a property and casualty insurer in 43 states, plus the District of Columbia and as a life insurer in 37 states. United Fire & Casualty Company was incorporated in Iowa in January 1946. Our principal executive office is located at 118 Second Avenue SE, Cedar Rapids, Iowa 52401; telephone: 319-399-5700.

Holding Company Reorganization

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

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

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

The directors and executive officers of United Fire Group, Inc. immediately following the Reorganization were the same individuals who were directors and executive officers, respectively, of United Fire & Casualty Company immediately prior to the Reorganization.

As of immediately following the Reorganization, United Fire Group, Inc. owns 100 percent of one subsidiary, United Fire & Casualty Company. United Fire & Casualty Company owns 100 percent of seven subsidiaries: United Life Insurance Company, Addison Insurance Company, Mercer Insurance Group, Inc., Lafayette Insurance Company, United Fire & Indemnity Company, American Indemnity Financial Corporation and United Real Estate Holdings Company, LLC.

In addition, Mercer Insurance Group, Inc. owns 100 percent of two subsidiaries: Mercer Insurance Company and Financial Pacific Insurance Group, Inc. Mercer Insurance Company owns 100 percent of two subsidiaries: Mercer Insurance Company of New Jersey, Inc. and Franklin Insurance Company. Financial Pacific Insurance Group, Inc. owns 100 percent of one subsidiary: Financial Pacific Insurance Company. United Fire & Indemnity Company has one affiliate: United Fire Lloyds. American Indemnity Financial Corporation owns 100 percent of one subsidiary: Texas General Indemnity Company.

Table of Contents

Employees

As of December 31, 2014, we employed 932 full-time employees and 49 part-time employees. We are not a party to any collective bargaining agreement.

Reportable Segments

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

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

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

Available Information

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

Our Code of Ethics and Business Conduct is also available at www.unitedfiregroup.com in the Investor Relations section. To view it, select "Corporate Governance" and then "Code of Ethics and Business Conduct."

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

MARKETING AND DISTRIBUTION

We market our products through our home office in Cedar Rapids, Iowa, and five regional locations: Westminster, Colorado, a suburb of Denver; Webster, Texas; Pennington, New Jersey; Los Angeles, California and Rocklin, California. We are represented through approximately 1,200 independent property and casualty agencies and by approximately 1,000 independent life agencies.

Table of Contents

Property and Casualty Insurance Segment

In 2014, 2013 and 2012 the direct statutory premiums written by our property and casualty insurance operations were distributed as follows:

	Years Ended December 31,			% of Total		
(In Thousands)	2014	2013	2012	2014	2013	2012
Texas	$122,559	$104,775	$88,046	14.6 %	13.9 %	12.9 %
Iowa	97,790	92,976	83,906	11.7	12.3	12.3
California	92,754	79,326	79,485	11.1	10.5	11.6
New Jersey	51,436	51,992	47,859	6.1	6.9	7.0
Missouri	50,704	47,787	44,736	6.0	6.3	6.6
Illinois	41,760	38,012	35,237	5.0	5.0	5.2
Colorado	40,291	36,014	31,790	4.8	4.8	4.7
Minnesota	39,844	33,434	28,504	4.8	4.4	4.2
Louisiana	36,733	36,352	38,508	4.4	4.8	5.6
All Other States	264,712	233,926	204,319	31.5	31.1	29.9
Direct Statutory Premiums Written	$838,583	$754,594	$682,390	100.0 %	100.0 %	100.0 %

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

Competition

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

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

Because we rely solely on independent agencies, we offer a competitive commissions program and a rewarding profit-sharing plan as incentives for agents to place high-quality property and casualty insurance business with us. We estimate property and casualty insurance agencies will receive profit-sharing payments of $17.6 million in 2015, based on profitable business produced by the agencies in 2014. In 2014 for 2013 business, agencies received $19.2 million in profit-sharing payments and in 2013 for 2012 business, agencies received $16.9 million in payments.

Our competitive advantages include our commitment to:

- Strong agency relationships —

  A stable workforce, with an average tenure of approximately 11.3 years, allows our agents to work with the same, highly-experienced personnel each day.

Table of Contents

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

- Exceptional service — our agents and policyholders always have the option to speak with a real person.
- Fair and prompt claims handling — we view claims as an opportunity to prove to our customers that they have chosen the right insurance company.
- Disciplined underwriting — we empower our underwriters with the knowledge and tools needed to make good decisions for the Company.
- Superior loss control services — our loss control representatives make multiple visits to businesses and job sites each year to ensure safety.
- Effective and efficient use of technology — we use technology to provide enhanced service to our agents and policyholders, not to replace our personal relationships, but to reinforce them.

Life Insurance Segment

Our life insurance subsidiary markets its products primarily in the Midwest, East Coast and West. In 2014, 2013 and 2012 the direct statutory premiums written by our life insurance operations were distributed as follows:

	Years Ended December 31,			% of Total		
(In Thousands)	2014	2013	2012	2014	2013	2012
Iowa	$69,543	$64,906	$60,761	34.4 %	38.8 %	38.8 %
Wisconsin	22,411	13,939	14,505	11.1	8.3	9.3
Minnesota	20,325	16,074	16,987	10.1	9.6	10.8
Illinois	19,428	19,375	16,312	9.6	11.6	10.4
Nebraska	11,382	11,080	9,192	5.6	6.6	5.9
All Other States	58,887	41,923	38,800	29.2	25.1	24.8
Direct Statutory Premiums Written	$201,976	$167,297	$156,557	100.0 %	100.0 %	100.0 %

Competition

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

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

OPERATING SEGMENTS

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

Table of Contents

REINSURANCE
Incorporated by reference from Note 4 "Reinsurance" contained in Part II, Item 8, "Financial Statements and Supplementary Data."
RESERVES
Property and Casualty Insurance Segment
Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property or the loss of its income-producing abilities. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases, casualty insurance also obligates the insurance company to provide a defense for the insured in litigation, arising out of events covered by the policy.

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

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

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

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

The following table illustrates the change in our estimate of loss reserves for our property and casualty insurance companies for the years 2004 through 2014. The first section shows the amount of the liability, as originally reported, at the end of each calendar year in our Consolidated Financial Statements. These reserves represent the estimated amount of losses and loss settlement expenses for losses arising in that year and all prior years that are unpaid at the end of each year, including an estimate for our IBNR losses, net of applicable ceded reinsurance. The second section displays the cumulative amount of net losses and loss settlement expenses paid for each year with respect to that liability. The third section shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the losses for individual years. The last section compares the latest re-estimated amount with the original estimate. Conditions and trends that have affected development of loss reserves in the past may not necessarily exist in the future. Accordingly, it would not be appropriate to project future redundancies or deficiencies based on this table.

Table of Contents

(In Thousands) Years Ended December 31,	2004	2005	2006	2007	2008	2009	2010	2011 (1)	2012	2013	2014
Gross liability for loss and loss settlement expenses	$464,889	$620,100	$518,886	$496,083	$586,109	$606,045	$603,090	$945,051	$971,911	$960,651	$969,437
Ceded loss and loss settlement expenses	28,609	60,137	40,560	38,800	52,508	33,754	39,000	120,359	103,870	75,150	63,757
Net liability for loss and loss settlement expenses	$436,280	$559,963	$478,326	$457,283	$533,601	$572,291	$564,090	$824,692	$868,041	$885,501	$905,680
Cumulative net paid as of:											
One year later	$110,016	$230,455	$148,593	$140,149	$195,524	$165,046	$146,653	$194,156	$216,026	$241,981	
Two years later	166,592	321,110	235,975	265,361	304,622	260,872	230,800	317,623	367,456		
Three years later	213,144	380,294	332,768	345,092	373,765	312,451	283,837	422,458			
Four years later	242,579	456,919	390,763	392,676	406,773	347,682	327,497				
Five years later	264,015	502,455	422,669	416,656	429,477	372,868					
Six years later	276,214	527,136	441,202	434,437	448,097						
Seven years later	282,654	540,740	456,089	448,506							
Eight years later	287,825	553,035	467,239								
Nine years later	294,034	561,708									
Ten years later	300,105										
Net liability re-estimated as of:											
End of year	$436,280	$559,963	$478,326	$457,283	$533,601	$572,291	$564,090	$824,692	$868,041	$885,501	$905,680
One year later	358,796	534,998	433,125	457,831	559,816	526,413	502,995	751,265	810,554	828,757	
	330,137	508,774	453,474	502,177	547,824	497,136	457,532	749,491	795,328		

Two years later										
Three years later	319,335	538,451	497,629	503,992	537,912	461,677	431,213	741,455		
Four years later	326,340	574,484	500,071	503,720	514,763	446,825	417,962			
Five years later	327,626	582,343	507,507	494,027	503,175	439,961				
Six years later	327,741	592,772	503,510	487,514	499,302					
Seven years later	322,875	589,661	498,735	488,692						
Eight years later	320,893	586,083	502,926							
Nine years later	317,822	589,873								
Ten years later	323,512									
Net redundancy (deficiency)	$112,768	$(29,910)	$(24,600)	$(31,409)	$34,299	$132,330	$146,128	$83,237	$72,713	$56,744
Net re-estimated liability	323,512	589,873	502,926	488,692	499,302	439,961	417,962	741,455	795,328	828,757
Re-estimated ceded loss and loss settlement expenses	$37,476	$97,449	$64,041	$58,597	$69,306	$54,549	$56,980	$91,315	$88,247	$72,908
Gross re-estimated liability	$360,988	$687,322	$566,967	$547,289	$568,608	$494,510	$474,942	$832,770	$883,575	$901,665
Gross redundancy (deficiency)	$103,901	$(67,222)	$(48,081)	$(51,206)	$17,501	$111,535	$128,148	$112,281	$88,336	$58,986

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

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

Life Insurance Segment

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

Table of Contents

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

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

INVESTMENTS

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

REGULATION

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

State Regulation

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

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

Insurance Holding Company Regulation

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

Most states have now adopted version of the Model Insurance Holding Company System Regulation Act and Regulation as amended by the National Association of Insurance Commisssioners ("NAIC") in December 2010 (the "Amended Model Act") to introduce the concept of "enterprise risk" within an insurance company holding system.

Table of Contents

Enterprise risk is defined as any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or the liquidity of the insurer or its insurance holding company system as a whole. The Amended Model Act imposes more extensive informational requirements on us, including requiring us to prepare an annual enterprise risk report that identifies the material risks within our insurance company holding system that could pose enterprise risk to our licensed insurers. Compliance with new reporting requirements under the Amended Model Act began for us in 2014 for the 2013 fiscal year.

Restrictions on Shareholder Dividends

As an insurance holding company with no independent operations or source of revenue, our capacity to pay dividends to our shareholders is based on the ability of our insurance company subsidiaries to pay dividends to us. The ability of our subsidiaries to pay dividends to us is regulated by the laws of their state of domicile. Under these laws, insurance companies must provide advance informational notice to the domicile state insurance regulatory authority prior to payment of any dividend or distribution to its shareholders. Prior approval from the state insurance regulatory authority must be obtained before payment of an extraordinary dividend as defined under the state's insurance code. The amount of ordinary dividends that may be paid to us is subject to certain limitations, the amounts of which change each year. In all cases, we may pay dividends only from our earned surplus. Refer to the "Market Information" section of Part II, Item 5, "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities," and Note 6 "Statutory Reporting, Capital Requirements and Dividends and Retained Earnings Restrictions," contained in Part II, Item 8, "Financial Statements and Supplementary Data" for additional information about the dividends we paid during 2014.

Price Regulation

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

Investment Regulation

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

Exiting Geographic Markets; Canceling and Nonrenewing Policies

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

Insurance Guaranty Associations

Each state has insurance guaranty association laws. Membership in a state's insurance guaranty association is generally mandatory for insurers wishing to do business in that state. Under these laws, associations may assess their members for certain obligations that insolvent insurance companies have to their policyholders and claimants. Typically, states assess each solvent association member with an amount related to that member's proportionate share of business written by all association members within the state. Most state guaranty associations allow solvent insurers to recoup the assessments they are charged through future rate increases, surcharges or premium tax credits.

Table of Contents

However, there is no assurance that we will ultimately recover these assessments. We cannot predict the amount and timing of any future assessments or refunds under these laws.

Shared Market and Joint Underwriting Plans

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

Statutory Accounting Rules

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

Insurance Reserves

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

Financial Solvency Ratios

The NAIC annually calculates 13 financial ratios to assist state insurance regulators in monitoring the financial condition of insurance companies. A "usual range" of results for each of these ratios is used by insurance regulators as a benchmark. Departure from the usual range on four or more of the ratios could lead to inquiries from individual state insurance departments as to certain aspects of a company's business. In addition to the financial ratios, states also require us to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These "risk-based capital" results are used by state insurance regulators to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2014, all of our insurance companies had capital in excess of the required levels.

Federal Regulation

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

Various legislative and regulatory efforts to reform the tort liability system have, and will continue to, impact our industry. Although there has been some tort reform with positive impact to the insurance industry, new causes of action and theories of damages continue to be proposed in state court actions or by federal or state legislatures that continue to expand liability for insurers and their policyholders. For example, some state legislatures have from time to time considered legislation addressing direct actions against insurers related to bad faith claims. As a result of this unpredictability in the law, insurance underwriting is expected to continue to be difficult in commercial lines, professional liability and other specialty coverages.

Table of Contents

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

Dodd-Frank also contains a number of provisions related to corporate governance and disclosure matters. In response to Dodd-Frank, the SEC has adopted or proposed, rules regarding director independence, director and officer hedging activities, executive compensation clawback policies, compensation advisor independence, pay versus performance disclosures, internal pay equity disclosures, and shareholder proxy access. We continue to monitor developments under Dodd-Frank and their impact on us, insurers of similar size and the insurance industry as a whole.

The Patient Protection and Affordable Care Act and the related amendments in the Health Care and Education Reconciliation Act may increase our operating costs and underwriting losses. This landmark legislation continues to result in numerous changes within the health care industry that could create additional operating costs for us, particularly with respect to our workers' compensation products.

FINANCIAL STRENGTH AND ISSUER CREDIT RATING

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

Except for one non-pooled insurance subsidiary that is in run-off status, our property and casualty insurers are rated by A.M. Best Company ("A.M. Best") on a group basis. Our pooled property and casualty insurers have all received an "A" (Excellent) rating from A.M. Best. A.M. Best has designated our non-pooled insurance subsidiary in run-off as NR-3 (Rating Procedure Inapplicable). Our life insurance subsidiary has received an "A-" (Excellent) rating from A.M. Best. According to A.M. Best, companies rated "A" and "A-" have "an excellent ability to meet their ongoing obligations to policyholders."

A.M. Best also assigns issuer credit ratings based on a company's ability to repay its debts. All of our property and casualty insurers have received an issuer credit rating of "a" from A.M. Best, except for our non-pooled subsidiary which is in run-off status, and therefore not rated. Our life insurance subsidiary has received an issuer credit rating of "a-" from A.M. Best. Beginning in 2012, our holding company parent was also rated by A.M. Best, receiving an issuer credit rating of "bbb."

Table of Contents

ITEM 1A. RISK FACTORS
We provide readers with the following discussion of risks and uncertainties relevant to our business. These are factors that we believe could cause our actual results to differ materially from our historic or anticipated results. We could also be adversely affected by other factors, in addition to those listed here. Additional information concerning factors that could cause actual results to differ materially from those contained in the forward-looking statements is set forth in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Relating to Our Business

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

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

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

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

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

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

Table of Contents

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

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

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

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

We maintain insurance reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjustment process, for reported and unreported claims and for future policy benefits. Our reserves may prove to be inadequate, which may result in future charges to earnings and/or a downgrade of our financial strength rating or the financial strength ratings of our insurance company subsidiaries. Insurance reserves represent our best estimate at a given point in time. They are not an exact calculation of liability but instead are complex estimates, which are a product of actuarial expertise and projection techniques from a number of assumptions and expectations about future events, many of which are highly uncertain.

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

- actuarial and statistical projections of the cost of settlement and administration of claims reflecting facts and circumstances then known;
- historical claims information and loss emergence patterns;
- assessments of currently available data;
- estimates of future trends in claims severity and frequency;
- judicial theories of liability;
- economic factors such as inflation;
- estimates and assumptions regarding social, judicial and legislative trends, and actions such as class action lawsuits and judicial interpretation of coverages or policy exclusions; and
- the level of insurance fraud.

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

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

Table of Contents

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

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

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

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

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

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

The following states provided 49.5 percent of the direct statutory premiums written for the property and casualty insurance segment in 2014: Texas (14.6 percent), Iowa (11.7 percent), California (11.1 percent), New Jersey (6.1 percent) and Missouri (6.0 percent). The following states provided 70.8 percent of the direct statutory premiums written for the life insurance segment in 2014: Iowa (34.4 percent), Wisconsin (11.1 percent), Minnesota (10.1 percent), Illinois (9.6 percent) and Nebraska (5.6 percent).

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

We are subject to certain risks related to our investment portfolio that could negatively affect our profitability.
Investment income is an important component of our net income and overall profitability. We invest premiums received from policyholders and other available cash to generate investment income and capital appreciation, while also maintaining sufficient liquidity to pay covered claims, operating expenses and dividends. As discussed in detail below, general economic conditions, changes in financial markets and many other factors beyond our control can adversely affect the value of our investments and the realization of investment income.
We primarily manage our investment portfolio internally under required statutory guidelines and investment guidelines approved by our board of directors and the boards of directors of our subsidiaries. Although these guidelines stress diversification and capital preservation, our investments are subject to a variety of risks, including:

- Credit Risk - The value of our investment in marketable securities is subject to impairment as a result of deterioration in the creditworthiness of the issuer. Such impairments could reduce our net investment income and result in realized investment losses. The vast majority of our investments (97.8 percent at December 31, 2014) are made in investment-grade securities. Although we try to manage this risk by diversifying our portfolio and emphasizing credit quality, our investments are subject to losses as a result of a general downturn in the economy.
- Interest Rate Risk - A significant portion of our investment portfolio (90.2 percent at December 31, 2014) consists of fixed income securities, primarily corporate and municipal bonds (61.8 percent at December 31, 2014). These securities are sensitive to changes in interest rates. An increase in interest rates typically reduces the fair value of fixed income securities, while a decline in interest rates reduces the investment income earned from future investments in fixed income securities. In recent periods, interest rates have been at or near historic lows. It is possible that this trend may continue for a prolonged period of time. We generally hold our fixed income securities to maturity, so our interest rate exposure does not usually result in realized losses. However, rising interest rates could result in a significant reduction of the book value of our equity investments. Low interest rates, and low investable yields, could adversely impact our net earnings as reinvested funds produce lower investment income.

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

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

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

Table of Contents

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

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

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

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

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

- There is a risk of widespread defaults which may increase if some issuers chose to voluntarily default instead of implementing fiscal measures such as increasing tax rates or reducing spending. Such risk may also increase if there are changes in legislation permitting states, municipalities and political subdivisions to file for bankruptcy protection where they were not permitted to before. Judicial interpretations in such bankruptcy proceedings may also adversely affect the collectability of principal and interest, and/or valuation of our bonds. Changes in tax laws impacting marginal tax rates, exemptions, deductions, credits and/or the preferred tax treatment of municipal obligations could also adversely affect the market value of municipal obligations. Since a large portion of our investment portfolio (24.0 percent at December 31, 2014) is invested in tax-exempt municipal obligations, any such changes in tax law could adversely affect the value of our investment portfolio.

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

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

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

17

Table of Contents

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

- market and competitive conditions;

- changes in medical care expenses and restoration costs;

- our selection and application of appropriate pricing techniques; and

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

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

The property and casualty insurance industry is cyclical in nature and has historically been characterized by soft markets (periods of relatively high levels of price competition, less restrictive underwriting standards and generally low premium rates) followed by hard markets (periods of capital shortages resulting in a lack of insurance availability, relatively low levels of price competition, more selective underwriting of risks and relatively high premium rates). During soft markets, we may lose business to competitors offering competitive insurance at lower prices. We may reduce our premiums or limit premium increases leading to a reduction in our profit margins and revenues. We expect these cycles to continue.

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

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

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

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

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

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

- claims relating to unanticipated consequences of current or new technologies;

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

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

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

Table of Contents

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

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

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

* Except for one insurance subsidiary that is in run-off and designated NR-3 (Rating Procedure Inapplicable) by A.M. Best.

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

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

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

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

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

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

Table of Contents

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

- some of our policyholders, which may be significant; and

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

- U.S. Social Security Administration's Death Master File. We have received regulatory inquiries from certain state insurance regulators relating to compliance with unclaimed property laws and the use of data available on the U.S. Social Security Administration's Death Master File (or a similar database) to identify instances where benefits under life insurance policies, annuities and retained asset accounts are payable. It is possible that other jurisdictions may pursue similar inquiries and that such inquiries may result in payments to beneficiaries, escheatment of funds deemed abandoned under state laws and changes to procedures for the identification and escheatment of abandoned property.

Compliance with these laws and regulations requires us to incur administrative costs that decrease our profits. These laws and regulations may also prevent or limit our ability to underwrite and price risks accurately, obtain timely premium rate increases necessary to cover increased costs, discontinue unprofitable relationships or exit unprofitable

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

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

As part of our overall risk and capacity management strategy, we purchase reinsurance for significant amounts of the risk that we and our insurance company subsidiaries and affiliates underwrite, by transferring (or ceding) part of the risk we have assumed to a reinsurance company in exchange for part of the premium we receive in connection with the risk. These reinsurance arrangements diversify our business and reduce our exposure to large losses or from hazards of an unusual nature. As of December 31, 2014, we ceded premium written of $50.3 million to our reinsurers. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred, it does not eliminate our liability to our policyholders because we remain liable as the direct insurer on all of the reinsured risks. As a result we are subject to credit risk relating to our ability to recover amounts due from our reinsurers.

Our ability to collect reinsurance recoverables may be subject to uncertainty. Our losses must meet the qualifying conditions of the reinsurance agreement. Our reinsurance agreements are subject to specified limits and we would not have reinsurance coverage to the extent that it exceeds those limits. We are also subject to the risk that reinsurers may dispute their obligations to pay our claims. Reinsurers must have the financial capacity and willingness to make payments under the terms of a reinsurance agreement or program. Reinsurers may dispute amounts we believe are due to us. Particularly, following a major catastrophic event, our inability to collect a material recovery from a reinsurer on a timely basis, or at all, could have a material adverse effect on our liquidity, operating results and financial condition.

Market conditions determine the availability and cost of the reinsurance protection we purchase, which affects the level of our business profitability, as well as the level and types of risk we retain. Although we purposely work with several reinsurance intermediaries and reinsurers, we may be unable to maintain our current reinsurance facilities or obtain other reinsurance facilities in adequate amounts and at favorable premium rates. Moreover, there may be a situation in which we have more than two catastrophic events within one policy year. Because our current catastrophe reinsurance program only allows for one automatic reinstatement at an additional reinstatement premium, we would be required to obtain a new catastrophe reinsurance policy to maintain our current level of catastrophe reinsurance coverage. Such coverage may be difficult to obtain, particularly if it is necessary to do so during hurricane season following the second catastrophe. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposure to risk will increase or, if we are unwilling to bear an increase in net risk exposures, we will have to reduce the amount of risk we underwrite.

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

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

Table of Contents

developments may increase competition, by increasing the number, size and financial strength of competitors who may be able to offer, due to economies of scale, more competitive pricing than we can.

Our competitors may attempt to increase their market share by lowering rates. In that case, we could experience reductions in our underwriting margins or sales of insurance policies. Losing business to competitors offering similar products at lower prices or who have a competitive advantage may adversely affect the results of our operations. Additionally, economic conditions may reduce the total volume of business available to us and our competitors.

We price our insurance products based on estimated profit margins, and we may not be able to react in a timely manner to reprice our insurance products to respond to changes in the market. Some of our competitors may be larger and have far greater financial, technology and marketing resources than we do. If new or existing competitors decide to target our policyholder base by offering similar or enhanced product offerings or technologies at lower prices than we are able to offer, our premium revenue and our profitability could decline.

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

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

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

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

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

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

Table of Contents

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

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

We maintain a level of cash and securities which, combined with expected cash inflows from investments and operations, is believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. However, withdrawal and surrender levels may differ from anticipated levels for a variety of reasons, such as changes in economic conditions or changes in our claims paying ability and financial strength ratings. In the event our current internal sources of liquidity do not satisfy our needs, we have entered into a $100.0 million revolving unsecured credit facility that we can access. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity as well as customers' or lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us.

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

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

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

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

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

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

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

Table of Contents

Our internal controls are not fail-safe.

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

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

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

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

Risks Relating to Our Common Stock

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

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

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

The price of our common stock may be volatile.

The trading price of our common stock may fluctuate substantially due to a variety of factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could be significant and

Table of Contents

could cause a loss in the amount invested in our shares of common stock. Factors that could cause fluctuations include, but are not limited to, the following:

- variations in our actual or anticipated operating results or changes in the expectations of financial market analysts with respect to our results;
- investor perceptions of the insurance industry in general and the Company in particular;
- market conditions in the insurance industry and any significant volatility in the market;
- major catastrophic events; and
- departure of key personnel.

Certain provisions of our organizational documents, as well as applicable insurance laws, could impede an attempt to replace or remove our management, prevent the sale of the Company or prevent or frustrate any attempt by shareholders to change the direction of the Company, each of which could diminish the value of our common stock.
Our articles of incorporation and bylaws, as well as applicable laws governing corporations and insurance companies, contain provisions that could impede an attempt to replace or remove our management or prevent the sale of the Company that, in either case, shareholders might consider being in their best interests. For example:

- our Board of Directors is divided into three classes. At any annual meeting of our shareholders, our shareholders have the right to appoint approximately one-third of the directors on our Board of Directors. Consequently, it will take at least two annual shareholder meetings to effect a change in control of our Board of Directors;
- our articles of incorporation limit the rights of shareholders to call special shareholder meetings;
- our articles of incorporation set the minimum number of directors constituting the entire Board of Directors at nine and the maximum at 15, and they require approval of holders of 60.0 percent of all outstanding shares to amend these provisions. Within the range, the Board of Directors may increase by one each year the number of directors serving on the Board of Directors;
- our articles of incorporation require the affirmative vote of 60.0 percent of all outstanding shares to approve any plan of merger, consolidation, or sale or exchange of all, or substantially all, of our assets;
- our Board of Directors may fill vacancies on the Board of Directors;
- our Board of Directors has the authority, without further approval of our shareholders, to issue shares of preferred stock having such rights, preferences and privileges as the Board of Directors may determine;
- Section 490.1110 of the Iowa Business Corporation Act imposes restrictions on mergers and other business combinations between us and any holder of 10.0 percent or more of our common stock; and
- Section 490.624A of the Iowa Business Corporation Act authorizes the terms and conditions of stock rights or options issued by us to include restrictions or conditions that preclude or limit the exercise, transfer, or receipt of such rights or options by a person, or group of persons, owning or offering to acquire a specified number or percentage of the outstanding common shares or other securities of the corporation.

Further, the insurance laws of Iowa and the states in which our insurance company subsidiaries are domiciled prohibit any person from acquiring direct or indirect control of us or our insurance company subsidiaries, generally

Table of Contents

defined as owning or having the power to vote 10.0 percent or more of our outstanding voting stock, without the prior written approval of state regulators.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own six buildings and related parking facilities in Cedar Rapids, Iowa. Three buildings are used as our corporate headquarters, and three buildings are available to commercial tenants as leased office space. Our corporate headquarters includes: a five-story office building, a two-story office building and an eight-story office building in which a portion of the first floor (approximately 6.0 percent of the building's square footage) is leased to tenants. In December 2013, we acquired a three-building commercial real estate complex immediately adjacent to our corporate headquarters. This complex includes a three-story office building, a ten-story office building and a one-story office building which are available for lease to commercial tenants (approximately 39.0 percent of the complex's square footage is leased). In December 2014, we entered into a two-year lease for approximately 24,664 square feet of office space in a building across the street from our corporate headquarters. This space will be used by certain of our administrative and property and casualty operations personnel while portions of our corporate headquarters buildings are undergoing renovation. All seven buildings are connected by a skywalk system. We also own a 250-space parking ramp for use by our employees which is located adjacent to our corporate headquarters.

In addition, three of our regional office locations in Lock Haven, Pennsylvania, Pennington, New Jersey, and Rocklin, California, conduct operations in office space that we own. A portion of the Lock Haven (approximately 18.0 percent) and Pennington (approximately 5.0 percent) office space is currently leased to commercial tenants. We also own a tract of land adjacent to the Pennington office.

Our other three regional office locations in Los Angeles, California, Westminster, Colorado, and Webster, Texas, and our claims office in Metairie, Louisiana, conduct operations in leased office space.

The following table shows a brief description of our owned and leased office space as of December 31, 2014. We believe our current facilities are adequate to meet our needs with additional space available for future expansion, if necessary, at each of our owned and leased facilities:

Table of Contents

Location	Utilized by	Owned or Leased	Lease Expiration Date
Corporate Headquarters – Cedar Rapids, Iowa			
118 Second Avenue SE	Corporate Administration, Property and Casualty Segment	Owned	N/A
119 Second Avenue SE	Corporate Administration, Life Insurance Segment	Owned	N/A
109 Second Street SE	Property and Casualty Segment	Owned	N/A
118 Second Street SE	Corporate Administration, Property and Casualty Segment	Leased	January 1, 2017
Commercial Office Complex – Cedar Rapids, Iowa			
101 Second Street SE	Commercial Tenants	Owned	N/A
107 Second Street SE	Commercial Tenants	Owned	N/A
119 First Avenue SE	Currently Unoccupied	Owned	N/A
Denver Regional Office – Westminster, Colorado	Property and Casualty Segment	Leased	June 30, 2018
East Coast Regional Office –			
Lock Haven Office – Lock Haven, Pennsylvania	Property and Casualty Segment	Owned	N/A
Pennington Office – Pennington, New Jersey	Property and Casualty Segment	Owned	N/A
Specialty Division Office – Los Angeles, California	Property and Casualty Segment	Leased	October 24, 2021
Gulf Coast Regional Office – Webster, Texas	Property and Casualty Segment	Leased	January 15, 2021
New Orleans Claims Office – Metairie, Louisiana	Property and Casualty Segment	Leased	September 30, 2015
West Coast Regional Office – Rocklin, California	Property and Casualty Segment	Owned	N/A

ITEM 3. LEGAL PROCEEDINGS

We are not party to any material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

Table of Contents

PART II.

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

Common Shareholders

United Fire Group, Inc.'s common stock is traded on NASDAQ under the symbol "UFCS." On February 27, 2015, there were 822 holders of record of United Fire Group, Inc. common stock. The number of record holders does not reflect shareholders who beneficially own common stock in nominee or street name, but does include participants in our employee stock purchase plan.

See Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Shareholders Matters" of this Form 10-K, which incorporates by reference our definitive Proxy Statement (the "2015 Proxy Statement") for our annual meeting of shareholders to be held on May 20, 2015. The 2015 Proxy Statement will be filed with the SEC within 120 days after the end of our 2014 fiscal year and is incorporated herein by reference.

Dividends

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

As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at December 31, 2014, our insurance company subsidiary, United Fire & Casualty, is able to make a maximum of $39.6 million in dividend payments without prior regulatory approval.

The table in the following section shows the quarterly cash dividends declared in 2014 and 2013. Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors out of legally available funds.

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

Table of Contents

Market Information

The following table sets forth the high and low trading price as reported on NASDAQ for our common stock for the calendar periods indicated. These quotations reflect interdealer prices without retail markups, markdowns, or commissions and may not necessarily represent actual transactions.

	Share Price		Cash Dividends
	High	Low	Declared
2014			
Quarter Ended:			
March 31	$32.02	$24.15	$0.18
June 30	31.44	26.50	0.20
September 30	30.55	27.36	0.20
December 31	32.70	27.36	0.20
Year-end close: $29.73			
2013			
Quarter Ended:			
March 31	$28.07	$22.11	$0.15
June 30	29.59	23.75	0.18
September 30	32.94	24.90	0.18
December 31	34.21	27.00	0.18
Year-end close: $28.66			

Issuer Purchases of Equity Securities

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

Table of Contents

The following table provides information with respect to purchases of shares of common stock made by or on our behalf or by any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Exchange Act, during the year ended December 31, 2014:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
1/1/14 - 1/31/14	—	$—	—	1,070,117
2/1/14 - 2/28/14	—	—	—	1,070,117
3/1/14 - 3/31/14	—	—	—	1,070,117
4/1/14 - 4/30/14	—	—	—	1,070,117
5/1/14 - 5/31/14	137,405	27.61	137,405	932,712
6/1/14 - 6/30/14	64,111	27.65	64,111	868,601
7/1/14 - 7/31/14	49,900	28.50	49,900	818,701
8/1/14 - 8/31/14	100	28.46	100	1,818,601
9/1/14 - 9/30/14	150,003	28.38	150,003	1,668,598
10/1/14 - 10/31/14	21,658	27.76	21,658	1,646,940
11/1/14 - 11/30/14	9,624	27.88	9,624	1,637,316
12/1/14 - 12/31/14	29,034	28.36	29,034	1,608,282
Total	461,835		461,835	

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

United Fire Group, Inc. Common Stock Performance Graph

The following graph compares the performance of an investment in United Fire Group Inc.'s common stock from December 31, 2009 through December 31, 2014, with the Standard & Poor's 500 Index ("S&P 500 Index"), and the Standard & Poor's 600 Property and Casualty Index ("S&P 600 P&C Index"). The graph assumes $100 was invested on December 31, 2009 in our common stock and each of the below listed indices and that all dividends were reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

Table of Contents

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

	Period Ended					
Index	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
United Fire Group, Inc.	$100.00	$126.10	$117.65	$130.92	$176.12	$187.72
S&P 500 Index	100.00	115.06	117.49	136.30	180.44	205.14
S&P 600 P&C Index	100.00	121.93	133.38	144.48	184.14	193.61

ITEM 6. SELECTED FINANCIAL DATA

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

(In Thousands, Except Per Share Data)					
Years Ended December 31	2014	2013	2012	2011	2010
Consolidated Balance Sheet Data:					
Total cash and investments	$3,261,535	$3,142,330	$3,151,829	$3,052,535	$2,662,955
Total assets	3,856,689	3,720,672	3,694,653	3,618,924	3,007,439
Future policy benefits and losses, claims and loss settlement expenses					
Property and casualty insurance	969,437	960,651	971,911	945,051	603,090
Life insurance	1,447,764	1,472,132	1,498,176	1,476,281	1,389,331
Unearned premiums	378,725	340,464	311,650	288,991	200,341
Total liabilities	3,039,274	2,937,839	2,965,476	2,922,783	2,291,015
Net unrealized investment gains, after tax	149,623	116,601	144,096	124,376	102,649
Repurchase of United Fire Group, Inc. common stock	(12,942)	(1,644)	(7,301)	(12,433)	(6,280)
Total stockholders' equity	817,415	782,833	729,177	696,141	716,424
Book value per share	32.67	30.87	28.90	27.29	27.35
Consolidated Income Statement Data:					
Revenues					
Net premiums written	$866,120	$783,463	$720,881	$604,867	$463,892
Net premiums earned	828,330	754,846	694,994	586,783	469,473
Investment income, net of investment expenses	104,609	112,799	111,905	109,494	111,685
Net realized investment gains	7,270	8,695	5,453	6,440	8,489
Other income	1,685	702	891	2,291	1,425
Consolidated revenues	$941,894	$877,042	$813,243	$705,008	$591,072
Losses and loss settlement expenses					
Property and casualty insurance	509,811	437,354	439,137	407,831	289,437
Life insurance	26,432	21,461	20,569	22,558	20,359
Amortization of deferred policy acquisition costs (1)	167,449	153,677	141,834	153,176	113,371
Other underwriting expenses (1)	94,871	89,861	81,125	58,757	39,321
Net income	59,137	76,140	40,212	11	47,513
Property and Casualty Insurance Segment Data:					
Net premiums written	804,715	722,821	655,331	551,923	414,908
Net premiums earned	766,939	694,192	629,411	533,771	420,373
Net income (loss)	52,376	67,456	33,512	(7,639)	34,726
Combined ratio(2)	97.8%	94.8%	101.2%	112.1%	99.9%
Life Insurance Segment Data:					
Net premiums earned	61,391	60,654	65,583	53,012	49,100
Net income	6,761	8,684	6,700	7,650	12,787

Earnings Per Share Data:					
Basic earnings per common share	2.34	3.01	1.58	—	1.81
Diluted earnings per common share	2.32	2.98	1.58	—	1.80
Other Supplemental Data:					
Cash dividends declared per common share	0.78	0.69	0.60	0.60	0.60

(1) In 2012, we adopted new deferred policy acquisition cost accounting guidance on a prospective basis. As a result of the adoption, the amount of underwriting expenses eligible for deferral has decreased.

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

Table of Contents

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

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

FORWARD-LOOKING STATEMENTS

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

BUSINESS OVERVIEW

Originally founded in 1946 as United Fire & Casualty Company, United Fire Group, Inc. ("United Fire", the "Registrant", the "Company", "we", "us", "our") and its consolidated insurance company subsidiaries provide insurance protection for individuals and businesses through several regional companies. Our property and casualty insurance company subsidiaries are licensed in 43 states plus the District of Columbia and are represented by approximately 1,200 independent agencies. Our life insurance subsidiary is licensed in 37 states and is represented by approximately 1,000 independent agencies.

Segments

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

- property and casualty insurance, which includes commercial insurance, personal insurance, surety bonds and assumed reinsurance; and
- life insurance, which includes deferred and immediate annuities, universal life products and traditional life (primarily single premium whole life insurance) products.

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

For 2014, property and casualty business accounted for approximately 92.6 percent of our net premiums earned, of which 91.0 percent was generated from commercial insurance. Life insurance business made up approximately 7.4 percent of our net premiums earned, of which over 63.2 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, and our affiliate are members of an intercompany reinsurance pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant's own surplus level.

Geographic Concentration

For 2014, approximately 49.5 percent of our property and casualty direct written premiums were written in Texas, Iowa, California, New Jersey, and Missouri; approximately 77.9 percent of our life insurance premiums were written in Iowa, Wisconsin, Minnesota, Illinois and Nebraska.

Table of Contents

Sources of Revenue and Expense
We evaluate segment profit or loss based upon operating and investment results. Segment profit or loss described in the following sections of Management's Discussion and Analysis is reported on a pre-tax basis. Additional segment information is presented in Part II, Item 8, Note 10 "Segment Information" to the Consolidated Financial Statements.
Our primary sources of revenue are premiums and investment income. Major categories of expenses include losses and loss settlement expenses, future policy benefits, underwriting and other operating expenses and interest on policyholders' accounts.
Profit Factors
Our profitability is influenced by many factors, including price, competition, economic conditions, investment returns, interest rates, catastrophic events and other natural disasters, man-made disasters, state regulations, court decisions, and changes in the law. To manage these risks and uncertainties, we seek to achieve consistent profitability through strong agency relationships, exceptional customer service, fair and prompt claims handling, disciplined underwriting, superior loss control services, prudent management of our investments, appropriate matching of assets and liabilities and effective and efficient use of technology.

MEASUREMENT OF RESULTS
Our consolidated financial statements are prepared on the basis of GAAP. We also prepare financial statements for each of our insurance company subsidiaries based on statutory accounting principles and file them with insurance regulatory authorities in the states where they do business.
Management evaluates our operations by monitoring key measures of growth and profitability. We believe that disclosure of certain non-GAAP financial measures enhances investor understanding of our financial performance. The following provides further explanation of the key measures management uses to evaluate our results:
Catastrophe losses is a commonly used non-GAAP financial measure, which utilizes the designations of the Insurance Services Office (ISO) and are reported with losses and loss settlement expense amounts net of reinsurance recoverables, unless specified otherwise. According to the ISO, a catastrophe loss is defined as a single unpredictable incident or series of closely related incidents that result in $25.0 million or more in U.S. industry-wide direct insured losses to property and that affect a significant number of insureds and insurers ("ISO catastrophe"). In addition to ISO catastrophes, we also include as catastrophes those events ("non-ISO catastrophes"), which may include U.S. or international losses, that we believe are, or will be, material to our operations, either in amount or in number of claims made. Management, at times, may determine for comparison purposes that it is more meaningful to exclude extraordinary catastrophe losses and resulting litigation. The frequency and severity of catastrophic losses we experience in any year affect our results of operations and financial position. In analyzing the underwriting performance of our property and casualty insurance segment, we evaluate performance both including and excluding catastrophe losses. Portions of our catastrophe losses may be recoverable under our catastrophe reinsurance agreements. We include a discussion of the impact of catastrophes because we believe it is meaningful for investors to understand the variability in our periodic earnings.

	Years Ended December 31,		
(In Thousands)	2014	2013	2012
ISO catastrophes	$47,351	$27,222	$58,875
Non-ISO catastrophes (1)	2,328	2,994	5,847
Total catastrophes	$49,679	$30,216	$64,722

(1) Includes international assumed losses.

Table of Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS

	Years Ended December 31,			% Change	
(In Thousands)	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Revenues					
Net premiums earned	$828,330	$754,846	$694,994	9.7 %	8.6 %
Investment income, net of investment expenses	104,609	112,799	111,905	(7.3)	0.8
Net realized investment gains (losses)					
Other-than-temporary impairment charges	—	(139)	(4)	NM	NM
All other net realized gains	7,270	8,834	5,457	(17.7)	61.9
Total net realized investment gains	7,270	8,695	5,453	(16.4)	59.5
Other income	1,685	702	891	140.0	(21.2)
Total revenues	$941,894	$877,042	$813,243	7.4 %	7.8 %
Benefits, losses and expenses					
Losses and loss settlement expenses	$536,243	$458,814	$459,706	16.9 %	(0.2)%
Increase in liability for future policy benefits	36,623	37,625	43,095	(2.7)	(12.7)
Amortization of deferred policy acquisition costs	167,449	153,677	141,834	9.0	8.3
Other underwriting expenses	94,871	89,861	81,125	5.6	10.8
Interest on policyholders' accounts	30,245	35,163	41,409	(14.0)	(15.1)
Total benefits, losses and expenses	$865,431	$775,140	$767,169	11.6 %	1.0 %
Income before income taxes	$76,463	$101,902	$46,074	(25.0)%	121.2 %
Federal income tax expense	17,326	25,762	5,862	(32.7)%	NM
Net income	$59,137	$76,140	$40,212	(22.3)%	89.3 %

NM = not meaningful

Consolidated Results of Operations

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

During 2013, the increase in net income was driven by growth in property and casualty premium revenue and a reduction in the combined ratio. Net premiums earned increased to $754.8 million compared to $695.0 million in 2012. This increase represents organic growth and is the result of a combination of rate increases across most commercial and personal lines and new business writings. The reduction in the combined ratio resulted from lower catastrophe losses.

In 2013, we continued to expand the geographical footprint of our life insurance subsidiary by receiving approval to operate in Nevada, after receiving approval in 2012 to operate in California, Maryland and Delaware, further leveraging the Mercer Insurance Group acquisition. Our life management team continues to improve service to our agents by increasing marketing support and automating life product processes.

At a special meeting held on January 24, 2012, our shareholders approved our reorganization into a new holding company structure. United Fire Group, Inc. has replaced United Fire & Casualty Company as the publicly held

Table of Contents

corporation, and United Fire & Casualty Company is now a wholly owned subsidiary of United Fire Group, Inc. In addition to creating a more streamlined corporate structure, the new holding company's organizational documents enhanced our shareholders' rights by reducing the percentage of shareholders required to amend our Articles of Incorporation, approve the merger or sale of substantially all Company assets, and call a special meeting. This new structure will potentially provide us with more flexibility to operate and finance our businesses, particularly if we should need to raise capital in the future.

Table of Contents

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

Property and Casualty Insurance Segment

	Years Ended December 31,			% Change	
(In Thousands)	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Net premiums written	$804,715	$722,821	$655,331	11.3 %	10.3 %
Net premiums earned	$766,939	$694,192	$629,411	10.5	10.3
Losses and loss settlement expenses	(509,811)	(437,353)	(439,137)	16.6	(0.4)
Amortization of deferred policy acquisition costs	(161,310)	(147,175)	(134,444)	9.6	9.5
Other underwriting expenses	(79,117)	(73,626)	(63,620)	7.5	15.7
Underwriting gain (loss)	$16,701	$36,038	$(7,790)	(53.7)%	NM
Investment income, net of investment expenses	44,236	46,332	41,879	(4.5)%	10.6 %
Net realized investment gains (losses)					
Other-than-temporary impairment charges	—	(139)	—	(100.0)%	NM
All other net realized gains	4,177	6,400	1,676	(34.7)	281.9
Total net realized investment gains	4,177	6,261	1,676	(33.3)%	273.6 %
Other income	911	88	316	NM	(72.2)%
Income before income taxes	$66,025	$88,719	$36,081	(25.6)%	145.9 %
GAAP Ratios:					
Net loss ratio (without catastrophes)	60.0 %	58.6 %	59.5 %	2.4 %	(1.5)%
Catastrophes - effect on net loss ratio	6.5	4.4	10.3	47.7	(57.3)
Net loss ratio(1)	66.5 %	63.0 %	69.8 %	5.6 %	(9.7)%
Expense ratio (2)	31.3	31.8	31.4	(1.6)	1.3
Combined ratio(3)	97.8 %	94.8 %	101.2 %	3.2 %	(6.3)%
Statutory Ratios:					
Net loss ratio (without catastrophes)	60.2 %	58.9 %	60.2 %	2.2 %	(2.2)%
Catastrophes - effect on net loss ratio	6.5	4.4	10.3	47.7	(57.3)
Net loss ratio(1)	66.7 %	63.3 %	70.5 %	5.4 %	(10.2)%
Expense ratio (2)	31.4	32.0	31.3	(1.9)	2.2
Combined ratio(3)	98.1 %	95.3 %	101.8 %	2.9 %	(6.4)%

NM = not meaningful

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

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

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

For the year ended December 31, 2014, our property and casualty insurance segment reported income before income taxes of $66.0 million compared to income before income taxes of $88.7 million in the same period in 2013. The decrease in income before income taxes during 2014 as compared to 2013 is primarily due to an increase in losses and loss settlement expenses partially offset by a 10.5 percent increase in net premiums earned.

For the year ended December 31, 2013, our property and casualty insurance segment reported income before income taxes of $88.7 million compared to losses before income taxes of $36.1 million in the same period in 2012. The increase in income before income taxes during 2013 as compared to 2012 is primarily a result of a 10.3 percent increase in net premiums earned and a decrease in catastrophe losses discussed in more detail throughout this section.

Table of Contents

Premiums

The following table shows our premiums written and earned for 2014, 2013 and 2012:

(In Thousands)				% Change 2014	2013
Years ended December 31,	2014	2013	2012	vs. 2013	vs. 2012
Direct premiums written	$838,584	$754,594	$682,390	11.1 %	10.6 %
Assumed premiums written	16,421	18,938	17,181	(13.3)	10.2
Ceded premiums written	(50,290)	(50,711)	(44,240)	(0.8)	14.6
Net premiums written	$804,715	$722,821	$655,331	11.3 %	10.3 %
Net premiums earned	766,939	694,192	629,411	10.5	10.3

Net Premiums Written

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

Direct Premiums Written

Direct premiums written increased $84.0 million in 2014 as compared to 2013 due to organic growth and is the result of a combination of rate increases across most commercial and personal lines and, to a lesser extent, new business writings.

Direct premiums written increased $72.2 million in 2013 as compared to 2012 due to organic growth and is the result of a combination of rate increases across most commercial and personal lines and new business writings.

Assumed Premiums Written

Assumed premiums written decreased $2.5 million in 2014 as compared to 2013 due to softening market conditions. We renewed our participation levels in all but one of our active assumed programs and added one new program to replace the lost premium from the program not renewed.

Assumed premiums written increased $1.8 million in 2013 as compared to 2012 due to pricing increases in recent years, the addition of two new assumed programs and the renewal of our participation levels in all but one of our active assumed programs. We added two new programs to replace the lost premium from the program not renewed and to take advantage of areas where we had exposure capacity. One of the new programs has worldwide exposure and the other has exposure in the United Kingdom and Japan.

Ceded Premiums Written

Direct and assumed premiums written are reduced by the ceded premiums that we pay to reinsurers. For 2014, we benefited from softening market conditions that allowed us to cede 0.8 percent less premium while growing direct premiums written by 11.1 percent. For 2013, ceded premiums written increased slightly compared to 2012 due to premium rate increases.

Table of Contents

Losses and Loss Settlement Expenses
Catastrophe Exposures
Catastrophe losses are inherent risks of the property and casualty insurance business. Catastrophic events include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds, winter storms and other natural disasters, along with man-made exposures to losses resulting from, without limitation, acts of war, acts of terrorism and political instability. Such events result in insured losses that can be, and may continue to be, a material factor in our results of operations and financial position, as the extent of losses from a catastrophe is a function of both the total amount of insured exposure in an area affected by the event and the severity of the event. Because the level of insured losses that may occur in any one year cannot be accurately predicted, these losses contribute to fluctuations in our year-to-year results of operations and financial position. Some types of catastrophes are more likely to occur at certain times within the year than others, which adds an element of seasonality to our property and casualty insurance claims. The frequency and severity of catastrophic events are difficult to accurately predict in any year. However, some geographic locations are more susceptible to these events than others.
We control our direct insurance exposures in regions that are prone to naturally occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, and reinsurance. We regularly assess our concentration of risk exposures in natural catastrophe exposed areas. We have strategies and underwriting standards to manage these exposures through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance coverage. We use catastrophe modeling and a risk concentration management tool to monitor and control our accumulations of potential losses in natural catastrophe exposed areas of the United States, such as the Gulf and East Coasts, as well as in areas of exposure in other countries where we are exposed to a portion of an insurer's underwriting risk under our assumed reinsurance contracts.
Overall, the models indicate increased risk estimates for our exposure to hurricanes in the U.S., but the impact of the models on our book of business varies significantly among the regions that we model for hurricanes. Based on our analysis, we have implemented more targeted underwriting and rate initiatives in some regions. We will continue to take underwriting actions and/or purchase additional reinsurance as necessary to reduce our exposure.
Catastrophe modeling generally relies on multiple inputs based on experience, science, engineering and history, and the selection of those inputs requires a significant amount of judgment. The modeling results may also fail to account for risks that are outside the range of normal probability or are otherwise unforeseen. Because of this, actual results may differ materially from those derived from our modeling assumptions.
Despite our efforts to manage our catastrophe exposure, the occurrence of one or more severe natural catastrophic events in heavily populated areas could have a material effect on our results of operations, financial condition or liquidity.
The process of estimating and establishing reserves for losses incurred from catastrophic events is inherently uncertain and the actual ultimate cost of a claim, net of reinsurance recoveries, may vary materially from the estimated amount reserved. Although we reinsure a portion of our exposure, reinsurance may prove to be inadequate if a major catastrophic event exceeds our reinsurance limits or if we experience a number of small catastrophic events that individually fall below our reinsurance retention level.
Catastrophe Losses
In 2014, our pre-tax catastrophe losses were $49.7 million, an increase as compared to $30.2 million in 2013, but a decrease as compared to $64.7 million in 2012. The increase in catastrophe losses in 2014 is primarily due to spring and summer convective storms in regions of the U.S. where we conduct much of our business. Our 2014 losses included 26 catastrophes, where our largest single pre-tax catastrophe loss totaled $7.7 million. Our 2013 losses included 29 catastrophes, where our largest single pre-tax catastrophe loss totaled $4.0 million.

Table of Contents

Our 2012 losses included Super Storm Sandy, which occurred in October 2012 and represented $25.0 million ($20.0 million direct and $5.0 million assumed) of incurred losses, and 26 other catastrophes, where our largest single pre-tax catastrophe loss totaled $12.3 million.

Catastrophe Reinsurance

In 2014, 2013 and 2012, we did not exceed our catastrophe reinsurance retention level of $20.0 million.

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

The following table represents the primary reinsurers we utilize and their financial strength ratings as of December 31, 2014:

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

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

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

Terrorism Coverage

The Terrorism Risk Insurance Program Reauthorization Act of 2007 was signed into law on December 27, 2007. On January 2015, President Obama signed into law The Terrorism Risk Insurance Program Reauthorization Act of 2015 ("TRIPRA"). TRIPRA extends the Terrorism Risk Insurance Program until December 31, 2020; gradually increases the coverage trigger for shared terrorism losses between the federal government and the insurance industry to $200 billion per year (up from $100 billion); and gradually increases the industry-wide retention to $37.5 billion per year (up from $27.5 billion). TRIPRA coverage includes most direct commercial lines of business, including coverage for losses from nuclear, biological and chemical exposures if coverage was afforded by an insurer, with exclusions for commercial automobile insurance, burglary and theft insurance, surety, professional liability insurance and farm owners multiple peril insurance. Under TRIPRA, each insurer has a deductible amount, which is 20.0 percent of the prior year's direct commercial lines earned premiums for the applicable lines of business, and retention of 15.0 percent above the deductible. No insurer that has met its deductible shall be liable for the payment of any portion of that amount that exceeds the annual aggregate loss cap specified in TRIPRA. TRIPRA provides marketplace stability. As a result, coverage for terrorist events in both the insurance and reinsurance markets is often available. The amount of aggregate losses necessary for an act of terrorism to be certified by the U.S. Secretary of Treasury, the Secretary of State and the Attorney General was $100.0 million for 2014 and remains the same for 2015. Our TRIPRA deductible was $89.5 million for 2014 and our TRIPRA deductible will be $99.2 million for 2015. Our catastrophe and non-catastrophe reinsurance programs provide limited coverage for terrorism exposure excluding nuclear, biological and chemical-related claims.

Table of Contents

2014 Results
In 2014, our losses and loss settlement expenses were affected by catastrophe losses of $49.7 million in both our direct business and assumed reinsurance business as compared to $30.2 million in 2013 and also by an increase in our non-catastrophe results from an increase in frequency and severity in fire-related losses in our commercial property line of business.
2013 Results
In 2013, our losses and loss settlement expenses were affected by a reduction of $34.5 million in catastrophe losses in both our direct business and assumed reinsurance business as compared to 2012, and also, to a lesser extent, by an improvement in our non-catastrophe results.
2012 Results
In 2012, our losses and loss settlement expenses were affected by catastrophe losses of $64.7 million in both our direct business and assumed reinsurance business. Our non-catastrophe results reflected our favorable development of reserves established for claims that occurred in prior years of $73.4 million.
Reserve Development

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

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

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

2014 Development

The property and casualty insurance segment experienced $56.7 million of favorable development in our net reserves for prior accident years for the year ended December 31, 2014. The significant drivers of the favorable reserve development in 2014 were our long-tail liability lines, workers' compensation, and automobile (both liability and physical damage), which collectively contributed $54.3 million of the total development. Much of the favorable long-tail liability development came from loss adjustment expense and is attributed to our litigation management initiative. Workers' compensation favorable development was due to the combination of claim reserve decreases along with favorable changes affecting loss adjustment expense. Changes in reserve development patterns have shown increased redundancies in reserves for reported claims along with relatively less need for IBNR claim

43

Table of Contents

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

2013 Development

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

2012 Development

In 2012 we experienced favorable reserve development of $73.4 million for reserves established for claims that occurred in prior years. The majority of this favorable development is related to our long-tail lines of commercial business including other liability, workers' compensation and auto liability.

The significant driver of the favorable reserve development in 2012 was the other liability line which contributed $53.9 million of the total. The favorable development is generally caused by changes in loss development patterns due to many of the factors cited above. Specifically, we observed a continuation of a trend, started in 2011, reducing the overall number of reported new construction defect claims and lower than expected loss emergence on known claims. In addition, in 2009 management began an initiative to control legal defense costs. As these costs are a significant component of the carried reserves for the other liability line, management believes this initiative is also contributing to the favorable reserve development trends.

Reserves for all other lines of business, with the exception of assumed reinsurance, experienced favorable reserve development in 2012, only to a lesser extent than the other liability line. We attribute this remaining development to the factors noted above. Our assumed reinsurance line was impacted by adverse reserve development on prior year catastrophes of $8.4 million, with $3.9 million coming from accident year 2011 (Japan earthquake and tsunami, Thailand flood, and Christchurch, New Zealand earthquake) and $4.7 million from accident year 2010 (Canterbury, New Zealand earthquake).

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

Table of Contents

Net Loss Ratios by Line

The following table depicts our net loss ratios for 2014, 2013 and 2012:

Years ended December 31,	2014			2013			2012		
(In Thousands)	Net Premiums Earned	Net Losses and Loss Settlement Expenses Incurred	Net Loss Ratio	Net Premiums Earned	Net Losses and Loss Settlement Expenses Incurred	Net Loss Ratio	Net Premiums Earned	Net Losses and Loss Settlement Expenses Incurred	Net Loss Ratio
Commercial lines									
Other liability	$228,426	$106,827	46.8 %	$199,548	$98,013	49.1 %	$197,842	$98,225	49.6 %
Fire and allied lines	181,710	148,856	81.9	165,081	95,158	57.6	131,975	110,429	83.7
Automobile	164,537	122,683	74.6	147,026	120,354	81.9	134,682	103,234	76.7
Workers' compensation	88,522	63,425	71.6	81,616	73,179	89.7	68,643	52,017	75.8
Fidelity and surety	19,212	1,597	8.3	18,746	(2,201)	(11.7)	17,713	3,038	17.2
Other	2,741	153	5.6	1,861	126	6.8	991	265	26.7
Total commercial lines	$685,148	$443,541	64.7 %	$613,878	$384,629	62.7 %	$551,846	$367,208	66.5 %
Personal lines									
Fire and allied lines	$44,376	$38,644	87.1 %	$42,949	$28,235	65.7 %	$41,274	$39,319	95.3 %
Automobile	23,276	20,571	88.4	22,185	16,872	76.1	20,890	15,372	73.6
Other	994	1,972	198.4	774	2,637	NM	928	(423)	(45.6)
Total personal lines	$68,646	$61,187	89.1 %	$65,908	$47,744	72.4 %	$63,092	$54,268	86.0 %
Reinsurance assumed	$13,145	$5,083	38.7 %	$14,406	$4,980	34.6 %	$14,473	$17,661	122.0 %
Total	$766,939	$509,811	66.5 %	$694,192	$437,353	63.0 %	$629,411	$439,137	69.8 %

NM=Not meaningful

Table of Contents

Commercial Lines
The net loss ratio in our commercial lines of business, excluding assumed reinsurance, was 64.7 percent in 2014 compared to 62.7 percent in 2013 and 66.5 percent in 2012. The deterioration in 2014 as compared to 2013 was primarily the result of an increase in catastrophe losses from spring and summer storms in regions of the U.S where we conduct much of our business and an increase in frequency and severity in fire-related losses in our commercial property line of business partially offset by an improvement in the loss ratio for workers' compensation and commercial automobile.
The improvement in 2013 as compared to 2012 was primarily the result of an increase in net premiums earned and a reduction in catastrophe losses.
Other Liability
Other liability is business insurance covering bodily injury and property damage arising from general business operations, accidents on the insured's premises and products manufactured or sold. Because of the long-tail nature of liability claims, significant periods of time, ranging up to several years, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement of the claim.
In recent years, we began to use our loss control department more extensively in an attempt to return this line of business to a higher level of profitability. For example, our loss control department has representatives make multiple visits each year to businesses and job sites to ensure safety. We also non-renew accounts that no longer meet our underwriting or pricing guidelines. We avoid accounts that have become too underpriced for the risk.
Construction Defect Losses
Incurred losses from construction defect claims were $10.1 million in 2014 compared to $13.7 million and $9.6 million in 2013 and 2012, respectively. At December 31, 2014, we had $33.6 million in construction defect loss and loss settlement expense reserves (excluding IBNR reserves which is calculated at the overall other liability commercial line), which consisted of 1,597 claims. In comparison, at December 31, 2013, we had reserves of $35.8 million, excluding IBNR reserves, consisting of 2,102 claims.
Construction defect claims generally relate to allegedly defective work performed in the construction of structures such as apartments, condominiums, single family dwellings or other housing, as well as the sale of defective building materials. Such claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. The reporting of such claims can be quite delayed due to an extended statute of limitations, sometimes up to ten years. Court decisions have expanded insurers' exposure to construction defect claims as well. Defense costs are also a part of the insured expenses covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims.

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

As a result of our acquisition of Mercer Insurance Group in 2011, we added construction defect exposure in the states of California, Nevada and Arizona. Mercer Insurance Group has been writing in these states for more than 20 years. In order to minimize our exposure to construction defect claims in this region, we continually review the

Table of Contents

coverage we offer and our pricing models. In an effort to limit our exposure from residential multi-unit buildings, we started including condominium and townhouse construction policy exclusions in 2012 for our contracting policies in this region. For the majority of our residential contractors we limit the size of any tracts the contractor is working on to 25 homes or less and do not include a continuous trigger with our designated work exclusion. In a majority of the policies in our small service, repair and remodel contractors program, we have a favorable new residential construction exclusion. We also apply strict guidelines when additional insured forms are required and changed our underwriting guidelines to limit our exposure to large, multi-party construction defect claims.

Commercial Fire and Allied Lines

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

The deterioration in the net loss ratio in 2014 as compared to 2013 was due to an increase in catastrophe losses from spring and summer storms in regions of the U.S where we conduct much of our business and an increase in frequency and severity in fire-related losses in our commercial property line of business. The improvement in the net loss ratio in 2013 as compared to 2012, was due to an increase in premiums earned in these lines, which increased 25.1 percent to $165.1 million, primarily from organic growth.

Commercial Automobile

Our commercial automobile insurance covers physical damage to an insured's vehicle, as well as liabilities to third parties. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft, flood or other causes. Automobile liability insurance covers bodily injury, damage to property resulting from automobile accidents caused by the insured, uninsured or underinsured motorists and the legal costs of defending the insured against lawsuits. The improvement in our commercial automobile insurance line in 2014 as compared to 2013 was primarily due to favorable results from loss control and re-underwriting initiatives which focused on under-performing accounts and agents. The deterioration in our commercial automobile insurance line in 2013 as compared to 2012 was the result of an increase in claim frequency.

Workers' Compensation

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

The improvement in our workers' compensation line of business in 2014 as compared to 2013 was due to the combined effects of lower claim frequency and favorable reserve development from previously reported claims. The deterioration in our workers' compensation line of business in 2013 was the result of an increase in claim frequency. Generally changes in experience year-over-year in this line are considered normal fluctuations that typically occur in the workers' compensation line of business.

The challenges faced by workers' compensation insurance providers to attain profitability include the regulatory climates in some states that make it difficult to obtain appropriate premium rate increases and inflationary medical costs. Despite these pricing issues, we continue to believe that we can improve the results of this line of business. Consequently, we have increased the utilization of our loss control unit in the analysis of current risks, with the intention of increasing the quality of our workers' compensation book of business. We are currently using these modeling analytics to assist us in risk selection, and we will continue to evaluate the model results.

Fidelity and Surety

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

Table of Contents

In 2014, the loss ratio increased as compared to 2013 which experienced a decrease in claim frequency along with a release of IBNR reserves as a result of actual emergence of paid losses being less than expected. This resulted in the negative loss ratio in 2013. The 2014 loss ratio improved compared to 2012 which experienced an increase in losses and loss settlement expenses, which is primarily the result of one large claim.

During 2014 and 2013, there were no claims that exceeded our $1.5 million reinsurance retention level. During 2012, there was one claim that exceeded our $1.5 million reinsurance retention level.

Personal Lines

Our personal lines consist primarily of fire and allied lines (including homeowners) and automobile lines. In 2014, the net loss ratio increased 16.7 percentage points compared to 2013. The change was primarily due to catastrophe loss experience from spring and summer storms in the U.S. in 2014. In 2013, catastrophe activity decreased resulting in a decrease in the net loss ratio as compared to 2012. Rate increases in the fire and allied lines are the primary driver of the increased premiums while retention remained relatively unchanged.

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

Assumed Reinsurance

Our assumed reinsurance is the business we choose to write by participating in programs insuring insurance companies. The net loss ratio deterioration in 2014 was due to a combination of an increase in catastrophe losses and from an increase in frequency and severity in fire-related losses. The net loss ratio improvement in 2013 was driven by a decrease in catastrophe losses. The net loss ratio in 2012 was impacted by catastrophe losses associated with Super Storm Sandy as well as the adverse reserve development from Thailand floods.

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

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

In 2012, we renewed our participation in all of our assumed programs although with reduced participation in programs with heavier Northeast U.S. exposure, in response to the exposure added in this region from the Mercer Insurance Group acquisition. Losses and loss settlement expenses were elevated from historic levels due to several natural disasters, primarily the Thailand floods and Super Storm Sandy.

Other Underwriting Expenses

Our underwriting expense ratio, which is a percentage of other underwriting expenses over net premiums earned, was 31.3 percent, 31.8 percent and 31.4 percent for 2014, 2013, and 2012, respectively. The decrease in the underwriting expense ratio in 2014 was primarily due to a decrease in employee compensation and employee benefit costs offset slightly by a decrease in underwriting expenses eligible for deferral due to a deterioration in the profitability of certain lines of business caused by an increase in claims severity. The increase in the underwriting expense ratio in 2013 was primarily driven by an increase in employee benefit costs and an increase in contingent commission expenses.

Table of Contents

Life Insurance Segment Results

	Years Ended December 31,			% Change	
(In Thousands)	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Revenues					
Net premiums earned	$61,391	$60,654	$65,583	1.2 %	(7.5)%
Investment income, net	60,373	66,467	70,026	(9.2)%	(5.1)%
Net realized investment gains (losses)					
Other-than-temporary impairment charges	—	—	(4)	— %	100.0 %
All other net realized gains	3,093	2,434	3,781	27.1 %	(35.6)%
Net realized investment gains	3,093	2,434	3,777	27.1 %	(35.6)%
Other income	774	614	575	26.1 %	6.8 %
Total revenues	$125,631	$130,169	$139,961	(3.5)%	(7.0)%
Benefits, Losses and Expenses					
Losses and loss settlement expenses	$26,432	$21,461	$20,569	23.2 %	4.3 %
Increase in liability for future policy benefits	36,623	37,625	43,095	(2.7)%	(12.7)%
Amortization of deferred policy acquisition costs	6,139	6,502	7,390	(5.6)%	(12.0)%
Other underwriting expenses	15,754	16,235	17,505	(3.0)%	(7.3)%
Interest on policyholders' accounts	30,245	35,163	41,409	(14.0)%	(15.1)%
Total benefits, losses and expenses	$115,193	$116,986	$129,968	(1.5)%	(10.0)%
Income before income taxes	$10,438	$13,183	$9,993	(20.8)%	31.9 %

United Life Insurance Company underwrites all of our life insurance business. Our principal life insurance products are deferred and immediate annuities, universal life products and traditional life (primarily single premium whole life insurance) products. We also underwrite and market other traditional products, including term life insurance and whole life insurance. Deferred and immediate annuities (72.8 percent), traditional life products (19.4 percent), universal life products (6.8 percent), and other life products (1.0 percent) comprised our 2014 life insurance premium revenues, as determined on the basis of statutory accounting principles. We do not write variable annuities or variable insurance products.

Income before income taxes for our life insurance segment totaled $10.4 million in 2014 compared to $13.2 million in 2013 and $10.0 million in 2012. The decrease in net income before income taxes from 2013 to 2014 is primarily a result of a decrease in net investment income and an increase in losses and loss settlement expenses due to an increase in death benefits paid, which were partially offset by a decrease in interest on policyholders' accounts which is due to continued net withdrawals of annuity products and a decline in the increase in liability for future policy benefits as a result of a decline in sales of single premium whole life products.

In 2014, net investment income decreased 9.2 percent as compared to 2013 and decreased 5.1 percent in 2013 as compared to 2012. This was due to a decrease in the reinvestment interest rates from the the continued low interest rate environment and, to a lesser extent, a decrease in invested assets resulting from negative cash flows on annuity products. For discussion of our consolidated investment results, see the "Investments" section contained in this Item.

Net premiums earned increased 1.2 percent in 2014 as compared to 2013 due in part to an increase in the sale of single premium immediate annuities. Net premiums earned were 7.5 percent lower in 2013 as compared to 2012 primarily due to a decrease in sales of single premium whole life products.

Amortization of deferred policy acquisition costs decreased 5.6 percent in 2014 as compared to 2013 primarily as a result of lower sales and fewer costs being deferred.

Underwriting expenses decreased 3.0 percent in 2014 as compared to 2013 due to a decrease in single premium whole life commissions related to the decrease in premiums as previously mentioned.

Table of Contents

Deferred annuity deposits increased 34.0 percent in 2014, as compared to 2013, due to crediting rate increases which occurred in the latter half of 2013. Deferred annuity deposits decreased 24.8 percent in 2013 as compared to 2012 as we lowered the credited rate offered during the low interest rate environment.

Net cash outflow related to the Company's annuity business was $77.7 million in 2014 and 2013, respectively, compared to a net cash outflow of $42.3 million in 2012. This result is attributed to the activity described previously. The fixed annuity deposits that we collect are not reported as net premiums earned under GAAP. Instead, we invest annuity deposits and record them as a liability for future policy benefits. The revenue that is generated from fixed annuity products consists of policy surrender charges and investment income. The difference between the yield we earn on our investment portfolio and the interest we credit on our fixed annuities is known as the investment spread. The investment spread is a major driver of the profitability for all of our annuity products.

Federal Income Taxes

We reported a federal income tax expense of $17.3 million, $25.8 million and $5.9 million in 2014, 2013, and 2012, respectively. Our effective federal tax rate varied from the statutory federal income tax expense rate of 35.0 percent in each year, due primarily to our portfolio of tax-exempt securities.

As of December 31, 2014, we had a net operating loss ("NOL") carryforward of $6.3 million, which is due to our purchase of American Indemnity Financial Corporation in 1999. No NOLs will expire in 2015.

Due to our determination that we may not be able to fully realize the benefits of the NOLs acquired in the purchase of American Indemnity Financial Corporation, which are only available to offset the future taxable income of our property and casualty insurance operations and are further limited as to the amount that can be utilized in any given year, we have recorded a valuation allowance against these NOLs that totaled $1.8 million at December 31, 2014. Based on a yearly review, we determine whether the benefit of the NOLs can be realized, and, if so, the decrease in the valuation allowance is recorded as a reduction to current federal income tax expense. If NOLs expire during the year, the decrease in the valuation allowance is offset with a corresponding decrease to the deferred income tax asset. The valuation allowance was reduced by $0.5 million in 2014 due to the realization of $1.6 million in NOLs.

As of December 31, 2014, we had no alternative minimum tax ("AMT") credit carryforwards.

Table of Contents

INVESTMENTS

Investment Environment

Interest rate volatility increased, the U.S. yield curve flattened, and longer maturity treasury rates fell consistently throughout 2014. The U.S. 30-year bond returned over 29 percentage points and, with the yield declining from 3.97 percent to 2.96 percent, helped most fixed income sectors produce solid returns for the year. That said, U.S. economic performance was positive overall, particularly in the areas of job creation with an overall decrease in the unemployment rate and an increase in output. U.S. energy production grew significantly for most of 2014, which helped boost consumer sentiment and domestic production of goods and services year-over-year. Annualized U.S. Gross Domestic Product ("GDP") increased to 2.6 percent in 2014. The Federal Reserve (the "FED") ended its latest bond buying program in October 2014 as planned, and began the process of policy normalization. All-in-all however, weaker foreign economies, lower inflation and global easing were too much to overcome and government yields fell during the year. Corporate default rates hovered near cyclical lows, although there has been an uptick in downgrades and defaults in the leveraged energy space due to the collapse in oil prices that occurred during the second half of 2014. Aside from the oil and gas industry, risk premiums fell across most fixed income asset classes with spreads declining due to a very strong demand for yield. Finally, equity investors remained bullish enough on U.S. stocks to produce annual double-digit returns once again. Market consensus now is that rates will stay low, and the investment environment remains dominated by central banks aggressively fighting disinflation and sluggish real growth.

Investment Philosophy

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

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

Investment Portfolio

Our invested assets at December 31, 2014 totaled $3.2 billion, compared to $3.1 billion at December 31, 2013, an increase of $120.8 million. At December 31, 2014, fixed maturity securities and equity securities comprised 90.2 percent and 7.9 percent of our investment portfolio, respectively. Because the primary purpose of the investment portfolio is to fund future claims payments, we utilize a conservative investment philosophy, investing in a diversified portfolio of high-quality, intermediate-term taxable corporate bonds, taxable U.S. government and government agency bonds and tax-exempt U.S. municipal bonds. Our overall investment strategy is to stay fully invested (i.e., minimize cash balances). If additional cash is needed we have an ability to borrow funds available under our revolving credit facility.

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.

Table of Contents

The composition of our investment portfolio at December 31, 2014 is presented at carrying value in the following table:

	Property & Casualty Insurance Segment			Life Insurance Segment			Total		
(In Thousands)		Percent of Total			Percent of Total			Percent of Total	
Fixed maturities: (1)									
Held-to-maturity	$256	—	%	$141	—	%	$397	—	%
Available-for-sale	1,278,778	82.2		1,564,301	96.8		2,843,079	89.7	
Trading securities	16,862	1.1		—					