



UNITED FIRE GROUP, INC.
2016 YEAR IN REVIEW

THE BUSINESS OF
promises



Annual Meeting

The United Fire Group, Inc. (UFG) annual meeting of shareholders will be held at 10 a.m. CT on Wednesday, May 17, 2017, at our corporate headquarters in Cedar Rapids, Iowa. The usual notices and proxy material will be mailed to shareholders in advance of the meeting.

Our 2016 Form 10-K is filed with the Securities and Exchange Commission and is available to shareholders upon request to:

Investor Relations	OR	Registrar and Transfer Agent
United Fire Group, Inc.		Computershare Investor Services
118 Second Avenue SE		P.O. Box 30170
Cedar Rapids, Iowa 52401		College Station, Texas 77842-3170
Telephone: 319-399-5700		

Disclosure of Forward-Looking Statements

This release may contain forward-looking statements about our operations, anticipated performance and other similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under the Securities Act of 1933 and the Securities Exchange Act of 1934 for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about our company, the industry in which we operate, and beliefs and assumptions made by management. Words such as “expect(s),” “anticipate(s),” “intend(s),” “plan(s),” “believe(s),” “continue(s),” “seek(s),” “estimate(s),” “goal(s),” “remain optimistic,” “target(s),” “forecast(s),” “project(s),” “predict(s),” “should,” “could,” “may,” “will,” “might,” “hope,” “can” and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed in such forward-looking statements. Information concerning factors that could cause actual outcomes and results to differ materially from those expressed in the forward-looking statements is contained in Part I, Item 1A “Risk Factors” of our Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (“SEC”) on February 28, 2017. The risks identified in our Form 10-K are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in the 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 release or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the 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.

THE BUSINESS OF promises

Insurance is the business of promises. In the insurance world, policyholders promise to pay their premiums now, and the insurance carrier promises to pay money in the future should an unfortunate event occur. At UFG, we always strive to deliver on our promises. And that includes a promise to our investors too—a promise to make prudent business decisions and seek avenues to profitability and growth.

Our philosophy is this: we believe that by being a trusted partner for our insurance agents, a secure insurer for our policyholders and a great employer for our people, we, in turn, can be a solid investment for our shareholders.

Guided by our *2020 Vision*, UFG is committed to achieving consistent profitability despite our challenges in the insurance industry: difficult insurance cycles, tough investment markets and destructive weather-related losses. To accomplish this, we focus on profit, service, growth and people.

And, in every decision we make and every interaction we have, we simply do what's right. That's our promise to you.

About UFG

UFG has been protecting the simple—and complex—things in life since 1946. We offer commercial insurance, personal insurance, surety bonds, life insurance and annuities through approximately 1,200 independent property and casualty agents and 1,350 independent life insurance agents across the country.

To serve our customers, we employ more than 1,100 people at our corporate headquarters in Cedar Rapids, Iowa, and five regional offices in Los Angeles, California; Rocklin, California; Westminster, Colorado; Pennington, New Jersey; and Webster, Texas.

A publicly traded multibillion-dollar-asset company, UFG's property and casualty subsidiaries hold a financial strength rating of "A" (Excellent) and our life subsidiary, United Life Insurance Company, holds a financial strength rating of "A-" (Excellent) from A.M. Best Company, as of September 2016. UFG was named to *Forbes'* "America's 50 Most Trustworthy Financial Companies" for the third consecutive year in 2016.

For more information about UFG, visit www.ufgInsurance.com.

OUR VISION

To be the company of choice for independent agents.

OUR MISSION

We are committed to our promise of exceptional insurance protection and service for businesses, families and individuals. By balancing technology with personal relationships and offering a diverse selection of products and services, we are the clear company of choice for independent agents and their customers.

OUR MOTTO

Simple solutions for complex times®

LETTER TO SHAREHOLDERS

It was a year of progress and milestones at UFG, as 2016 marked our 70th year in business, our 45th year as a publicly held company and our 30th year of being listed on the Nasdaq. In 2016, we produced earnings per share of \$1.93, a combined ratio of 100.3 percent and a return on equity (ROE) of 5.5 percent. Our book value at year end was \$37.04 per share, which is an improvement of 6.0 percent from 2015, and our stock price was in a major uptrend, closing at \$49.17 per share.

Also, for the first time in our history, we reached \$1.0 billion in property and casualty direct written premiums—a significant milestone for our company and a positive follow-up to our 2015 achievement of \$1.0 billion in total revenues, which includes revenue from both our property and casualty and life insurance segments.

At UFG, we value true underwriting, which means evaluating and pricing risks on an individual basis. This requires extreme discipline and expertise on the part of our underwriters, who have done an outstanding job of passing on business that is unfavorable or underpriced. This approach will help guide us through the current softening market cycle, as we are expecting our premium growth to slow moderately in 2017 as competition rises.

Flood of 2016

For the *second* time in our history, UFG found ourselves in the path of rising floodwaters at our corporate headquarters in downtown Cedar Rapids in late September. However, this time around, both our company and our city were much more prepared, with effective disaster recovery plans in place. In the end, our corporate headquarters was closed for exactly one week, but it was business as usual for our customers, with the majority of our Cedar Rapids employees working remotely.

We owe a huge thanks to Garling Construction Inc. for assisting us in moving office furniture and computer equipment out of the lower levels of our buildings and onto eight semi-trailers for safekeeping. In the near future, we will be converting our lower levels to underground parking for employees, which will lessen the impact of any future flooding.

After the flood, our post-mortem list of lessons learned included such things as using a different type of tape to label employee computers, which tells me we had all our big-ticket items squared away.

Getting analytical

Though we view our company as an underwriting company and our business as a people business, in recent years, we've recognized the need to have a more sophisticated approach to gathering and analyzing data—in both our property and casualty and life insurance segments. So, we started off 2017 with three new analytics professionals on board: an analytics director, a data scientist and

continued

Every day in our business, we make and fulfill promises. Some are simple and some are complex. But, in every promise, is our sincere commitment to deliver—on our good word for our policyholders, insurance agents and shareholders. At UFG, we spend our days purposefully underwriting business, renewing policies, inspecting properties, servicing accounts and adjusting claims. And, through it all, we remain mindful of the important promises we make as an insurance company—that’s why we chose “The Business of Promises” as our theme for this year’s annual report.



Randy A. Ramlo
President and CEO

a life actuary. We're excited about the impact analytics could have on our performance, helping us make more accurate decisions related to selecting and pricing risks, identifying problematic claims, entering new markets and partnering with new agents.

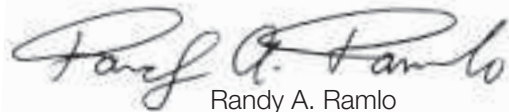
Analytics are a tool that definitely would have benefited UFG in the years before and after Hurricane Katrina, which remains the largest loss in our history. It's been more than 11 years since Hurricane Katrina made landfall in New Orleans on August 29, 2005, and on January 1, 2017, we finally stopped publishing daily claim reports related to this storm. Although Hurricane Katrina hasn't had any financial materiality for years, after countless hours of litigation, we're thankful to have 99.8 percent of the claims from this storm behind us.

Looking ahead

All in all, 2016 was, as I said, a year full of progress and milestones—as well as clarity, on the areas we're excelling in and the areas we need to improve on. In the upcoming year, our emphasis will be primarily on enhancing our profitability as part of our *2020 Vision*.

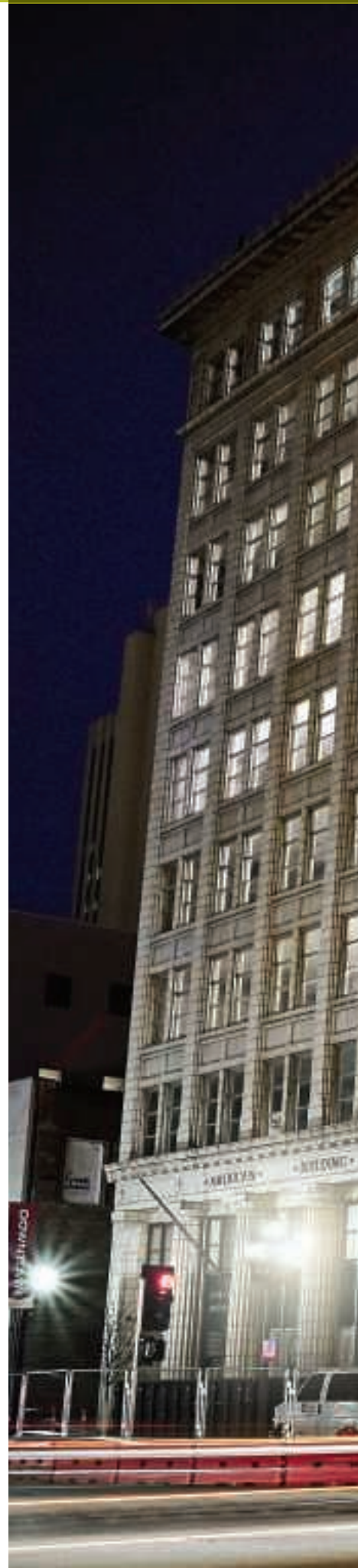
Specifically, we'll be focused on addressing the deterioration in our core loss ratio, which impacted our profitability in 2016. A portion of this deterioration was driven by large losses in our commercial auto and commercial property lines of business, which we are addressing with the implementation of more rigorous loss control requirements, stricter underwriting guidelines, pricing increases and new analytical tools.

With our outstanding team of employees, who show relentless determination and drive in fulfilling our insurance promises, and our supportive team of insurance agents, who share our commitment for offering insurance protection that people can trust in, I am confident we will succeed in achieving all of our *2020 Vision* goals.



Randy A. Ramlo
President and CEO

Once complete, two UFG buildings will stand connected on First Avenue—one brand new and one more than 100 years old—a nod to both our history and our future in Cedar Rapids.



Update on expansion of corporate headquarters

UFG has passed the demolition phase of our expansion project in downtown Cedar Rapids, Iowa, which will add approximately 110,000 square feet of office space for future growth. The project includes the complete renovation of the historic American Building and the adjacent construction of a brand-new 10-story building, both of which will stand prominently on First Avenue, the main thoroughfare of Cedar Rapids. After a year of tearing down and clearing out, 2017 will be a year of building up. The expansion project is tentatively slated for completion in 2018.

“With our strong growth comes the need for more hiring,” said UFG President and CEO Randy Ramlo. “Our workforce is currently growing at a pace of nearly 4 percent, with more than 160 new people hired in 2016. Providing exceptional service to our customers of insurance agents and policyholders is a top priority at UFG, which is why we are taking steps to ensure that our workforce is poised to continue to meet their needs by having the right people with the right skills at the right time.”

It’s interesting to note that UFG first opened our doors for business on First Avenue back in 1946, occupying space in a two-story house on the outskirts of downtown Cedar Rapids. Approximately 70 years later, we’ll be back on First Avenue, just a few blocks from where we started.



Earning business by earning trust

We know that trust is a deciding factor for insurance agents and consumers when choosing an insurance company. In a third-party research study conducted by Vernon Research Group in 2016, 99 percent of UFG insurance agents surveyed said that an insurer's trustworthiness is important and the agents rated UFG as a trustworthy insurance company.

99%

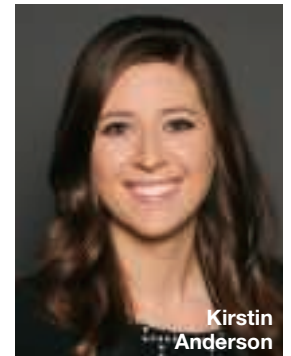
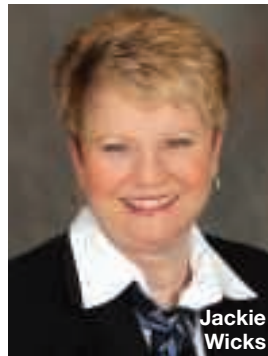
A promise to our customers



UFG was named one of "America's 50 Most Trustworthy Financial Companies" by *Forbes* for the third consecutive year in 2016. It recognizes us for our transparent accounting practices and solid corporate governance, reinforcing to our customers of insurance agents and policyholders that they can trust us to make good on our promise of protection.

A promise to our communities

UFG created the Scotty McIntyre Jr. "Go Beyond" award as a promise to give back to our communities. Named after our past leader, a quiet philanthropist, our "Go Beyond" award is given annually to two of our insurance agency employees and one UFG employee, recognizing individuals for their exemplary community service efforts.



2016 Winners

- UFG agency employee, **Jackie Wicks** of CSB Insurance in Johnston, Iowa, is involved with *Tori's Angels*, an organization that provides support to central Iowa children battling life-threatening illnesses or diseases.
- United Life agency employee, **Mike Hagerty** of EOI Management/Investment Center in Muscatine, Iowa, is involved with the *Kids First Fund*, an organization that helps children in the Muscatine Community School District in Iowa participate in school activities they could not otherwise afford.
- UFG employee, **Kirstin Anderson**, helped establish the *Deaf Can! Coffee Social Enterprise* program in Jamaica, which exists to inspire deaf youth to believe in their talents and abilities, engage their passions and interests and foster creative, positive thought in a healthy community.



In the spirit of community service and in the name of each award recipient, UFG proudly contributed \$5,000 to these three community service organizations: *Tori's Angels*, *Kids First Fund* and *Deaf Can! Coffee Social Enterprise* program.

"While our primary goal is to grow a financially profitable company, we believe making an investment in the social and educational aspects of our communities also pays great dividends," said UFG President and CEO Randy Ramlo. "A healthy community contributes to the well-being of both people and businesses. We steward the belief that everyone deserves a good life, and we are committed to charitable giving and community service."



UFG celebrated 30 years on Nasdaq

In April 2016, UFG celebrated our 30-year anniversary on the Nasdaq stock market—an important milestone for our company. Members of our leadership team traveled to Times Square in New York City on April 25 to ring the Nasdaq opening bell, which was broadcast to millions of viewers worldwide.

As part of the bell ceremony, UFG had access to one hour of advertising on the Nasdaq MarketSite Tower, which stands seven stories tall in the heart of Times Square. We created a video promoting UFG as the financially strong and trustworthy insurance company that we are—noting our 70 years in business, 45 years publicly traded and 30 years on the Nasdaq. In other words: a solid investment.

“UFG was beyond honored to participate in the opening bell ceremony last April, which commemorated our 30-year anniversary on the Nasdaq stock market,” said UFG President and CEO Randy Ramlo. “I also had the opportunity to attend our bell ceremony 10 years ago when UFG celebrated our 20-year anniversary on the Nasdaq. Though both experiences were incredibly positive and rewarding, I must admit that my first time at the Nasdaq was much less stressful, as all I was expected to do was smile, wave and clap. This time around, I was responsible for giving an opening speech, followed by a Facebook Live interview—and the one thing that kept going through my head was: thousands of people are watching this.”

A solid investment—our UFCS stock performance over 30 years spans these four pages . . .

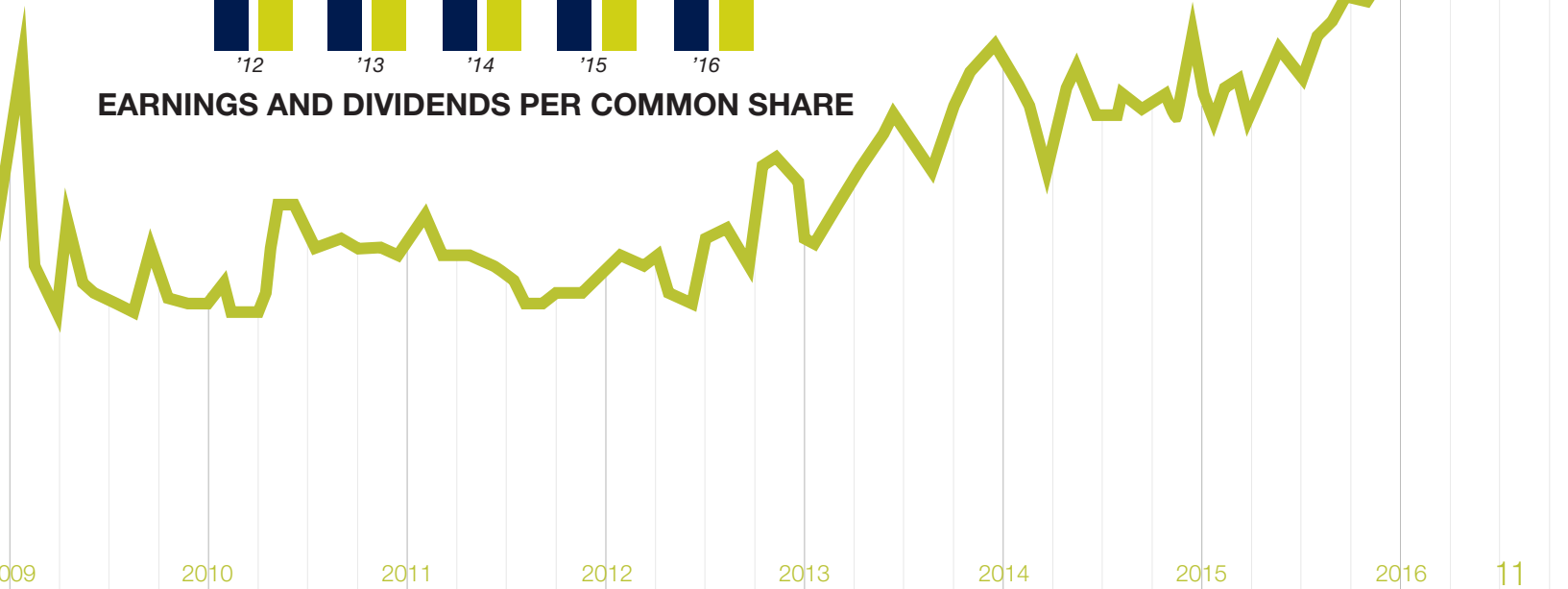
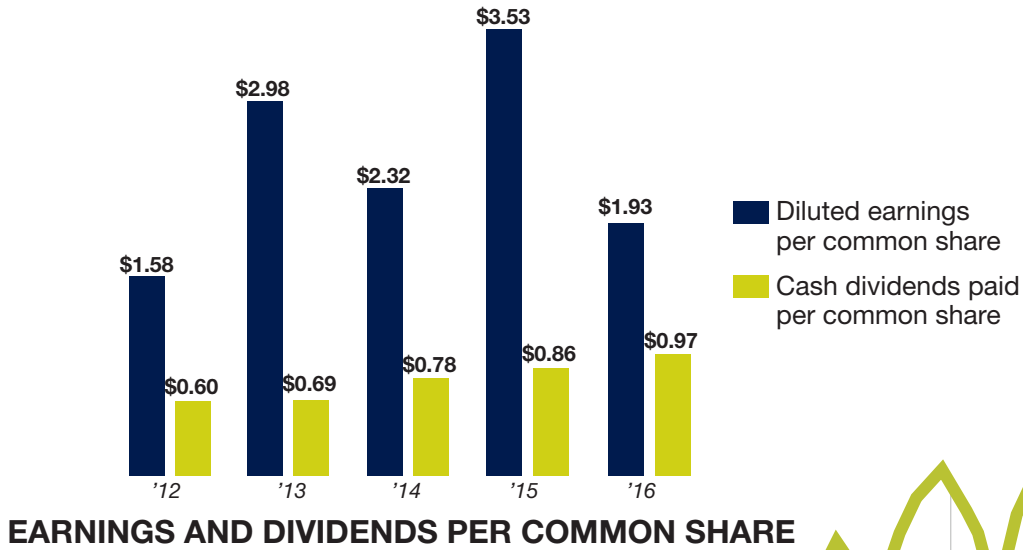
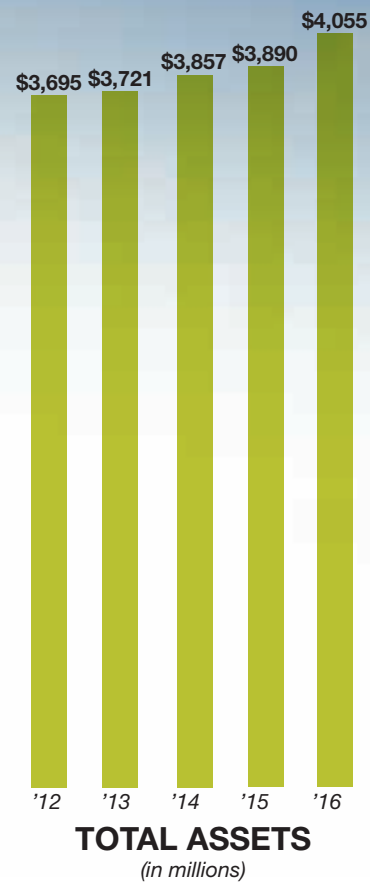
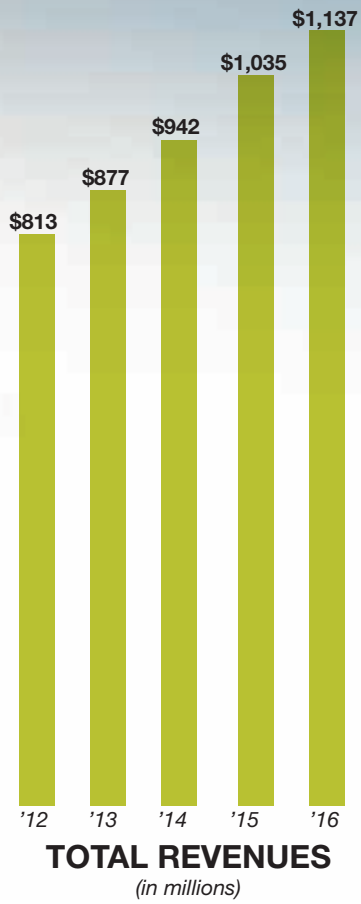
FINANCIAL HIGHLIGHTS

(Dollars in Thousands Except Per Share Data)

Years Ended December 31	2016	2015	2014	2013	2012
Total assets	\$ 4,054,758	\$ 3,890,376	\$ 3,856,689	\$ 3,720,672	\$ 3,694,653
Total stockholders' equity	\$ 941,884	\$ 878,897	\$ 817,415	\$ 782,833	\$ 729,177
Book value per share	\$ 37.04	\$ 34.94	\$ 32.67	\$ 30.87	\$ 28.90
Closing stock price	\$ 49.17	\$ 38.31	\$ 29.73	\$ 28.66	\$ 21.84
Revenues:					
Net premiums earned	\$ 1,023,401	\$ 930,890	\$ 828,330	\$ 754,846	\$ 694,994
Investment income, net of investment expenses	106,822	100,781	104,609	112,799	111,905
Total realized investment gains	6,103	2,846	7,270	8,695	5,453
Other income	621	401	1,685	702	891
Total revenues	\$ 1,136,947	\$ 1,034,918	\$ 941,894	\$ 877,042	\$ 813,243
Net income	\$ 49,904	\$ 89,126	\$ 59,137	\$ 76,140	\$ 40,212
Basic earnings per common share	\$ 1.97	\$ 3.56	\$ 2.34	\$ 3.01	\$ 1.58
Diluted earnings per common share	\$ 1.93	\$ 3.53	\$ 2.32	\$ 2.98	\$ 1.58
Cash dividends paid per common share	\$ 0.97	\$ 0.86	\$ 0.78	\$ 0.69	\$ 0.60
Combined ratio	100.3%	92.0%	97.8%	94.8%	101.2%



FINANCIAL HIGHLIGHTS



MESSAGE FROM THE CHAIRMAN

In the same way that UFG always strives to deliver on its insurance promises, our board of directors always strives to deliver on our commitment to shareholders, making decisions that will contribute to the overall success of UFG.

With the introduction of its *2020 Vision*, UFG has positioned itself to achieve long-term strength and stability through various sustainability measures—including taking advantage of analytics for effective risk management and introducing progressive new benefits to recruit and retain talented employees. UFG is strategically focused with a management team and staff working every day to meet their *2020 Vision* goals.


As chairman of the board of directors for UFG, I am privileged to serve with a diverse and respected group of individuals whose careers span multiple industries, with experience in insurance, finance, accounting, law, information technology, academia, broadcasting, marketing, branding, construction and real estate. They offer their valuable insight and individual expertise at every meeting.

Over the past five years, we've had four new members join our board: John-Paul Besong, formerly of Rockwell Collins; Scott Carlton of SGL Carbon LLC; Sarah Fisher Gardial of the University of Iowa Tippie College of Business; and Susan Voss, former Iowa insurance commissioner and currently with American Enterprise Group, Inc. Additionally, we're excited to have Brenda Clancy, formerly the global chief technology officer for AEGON N.V., stand for election to our board in 2017, bringing her vast knowledge and fresh perspective to UFG.

Our longtime board member, Casey Mahon, announced in 2016 that she will not stand for re-election to our board after serving for more than 20 years. Casey contributed greatly over the years, as her legal experience proved to be invaluable to UFG, particularly in dealing with mergers and acquisitions. We thank her for her years of dedicated service.

I speak for our entire board when I say we are proud to represent the shareholders of a company with such vigor and integrity. The board and management team endeavor jointly to build an organization that serves all stakeholders and we take this responsibility seriously.

I encourage you to attend the UFG annual meeting on May 17, 2017, and hear directly from our leadership. Thank you, as shareholders, for the confidence you have placed in us. We will continue to earn your trust.



Jack Evans
Chairman of the Board



JACK B. EVANS
CHAIRMAN

JOHN-PAUL E.
BESONG

BRENDA K.
CLANCY

GEORGE D.
MILLIGAN

SARAH F.
GARDIAL

KYLE D.
SKOGMAN

CASEY D.
MAHON

PROFIT *Maximize our return on equity (ROE)*

- We strive to produce double-digit ROEs, which we did not achieve in 2016, producing an ROE of 5.5 percent for the year. This is due primarily to commercial auto and commercial property losses; however, UFG is already executing plans of action to improve these lines of business.
- The insurance market remained competitive in 2016, impacting the pricing of both our renewal business and new business. Overall, we experienced low single-digit pricing increases on both commercial and personal lines renewal business. Despite increased competition in pricing, our premium retention and policy retention rates remained strong. In addition, we continued to non-renew or increase pricing on marginally performing accounts.

SERVICE *Provide exceptional service for agents and policyholders*

- To enhance our position as a small business partner for agents, UFG launched a new Small Business Unit (SBU) at the end of 2016, with a dedicated team of specialists providing competitive insurance solutions for small-sized businesses. Through our SBU, we offer a broadened class appetite and streamlined quoting process, providing ease and speed of doing business for our agents and their small business customers.
- For increased efficiency and effectiveness, we created a new Claims Customer Service Center, which is comprised of a dedicated team of employees handling all claims-related administrative functions for UFG, from the first notice of loss to the final payment of the claim. This has allowed us to elevate the customer experience for our policyholders, with faster response times, adjuster assignments and payment of claims—all without the automated messages or menu options normally associated with customer service centers.

Throughout 2016, UFG continued to set our sights on our *2020 Vision*, progressing toward our goals related to profit, service, growth and people:

PROFIT

Maximize our return on equity

SERVICE

Provide exceptional service for agents and policyholders

GROWTH

Increase our written premiums

PEOPLE

Be the best place to work by enhancing employee recruitment and retention



SCOTT L.
CARLTON

MARY K.
QUASS

SUSAN E.
VOSS

RANDY A.
RAMLO

CHRISTOPHER R.
DRAHOZAL

JAMES W. NOYCE
VICE CHAIRMAN

GROWTH *Increase our written premiums*

- We produced property and casualty direct premiums written of \$1.0 billion at year-end 2016, an increase of 8.6 percent from year-end 2015, indicative of our strategy to increase written premiums by focusing primarily on organic growth, boosting our market share in the regions where we currently operate through increases in new business premiums, renewal prices and policy retention rates.
- UFG appointed 53 new agencies in 2016 and six of our 10 target growth states—Alabama, Arizona, Mississippi, Nevada, North Dakota and Tennessee—have now met their premium growth goals. In addition, we continue to expand our presence in our new state of Ohio, which we entered in September 2015. We currently have 25 insurance agencies appointed throughout the state, and produced over \$7 million in written premiums in Ohio during 2016.
- In early 2014, UFG launched our specialty division, UFG Specialty Insurance Company, offering excess and surplus lines of insurance for commercial risks through wholesale brokers. Located in Los Angeles, our specialty division is currently doing business in the states of Arizona, California, Colorado, Nevada, New Mexico, Oregon and Utah, with plans to expand into Idaho and Washington in early 2017.
- Our surety segment, UFG Surety, continues to grow and expand, providing new opportunities for profitable business. In 2016, the division increased its bond limits for contractors and expanded into five new states: Hawaii, Maine, Massachusetts, New York and Vermont.
- Our life insurance segment experienced a 10.2-percent increase in premiums in 2016, driven by record sales of our single premium whole life policies, as well as growth in sales of our single premium immediate annuity and long-term care rider, which can be added to several of our life insurance products. In the fourth quarter, United Life launched an E-App for deferred annuities, which allows our life insurance agents to quickly and easily complete and submit annuity applications electronically. While our life insurance segment focused on increasing business in its noncore states in 2016, which resulted in an overall 10-percent increase in premium in those states, our primary focus for 2017 is to improve profitability in our life insurance segment.



PEOPLE *Be the best place to work*

- In 2016, UFG was named a Top Workplace in Iowa by *The Des Moines Register* for the third time, ranking 12th out of 20 companies in the large employer category. This award is based solely on the results of employee surveys, reflecting our initiatives to offer jobs that are rewarding and fulfilling, a work environment that is positive and productive, training opportunities to learn and grow, and a work-life balance that works with flexible schedules.
- In support of the communities where we live and work, UFG began offering community service hours in 2015, which provides our employees with paid leave for participating in community service activities during work hours. In 2016, more than 200 employees volunteered close to 1,400 hours at various organizations. We are proud to offer this benefit to our employees and we expect the number of participants to grow substantially in coming years.
- “Great attitudes at peak altitudes” is the tagline for our newly named Rocky Mountain Regional Office in Colorado, which was formerly known as the Denver Regional Office. This new name is more all-encompassing of the region, allowing us the opportunity to develop a strong brand identity that our employees can connect with and commit to.
- UFG has long valued the contributions of women to our business and is proud of the fact that women currently make up approximately 60 percent of our employee workforce and 50 percent of our managerial and supervisory positions, as well as one third of the seats on our board of directors. To show our support for women in the workforce, UFG joined the EPIC Corporate Challenge in 2016, which brings together Iowa businesses to formally commit to growing and retaining women at all levels of company leadership. As a company, we are excelling in the majority of the EPIC goals and will maintain our strong commitment to recruiting and retaining women at UFG and monitoring and addressing any gender-based pay differences. Our main focus area is to increase the percentage of women among the top 10 percent of our senior positions.



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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2016

OR

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
(State or other jurisdiction of
incorporation or organization)

45-2302834
(I.R.S Employer Identification No.)

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

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

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

Title of each class
Common Stock, \$0.001 par value

Name of each exchange on which registered
The NASDAQ Global Select Market

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

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

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

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

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

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

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 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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2016 was approximately \$1.0 billion. For purposes of this calculation, all directors and executive officers of the registrant are considered affiliates. As of February 24, 2017, 25,459,017 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 17, 2017.

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FORWARD-LOOKING INFORMATION

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

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

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

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

PART I.

ITEM 1. BUSINESS

GENERAL DESCRIPTION

United Fire Group, Inc. ("UFG", "United Fire", the "Registrant", the "Company", "we", "us", or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. Our insurance company subsidiaries are currently licensed as a property and casualty insurer in 46 states, plus the District of Columbia and as a life insurer in 37 states. United Fire & Casualty Company was incorporated in Iowa in January 1946. Our principal executive office is located at 118 Second Avenue SE, Cedar Rapids, Iowa 52401; telephone: 319-399-5700.

United Fire Group, Inc. owns 100 percent of one subsidiary, United Fire & Casualty Company. United Fire & Casualty Company owns 100 percent of eight subsidiaries: (1) United Life Insurance Company; (2) Addison Insurance Company; (3) Lafayette Insurance Company; (4) United Fire & Indemnity Company; (5) Mercer Insurance Company; (6) Financial Pacific Insurance Company; (7) UFG Specialty Insurance Company; and (8) United Real Estate Holdings Company, LLC. Mercer Insurance Company owns 100 percent of two subsidiaries: (1) Franklin Insurance Company; and (2) Mercer Insurance Company of New Jersey, Inc. United Fire Lloyds is an affiliate of United Fire & Indemnity Company.

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

Holding Company Reorganization

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

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

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

Employees

As of December 31, 2016, we employed 1,091 full-time employees and 21 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. On July 1, 2015, UFG Specialty Insurance Company entered the pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant's own surplus level. Under such arrangements, the members share substantially all of the insurance business that is written and allocate the combined premiums, losses and expenses based on percentages defined in the arrangement.

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

Available Information

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

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

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

MARKETING AND DISTRIBUTION

We market our products through our home office in Cedar Rapids, Iowa, and five regional offices: (1) Westminster, Colorado, a suburb of Denver; (2) Webster, Texas, a suburb of Houston; (3) Pennington, New Jersey; (4) Los Angeles, California; and (5) Rocklin, California. We are represented through approximately 1,200 independent property and casualty agencies and by approximately 1,350 independent life agencies.

Property and Casualty Insurance Segment

In 2016, 2015 and 2014 the direct statutory premiums written by our property and casualty insurance operations were distributed as follows:

(In Thousands)	Years Ended December 31,			% of Total		
	2016	2015	2014	2016	2015	2014
Texas	\$ 156,926	\$ 142,485	\$ 122,559	15.6%	15.4%	14.6%
California	117,669	109,420	92,754	11.7	11.8	11.1
Iowa	105,948	99,949	97,790	10.5	10.8	11.7
Missouri	58,964	53,867	50,704	5.9	5.8	6.0
New Jersey	52,232	50,979	51,436	5.2	5.5	6.1
Minnesota	51,033	44,993	39,844	5.1	4.9	4.8
Colorado	47,678	45,805	40,291	4.7	4.9	4.8
Illinois	43,666	43,381	41,760	4.3	4.7	5.0
Louisiana	38,219	36,594	36,733	3.8	3.9	4.4
All Other States	333,788	299,027	264,712	33.2	32.3	31.5
Direct Statutory Premiums Written	\$ 1,006,123	\$ 926,500	\$ 838,583	100.0%	100.0%	100.0%

We staff our regional offices with underwriting, claims and marketing representatives and administrative technicians, all of whom provide support and assistance to the independent agencies. Also, home office staff

technicians and specialists provide support to our subsidiaries, regional offices and independent agencies. We use management reports to monitor subsidiary and regional offices for overall results and conformity to our business policies.

Competition

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

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

Because we rely solely on independent agencies, we offer a competitive commissions program and a rewarding profit-sharing plan as incentives for agents to place high-quality property and casualty insurance business with us. Property and casualty insurance agencies will receive profit-sharing payments of \$16.1 million in 2017, based on profitable business produced by the agencies in 2016. In 2016 for 2015 business, agencies received \$21.2 million in profit-sharing payments and in 2015 for 2014 business, agencies received \$17.6 million in payments.

Our competitive advantages include our commitment to:

- Strong agency relationships —
 - A stable workforce, with an average duration of employment of approximately 10.2 years, allows our agents to work with the same, highly-experienced personnel each day.
 - 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 2016, 2015 and 2014 the direct statutory premiums written by our life insurance operations were distributed as follows:

(In Thousands)	Years Ended December 31,			% of Total		
	2016	2015	2014	2016	2015	2014
Iowa	\$ 41,559	\$ 47,616	\$ 69,543	30.1%	32.6%	34.4%
Minnesota	14,289	13,269	20,325	10.3	9.1	10.1
Wisconsin	12,578	12,513	22,411	9.1	8.6	11.1
Illinois	12,481	16,128	19,428	9.0	11.0	9.6
Nebraska	10,351	9,334	11,382	7.5	6.4	5.6
All Other States	47,014	47,236	58,887	34.0	32.3	29.2
Direct Statutory Premiums Written	\$ 138,272	\$ 146,096	\$ 201,976	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."

REINSURANCE

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

RESERVES

Property and Casualty Insurance Segment

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

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

The determination of reserves (particularly those relating to liability lines of insurance that have relatively longer lag in claim reporting) requires significant work to reasonably project expected future claim reporting and payment patterns. If, during the course of our regular monitoring of reserves, we determine that coverages previously written

are incurring higher than expected losses, we will take action that may include, among other things, increasing the related reserves. Any adjustments we make to reserves are reflected in operating results in the year in which we make those adjustments. We engage an independent actuary, Regnier Consulting Group, Inc. ("Regnier"), to render an opinion as to the reasonableness 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.

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.

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

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

INVESTMENTS

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

REGULATION

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

State Regulation

We are subject to extensive regulation, primarily at the state level. The method, extent and substance of such regulation varies by state, but generally has its source in National Association of Insurance Commissioners ("NAIC") model laws and regulations that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state regulatory agency. Moreover, the NAIC Accreditation

Program requires state regulatory agencies to meet baseline standards of solvency regulation, particularly with respect to regulation of multi-state insurers. In general, such regulation is intended for the protection of those who purchase or use our insurance products, and not our shareholders. These rules have a substantial effect on our business and relate to a wide variety of matters including: insurance company licensing and examination; the licensing of insurance agents and adjusters; price setting or premium rates; trade practices; approval of policy forms; claims practices; restrictions on transactions between our subsidiaries and their affiliates, including the payment of dividends; investments; underwriting standards; advertising and marketing practices; capital adequacy; and the collection, remittance and reporting of certain taxes, licenses and fees.

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

Insurance Holding Company Regulation

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

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

Restrictions on Shareholder Dividends

As an insurance holding company with no independent operations or source of revenue, our capacity to pay dividends to our shareholders is based on the ability of our insurance company subsidiaries to pay dividends to us. The ability of our subsidiaries to pay dividends to us is regulated by the laws of their state of domicile. Under these laws, insurance companies must provide advance informational notice to the domicile state insurance regulatory authority prior to payment of any dividend or distribution to its shareholders. Prior approval from the state insurance regulatory authority must be obtained before payment of an "extraordinary dividend" as defined under the state's insurance code. The amount of ordinary dividends that may be paid to us is subject to certain limitations, the amounts of which change each year. In all cases, we may pay dividends only from our earned surplus. Refer to the "Market Information" section of Part II, Item 5, "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities," and Note 6 "Statutory Reporting, Capital Requirements and Dividends and Retained Earnings Restrictions," contained in Part II, Item 8, "Financial Statements and Supplementary Data" for additional information about the dividends we paid during 2016.

Price Regulation

Nearly all states have insurance laws requiring us to file rate schedules, policy or coverage forms, and other information with the state's regulatory authority. In certain states, rate schedules, policy forms, or both, must be approved prior to use. While insurance laws vary from state to state, their objectives are generally the same: an insurance rate cannot be excessive, inadequate or unfairly discriminatory. The speed with which we can change our

rates in response to competition or in response to increasing costs depends, in part, on the willingness of state regulators to allow adequate rates for the business we write.

Investment Regulation

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

Exiting Geographic Markets; Canceling and Nonrenewing Policies

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

Insurance Guaranty Associations

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

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

Shared Market and Joint Underwriting Plans

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

Statutory Accounting Rules

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

Insurance Reserves

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

Financial Solvency Ratios

The NAIC annually calculates 13 financial ratios to assist state insurance regulators in monitoring the financial condition of insurance companies. A "usual range" of results for each of these ratios is used by insurance regulators as a benchmark. Departure from the usual range on four or more of the ratios could lead to inquiries from individual state insurance departments as to certain aspects of a company's business. In addition to the financial ratios, states

also require us to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These "risk-based capital" results are used by state insurance regulators to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2016, all of our insurance companies had capital in excess of the required levels.

Federal Regulation

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

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

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

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

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

FINANCIAL STRENGTH AND ISSUER CREDIT RATING

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

Our property and casualty insurers are rated by A.M. Best Company ("A.M. Best") on a group basis. Our pooled property and casualty insurers have all received an "A" (Excellent) financial strength rating from A.M. Best. Our life insurance subsidiary has received an "A-" (Excellent) financial strength rating from A.M. Best. According to A.M. Best, companies rated "A" and "A-" have "an excellent ability to meet their ongoing obligations to policyholders."

A.M. Best also assigns issuer credit ratings based on a company's ability to repay its debts. All of our property and casualty insurers have received an issuer credit rating of "a" from A.M. Best. Our life insurance subsidiary has

received an issuer credit rating of "a-" from A.M. Best. Beginning in 2012, our holding company parent was also rated by A.M. Best, receiving an issuer credit rating of "bbb."

EXECUTIVE OFFICERS OF THE COMPANY

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

Name	Age	Position
Randy A. Ramlo	55	President and Chief Executive Officer
Michael T. Wilkins	53	Executive Vice President and Chief Operating Officer
Dawn M. Jaffray	50	Senior Vice President and Chief Financial Officer
Barrie W. Ernst	62	Vice President and Chief Investment Officer
Neal R. Scharmer	60	Vice President, General Counsel and Corporate Secretary
Michael J. Sheeley	56	Vice President and Chief Operating Officer, United Life Insurance Company

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

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

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

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

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

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

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

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

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

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

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

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

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

The timing of a catastrophic occurrence at the end or near the end of a reporting period may also affect the information available to us when estimating claims and claim adjustment expense reserves for the reporting period. As our claims experience for a particular catastrophe develops, we may be required to adjust our reserves to reflect our revised estimates of the total cost of claims. However, because the occurrence and severity of catastrophes are inherently unpredictable and may vary significantly from year to year and region to region, historical results of operations may not be indicative of future results of operations.

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

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

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

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

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

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

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

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

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

For our life insurance business, we calculate life insurance product reserves based on our assumptions, including estimated premiums we will receive over the assumed life of the policy, the timing of the event covered by the

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

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

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

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

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

The following states provided 48.9 percent of the direct statutory premiums written for the property and casualty insurance segment in 2016: Texas (15.6 percent), California (11.7 percent), Iowa (10.5 percent), Missouri (5.9 percent) and New Jersey (5.2 percent). The following states provided 66.0 percent of the direct statutory premiums written for the life insurance segment in 2016: Iowa (30.1 percent), Minnesota (10.3 percent), Wisconsin (9.1 percent), Illinois (9.0 percent) and Nebraska (7.5 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.

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.

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% at December 31, 2016) 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 (89.2 percent at December 31, 2016) consists of fixed income securities, primarily corporate and municipal bonds (71.7 percent at December 31, 2016). 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 fixed maturity 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 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 (30.8 percent at December 31, 2016) is invested in tax-exempt municipal obligations, any such changes in tax law could adversely affect the value of our investment portfolio.

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

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

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

- the availability of sufficient reliable data and our ability to properly analyze available data;
- market and competitive conditions;
- changes in medical care expenses and restoration costs;
- our selection and application of appropriate pricing techniques; and
- changes in the regulatory market, applicable legal liability standards and in the civil litigation system generally.

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

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

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

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

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

- judicial expansion of policy coverage and the impact of new theories of liability;
- an increase of plaintiffs targeting property and casualty insurers, including us, in purported class action litigation regarding claims handling and other practices;
- medical developments that link health issues to particular causes, resulting in liability or workers' compensation (for example, cumulative trauma);
- claims relating to unanticipated consequences of current or new technologies;
- an increase in the variety, number and size of claims relating to liability losses, which often present complex coverage and damage valuation questions;
- claims relating to potentially changing climate conditions, including higher frequency and severity of weather-related events; and
- adverse changes in loss cost trends, including inflationary pressure in medical cost and auto and home repair costs.

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

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

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

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

We believe that the ratings assigned by A.M. Best are an important factor in marketing our products. Our ability to retain our existing business and to attract new business in our insurance operations depends on our ratings by this agency. Our failure to maintain our ratings, or any other adverse development with respect to our ratings, could cause our current and future independent agents and policyholders to choose to transact their business with more highly rated competitors. If A.M. Best downgrades our ratings or publicly indicates that our ratings are under review, it is likely that we will not be able to compete as effectively with our competitors and our ability to sell insurance

policies could decline, leading to a decrease in our premium revenue and earnings. For example, many of our agencies and policyholders have guidelines that require us to have an A.M. Best financial strength rating of "A-" or higher. A reduction of our A.M. Best ratings below "A-" would prevent us from issuing policies to a portion of our current policyholders or other potential policyholders with ratings requirements. Additionally, a ratings downgrade could materially increase the number of surrenders for all or a portion of the net cash values by the owners of policies and contracts we have issued, and materially increase the number of withdrawals by policyholders of cash values from their policies.

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

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

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

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

- *Terrorism Risk Insurance.* The Terrorism Risk Insurance Program Reauthorization Act of 2007 was signed into law on December 27, 2007. In January 2015, The Terrorism Risk Insurance Program Reauthorization Act of 2015 ("TRIPRA") was signed into law. TRIPRA extends the Terrorism Risk Insurance Program until December 31, 2020; gradually increases the coverage trigger for shared terrorism losses between the federal government and the insurance industry to \$200 billion per year (up from \$100 billion); and gradually increases the industry-wide retention to \$37.5 billion per year (up from \$27.5 billion). For further information about TRIPRA and its effect on our operations, refer to the information in the "Consolidated Results of Operations" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- *Accounting standards.* We prepare our consolidated financial statements in conformity with GAAP, which is periodically revised and/or expanded by recognized authoritative bodies, including the Financial Accounting Standards Board ("FASB"). These principles are subject to interpretation by the SEC and various other bodies formed to interpret and create appropriate accounting principles and guidance. The FASB is currently working on several joint projects in conjunction with the International Accounting Standards Board ("IASB") that could result in a convergence of GAAP with International Financial Reporting Standards. These projects may result in significant changes to GAAP. Changes in GAAP and financial reporting requirements, or the interpretation of GAAP or those requirements, may have an impact on the content and presentation of our financial results and could have adverse consequences on our financial results, including lower reported results of operations and shareholders' equity and increased volatility and decreased comparability of our reported results with our historic results and with the results of other insurers. In addition, the required adoption of new accounting standards may result in significant incremental costs associated with initial implementation of and ongoing compliance with those standards. Additional information regarding recently proposed and adopted accounting standards and their potential impact on us is set forth in Note 1 "Summary of Significant Accounting Policies" to Part II, Item 8, "Financial Statements and Supplementary Data."
- *Corporate Governance and Public Disclosure Regulation.* Changing laws, regulations and standards relating to corporate governance and public disclosure, including Dodd-Frank, the Sarbanes-Oxley Act of 2002 and related SEC regulations, as well as the listing standards of the NASDAQ Stock Market, have created and are continuing to create uncertainty for public companies. While the federal government has not historically regulated the insurance business, in 2010 Dodd-Frank established a Federal Insurance Office within the U.S. Department of the Treasury. The Federal Insurance Office has limited regulatory authority and is empowered to gather data and information regarding the insurance industry and insurers, monitor aspects of the insurance industry, identify issues with regulation of insurers that could contribute to a systemic crisis in the insurance industry or the overall financial system, coordinate federal policy on international insurance matters and preempt state insurance measures under certain circumstances. While certain details and much of the impact of Dodd-Frank will not be known for some time, Dodd-Frank and other federal regulation adopted in the future may impose burdens on us, including impacting the ways we conduct our business, increasing compliance costs and duplicating state regulation. Additional regulation under these laws in the area of compensation disclosure, particularly regarding internal pay equity, officer and director hedging activities and compensation clawback policies is still expected.

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

Compliance with these laws and regulations requires us to incur administrative costs that decrease our profits. These laws and regulations may also prevent or limit our ability to underwrite and price risks accurately, obtain timely premium rate increases necessary to cover increased costs, discontinue unprofitable relationships or exit unprofitable markets and otherwise continue to operate our business profitably. In addition, our failure to comply with these laws 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, 2016, we ceded premium written of \$58.0 million to our reinsurers.

Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred, it does not eliminate our liability to our policyholders because we remain liable as the direct insurer on all of the reinsured risks. As a result we are subject to credit risk relating to our ability to recover amounts due from our reinsurers.

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

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

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

The insurance industry is highly competitive and will likely remain that way for the foreseeable future. In our property and casualty insurance business and in our life insurance business we compete, and will continue to

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

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.

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

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

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

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

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

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

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

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

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

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

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

Our internal controls are not fail-safe.

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

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

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

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

Risks Relating to Our Common Stock

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

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

State insurance laws limit the ability of insurance subsidiaries to pay dividends and require our insurance subsidiaries to maintain specified minimum levels of statutory capital and surplus. The actual ability to pay dividends may further be constrained by business and regulatory considerations, such as the impact of dividends on surplus, by our competitive position and by the amount of premiums that we can write. Ordinary dividend payments, or dividends that do not require prior approval by the insurance subsidiaries' domiciliary state insurance regulator are generally limited to amounts determined by a formula which varies by jurisdiction. Extraordinary dividends, on the other hand, require prior regulatory approval by the insurance subsidiaries' domiciliary state insurance regulator before they can be made.

In addition, competitive pressures generally require insurance companies to maintain insurance financial strength ratings. These restrictions and other regulatory requirements affect the ability of our insurance subsidiaries to make dividend payments to us. At times we may not be able to pay dividends on our common stock, or we may be required to seek prior approval from the applicable regulatory authority before we can pay any such dividends. In addition, the payment of dividends by us is within the discretion of our Board of Directors and will depend on numerous factors, including our financial condition, our capital requirements and other factors that our Board of Directors considers relevant.

The price of our common stock may be volatile.

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

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

Certain provisions of our organizational documents, as well as applicable insurance laws, could impede an attempt to replace or remove our management or members of our Board of Directors, 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 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

Our headquarters are located in Cedar Rapids, Iowa, where we own approximately 246,000 square feet of office and building space, serving both operating segments. In addition, we own and lease office and building space, including underwriting and claims offices, throughout the U.S. We believe our existing facilities, both owned and leased, are in good condition and suitable for the conduct of our business.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of its business, the Company is a party to a variety of legal proceedings. While the final outcome of these legal proceedings cannot be predicted with certainty, management believes all of the proceedings pending as of December 31, 2016 to be ordinary and routine and does not expect these legal proceedings to have a material adverse effect on the Company's financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II.

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

Common Shareholders

United Fire Group, Inc.'s common stock is traded on the NASDAQ stock market under the symbol "UFCS." On February 24, 2017, there were 815 holders of record of United Fire Group, Inc. common stock. The number of record holders does not reflect shareholders who beneficially own common stock in nominee or street name, but does include participants in our employee stock purchase plan.

Dividends

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

As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at December 31, 2016, our insurance company subsidiary, United Fire & Casualty, is able to make a maximum of \$53.1 million in dividend payments without prior regulatory approval.

The table in the following section shows the quarterly cash dividends declared in 2016 and 2015. Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors out of legally available funds and there can be no assurance that we will continue to pay such dividends or the amount of such dividends.

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

Market Information

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

	Share Price		Cash Dividends Declared per share
	High	Low	
2016			
Quarter Ended:			
March 31	\$ 44.43	\$ 35.16	\$ 0.22
June 30	45.75	39.12	0.25
September 30	44.00	40.37	0.25
December 31	50.75	37.54	0.25
Year-end closing share price: \$49.17			
2015			
Quarter Ended:			
March 31	\$ 31.94	\$ 27.57	\$ 0.20
June 30	34.09	29.31	0.22
September 30	37.00	31.68	0.22
December 31	40.64	33.70	0.22
Year-end closing share price: \$38.31			

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.

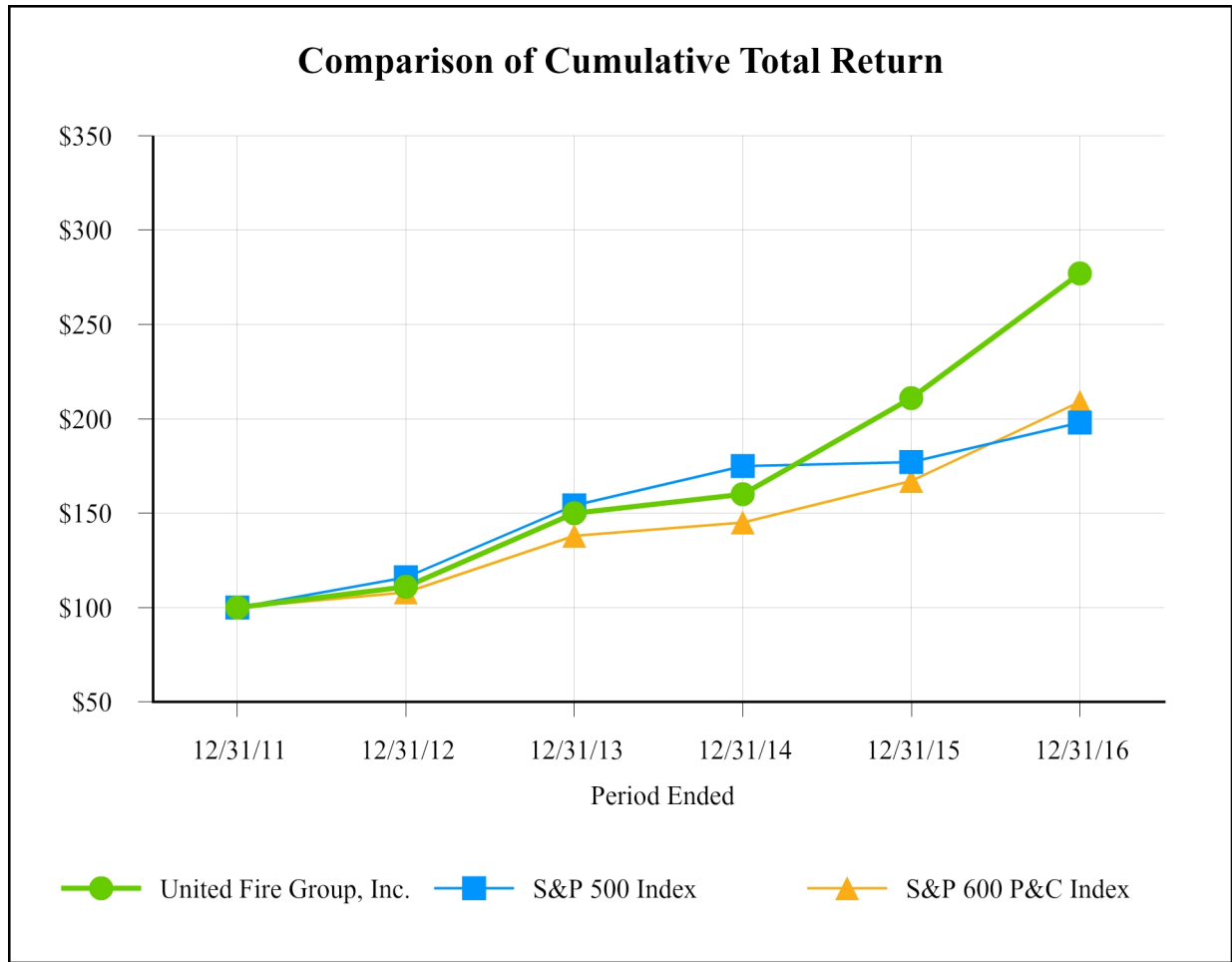
The following table provides information with respect to purchases of shares of common stock made by or on our behalf or by any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Exchange Act, during the year ended December 31, 2016:

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
1/1/16 - 1/31/16	—	\$ —	—	1,528,886
2/1/16 - 2/28/16	—	—	—	1,528,886
3/1/16 - 3/31/16	—	—	—	1,528,886
4/1/16 - 4/30/16	—	—	—	1,528,886
5/1/16 - 5/31/16	—	—	—	1,528,886
6/1/16 - 6/30/16	—	—	—	1,528,886
7/1/16 - 7/31/16	—	—	—	1,528,886
8/1/16 - 8/31/16	26,564	42.74	26,564	3,002,322
9/1/16 - 9/30/16	40,928	42.31	40,928	2,961,394
10/1/16 - 10/31/16	—	—	—	2,961,394
11/1/16 - 11/30/16	22,923	38.32	22,923	2,938,471
12/1/16 - 12/31/16	—	—	—	2,938,471
Total	90,415		90,415	

(1) Our share repurchase program was originally announced in August 2007. In August 2016, our Board of Directors authorized the repurchase of up to an additional 1,500,000 shares of common stock through the end of August 2018. This is in addition to the 1,528,886 shares of common stock remaining under its previous authorizations. As of December 31, 2016 we remained authorized to repurchase 2,938,471 shares of common stock.

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, 2011 through December 31, 2016, 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, 2011 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.



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

Index	Period Ended					
	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
United Fire Group, Inc.	\$ 100.00	\$ 111.28	\$ 149.69	\$ 159.56	\$ 211.06	\$ 277.08
S&P 500 Index	100.00	116.00	153.57	174.60	177.01	198.18
S&P 600 P&C Index	100.00	108.32	138.06	145.16	166.80	208.79

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

ITEM 6. SELECTED FINANCIAL DATA

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

<i>(In Thousands, Except Per Share Data)</i>					
As of and for the years Ended December 31	2016	2015	2014	2013	2012
Consolidated Balance Sheet Data:					
Total cash and investments	\$ 3,376,513	\$ 3,249,209	\$ 3,261,535	\$ 3,142,330	\$ 3,151,829
Total assets	4,054,758	3,890,376	3,856,689	3,720,672	3,694,653
Future policy benefits and losses, claims and loss settlement expenses					
Property and casualty insurance	1,123,896	1,003,895	969,437	960,651	971,911
Life insurance	1,350,503	1,372,358	1,447,764	1,472,132	1,498,176
Unearned premiums	443,873	415,057	378,725	340,464	311,650
Total liabilities	3,112,874	3,011,479	3,039,274	2,937,839	2,965,476
Net unrealized investment gains, after tax	133,892	128,369	149,623	116,601	144,096
Repurchase of United Fire Group, Inc. common stock	(3,746)	(2,423)	(12,942)	(1,644)	(7,301)
Total stockholders' equity	941,884	878,897	817,415	782,833	729,177
Book value per share	37.04	34.94	32.67	30.87	28.90
Consolidated Income Statement Data:					
Revenues					
Net premiums earned	1,023,401	930,890	828,330	754,846	694,994
Investment income, net of investment expenses	106,822	100,781	104,609	112,799	111,905
Net realized investment gains	6,103	2,846	7,270	8,695	5,453
Other income	621	401	1,685	702	891
Consolidated revenues	\$ 1,136,947	\$ 1,034,918	\$ 941,894	\$ 877,042	\$ 813,243
Losses and loss settlement expenses					
Property and casualty insurance	652,433	520,087	509,811	437,354	439,137
Life insurance	31,365	29,001	26,432	21,461	20,569
Amortization of deferred policy acquisition costs	211,013	186,817	167,449	153,677	141,834
Other underwriting expenses	103,421	102,937	94,871	89,861	81,125
Net income	49,904	89,126	59,137	76,140	40,212
Property and Casualty Insurance Segment Data:					
Net premiums earned	936,131	851,695	766,939	694,192	629,411
Net income	49,118	85,320	52,376	67,456	33,512
Combined ratio ⁽¹⁾	100.3%	92.0%	97.8%	94.8%	101.2%
Life Insurance Segment Data:					
Net premiums earned	87,270	79,195	61,391	60,654	65,583
Net income	786	3,806	6,761	8,684	6,700
Earnings Per Share Data:					
Basic earnings per common share	1.97	3.56	2.34	3.01	1.58
Diluted earnings per common share	1.93	3.53	2.32	2.98	1.58
Other Supplemental Data:					
Cash dividends declared per common share	0.97	0.86	0.78	0.69	0.60

(1) 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.

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

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

FORWARD-LOOKING STATEMENTS

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

BUSINESS OVERVIEW

Originally founded in 1946 as United Fire & Casualty Company, United Fire Group, Inc. ("UFG", "United Fire", the "Registrant", the "Company", "we", "us", "our") and its consolidated insurance company subsidiaries provide insurance protection for individuals and businesses through several regional companies. Our property and casualty insurance company subsidiaries are licensed in 46 states plus the District of Columbia and are represented by approximately 1,200 independent agencies. Our life insurance subsidiary is licensed in 37 states and is represented by approximately 1,350 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 2016, property and casualty business accounted for approximately 91.5 percent of our net premiums earned, with the majority of which, 92.5 percent, was generated from commercial insurance. Life insurance business made up approximately 8.5 percent of our net premiums earned, of which over 73.0 percent was generated from traditional life insurance products.

Pooling Arrangement

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

Geographic Concentration

For 2016, approximately 48.9 percent of our property and casualty statutory direct premiums written were written in Texas, California, Iowa, Missouri and New Jersey and approximately 68.5 percent of our life insurance premiums were written in Iowa, Minnesota, Illinois, Wisconsin and Nebraska.

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 this 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 of our financial results 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.

<i>(In Thousands)</i>	Years Ended December 31,		
	2016	2015	2014
ISO catastrophes	\$ 57,932	\$ 25,380	\$ 47,351
Non-ISO catastrophes ⁽¹⁾	3,299	6,933	2,328
Total catastrophes	\$ 61,231	\$ 32,313	\$ 49,679

(1) Includes international assumed losses.

CONSOLIDATED FINANCIAL HIGHLIGHTS

<i>(In Thousands)</i>	Years Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues					
Net premiums earned	\$ 1,023,401	\$ 930,890	\$ 828,330	9.9 %	12.4%
Investment income, net of investment expenses	106,822	100,781	104,609	6.0	(3.7)
Net realized investment gains (losses)					
Other-than-temporary impairment charges	—	(1,300)	—	NM	NM
All other net realized gains	6,103	4,146	7,270	47.2	(43.0)
Total net realized investment gains	6,103	2,846	7,270	114.4	(60.9)
Other income	621	401	1,685	54.9	(76.2)
Total revenues	\$ 1,136,947	\$1,034,918	\$ 941,894	9.9 %	9.9%
Benefits, losses and expenses					
Losses and loss settlement expenses	\$ 683,798	\$ 549,088	\$ 536,243	24.5 %	2.4%
Increase in liability for future policy benefits	59,969	50,945	36,623	17.7	39.1
Amortization of deferred policy acquisition costs	211,013	186,817	167,449	13.0	11.6
Other underwriting expenses	103,421	102,937	94,871	0.5	8.5
Interest on policyholders' accounts	20,079	23,680	30,245	(15.2)	(21.7)
Total benefits, losses and expenses	\$ 1,078,280	\$ 913,467	\$ 865,431	18.0 %	5.6%
Income before income taxes	\$ 58,667	\$ 121,451	\$ 76,463	(51.7)%	58.8%
Federal income tax expense	8,763	32,325	17,326	(72.9)%	86.6%
Net income	\$ 49,904	\$ 89,126	\$ 59,137	(44.0)%	50.7%

NM = not meaningful

Consolidated Results of Operations

In 2016, the decrease in net income was driven by a 24.5 percent increase in losses and loss settlement expenses due to an increase in catastrophe losses and deterioration of our core loss ratio. A portion of this deterioration was driven by an increase in large losses, which we define as losses greater than \$500 thousand, in the commercial automobile and commercial fire & allied lines of business. The increase in losses and loss settlement expenses was partially offset by a 9.9 percent increase in net premiums earned.

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
Property and Casualty Insurance Segment

	Years Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
<i>(In Thousands)</i>					
Net premiums earned	\$936,131	\$851,695	\$766,939	9.9	11.1
Losses and loss settlement expenses	(652,433)	(520,087)	(509,811)	25.4	2.0
Amortization of deferred policy acquisition costs	(202,892)	(180,183)	(161,310)	12.6	11.7
Other underwriting expenses	(83,540)	(83,631)	(79,117)	(0.1)	5.7
Underwriting gain (loss)	\$ (2,734)	\$ 67,794	\$ 16,701	(104.0)%	305.9 %
Investment income, net of investment expenses	55,284	46,559	44,236	18.7 %	5.3 %
Net realized investment gains	4,947	1,124	4,177	NM	(73.1)%
Other income (loss)	—	(107)	911	(100.0)	(111.7)%
Income before income taxes	\$ 57,497	\$ 115,370	\$ 66,025	(50.2)%	74.7 %
GAAP Ratios:					
Net loss ratio (without catastrophes)	63.2%	57.2%	60.0%	10.5 %	(4.7)%
Catastrophes - effect on net loss ratio	6.5	3.8	6.5	71.1	(41.5)
Net loss ratio ⁽¹⁾	69.7%	61.0%	66.5%	14.3 %	(8.3)%
Expense ratio ⁽²⁾	30.6	31.0	31.3	(1.3)	(1.0)
Combined ratio ⁽³⁾	100.3%	92.0%	97.8%	9.0 %	(5.9)%

NM = not meaningful

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

(2) The 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.

(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, 2016, our property and casualty insurance segment reported income before income taxes of \$57.5 million compared to income before income taxes of \$115.4 million in the same period in 2015. The decrease in income before income taxes during 2016 as compared to 2015 was driven by an increase in losses and loss settlement expenses from higher catastrophe losses and deterioration of our core loss ratio, with a portion of this deterioration being driven by an increase in large losses, which we define as losses greater than \$500 thousand, in our commercial auto and commercial fire & allied losses, and an increase in deferred acquisition cost amortization from continued organic growth; partially offset by an increase in net premiums earned from organic growth and geographical expansion and an increase in investment income from higher valuation of our investments in limited liability partnerships. Net premiums earned increased 9.9 percent as compared to 2015.

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

Premiums

The following table shows our premiums written and earned for 2016, 2015 and 2014:

<i>(In Thousands)</i> Years ended December 31,	2016	2015	2014	% Change	
				2016 vs. 2015	2015 vs. 2014
Direct premiums written	\$ 1,006,123	\$ 926,500	\$ 838,584	8.6%	10.5%
Assumed premiums written	16,834	18,290	16,421	(8.0)	11.4
Ceded premiums written	(57,988)	(56,916)	(50,290)	1.9	13.2
Net premiums written	\$ 964,969	\$ 887,874	\$ 804,715	8.7%	10.3%
Net premiums earned	936,131	851,695	766,939	9.9	11.1

Net Premiums Written

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

Direct Premiums Written

Direct premiums written increased \$79.6 million in 2016 as compared to 2015 due to organic growth from a combination of new business and geographical expansion.

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

Assumed Premiums Written

Assumed premiums written decreased \$1.5 million in 2016 as compared to 2015 is due to a drop in reinsurance rates. In 2016, we renewed our participation in all of our assumed programs.

Assumed premiums written increased \$1.9 million in 2015 as compared to 2014 due the addition of one new program to our portfolio. The new assumed program is for international catastrophes (excluding the United States) with the largest exposure to European wind perils. In 2015, we also renewed our participation in all of our assumed programs.

Ceded Premiums Written

Direct and assumed premiums written are reduced by the ceded premiums that we pay to reinsurers. For 2016, we ceded 1.9 percent more premium to reinsurers as a result of continued growth in direct premiums written offset by declining ceded reinsurance rates. For 2015, we ceded 13.2 percent more premium to reinsurers as a result of growth in direct premiums written .

Losses and Loss Settlement Expenses

Catastrophe Exposures

Catastrophe losses are inherent risks of the property and casualty insurance business. Catastrophic events include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds, winter storms and other natural disasters, along with man-made exposures to losses resulting from, without limitation, acts of war, acts of

terrorism and political instability. Such events result in insured losses that can be, and may continue to be, a material factor in our results of operations and financial position, as the extent of losses from a catastrophe is a function of both the total amount of insured exposure in an area affected by the event and the severity of the event. Because the level of insured losses that may occur in any one year cannot be accurately predicted, these losses contribute to fluctuations in our year-to-year results of operations and financial position. Some types of catastrophes are more likely to occur at certain times within the year than others, which adds an element of seasonality to our property and casualty insurance claims. Our property and casualty insurance segment experiences some seasonality with regard to premiums written, which are generally highest in January and July and lowest during the fourth quarter. Losses and loss settlement expenses incurred tend to remain consistent throughout the year, with the exception of catastrophe losses, which generally are highest in the second and third quarters. The frequency and severity of catastrophic events are difficult to accurately predict in any year. However, some geographic locations are more susceptible to these events than others.

We control our direct insurance exposures in regions that are prone to naturally occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, and reinsurance. We regularly assess our concentration of risk exposures in natural catastrophe exposed areas. We have strategies and underwriting standards to manage these exposures through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance coverage. We use catastrophe modeling and a risk concentration management tool to monitor and control our accumulations of potential losses in natural catastrophe exposed areas of the United States, such as the Gulf and East Coasts, as well as in areas of exposure in other countries where we are exposed to a portion of an insurer's underwriting risk under our assumed reinsurance contracts.

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

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

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

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

Catastrophe Losses

In 2016, our pre-tax catastrophe losses were \$61.2 million, an increase as compared to \$32.3 million and an increase as compared to \$49.7 million in 2015 and 2014, respectively. The increase in catastrophe losses in 2016 is primarily due to the number of catastrophes and an increase in severity. In 2016, our catastrophe losses included 41 catastrophes, where our largest single pre-tax catastrophe loss totaled \$10.4 million. Catastrophe losses in 2016 added 6.5 percentage points to the combined ratio, which is slightly below our historical 10-year average of 6.7 percentage points. In 2015, the decrease in catastrophe losses was primarily due to elevated losses in the prior year. In 2015, our catastrophe losses included 37 catastrophes, where our largest single pre-tax catastrophe loss totaled \$4.0 million. In 2014, our catastrophe losses included 26 catastrophes, where our largest single pre-tax catastrophe loss totaled \$7.7 million. Catastrophe losses in 2015 added 3.8 percentage points to the combined ratio.

Catastrophe Reinsurance

In 2016, 2015 and 2014, 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, 2016:

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	AA-
Tokio Millennium Re Ltd	A++	A+

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

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

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

Terrorism Coverage

The Terrorism Risk Insurance Program Reauthorization Act of 2007 was signed into law on December 27, 2007. In January 2015, TRIPRA was signed into law. 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 2016 and remains the same for 2017. Our TRIPRA deductible was \$111.1 million for 2016 and our TRIPRA deductible will be \$121.5 million for 2017. Our catastrophe and non-catastrophe reinsurance programs provide limited coverage for terrorism exposure excluding nuclear, biological and chemical-related claims.

2016 Results

In 2016, our losses and loss settlement expenses were 25.4 percent higher than 2015 and our net loss ratio increased 8.7 points due to an increase in catastrophe losses, which accounted for 2.7 percentage points of the increase, and an increase in large losses over \$500 thousand in our commercial automobile and commercial fire & allied lines of

business. Catastrophe losses increased to \$61.2 million in both our direct business and assumed reinsurance business as compared to \$32.3 million in 2015.

2015 Results

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

2014 Results

In 2014, our losses and loss settlement expenses were affected by catastrophe losses of \$49.7 million in both our direct business and assumed reinsurance business 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.

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 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.

2016 Development

The property and casualty insurance segment experienced \$31.2 million of favorable development in our net reserves for prior accident years for the year ended December 31, 2016. The majority of favorable development came from two lines: commercial liability with \$25.4 million of favorable development and workers compensation with \$12.2 million of favorable development. The favorable development was offset by unfavorable development from commercial fire & allied lines with \$6.4 million of unfavorable development and commercial automobile with \$5.5 million of unfavorable development. During the twelve-month period ended December 31, 2016 all other lines combined development was \$5.5 million of favorable development. The favorable development for the year ended December 31, 2016, is attributable to reductions in reserves for loss adjustment expense which continues to benefit from successful management of litigation expenses.

2015 Development

The property and casualty insurance segment experienced \$40.4 million of favorable development in our net reserves for prior accident years for the year ended December 31, 2015. Three lines in aggregate accounted for a majority of the favorable development. The largest single contributor was long-tail liability with \$23.0 million of favorable development followed by workers' compensation with \$22.1 million of favorable development and auto physical damage with \$4.4 million of favorable development for the year ended December 31, 2015. The favorable development is attributable to reductions in reserves for reported claims as well as reductions in required reserves for incurred but not reported claims combined with continued successful management of litigation expenses. These reserve decreases were more than sufficient to offset claim payments. The favorable development was partially offset by adverse development, the majority coming from three lines which included property with \$5.6 million of adverse development from an increase in severity and frequency of losses, assumed reinsurance with \$8.1 million of adverse development due to prior year development of catastrophe losses and commercial auto liability with \$2.8 million of adverse development due to an increase in frequency of losses in the year ended December 31, 2015. No other single line of business contributed a significant portion of the total development.

2014 Development

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

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.

Net Loss Ratios by Line

The following table depicts our net loss ratios for 2016, 2015 and 2014:

Years ended December 31,	2016			2015			2014		
(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	\$ 289,982	\$ 130,748	45.1%	\$ 261,303	\$ 130,904	50.1%	\$ 228,426	\$ 106,827	46.8%
Fire and allied lines	221,758	176,961	79.8	202,375	128,479	63.5	181,710	148,856	81.9
Automobile	214,009	211,882	99.0	185,970	152,558	82.0	164,537	122,683	74.6
Workers' compensation	103,605	74,051	71.5	95,672	47,106	49.2	88,522	63,425	71.6
Fidelity and surety	22,507	222	1.0	21,362	2,001	9.4	19,212	1,597	8.3
Other	1,745	498	28.5	2,158	428	19.8	2,741	153	5.6
Total commercial lines	\$ 853,606	\$ 594,362	69.6%	\$ 768,840	\$ 461,476	60.0%	\$ 685,148	\$ 443,541	64.7%
Personal lines									
Fire and allied lines	\$ 43,463	\$ 27,402	63.0%	\$ 44,075	\$ 28,815	65.4%	\$ 44,376	\$ 38,644	87.1%
Automobile	25,207	23,123	91.7	24,120	17,817	73.9	23,276	20,571	88.4
Other	1,090	260	23.9	1,021	296	29.0	994	1,972	198.4
Total personal lines	\$ 69,760	\$ 50,785	72.8%	\$ 69,216	\$ 46,928	67.8%	\$ 68,646	\$ 61,187	89.1%
Reinsurance assumed	\$ 12,765	\$ 7,286	57.1%	\$ 13,639	\$ 11,683	85.7%	\$ 13,145	\$ 5,083	38.7%
Total	\$ 936,131	\$ 652,433	69.7%	\$ 851,695	\$ 520,087	61.0%	\$ 766,939	\$ 509,811	66.5%

NM=Not meaningful

Commercial Lines

The net loss ratio in our commercial lines of business, excluding assumed reinsurance, was 69.6 percent in 2016 compared to 60.0 percent in 2015 and 64.7 percent in 2014. The change in 2016 as compared to 2015 was primarily the result of an increase in catastrophe losses and large losses, which we define as losses greater than \$500 thousand, in our commercial automobile and commercial fire & allied lines of business.

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

Other Liability

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

In recent years, we began to use our loss control department more extensively in an attempt to return this line of business to a higher level of profitability. For example, our loss control department has representatives who make multiple visits each year to businesses and job sites to ensure safety. We also do not 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 \$10.4 million in 2016 compared to \$3.6 million and \$10.1 million in 2015 and 2014, respectively. At December 31, 2016, we had \$22.3 million in construction defect loss and loss settlement expense reserves (excluding IBNR reserves which are calculated at the overall other liability commercial line), which consisted of 1,382 claims. In comparison, at December 31, 2015, we had reserves of \$28.8 million, excluding IBNR reserves, consisting of 1,721 claims. The increase in the incurred losses is due to an increase in paid claims in the current year and acceleration of claims settlement rates. The decrease in reserves at December 31, 2016 is due to a decrease in open claim counts.

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 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 2016 as compared to 2015 was primarily attributable to an increase in severity in commercial fire losses and an increase in catastrophe losses. The improvement in the net loss ratio in 2015 as compared to 2014 was primarily attributable to elevated losses in the prior year. In 2014, there were elevated catastrophe losses from spring and summer storms in regions of the U.S. where we conduct much of our business and an increase in frequency and severity in fire-related losses in our commercial property line of business.

Commercial Automobile

Our commercial automobile insurance covers physical damage to an insured's vehicle, as well as liabilities to third parties. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft, flood or other causes. Automobile liability insurance covers bodily injury, damage to property resulting from automobile accidents caused by the insured, uninsured or underinsured motorists and the legal costs of defending the insured against lawsuits. The deterioration in our commercial automobile insurance line in 2016 as compared to 2015 was due to an increase in frequency and severity of claims in 2016 due to an increase in miles driven by commercial vehicles. The deterioration in our commercial automobile insurance line in 2015 as compared to 2014 was due to an increase in severity of claims combined with additional reserves for incurred but not reported claims in 2015 primarily from an adverse development experience trend from an increase in highway roadway use by commercial vehicles.

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 deterioration in our workers' compensation line of business in 2016 as compared to 2015 was due to an increase in severity of claims of over \$0.1 million and a decrease in favorable reserves development on prior year claims. The improvement in our workers' compensation line of business in 2015 as compared to 2014 was due to a decrease in severity and frequency of claims and favorable development in reserves for reported claims.

The 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.

In 2016, the change in the the loss ratio was primarily due to salvage and subrogation received in the second quarter of 2016. In 2015, the loss ratio increased slightly as compared to 2014 due to a single large claim incurred in the first quarter of 2015.

During 2016 and 2014 there were no claims that exceeded our \$1.5 million reinsurance retention level. During 2015, there were two claims that exceeded our \$1.5 million surety excess of loss reinsurance retention level.

Personal Lines

Our personal lines consist primarily of fire and allied lines (including homeowners) and automobile lines. In 2016, the net loss ratio deteriorated 5.0 percentage points primarily attributable to an increase in claim frequency in our personal automobile line due to an increase in catastrophe losses. In 2015, the net loss ratio improved 21.3 percentage points compared to 2014. The change was primarily due to a decrease in net losses and loss settlement expenses incurred in the fire and allied lines of business due to less catastrophe losses in 2015.

For our personal lines, we use the CATography™ Underwriter tool, which gives us the ability to determine whether the premium we charge for an exposure is adequate in areas where hurricanes and earthquakes occur. We have also implemented predictive analytics and data prefill for our personal automobile line. Data prefill is a data accessing methodology that allows for a more complete profile of our customers at the agent's point of sale during the quotation process.

Assumed Reinsurance

Our assumed reinsurance is the business we choose to write by participating in programs insuring insurance companies. The net loss ratio improved in 2016 due to an increase in favorable reserve development on prior year claims and from a decrease in catastrophe losses assumed. The net loss ratio deterioration in 2015 was due to an increase in catastrophe losses assumed.

In 2016, we renewed our participation in all of our assumed programs. In 2015, we renewed our participation in all of our assumed programs and added one new program to our portfolio. In 2014, we renewed our participation in all but one of our assumed programs and added one new program to our portfolio. We increased participation in one program in our assumed portfolio to replace lost premium from the program not renewed.

Other Underwriting Expenses

Our underwriting expense ratio, which is a percentage of other underwriting expenses over net premiums earned, was 30.6 percent, 31.0 percent and 31.3 percent for 2016, 2015, and 2014, respectively. The underwriting expense ratio improved in 2016 due to a decrease in post-retirement benefit costs and contingent commission expenses.

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

Life Insurance Segment Results

<i>(In Thousands)</i>	Years Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues					
Net premiums earned	\$ 87,270	\$ 79,195	\$ 61,391	10.2 %	29.0 %
Investment income, net	51,538	54,222	60,373	(5.0)%	(10.2)%
Net realized investment gains (losses)					
Other-than-temporary impairment charges	—	(1,300)	—	NM	NM
All other net realized gains	1,156	3,022	3,093	(61.7)%	(2.3)%
Net realized investment gains	1,156	1,722	3,093	(32.9)%	(44.3)%
Other income	621	508	774	22.2 %	(34.4)%
Total revenues	\$ 140,585	\$ 135,647	\$ 125,631	3.6 %	8.0 %
Benefits, Losses and Expenses					
Losses and loss settlement expenses	\$ 31,365	\$ 29,001	\$ 26,432	8.2 %	9.7 %
Increase in liability for future policy benefits	59,969	50,945	36,623	17.7 %	39.1 %
Amortization of deferred policy acquisition costs	8,121	6,634	6,139	22.4 %	8.1 %
Other underwriting expenses	19,881	19,306	15,754	3.0 %	22.5 %
Interest on policyholders' accounts	20,079	23,680	30,245	(15.2)%	(21.7)%
Total benefits, losses and expenses	\$ 139,415	\$ 129,566	\$ 115,193	7.6 %	12.5 %
Income before income taxes	\$ 1,170	\$ 6,081	\$ 10,438	(80.8)%	(41.7)%

NM =Not meaningful

United Life 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 (40.3 percent), traditional life products (47.5 percent), universal life products (10.9 percent), and other life products (1.3 percent) comprised our 2016 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 \$1.2 million in 2016 compared to \$6.1 million in 2015 and \$10.4 million in 2014. The decrease in net income before income taxes from 2015 to 2016 was primarily a result of a decrease in net investment income, an increase in losses and loss settlement expenses and an increase in the increase in liability for future policy benefits, all partially offset by an increase in net premiums earned from higher sales of single premium whole life ("SPWL") policies and a decrease in interest on policyholders' accounts due to the continued net withdrawals of annuity products.

The decrease in net income before income taxes from 2014 to 2015 was primarily a result of a decrease in net investment income, an increase in losses and loss settlement expenses and an increase in the increase in liability for future policy benefits, all partially offset by an increase in net premiums earned from higher sales of SPWL policies and a decrease in interest on policyholders' accounts due to a decline in the crediting rate paid on continued net withdrawals of annuity products.

In 2016, net investment income decreased 5.0 percent as compared to 2015 and decreased 10.2 percent in 2015 as compared to 2014. The decrease is due to lower asset base from declining annuity deposits and due to a decrease in reinvestment interest rates. For discussion of our consolidated investment results, see the "Investments" section contained in this Item.

Net premiums earned increased 10.2 percent in 2016 as compared to 2015 primarily due to an increase in sales of SPWL policies. Net premiums earned increased 29.0 percent in 2015 as compared to 2014 due to an increase in sales of SPWL policies.

Underwriting expenses increased 3.0 percent in 2016 as compared to 2015 due to an increase in SPWL commissions related to the increase in premiums as previously mentioned partially offset by a decrease in our post-retirement benefit plan expenses.

Deferred annuity deposits decreased 24.5 percent in 2016, as compared to 2015 and decreased 55.7 percent in 2015 as compared to 2014. We gradually lowered the credited rate offered on our deferred annuity products in the low interest rate environment, which resulted in the decrease in deferred annuity deposits.

Net cash outflow related to the Company's annuity business was \$83.7 million in 2016 compared to a net cash outflow of \$129.7 million and \$77.7 million, respectively, in 2015 and 2014. This result is attributed to the activity described previously.

The fixed annuity deposits that we collect are not reported as net premiums earned under GAAP. Instead, we invest annuity deposits and record them as a liability for future policy benefits. The revenue that is generated from fixed annuity products consists of policy surrender charges and investment income. The difference between the yield we earn on our investment portfolio and the interest we credit on our fixed annuities is known as the investment spread. The investment spread is a major driver of the profitability for all of our annuity products. As of December 31, 2016, our investment spread on our annuity products was 1.48 percent as compared to 1.34 percent at December 31, 2015.

Federal Income Taxes

We reported a federal income tax expense of \$8.8 million, \$32.3 million and \$17.3 million in 2016, 2015, and 2014, 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, 2016, we had a net operating loss ("NOL") carryforward of \$3.1 million, which is due to our purchase of American Indemnity Financial Corporation in 1999. No NOLs will expire in 2017.

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 \$0.7 million at December 31, 2016. 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 2016 due to the realization of \$1.6 million in NOLs.

As of December 31, 2016, we had \$1.2 million of alternative minimum tax ("AMT") credit carryforwards.

INVESTMENTS

Investment Environment

2016 can be characterized as a year of tepid global economic activity, below trend investment, and increased geopolitical uncertainty. The current year began on a negative tone for risk assets as a severe correction in Chinese stocks, combined with weaker-than-expected economic numbers in the United States, prompted a convincing flight-to-safety trade among portfolio managers. In January and February, U.S. equities declined by almost 10 percent, the price of oil fell below \$30 per barrel, and 10-year Treasury yields plummeted almost 60 basis points to 1.66 percent. However, by spring the sense of panic had transitioned into opportunity, and markets were able to stabilize as the economic outlook improved with more upbeat data, and global central banks reaffirmed their pledge of support. However, investor resolve was tested once again during the summer with Britain's referendum to leave the European Union causing a spike in volatility, and a second leg down for interest rates with U.S. 10-year treasury rates falling to 1.34 percent.

Heading into the fall elections, the economy continued to trend positive overall. Immediately following the election, stocks and bond yields rallied substantially, which continued into the end of the year. While the backup in rates since the election was welcomed, the overall level of investment yield still remains historically low. Now that fiscal stimulus seems poised to take over for monetary policy as the driving force for the economy, expectations are that lower taxes, less regulation and increased capital spending will produce above trend growth and productivity, as well as increase the overall level of prices and interest rates. Downside risks include stagnation due to delays in, or lack of, policy implementation caused by government gridlock. In general, the investment environment remains challenging for now given persistently low yields for fixed income investments, uncertainty surrounding a meaningful pivot in U.S. government policy across many fronts and shifting global alliances as a result.

Investment Philosophy

The Company's assets are invested to preserve capital 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 appropriately manage risk, achieve portfolio objectives and maximize investment income 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, 2016 totaled \$3.3 billion, compared to \$3.1 billion at December 31, 2015, an increase of \$122.9 million. At December 31, 2016, fixed maturity securities and equity securities comprised 89.2 percent and 8.5 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.

The composition of our investment portfolio at December 31, 2016 is presented at carrying value in the following table:

<i>(In Thousands)</i>	Property & Casualty Insurance Segment		Life Insurance Segment		Total	
		Percent of Total		Percent of Total		Percent of Total
Fixed maturities: ⁽¹⁾						
Held-to-maturity	\$ 150	—%	\$ 48	—%	\$ 198	—%
Available-for-sale	1,453,286	82.1	1,444,840	96.7	2,898,126	88.7
Trading securities	14,390	0.8	—	—	14,390	0.4
Equity securities:						
Available-for-sale	246,370	13.9	24,046	1.6	270,416	8.3
Trading securities	5,644	0.3	—	—	5,644	0.2
Mortgage loans	—	—	3,706	0.2	3,706	0.1
Policy loans	—	—	5,366	0.4	5,366	0.2
Other long-term investments	51,768	2.9	15,871	1.1	67,639	2.1
Short-term investments	175	—	—	—	175	—
Total	\$ 1,771,783	100.0%	\$ 1,493,877	100.0%	\$ 3,265,660	100.0%

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

At December 31, 2016, we classified \$2.9 billion, or 99.5 percent, of our fixed maturities portfolio as available-for-sale, compared to \$2.8 billion, or 99.5 percent, at December 31, 2015. Available-for-sale securities are carried at fair value, with changes in fair value recognized as a component of accumulated other comprehensive income in stockholders' equity. We classify our remaining fixed maturities as held-to-maturity or trading. We record held-to-maturity securities at amortized cost. We record trading securities, primarily convertible redeemable preferred debt securities, at fair value, with any changes in fair value recognized in earnings.

As of December 31, 2016 and 2015, we did not have direct exposure to investments in subprime mortgages or other credit enhancement vehicles.

Credit Quality

The following table shows the composition of fixed maturity securities held in our available-for-sale, held-to-maturity and trading security portfolios by credit rating at December 31, 2016 and 2015. Information contained in the table is generally based upon the issue credit ratings provided by Moody's, unless the rating is unavailable, in which case we obtain it from Standard & Poor's.

<i>(In Thousands)</i>	December 31, 2016		December 31, 2015	
	Carrying Value	% of Total	Carrying Value	% of Total
AAA	\$ 782,329	26.9%	\$ 838,318	29.6%
AA	857,946	29.4	724,023	25.5
A	651,696	22.4	670,098	23.6
Baa/BBB	554,475	19.0	556,667	19.6
Other/Not Rated	66,268	2.3	49,149	1.7
	\$ 2,912,714	100.0%	\$ 2,838,255	100.0%

Duration

Our investment portfolio is invested primarily in fixed maturity securities whose fair value is susceptible to market risk, specifically interest rate changes. Duration is a measurement used to quantify our inherent interest rate risk and

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

Group

The weighted average effective duration of our portfolio of fixed maturity securities was 5.2 years at December 31, 2016 compared to 5.2 years at December 31, 2015.

Property and Casualty Insurance Segment

The weighted average effective duration of our portfolio of fixed maturity securities was 5.4 years at December 31, 2016 compared to 5.2 years at December 31, 2015.

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at December 31, 2016, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

<i>(In Thousands)</i>	Held-To-Maturity		Available-For-Sale		Trading	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2016						
Due in one year or less	\$ 150	\$ 150	\$ 55,767	\$ 56,234	\$ 1,753	\$ 1,774
Due after one year through five years	—	—	302,350	310,942	7,841	8,882
Due after five years through 10 years	—	—	322,890	325,690	1,302	1,406
Due after 10 years	—	—	609,923	593,937	2,158	2,328
Asset-backed securities	—	—	3,127	3,008	—	—
Mortgage-backed securities	—	—	11,462	11,584	—	—
Collateralized mortgage obligations	—	—	152,716	151,891	—	—
	\$ 150	\$ 150	\$ 1,458,235	\$ 1,453,286	\$ 13,054	\$ 14,390

Life Insurance Segment

The weighted average effective duration of our portfolio of fixed maturity securities at December 31, 2016 was 4.9 years compared to 5.3 years at December 31, 2015.

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at December 31, 2016, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

<i>(In Thousands)</i>	Held-To-Maturity		Available-For-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2016				
Due in one year or less	\$ —	\$ —	\$ 50,291	\$ 50,846
Due after one year through five years	—	—	538,253	551,111
Due after five years through 10 years	—	—	484,833	489,492
Due after 10 years	—	—	77,916	77,542
Asset-backed securities	—	—	1,280	1,262
Mortgage-backed securities	48	49	5,826	5,664
Collateralized mortgage obligations	—	—	270,871	268,923
	\$ 48	\$ 49	\$ 1,429,270	\$ 1,444,840

Investment Results

We invest the premiums received from our policyholders and annuitants in order to generate investment income, which is an important component of our revenues and profitability. The amount of investment income that we are able to generate is affected by many factors, some of which are beyond our control. Some of these factors are volatility in the financial markets, economic growth, inflation, changes in interest rates, world political conditions, terrorist attacks or threats of terrorism, adverse events affecting other companies in our industry or the industries in which we invest and other unpredictable national or world events. Net investment income increased 6.0 percent in 2016, compared with the same period of 2015, primarily due to the change in value of our investments in limited liability partnerships, specifically related to financial institutions. The valuation of these investments in limited liability partnerships varies from period to period due to current equity market conditions. We expect to maintain our investment philosophy of purchasing quality investments rated investment grade or better.

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

Changes in unrealized gains and losses on available-for-sale securities do not affect net income and earnings per share but do impact comprehensive income, stockholders' equity and book value per share. We believe that any unrealized losses on our available-for-sale securities at December 31, 2016 are temporary based upon our current analysis of the issuers of the securities that we hold and current market conditions. It is possible that we could recognize impairment charges in future periods on securities that we own at December 31, 2016 if future events and information cause us to determine that a decline in value is other-than-temporary. However, we endeavor to invest in high quality assets to provide protection from future credit quality issues and corresponding other-than-temporary impairment write-downs.

Our investment results are summarized in the following table:

<i>(In Thousands)</i>				% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
As of and for the Years Ended December 31,					
Investment income, net	\$ 106,822	\$ 100,781	\$ 104,609	6.0%	(3.7)%
Net realized investment gains (losses)					
Other-than-temporary impairment charges	\$ —	\$ (1,300)	\$ —	NM	NM
All other net realized gains	6,103	4,146	7,270	47.2	(43.0)
Total net realized investment gains	\$ 6,103	\$ 2,846	\$ 7,270	114.4%	(60.9)%
Net unrealized investment gains, after tax	\$ 133,892	\$ 128,369	\$ 149,623	4.3%	(14.2)%

NM=not meaningful

Net Investment Income

In 2016, our investment income, net of investment expenses, increased \$6.0 million to \$106.8 million as compared to 2015, primarily due to the change in value of our investments in limited liability partnerships, specifically related to financial institutions.

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

The following table summarizes the components of net investment income:

<i>(In Thousands)</i>	2016	2015	2014
Years Ended December 31,			
Investment income			
Interest on fixed maturities	\$ 92,362	\$ 92,777	\$ 97,969
Dividends on equity securities	7,050	7,208	6,602
Income on other long-term investments			
Interest	2,394	2,567	1,927
Change in value ⁽¹⁾	10,742	3,266	1,917
Interest on mortgage loans	221	237	252
Interest on short-term investments	84	6	5
Interest on cash and cash equivalents	445	305	255
Other	1,227	1,452	1,998
Total investment income	\$ 114,525	\$ 107,818	\$ 110,925
Less investment expenses	7,703	7,037	6,316
Investment income, net	\$ 106,822	\$ 100,781	\$ 104,609

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

In 2016, 80.6 percent of our gross investment income originated from interest on fixed maturities, compared to 86.0 percent and 88.3 percent in 2015 and 2014, respectively.

The following table details our annualized yield on average invested assets for 2016, 2015 and 2014, which is based on our invested assets (including money market accounts) at the beginning and end of the year divided by net investment income:

<i>(In Thousands)</i>			
Years ended December 31,	Average Invested Assets	Investment Income, Net	Annualized Yield on Average Invested Assets
2016	\$ 3,223,014	\$ 106,822	3.3%
2015	3,181,311	100,781	3.2%
2014	3,143,502	104,609	3.3

Net Realized Investment Gains and Losses

In 2016, 2015 and 2014, we reported net realized investment gains of \$6.1 million, \$2.8 million and \$7.3 million, respectively. The following table summarizes the components of our net realized investment gains or losses:

<i>(In Thousands)</i>			
Years Ended December 31,	2016	2015	2014
Net realized investment gains (losses)			
Fixed maturities:			
Available-for-sale	\$ 2,160	\$ 3,294	\$ 3,353
Trading securities			
Change in fair value	189	(1,353)	609
Sales	931	1,381	1,339
Equity securities:			
Available-for-sale	2,359	2,521	1,732
Trading securities			
Change in fair value	301	(448)	238
Sales	(6)	66	(1)
Other long-term investments	—	(1,315)	—
Other-than-temporary-impairment charges:			
Fixed maturities	—	(1,300)	—
Cash equivalents	169	—	—
Total net realized investment gains	\$ 6,103	\$ 2,846	\$ 7,270

Net Unrealized Investment Gains and Losses

As of December 31, 2016, net unrealized investment gains, after tax, totaled \$133.9 million compared to \$128.4 million and \$149.6 million as of December 31, 2015 and 2014, respectively. The increase in unrealized gains in 2016 is the result of an increase in the fair value of the equity securities portfolio due to an increase in the financial markets, partially offset by a decline in the fair value of the fixed maturity portfolio due to an increase in interest rates. The decrease in unrealized gains in 2015 is the result of a decrease in the fair value of the fixed maturity portfolio due to an increase in interest rates and the decrease in the equity portfolio due to a decline in the financial markets.

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

<i>(In Thousands)</i> Years Ended December 31,	2016	2015	2014
Changes in net unrealized investment gains (losses):			
Available-for-sale fixed maturity securities	\$ (21,271)	\$ (37,621)	\$ 51,814
Equity securities	34,179	(6,459)	15,781
Deferred policy acquisition costs	(4,410)	11,380	(16,789)
Income tax effect	(2,975)	11,446	(17,784)
Total change in net unrealized investment gains, net of tax	\$ 5,523	\$ (21,254)	\$ 33,022

Market Risk

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

Interest Rate Risk

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

Market Risk and Duration

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

Duration relates primarily to our life insurance segment because the long-term nature of these reserve liabilities increases the importance of projecting estimated cash flows over an extended time frame. At December 31, 2016, our life insurance segment had \$666.7 million in deferred annuity liabilities for which investments in fixed maturity securities were specifically allocated.

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

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

Impact of Interest Rate Changes

The amounts set forth in the following table detail the impact of hypothetical interest rate changes on the fair value of fixed maturity securities held at December 31, 2016. The sensitivity analysis measures the change in fair values arising from immediate changes in selected interest rate scenarios. We employed hypothetical parallel shifts in the yield curve of plus or minus 100 and 200 basis points in the simulations. Additionally, based upon the yield curve shifts, we employ estimates of prepayment speeds for mortgage-related products and the likelihood of call or put options being exercised within the simulations. According to this analysis, at current levels of interest rates, the duration of the investments supporting the deferred annuity liabilities is 2.01 years longer than the projected duration of the liabilities. If interest rates increase by 100 or 200 basis points, the duration of the investments supporting the deferred annuity liabilities would be 2.46 years and 3.0 years longer, respectively, than the projected duration of the liabilities.

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

December 31, 2016 (In Thousands)	-200 Basis Points	-100 Basis Points	Base	+100 Basis Points	+ 200 Basis Points
HELD-TO-MATURITY					
Fixed maturities					
Bonds					
Corporate bonds - financial services	\$ 152	\$ 151	\$ 150	\$ 149	\$ 148
Collateralized mortgage obligations	52	50	49	48	48
Total Held-to-Maturity Fixed Maturities	\$ 204	\$ 201	\$ 199	\$ 197	\$ 196
AVAILABLE-FOR-SALE					
Fixed maturities					
Bonds					
U.S. Treasury	\$ 24,308	\$ 23,742	\$ 23,195	\$ 22,668	\$ 22,159
U.S. government agency	82,512	80,433	77,597	72,635	67,166
States, municipalities and political subdivisions					
General obligations:					
Midwest	157,961	151,289	144,143	136,583	129,365
Northeast	64,712	61,673	58,409	54,828	51,365
South	144,844	137,017	128,369	119,056	110,213
West	129,913	121,984	113,731	105,350	97,501
Special revenue:					
Midwest	188,881	179,040	168,310	156,987	146,379
Northeast	80,814	74,562	68,065	61,619	55,766
South	281,247	260,957	239,187	217,423	197,774
West	153,649	142,994	131,744	120,453	110,105
Foreign bonds	69,084	67,125	65,234	63,411	61,656
Public utilities	236,858	225,967	215,674	205,950	196,794
Corporate bonds					
Energy	117,629	113,153	108,860	104,735	100,825
Industrials	252,930	241,085	229,903	219,360	209,442
Consumer goods and services	198,885	190,065	181,687	173,713	166,154
Health care	91,092	86,998	83,123	79,459	75,997
Technology, media and telecommunications	158,450	151,329	144,612	138,283	132,324
Financial services	300,656	287,006	273,951	261,576	249,983
Mortgage backed securities	17,919	17,741	17,248	16,514	15,627
Collateralized mortgage obligations					
Government national mortgage association	162,126	155,206	144,460	131,938	119,215
Federal home loan mortgage corporation	188,427	183,165	174,458	163,153	150,500
Federal national mortgage association	111,770	107,965	101,896	94,325	86,206
Asset-backed securities	4,470	4,352	4,270	4,191	4,117
Total Available-For-Sale Fixed Maturities	\$ 3,219,137	\$ 3,064,848	\$ 2,898,126	\$ 2,724,210	\$ 2,556,633
TRADING					
Fixed maturities					
Bonds					
Corporate bonds					
Industrials	\$ 4,120	\$ 4,017	\$ 3,919	\$ 3,823	\$ 3,733
Consumer goods and services	137	132	127	123	119
Health care	3,771	3,571	3,410	3,279	3,173
Financial services	5,005	4,930	4,842	4,670	4,468
Technology, media and telecommunications	886	833	787	746	709
Redeemable preferred stock	1,304	1,304	1,305	1,304	1,304
Total Trading Fixed Maturities	\$ 15,223	\$ 14,787	\$ 14,390	\$ 13,945	\$ 13,506
Total Fixed Maturity Securities	\$ 3,234,564	\$ 3,079,836	\$ 2,912,715	\$ 2,738,352	\$ 2,570,335

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

Equity Price Risk

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

Impact of Price Change

The following table details the effect on the fair value of our investments in equity securities for a positive and negative 10 percent price change at December 31, 2016:

<i>(In Thousands)</i>	-10%	Base	+10%
Estimated fair value of equity securities	\$ 248,454	\$ 276,060	\$ 303,666

Foreign Currency Exchange Rate Risk

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

Credit Risk

Credit risk is the willingness and ability of a borrower to repay on time and in full any principal and interest due to the lender. Losses related to credit risk are realized through the income statement and have a direct impact on the earnings of UFG. Given the vast majority of our holdings are fixed income maturity securities, we view credit risk as our primary investment risk. Our internal Investment Department has developed and maintains a rigorous underwriting process to analyze and measure the expected frequency and severity of loss (i.e., credit quality) for government, agency, municipal, structured security, and corporate bond issuers. The objective is to maintain the appropriate balance of risk in our portfolio, consistent with our Investment Policy Statement and conservative investment style, and ensure the portfolio is compensated appropriately for the credit risk it holds. We do have within our municipal bond holdings a small number of securities whose ratings were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default. Of the insured municipal securities in our investment portfolio, 98.9 percent and 99.3 percent were rated "A" or above, and 93.2 percent and 90.9 percent were rated "AA" or above at December 31, 2016 and 2015, respectively, without the benefit of insurance. Due to the underlying financial strength of the issuers of the securities, we believe that the loss of insurance would not have a material impact on our operations, financial position, or liquidity.

We have no direct exposure in any of the guarantors of our investments. Our largest indirect exposure with a single guarantor totaled \$32.9 million or 19.1 percent of our insured municipal securities at December 31, 2016, as compared to \$68.5 million or 24.9 percent at December 31, 2015. Our five largest indirect exposures to financial guarantors accounted for 63.9 percent and 71.4 percent of our insured municipal securities at December 31, 2016 and 2015, respectively.

LIQUIDITY AND CAPITAL RESOURCES

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

purchase of investments, operating expenses, dividends, pension plan contributions, and in recent years, common stock repurchases.

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

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

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

The following table displays a summary of cash sources and uses in 2016, 2015 and 2014:

Cash Flow Summary (In Thousands)	Years Ended December 31,		
	2016	2015	2014
Cash provided by (used in)			
Operating activities	\$ 214,384	\$ 189,998	\$ 151,291
Investing activities	(112,403)	(36,286)	(58,878)
Financing activities	(97,577)	(137,837)	(94,032)
Net increase (decrease) in cash and cash equivalents	\$ 4,404	\$ 15,875	\$ (1,619)

Operating Activities

Net cash flows provided by operating activities totaled \$214.4 million, \$190.0 million and \$151.3 million in 2016, 2015 and 2014, respectively. Our cash flows from operations were sufficient to meet our liquidity needs for 2016, 2015 and 2014.

Investing Activities

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

In addition to investment income, possible sales of investments and proceeds from calls or maturities of fixed maturity securities also can provide liquidity. During the next five years, \$0.9 billion, or 31.7 percent of our fixed maturity portfolio will mature.

We invest funds required for short-term cash needs primarily in money market accounts, which are classified as cash equivalents. At December 31, 2016, our cash and cash equivalents included \$16.8 million related to these money market accounts, compared to \$20.8 million at December 31, 2015.

Net cash flows used in investing activities totaled \$112.4 million, \$36.3 million and \$58.9 million in 2016, 2015 and 2014, respectively. In 2016, we had cash inflows from scheduled and unscheduled investment maturities,

redemptions, prepayments, and sales of investments that totaled \$551.1 million compared to \$674.9 million and \$567.7 million for the same period in 2015 and 2014, respectively. The cash inflows over the last three years primarily relate to redemptions of fixed maturity securities that are reinvested.

Our cash outflows for investment purchases totaled \$655.9 million in 2016, compared to \$701.0 million and \$618.4 million for the same period in 2015 and 2014, respectively.

Financing Activities

Net cash flows used in financing activities totaled \$97.6 million, \$137.8 million and \$94.0 million in 2016, 2015 and 2014, respectively. In 2016, 2015 and 2014 we had \$78.3 million, \$118.4 million and 63.5 million, respectively, of net annuity withdrawals.

Dividends

Dividends paid to shareholders totaled \$24.6 million, \$21.7 million and \$19.7 million in 2016, 2015 and 2014, respectively. Our practice has been to pay quarterly cash dividends, which we have paid every quarter since March 1968.

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

As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at December 31, 2016, our insurance company subsidiary, United Fire & Casualty, was able to make a maximum of \$53.1 million in dividend payments without prior regulatory approval. These restrictions are not expected to have a material impact in meeting our cash obligations.

Share Repurchases

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

During 2016, 2015 and 2014, pursuant to authorization by our Board of Directors, we repurchased 90,415, 79,396, and 461,835 shares of our common stock, respectively, which used cash totaling \$3.7 million in 2016, \$2.4 million in 2015 and \$12.9 million in 2014. At December 31, 2016, we were authorized to purchase an additional 2,938,471 shares of our common stock under our share repurchase program, which expires in August 2018.

Credit Facilities

Information specific to our credit facilities is incorporated by reference from Note 14 "Credit Facility" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

Stockholders' Equity

Stockholders' equity increased 7.2 percent to \$941.9 million at December 31, 2016, from \$878.9 million at December 31, 2015. The increase was primarily attributable to net income of \$49.9 million along with the change in valuation of our retirement benefit obligations of \$23.1 million and an increase in net unrealized investment gains of \$5.5 million, net of tax, all partially offset by stockholder dividends of \$24.6 million and share repurchases of \$3.7 million. As of December 31, 2016, the book value per share of our common stock was \$37.04, compared to \$34.94 at December 31, 2015.

Risk-Based Capital

The NAIC adopted risk-based capital requirements, which requires us to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These "risk-based capital" results are used by state insurance regulators to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2016, all of our insurance companies had capital well in excess of required levels.

Contractual Obligations and Commitments

The following table shows our contractual obligations and commitments, including our estimated payments due by period, at December 31, 2016:

<i>(In Thousands)</i>	Payments Due By Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Contractual Obligations					
Future policy benefit reserves ⁽¹⁾	\$ 1,999,202	\$ 197,600	\$ 387,297	\$ 277,538	\$ 1,136,767
Loss and loss settlement expense reserves	1,123,896	389,698	352,057	143,607	238,534
Operating leases	25,667	6,218	11,031	8,244	174
Profit-sharing commissions	16,053	16,053	—	—	—
Pension plan contributions	6,400	6,400	—	—	—
Total	\$ 3,171,218	\$ 615,969	\$ 750,385	\$ 429,389	\$ 1,375,475

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

Future Policy Benefits

The amounts presented for future payments to be made to policyholders and beneficiaries must be actuarially estimated and are not determinable from the contract. The projected payments are based on our current assumptions for mortality, morbidity and policy lapse, but are not discounted with respect to interest. Additionally, the projected payments are based on the assumption that the holders of our annuities and life insurance policies will withdraw their account balances upon the expiration of their contracts. Policies must remain in force for the policyholder or beneficiary to receive the benefit under the policy. Depending on the terms of a particular policy, future premiums from the policyholder may be required for the policy to remain in force. In contrast, the future policy benefit reserves for our life insurance segment presented on the Consolidated Balance Sheets are generally based on historical assumptions for mortality and policy lapse rates and are on a discounted basis. Accordingly, the amounts presented above for future policy benefit reserves significantly exceeds the amount of future policy benefit reserves reported on our Consolidated Balance Sheets at December 31, 2016.

Loss and Loss Settlement Expense Reserves

The amounts presented are estimates of the dollar amounts and time periods in which we expect to pay out our gross loss and loss settlement expense reserves. Because the timing of future payments may vary from the stated contractual obligation, these amounts are estimates based upon historical payment patterns and may not represent

actual future payments. Refer to "Critical Accounting Policies: Loss and Loss Settlement Expenses — Property and Casualty Insurance Segment" in this section for further discussion.

Operating Leases

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

Profit-Sharing Commissions

We offer our agents a profit-sharing plan as an incentive for them to place high-quality property and casualty insurance business with us. Based on business produced by the agencies in 2016, property and casualty agencies will receive profit-sharing payments of \$16.1 million in 2017.

Pension Plan Payments

We estimated the pension contribution for 2017 in accordance with the Pension Protection Act of 2006 (the "Act"). Contributions for future years are dependent on a number of factors, including actual performance versus assumptions made at the time of the actuarial valuations and maintaining certain funding levels relative to regulatory requirements. Contributions in 2017, and in future years, are expected to be at least equal to the IRS minimum required contribution in accordance with the Act.

Funding Commitments

At December 31, 2016, pursuant to an agreement with our limited liability partnership investments, we are contractually committed to make capital contributions up to \$8.4 million upon request of the partnerships through December 31, 2023.

CRITICAL ACCOUNTING POLICIES

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

Investment Valuation

Upon acquisition, we classify investments in marketable securities as held-to-maturity, available-for-sale, or trading. We record investments in held-to-maturity fixed maturity securities at amortized cost. We record investments in available-for-sale and trading fixed maturity securities and equity securities at fair value. Other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting. We record mortgage loans at their unpaid principal balance and policy loans at the outstanding loan amount due from policyholders.

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

investments in trading securities and limited liability partnerships could occur in the future and such changes could materially affect our results of operations as reported in our Consolidated Financial Statements.

Fair Value Measurement

Information specific to the fair value measurement of our financial instruments and disclosures is incorporated by reference from Note 3 "Fair Value of Financial Instruments" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

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

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

The determination of the amount of impairments varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Additionally, our management considers a wide range of factors about the instrument issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the instrument and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential.

At December 31, 2016 and 2015, we had a number of securities with fair value less than the cost basis. The total unrealized loss on these securities was \$34.8 million at December 31, 2016, compared with \$28.1 million at December 31, 2015. At December 31, 2016, the largest pre-tax unrealized loss on an individual equity security was \$0.2 million. Our rationale for not recording OTTI charges on these securities is discussed in Part II, Item 8, Note 2 "Summary of Investments."

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

We record an asset for certain costs of underwriting new business, primarily commissions, premium taxes and variable underwriting and policy issue expenses that have been deferred. The amount of underwriting compensation expense eligible for deferral is based on time studies and a ratio of success in policy placement. At December 31, 2016 and 2015, our DAC asset was \$93.4 million and \$90.5 million, respectively.

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

To calculate the premium deficiency charge by line of business, we estimate an expected loss and loss settlement expense ratio which is based on our best estimate of future losses for each line of business. This calculation is performed on a quarterly basis and developed in conjunction with our quarterly reserving process. The expected loss and loss settlement expense ratios are the only assumptions we utilize in our premium deficiency calculation. Changes in these assumptions can have a significant impact on the amount of premium deficiency charge recognized for a line of business. With the completion of the Mercer Insurance Group, Inc. integration, we determined it was the

appropriate time to review our DAC models. After reviewing our DAC model at March 31, 2015, we enhanced our property & casualty insurance segment DAC model by updating our aggregation of certain lines of business in a manner consistent with how the policies are currently being marketed and managed. The impact of these updates to the model resulted in an increase to DAC amortization of \$2,144 and an increase to the DAC asset of \$3,830 for the period ended December 31, 2015, as compared to what we would have recognized had we not updated our model.

The following table illustrates the hypothetical impact on the premium deficiency charge recorded for the quarter ended December 31, 2016, of reasonably likely changes in the assumed loss and loss settlement expense ratios utilized for purposes of this calculation. The entire impact of these changes would be recognized through income as other underwriting expenses. The following table illustrates the impact of potential changes in the expected loss and loss settlement expense ratios for all lines of business on the premium deficiency charge. The base amount indicated below is the actual premium deficiency charge recorded as an offset against the DAC asset established as of the quarter ended December 31, 2016:

Sensitivity Analysis — Impact of Changes in Projected Loss and Loss Settlement Expense Ratios						
<i>(In Thousands)</i>	-10%	-5%	Base	+5%	+10%	
Premium deficiency charge estimated	\$ —	\$ —	\$ 62	\$ 4,920	\$ 11,862	

Actual future results could differ materially from our assumptions used to calculate the recorded DAC asset. Changes in our assumed loss and loss settlement expense ratios in the future would impact the amount of deferred costs in the period such changes in assumptions are made. The premium deficiency charge calculated for the quarter ended December 31, 2016 was \$0.1 million compared to the premium deficiency charge of \$0.0 million calculated for the same period of 2015.

Deferred Policy Acquisition Costs — Life Insurance Segment

Costs that vary with and relate to the successful acquisition of life insurance and annuity business are deferred. Such costs consist principally of commissions, premium taxes, and related variable underwriting, agency and policy issue expenses. The amount of underwriting and other acquisition related compensation and other internal expense eligible for deferral is based on time studies and a ratio of success in policy placement. At December 31, 2016 and 2015, our DAC asset was \$70.7 million and \$77.7 million, respectively.

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

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

We periodically review estimates of expected profitability and evaluate the need to "unlock" or revise the assumptions for the amortization of the DAC asset related to our non-traditional business. The primary assumptions utilized when estimating future profitability relate to interest rate spread, operating expenses, mortality and policy lapse experience. The table below illustrates the impact that a reasonably likely change in our assumptions used to estimate expected gross profits would have on the DAC asset for our non-traditional business recorded as of December 31, 2016. The entire impact of the changes illustrated would be recognized through income as an increase or decrease to amortization expense:

Sensitivity Analysis — Impact of changes in assumptions on DAC asset (In Thousands)		
Changes in assumptions	-10%	+10%
Mortality experience	\$ 2,965	\$ (3,154)
Policy lapse experience	1,731	(1,637)
Changes in assumptions	-1%	+1%
Interest rate spread	\$ (1,574)	\$ 1,524

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

The DAC asset recorded in connection with our non-traditional business is also adjusted with respect to estimated expected gross profits as a result of changes in the net unrealized gains or losses on available-for-sale fixed maturity securities allocated to support the block of deferred annuities and universal life policies. That is, because we carry available-for-sale fixed maturity securities at fair value, we make an adjustment to the DAC asset equal to the change in amortization that would have been recorded if we had sold such securities at their stated fair value and reinvested the proceeds at current yields. We include this adjustment, which is called "shadow" DAC, net of tax, as a component of accumulated other comprehensive income. At December 31, 2016 and 2015, the "shadow" DAC adjustment decreased our DAC asset by \$6.4 million and \$2.0 million, respectively.

Losses and Loss Settlement Expenses — Property and Casualty Insurance Segment

Reserves for losses and loss settlement expenses are reported using our best estimate of ultimate liability for claims that occurred prior to the end of any given reporting period, but have not yet been paid. Before credit for reinsurance recoverables, these reserves were \$1,123.9 million and \$1,003.9 million at December 31, 2016 and 2015, respectively. We purchase reinsurance to mitigate the impact of large losses and catastrophic events. Loss and loss settlement expense reserves ceded to reinsurers were \$59.8 million for 2016 and \$54.7 million for 2015. Our reserves, before credit for reinsurance recoverables, by line of business as of December 31, 2016, were as follows:

(In Thousands)	Case Basis	IBNR	Loss Settlement Expense	Total Reserves
Commercial lines				
Fire and allied lines	\$ 83,984	\$ 12,415	\$ 21,480	\$ 117,879
Other liability	204,109	120,596	188,888	513,593
Automobile	136,750	46,917	45,409	229,076
Workers' compensation	166,332	10,500	28,581	205,413
Fidelity and surety	2,163	2,520	108	4,791
Miscellaneous	185	746	269	1,200
Total commercial lines	\$ 593,523	\$ 193,694	\$ 284,735	\$ 1,071,952
Personal lines				
Automobile	\$ 9,997	\$ 1,023	\$ 1,726	\$ 12,746
Fire and allied lines	8,949	3,829	2,735	15,513
Miscellaneous	1,078	174	434	1,686
Total personal lines	\$ 20,024	\$ 5,026	\$ 4,895	\$ 29,945
Reinsurance assumed	16,828	5,105	66	21,999
Total	\$ 630,375	\$ 203,825	\$ 289,696	\$ 1,123,896

Case-Basis Reserves

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

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

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

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

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

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

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

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

Incurred But Not Reported ("IBNR") Reserves

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

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

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

Loss Settlement Expense Reserves

Loss settlement expense reserves include amounts ultimately allocable to individual claims, as well as amounts required for the general overhead of the claims handling operation that are not specifically allocable to individual claims. We do not establish loss settlement expense reserves on a claim-by-claim basis. Instead, on a quarterly basis, our internal actuary performs a detailed statistical analysis (using historical data) to estimate the required reserve for unpaid loss settlement expenses. On a monthly basis, the required reserve estimate is adjusted to reflect additional earned exposure and expense payments that have occurred subsequent to completion of the quarterly analysis.

Generally, the loss settlement expense reserves for long-tail lines of business are a greater portion of the overall reserves, as there are often substantial legal fees and other costs associated with the complex liability claims that are associated with long-tail coverages. Because short-tail lines of business settle much more quickly and the costs are

easier to determine, loss settlement expense reserves for such claims constitute a smaller portion of the total reserves.

Reinsurance Reserves

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

Key Assumptions

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

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

As an example, if our loss and loss settlement expense reserves of \$1,123.9 million as of December 31, 2016, is 10.0 percent inadequate, we would experience a reduction in future pre-tax earnings of up to \$112.4 million. This reduction could be recorded in one year or multiple years, depending on when we identify the deficiency. The deficiency would also affect our financial position in that our equity would be reduced by an amount equivalent to the reduction in net income. Any deficiency that would be recognized in our loss and loss settlement expense reserves usually does not have a material effect on our liquidity because the claims have not been paid. Conversely, if our estimates of ultimate unpaid loss and loss settlement expense reserves prove to be redundant, our future earnings and financial position would be improved. We believe our reserving philosophy, coupled with what we believe to be aggressive and successful claims management and loss settlement practices, has resulted in year-to-year redundancies in reserves. We believe our approach produces recorded reserves that are reasonable as to their relative position within a range of reasonable reserves from year-to-year.

We are unable to reasonably quantify the impact of changes in our key assumptions utilized to establish individual case-basis reserves on our total reported reserves because the impact of these changes would be unique to each specific case-basis reserve established. However, based on historical experience, we believe that aggregate case-basis reserve volatility levels of 5.0 percent and 10.0 percent can be attributed to the ultimate development of our net case-basis reserves. The impact to pre-tax earnings would be a decrease if the reserves were to be adjusted upwards and an increase if the reserves were to be adjusted downwards. The table below details the impact of this development volatility on our reported net case-basis reserves at December 31, 2016:

<i>(In Thousands)</i>			
Change in level of net case-basis reserve development		5%	10%
Impact on reported net case-basis reserves	\$	28,928	\$ 57,855

Due to the formula-based nature of our IBNR and loss settlement expense reserve calculations, changes in the key assumptions utilized to generate these reserves can impact our reported results. It is not possible to isolate and measure the potential impact of just one of these factors, and future loss trends could be partially impacted by all factors concurrently. Nevertheless, it is meaningful to view the sensitivity of the reserves to potential changes in these variables. To demonstrate the sensitivity of reserves to changes in significant assumptions, the following example is presented. The amounts reflect the pre-tax impact on earnings from a hypothetical percentage change in the calculation of IBNR and loss settlement expense reserves at December 31, 2016. The impact to pre-tax earnings would be a decrease if the reserves were to be adjusted upwards and an increase if the reserves were to be adjusted downwards. We believe that the changes presented are reasonably likely based upon an analysis of our historical IBNR and loss settlement expense reserve experience.

<i>(In Thousands)</i>				
Change in claim frequency and claim severity assumptions	5%		10%	
Impact due to change in IBNR reserving assumptions	\$	10,800	\$	20,161

<i>(In Thousands)</i>				
Change in LAE paid to losses paid ratio	1%		2%	
Impact due to change in LAE reserving assumptions	\$	2,839	\$	5,679

In 2016, we did not change the key method through which we develop our assumptions on which we based our reserving calculations. In estimating our 2016 loss and loss settlement expense reserves, we did not anticipate future events or conditions that were inconsistent with past development patterns.

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

Other Liability Reserves

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

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

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

Our reserve for other liability claims at December 31, 2016, was \$513.6 million and consisted of 5,634 claims, compared with \$495.9 million, consisting of 5,553 claims at December 31, 2015. Of the \$513.6 million total reserve for other liability claims, \$151.9 million is identified as defense costs and \$34.3 million is identified as general overhead required in the settlement of claims.

Included in the other liability line of business are gross reserves for construction defect losses and loss settlement expenses. Construction defect is a liability allegation relating to defective work performed in the construction of structures such as commercial buildings, apartments, condominiums, single family dwellings or other housing, as well as the sale of defective building materials. These claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. At December 31, 2016, we had \$22.3 million in construction defect loss and loss settlement expense reserves, excluding IBNR reserves that are calculated for the overall other liability commercial line, which consisted of 1,382 claims. At December 31, 2015, our reserves, excluding IBNR reserves, totaled \$28.8 million, which consisted of 1,721 claims. The reporting of such claims can be delayed, as the statute of limitations can be up to 10 years. Court decisions in recent years have expanded insurers' exposure to construction defect claims. As a result, claims may be reported more than 10 years after a project has been completed, as litigation can proceed for several years before an insurance company is identified as a potential contributor. Claims have also emerged from parties claiming additional insured status on policies issued to other parties, such as contractors seeking coverage from a subcontractor's policy.

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

Asbestos and Environmental Reserves

Included in the other liability and assumed reinsurance lines of business are reserves for asbestos and other environmental losses and loss settlement expenses. At December 31, 2016 and 2015, we had \$3.7 million and \$4.8 million, respectively, in direct and assumed asbestos and environmental loss reserves. The estimation of loss reserves for environmental claims and claims related to long-term exposure to asbestos and other substances is one of the most difficult aspects of establishing reserves, especially given the inherent uncertainties surrounding such claims. Although we record our best estimate of loss and loss settlement expense reserves, the ultimate amounts paid upon settlement of such claims may be more or less than the amount of the reserves, because of the significant uncertainties involved and the likelihood that these uncertainties will not be resolved for many years.

Workers' Compensation Reserves

Like the other liability line of business, workers' compensation losses and loss settlement expense reserves are based upon variables that create imprecision in estimating the ultimate reserve. Estimates for workers' compensation are particularly sensitive to assumptions about medical cost inflation, which has been steadily increasing over the past few years. Other variables that we consider and that contribute to the uncertainty in establishing reserves for workers' compensation claims include: state legislative and regulatory environments; trends in jury awards; and mortality rates. Because of these variables, the process of reserving for the ultimate loss and loss settlement expense to be incurred requires the use of informed judgment and is inherently uncertain. Consequently, actual loss and loss settlement expense reserves may deviate from our estimates. Such deviations may be significant. Our reserve for workers' compensation claims at December 31, 2016 was \$205.4 million and consisted of 2,299 claims, compared with \$192.9 million, consisting of 2,211 claims, at December 31, 2015.

Reserve Development

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

In 2016, 2015 and 2014, we recognized a favorable development in our net reserves for prior accident years totaling \$31.2 million, \$40.9 million and \$56.7 million, respectively.

The factors contributing to our year-to-year redundancy include: establishing reserves at their ultimate expected loss amount as soon as practicable after information becomes available, which produces, on average, prudently conservative case reserves; using claims negotiation to control the size of settlements; assuming that we have liability for all claims, even though the issue of liability may, in some cases, be resolved in our favor; promoting claims management services to encourage return-to-work programs; case management by nurses for serious injuries and management of medical provider services and billings; and using programs and services to help prevent fraud and to assist in favorably resolving cases.

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

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

<i>(In Thousands)</i>				
Hypothetical Reserve Development Volatility Levels	-10%	-5%	+5%	+10%
Impact on loss and loss settlement expenses				
Other liability	\$ (51,359)	\$ (25,680)	\$ 25,680	\$ 51,359
Workers' compensation	(20,541)	(10,271)	10,271	20,541
Automobile	(24,182)	(12,091)	12,091	24,182
Hypothetical Reserve Development Volatility Levels	-5%	-3%	+3%	+5%
Impact on loss and loss settlement expenses				
All other lines	\$ (8,153)	\$ (4,892)	\$ 4,892	\$ 8,153

Independent Actuary

We engage an independent actuarial firm to render an opinion as to the reasonableness of the statutory reserves internal management establishes. During 2016 and 2015, we engaged the services of Regnier Consulting Group, Inc. ("Regnier") as our independent actuarial firm for the property and casualty insurance segment. We anticipate that this engagement will continue in 2017.

It is management's policy to utilize staff adjusters to develop our estimate of case-basis loss reserves. IBNR and loss settlement expense reserves are established through various formulae that utilize pertinent, recent Company historical data. The calculations are supplemented with knowledge of current trends and events that could result in adjustments to the level of IBNR and loss settlement expense reserves. On a quarterly basis, we compare our estimate of total reserves to the estimates prepared by Regnier by line of business to ensure that our estimates are within the actuary's acceptable range. Regnier performs a review of loss and loss settlement expense reserves at each year end using generally accepted actuarial guidelines to ensure that the recorded reserves appear reasonable. Our net reserves for losses and loss settlement expenses as of December 31, 2016 and 2015 were \$1,064.1 million and \$949.2 million, respectively. In 2016 and 2015, after considering the independent actuary's range of reasonable estimates, management believes that carried reserves were reasonable and therefore did not adjust the recorded amount.

Regnier uses four projection methods in its actuarial analysis of our loss reserves and uses two projection methods in its actuarial analysis of our loss settlement expense reserves. Based on the results of the projection methods, the actuaries select an actuarial point estimate of the reserves, which is compared to our carried reserves to evaluate the

reasonableness of the carried reserves. The four methods utilized by Regnier to project losses are: paid loss development; reported loss development; expected loss emergence based on paid losses; and expected loss emergence based on reported losses. The two methods utilized by Regnier to project loss expenses are: paid expenses-to-paid loss and paid expense-to-ultimate loss.

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

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

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

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

Other reserves include claims that have been reported but not settled and IBNR reserves for claims on life and disability income insurance. We use our own historical experience and other assumptions such as any known or anticipated developments or trends to establish reserves for these unsettled or unreported claims. The effects of changes in our estimated reserves are included in our results of operations in the period in which the changes occur.

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

Our reserves for universal life and deferred annuity contracts are based upon the policyholders' current account value. Acquisition expenses are amortized in relation to expected gross profits forecasted based upon current best estimates of anticipated premium income, investment earnings, benefits and expenses. Annually, we review our estimates of reserves and the related DAC asset and compare them with actual experience. Differences between actual experience and the assumptions that we used in the pricing of these policies, guarantees and riders, and in the establishment of the related reserves will result in variances in profit for the underlying contract. The effects of the changes in such estimated reserves are included in our results of operations in the period in which the changes occur.

The following table reflects the estimated pre-tax impact to DAC, net of unearned revenue liabilities to our universal life and fixed annuity products that could occur in a twelve-month period because of an unlocking adjustment due to

reasonably likely changes in significant assumptions. Changes in assumptions of the same magnitude in the opposite direction would have an impact of a similar magnitude but opposite direction of the examples provided.

Assumption	Determination Methodology	Potential One-Time Effect on DAC Asset, Net of Unearned Revenue Liabilities
Mortality Experience	Based on our mortality experience with consideration given to industry experience and trends	A 10.0% increase in expected mortality experience for all future years would result in a reduction in DAC and an increase in current period amortization expense of \$3.2 million.
Surrender Rates	Based on our policy surrender experience with consideration given to industry experience and trends	A 10.0% increase in expected surrender rates for all future years would result in a reduction in DAC and an increase in current period amortization expense of \$1.6 million.
Interest Spreads	Based on our expected future investment returns and expected future crediting rates applied to policyholder account balances; future crediting rates include constraints imposed by policy guarantees	A 10-basis-point reduction in future interest rate spreads would result in a reduction in DAC and an increase in current period amortization expense of \$1.6 million.
Maintenance Expenses	Based on our experience using an internal expense allocation methodology	A 10.0% increase in future maintenance expenses would result in a reduction in DAC and an increase in current period amortization expense of \$0.5 million.

Independent Actuary

We engage an independent actuarial firm to assist us in establishing our future policy benefit reserves for statutory and GAAP reporting and our DAC asset and related amortization for GAAP reporting and to render an opinion as to the reasonableness of the statutory reserves we establish. Statutory reserves are established using prescribed assumptions which are considerably more conservative assumptions regarding future investment earnings and contractual benefit payments than are used for GAAP reserves. During 2016 and 2015, we engaged the services of Griffith, Ballard and Company as our independent actuarial firm for the life insurance segment. We anticipate that this engagement will continue in 2017.

Pension and Post-retirement Benefit Obligations

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

A change in any one or more of these assumptions is likely to result in an ultimate liability different from the original actuarial estimate. Such changes in estimates may be material. For example, a 100 basis point decrease in our estimated discount rate would increase the pension and post-retirement benefit obligation at December 31, 2016, by \$29.5 million and \$8.4 million, respectively, while a 100 basis point increase in the rate would decrease the benefit obligation at December 31, 2016, by \$23.3 million and \$6.6 million, respectively.

In addition, for the post-retirement benefit plan, a 100 basis point decrease in the medical trend rate would decrease the post-retirement benefit obligation at December 31, 2016, by \$6.4 million, while a 100 basis point increase in the medical trend rate would increase the benefit obligation at December 31, 2016, by \$8.0 million.

A 100 basis point decrease in our estimated long-term rate of return on pension plan assets would increase the benefit expense for the year ended December 31, 2016, by \$1.3 million, while a 100 basis point increase in the rate would decrease benefit expense by \$1.3 million, for the same period.

For the post-retirement benefit plan, a 100 basis point increase in our estimated medical trend rate would increase the benefit expense for the year ended December 31, 2016, by \$0.8 million, while a 100 basis point decrease in the rate would decrease benefit expense by \$0.7 million, for the same period.

Recently Issued Accounting Standards

Information specific to accounting standards that we adopted in 2016 or pending accounting standards that we expect to adopt in the future is incorporated by reference from Note 1 "Summary of Significant Accounting Policies" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

United Fire Group, Inc.
Consolidated Balance Sheets

<i>(In Thousands, Except Share Data)</i>	December 31,	
	2016	2015
Assets		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value \$199 in 2016 and \$675 in 2015)	\$ 198	\$ 672
Available-for-sale, at fair value (amortized cost \$2,887,505 in 2016 and \$2,793,069 in 2015)	2,898,126	2,824,961
Trading securities, at fair value (amortized cost \$13,054 in 2016 and \$11,475 in 2015)	14,390	12,622
Equity securities		
Available-for-sale, at fair value (cost \$68,504 in 2016 and \$68,514 in 2015)	270,416	236,247
Trading securities, at fair value (cost \$5,434 in 2016 and \$4,443 in 2015)	5,644	4,353
Mortgage loans	3,706	3,961
Policy loans	5,366	5,618
Other long-term investments	67,639	54,151
Short-term investments	175	175
	3,265,660	3,142,760
Cash and cash equivalents	110,853	106,449
Accrued investment income	25,056	25,136
Premiums receivable (net of allowance for doubtful accounts of \$1,255 in 2016 and \$867 in 2015)	306,202	276,517
Deferred policy acquisition costs	164,112	168,264
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$50,925 in 2016 and \$46,590 in 2015)	55,524	53,241
Reinsurance receivables and recoverables	69,413	73,527
Prepaid reinsurance premiums	3,782	3,790
Income taxes receivable	15,061	—
Goodwill and net intangible assets	24,740	25,509
Other assets	14,355	15,183
Total assets	\$ 4,054,758	\$ 3,890,376
Liabilities and stockholders' equity		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	\$ 1,123,896	\$ 1,003,895
Life insurance	1,350,503	1,372,358
Unearned premiums	443,873	415,057
Accrued expenses and other liabilities	159,014	200,599
Income taxes payable	—	4,917
Deferred income taxes	35,588	14,653
Total liabilities	\$ 3,112,874	\$ 3,011,479
Stockholders' equity		
Common stock, \$0.001 par value; authorized 75,000,000 shares; 25,429,769 and 25,151,428 shares issued and outstanding in 2016 and 2015, respectively	\$ 25	\$ 25
Additional paid-in capital	216,482	207,426
Retained earnings	616,322	591,009
Accumulated other comprehensive income, net of tax	109,055	80,437
Total stockholders' equity	\$ 941,884	\$ 878,897
Total liabilities and stockholders' equity	\$ 4,054,758	\$ 3,890,376

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

United Fire Group, Inc.
Consolidated Statements of Income and Comprehensive Income

<i>(In Thousands, Except Share Data)</i>	For the Years Ended December 31,		
	2016	2015	2014
Revenues			
Net premiums earned	\$ 1,023,401	\$ 930,890	\$ 828,330
Investment income, net of investment expenses	106,822	100,781	104,609
Net realized investment gains (losses)			
Other-than-temporary impairment charges	—	(1,300)	—
All other net realized gains (includes reclassifications for net unrealized gains on available-for-sale securities of \$4,520 in 2016; \$4,513 in 2015; and \$5,085 in 2014 previously included in accumulated other comprehensive income)	6,103	4,146	7,270
Total net realized investment gains	6,103	2,846	7,270
Other income	621	401	1,685
Total revenues	\$ 1,136,947	\$ 1,034,918	\$ 941,894
Benefits, losses and expenses			
Losses and loss settlement expenses	\$ 683,798	\$ 549,088	\$ 536,243
Increase in liability for future policy benefits	59,969	50,945	36,623
Amortization of deferred policy acquisition costs	211,013	186,817	167,449
Other underwriting expenses (includes reclassifications for employee benefit costs of \$5,486 in 2016; \$7,468 in 2015; and \$3,072 in 2014 previously included in accumulated other comprehensive income)	103,421	102,937	94,871
Interest on policyholders' accounts	20,079	23,680	30,245
Total benefits, losses and expenses	\$ 1,078,280	\$ 913,467	\$ 865,431
Income before income taxes	\$ 58,667	\$ 121,451	\$ 76,463
Federal income tax expense (includes reclassifications of \$338 in 2016; \$1,034 in 2015; and (\$704) in 2014 previously included in accumulated other comprehensive income)	8,763	32,325	17,326
Net income	\$ 49,904	\$ 89,126	\$ 59,137
Other comprehensive income (loss)			
Change in net unrealized appreciation on investments	\$ 13,017	\$ (28,185)	\$ 55,888
Change in liability for underfunded employee benefit plans	30,045	8,714	(47,685)
Other comprehensive income (loss), before tax and reclassification adjustments	43,062	(19,471)	8,203
Income tax effect	(15,072)	6,814	(2,871)
Other comprehensive income (loss), after tax, before reclassification adjustments	27,990	(12,657)	5,332
Reclassification adjustment for net realized gains included in income	(4,520)	(4,513)	(5,085)
Reclassification adjustment for employee benefit costs included in expense	5,486	7,468	3,072
Total reclassification adjustments, before tax	966	2,955	(2,013)
Income tax effect	(338)	(1,034)	704
Total reclassification adjustments, after tax	628	1,921	(1,309)
Comprehensive income	\$ 78,522	\$ 78,390	\$ 63,160
Weighted average common shares outstanding	25,335,706	25,047,405	25,230,854
Basic earnings per common share	\$ 1.97	\$ 3.56	\$ 2.34
Diluted earnings per common share	1.93	3.53	2.32

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

United Fire Group, Inc.
Consolidated Statement of Stockholders' Equity

<i>(In Thousands, Except Share Data)</i>	For the Years Ended December 31,		
	2016	2015	2014
Common stock			
Balance, beginning of year	\$ 25	\$ 25	\$ 25
Shares repurchased (90,415 in 2016; 79,396 in 2015; and 461,835 in 2014)	—	—	—
Shares issued for stock-based awards (376,142 in 2016; 202,882 in 2015; and 108,679 in 2014)	—	—	—
Balance, end of year	\$ 25	\$ 25	\$ 25
Additional paid-in capital			
Balance, beginning of year	\$ 207,426	\$ 202,676	\$ 211,574
Compensation expense and related tax benefit for stock-based award grants	2,880	1,677	1,784
Shares repurchased	(3,746)	(2,423)	(12,942)
Shares issued for stock-based awards	9,922	5,496	2,260
Balance, end of year	\$ 216,482	\$ 207,426	\$ 202,676
Retained earnings			
Balance, beginning of year	\$ 591,009	\$ 523,541	\$ 484,084
Net income	49,904	89,126	59,137
Dividends on common stock (\$0.97 per share in 2016; \$0.86 per share in 2015; \$0.78 per share in 2014)	(24,591)	(21,658)	(19,680)
Balance, end of year	\$ 616,322	\$ 591,009	\$ 523,541
Accumulated other comprehensive income, net of tax			
Balance, beginning of year	\$ 80,437	\$ 91,173	\$ 87,150
Change in net unrealized investment appreciation ⁽¹⁾	5,523	(21,254)	33,022
Change in liability for underfunded employee benefit plans ⁽²⁾	23,095	10,518	(28,999)
Balance, end of year	\$ 109,055	\$ 80,437	\$ 91,173
Summary of changes			
Balance, beginning of year	\$ 878,897	\$ 817,415	\$ 782,833
Net income	49,904	89,126	59,137
All other changes in stockholders' equity accounts	13,083	(27,644)	(24,555)
Balance, end of year	\$ 941,884	\$ 878,897	\$ 817,415

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

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

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

United Fire Group, Inc.
Consolidated Statements of Cash Flows

<i>(In Thousands)</i>	For the Years Ended December 31,		
	2016	2015	2014
Cash Flows From Operating Activities			
Net income	\$ 49,904	\$ 89,126	\$ 59,137
Adjustments to reconcile net income to net cash provided by operating activities			
Net accretion of bond premium	14,097	13,745	14,434
Depreciation and amortization	6,035	6,473	6,891
Stock-based compensation expense	3,696	2,510	1,944
Net realized investment gains	(6,103)	(2,846)	(7,270)
Net cash flows from trading investments	(2,390)	3,080	(6,855)
Deferred income tax expense (benefit)	4,482	(4,496)	1,926
Changes in:			
Accrued investment income	80	853	1,934
Premiums receivable	(29,685)	(27,487)	(30,395)
Deferred policy acquisition costs	(258)	(17,165)	(6,417)
Reinsurance receivables	4,114	13,283	641
Prepaid reinsurance premiums	8	(158)	(472)
Income taxes receivable	(15,061)	—	1,786
Other assets	828	(734)	581
Future policy benefits and losses, claims and loss settlement expenses	176,492	77,471	47,928
Unearned premiums	28,816	36,332	38,261
Accrued expenses and other liabilities	(6,054)	4,095	25,287
Income taxes payable	(4,917)	(95)	5,012
Deferred income taxes	1,043	(829)	(249)
Other, net	(10,743)	(3,160)	(2,813)
Total adjustments	\$ 164,480	\$ 100,872	\$ 92,154
Net cash provided by operating activities	\$ 214,384	\$ 189,998	\$ 151,291
Cash Flows From Investing Activities			
Proceeds from sale of available-for-sale investments	\$ 14,322	\$ 11,543	\$ 3,091
Proceeds from call and maturity of held-to-maturity investments	516	175	260
Proceeds from call and maturity of available-for-sale investments	533,784	658,728	561,434
Proceeds from short-term and other investments	2,456	4,421	2,883
Purchase of held-to-maturity investments	(42)	(450)	—
Purchase of available-for-sale investments	(651,365)	(695,351)	(614,044)
Purchase of short-term and other investments	(4,474)	(5,656)	(4,351)
Net purchases and sales of property and equipment	(7,600)	(9,696)	(8,151)
Net cash used in investing activities	\$ (112,403)	\$ (36,286)	\$ (58,878)
Cash Flows From Financing Activities			
Policyholders' account balances			
Deposits to investment and universal life contracts	\$ 79,815	\$ 99,486	\$ 180,487
Withdrawals from investment and universal life contracts	(158,161)	(217,905)	(243,997)
Payment of cash dividends	(24,591)	(21,658)	(19,680)
Repurchase of common stock	(3,746)	(2,423)	(12,942)
Issuance of common stock	9,922	5,496	2,260
Tax impact from issuance of common stock	(816)	(833)	(160)
Net cash used in financing activities	\$ (97,577)	\$ (137,837)	\$ (94,032)
Net Change in Cash and Cash Equivalents	\$ 4,404	\$ 15,875	\$ (1,619)
Cash and Cash Equivalents at Beginning of Year	106,449	90,574	92,193
Cash and Cash Equivalents at End of Year	\$ 110,853	\$ 106,449	\$ 90,574

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

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UNITED FIRE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, unless otherwise noted)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United Fire Group, Inc. ("UFG", "United Fire", the "Registrant", the "Company", "we", "us", or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. We report our operations in two business segments: property and casualty insurance and life insurance. Our insurance company subsidiaries are licensed as a property and casualty insurer in 46 states, plus the District of Columbia, and as a life insurer in 37 states.

Principles of Consolidation

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

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

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

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

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

Basis of Presentation

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

Use of Estimates

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

Property and Casualty Insurance Business

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

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

We record our best estimate of reserves for claim litigation that arises in the ordinary course of business. We consider all of our pending litigation as of December 31, 2016 to be ordinary, routine and incidental to our business.

Life Insurance Business

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

Liabilities for future policy benefits for traditional products are computed by the net level premium method, using interest assumptions ranging from 3.7 percent to 6.0 percent and withdrawal, mortality and morbidity assumptions appropriate at the time the policies were issued. Liabilities for non-traditional business are stated at policyholder account values before surrender charges. Liabilities for traditional immediate annuities are based primarily upon future anticipated cash flows using assumptions for mortality and interest rates. Liabilities for deferred annuities are carried at the account value.

Reinsurance

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

Investments

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

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

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

Other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting. Mortgage loans are recorded at their unpaid principal balance. Policy loans are recorded at the outstanding loan amount due from policyholders. Included in investments at December 31, 2016 and 2015, are securities on deposit with, or available to, various regulatory authorities as required by law, with fair values of \$1,509,339 and \$1,515,193, respectively.

In 2016 and 2014, we did not record any other-than-temporary impairment ("OTTI") charges in our investment portfolio. In 2015 we recorded a pre-tax realized loss of \$1,300 as a result of the recognition of OTTI charges on a certain holding in our investment portfolio. The OTTI charge did not have a noncredit related loss component. We review all of our investment holdings for appropriate valuation on an ongoing basis. Refer to Note 2 "Summary of Investments" for a discussion of our accounting policy for impairment recognition.

Cash and Cash Equivalents

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

In 2016, 2015, and 2014, we made cash payments for income taxes of \$24,034, \$39,497 and \$9,626, respectively. In addition, we received federal tax refunds of \$919 and \$615 in 2015 and 2014, respectively, that resulted from the utilization of our 2011 net operating losses and net capital losses in the carryforward period. In 2016, we did not receive any federal tax refunds. We made no interest payments in 2016, 2015 and 2014. These payments exclude interest credited to policyholders' accounts.

Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC that are reported in the accompanying Consolidated Financial Statements.

Property and Casualty Insurance	2016	2015	2014
Recorded asset at beginning of year	\$ 90,547	\$ 72,861	\$ 67,663
Underwriting costs deferred	205,707	197,869	166,508
Amortization of deferred policy acquisition costs	(202,892)	(180,183)	(161,310)
Recorded asset at end of year	\$ 93,362	\$ 90,547	\$ 72,861
Life Insurance			
Recorded asset at beginning of year	\$ 77,717	\$ 66,858	\$ 82,429
Underwriting costs deferred	5,564	6,113	7,357
Amortization of deferred policy acquisition costs	(8,121)	(6,634)	(6,139)
	\$ 75,160	\$ 66,337	\$ 83,647
Change in "shadow" deferred policy acquisition costs	(4,410)	11,380	(16,789)
Recorded asset at end of year	\$ 70,750	\$ 77,717	\$ 66,858
Total			
Recorded asset at beginning of year	\$ 168,264	\$ 139,719	\$ 150,092
Underwriting costs deferred	211,271	203,982	173,865
Amortization of deferred policy acquisition costs	(211,013)	(186,817)	(167,449)
	\$ 168,522	\$ 156,884	\$ 156,508
Change in "shadow" deferred policy acquisition costs	(4,410)	11,380	(16,789)
Recorded asset at end of year	\$ 164,112	\$ 168,264	\$ 139,719

Property and casualty insurance policy acquisition costs deferred are amortized as premium revenue is recognized. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value. This takes into account the premium to be earned, losses and loss settlement expenses expected to be incurred and certain other costs expected to be incurred as the premium is earned. After reviewing our DAC model at March 31, 2015, we enhanced our property and casualty insurance segment DAC model by updating our aggregation of certain lines of business in a manner consistent with how the policies are currently being marketed and managed. With the completion of the Mercer Insurance Group, Inc. integration, we determined it was the appropriate time to review our DAC models. The impact of these updates to the model resulted in an increase to DAC amortization of \$2,144 and an increase to the DAC asset of \$3,830 for the period ended December 31, 2015, as compared to what we would have recognized had we not updated our model.

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

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

The effect on DAC that results from the assumed realization of unrealized gains (losses) on investments allocated to non-traditional life insurance business is recognized with an offset to net unrealized investment appreciation as of the balance sheet date. The impact of unrealized gains (losses) on available-for-sale securities decreased the DAC asset by \$6,413, \$2,003 and \$13,383 at December 31, 2016, 2015 and 2014, respectively.

Property, Equipment and Depreciation

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

	2016	2015
Real estate:		
Land	\$ 8,231	\$ 7,999
Buildings	41,119	37,451
Furniture and fixtures	4,711	3,954
Computer equipment and software	1,463	2,452
Airplane	—	1,385
Total property and equipment	\$ 55,524	\$ 53,241

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

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

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

Depreciation expense totaled \$5,266, \$5,704 and \$6,122 for 2016, 2015 and 2014, respectively.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets arise as a result of business combinations and consist of the excess of the fair value of consideration paid over the tangible assets acquired and liabilities assumed. All of our goodwill and the majority of our intangible assets relate to the Mercer acquisition in 2011. We evaluate goodwill and other intangible assets for impairment at least on an annual basis or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount of goodwill and other intangible assets may exceed its implied fair value. Goodwill is evaluated at the reporting unit level. Any impairment is charged to operations in the period that the impairment is identified. In 2016 and 2015, we performed a quantitative impairment assessment of our goodwill and in 2014, we performed a qualitative impairment assessment of our goodwill. As a result of these assessments, we did not recognize an impairment charge on our goodwill in 2016, 2015 or 2014.

Our other intangible assets, which consist primarily of agency relationships, trade names, state insurance licenses, and software, are being amortized by the straight-line method over periods ranging from 2 years to 15 years, with the exception of state insurance licenses, which are indefinite-lived and not amortized. In 2016 and 2014, we performed a qualitative impairment assessment of our indefinite lived intangible assets and, in 2015, we performed a quantitative impairment assessment of our indefinite lived intangible assets. As a result of these assessments, we did not recognize an impairment charge on our intangible assets in 2016, 2015 and 2014. Amortization expense, which is allocated to the property and casualty insurance segment, totaled \$769 for each of 2016, 2015 and 2014, respectively.

Income Taxes

Deferred tax assets and liabilities are established based on differences between the financial statement bases of assets and liabilities and the tax bases of those same assets and liabilities, using the currently enacted statutory tax rates. Deferred income tax expense is measured by the year-to-year change in the net deferred tax asset or liability, except for certain changes in deferred tax amounts that affect stockholders' equity and do not impact federal income tax expense.

The Company performs a quarterly review of its tax positions and makes a determination whether it is more likely than not that the tax position will be sustained upon examination. If based on this review, it appears not more likely than not that the position will be sustained, the Company will calculate any unrecognized tax benefits and calculate any interest and penalties. At December 31, 2016, 2015, and 2014 the Company did not recognize any liability for unrecognized tax benefits. In addition, we have not accrued for interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.

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

Stock-Based Compensation

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

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

Comprehensive Income

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

Subsequent Events

In the preparation of the accompanying financial statements, the Company has evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure in the Company's financial statements.

Recently Issued Accounting Standards

Accounting Standards Adopted in 2016

Short-Duration Contracts

In May 2015, the Financial Accounting Standards Board ("FASB") issued guidance on disclosure requirements for short-duration contracts. The new guidance requires additional disclosures about the liability for unpaid loss and loss adjustment expenses and requires disclosure of any information about significant changes in methodologies and assumptions used to calculate the liability. The new guidance is effective for annual periods beginning after

December 15, 2015 and interim periods beginning the following year. The Company has included the new annual disclosures beginning with the December 31, 2016 annual financial statements. The adoption of the new guidance changed disclosures in Note 5 "Reserves for Losses and Loss Settlement Expenses," of this section regarding short-duration contracts, but had no impact on the Company's financial position or results of operations.

Other Internal Use Software

In April 2015, the FASB issued guidance which clarifies customers' accounting for fees paid for cloud computing arrangements. The new standard provides guidance to customers about whether a cloud computing arrangement includes a software license or whether the arrangement is considered a service contract. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company adopted the new guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations as we have no material cloud computing arrangements.

Debt Issuance Costs

In April 2015, the FASB issued new guidance on the presentation of debt issuance costs. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company adopted the new guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations in 2016 as we did not issue any debt.

Consolidation

In February 2015, the FASB issued amendments to the consolidation guidance that a reporting entity follows to determine whether it should consolidate certain legal entities. Specifically, the new guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIE"), eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that have VIE's, particularly those with fee arrangements and related party relationships. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company adopted the guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Going Concern

In August 2014, the FASB issued new guidance on the disclosure of uncertainties about an entity's ability to continue as a going concern. The new guidance requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, to disclose that fact and what the entity's plans are to alleviate that doubt. The guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The Company adopted the guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Share-Based Payments

In June 2014, the FASB issued new guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance requires a performance target that affects vesting and that could be achieved after the service period, be treated as a performance condition. The guidance is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively or retrospectively and early adoption is permitted. The Company adopted the guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Pending Adoption of Accounting Standards

Share-Based Payments

In March 2016, the FASB issued new guidance on the accounting for share-based payments. The new guidance was issued to simplify the accounting of share-based payments, specifically in the areas of income taxes, classification on the balance sheets as liabilities or equity and classification in the cash flow statement. The new guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those years. The Company adopted the new guidance as of January 1, 2017. The new guidance will result in classification changes between the financing and operating section of the Statement of Cash Flow. The new guidance will also result in additional tax expense or net income, but will vary depending on the number of stock options granted and exercised.

Income Taxes

In December 2015, the FASB issued guidance on the balance sheet classification of deferred taxes. The new guidance eliminates the requirement to split deferred tax liabilities and assets between current and non-current in a classified balance sheet. The new guidance allows deferred tax liabilities and assets to be included in non-current accounts. The Company adopted the new guidance as of January 1, 2017. The adoption will have no impact on the Company's financial position and results of operations since we do not currently report deferred taxes in classified balance sheets.

Revenue Recognition

In May 2014, the FASB issued comprehensive new guidance on revenue recognition which supersedes nearly all existing revenue recognition guidance under GAAP. The new guidance requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard creates a five-step model that requires companies to exercise judgment when considering the terms of the contract(s) and all relevant facts and circumstances. Insurance contracts are not within the scope of this new guidance. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company will adopt the guidance as of January 1, 2018. The adoption of the new guidance will have no impact on the Company's reporting and disclosure of net premiums earned, net investment income or net realized gains and losses, as these items are not within the scope of this new guidance. The Company is currently evaluating the impact on the Company's financial position and results of operations with other revenue streams under this new guidance. These other revenue streams, currently reported in other income in the Consolidated Statements of Income and Comprehensive Income, are not a material amount of the Company's total revenue.

Financial Instruments

In January 2016, the FASB issued guidance updating certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (for example, trading or available-for-sale) and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The new guidance also simplifies the impairment process for equity investments without readily determinable fair values. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2018 and is currently evaluating the impact on the Company's financial position, results of operations and key processes. If the new guidance were adopted as of December 31, 2016, there would be a reclassification from accumulated other comprehensive income to retained earnings equal to the amount of net unrealized gains and losses on available-for-sale equity securities at December 31, 2015 disclosed in Note 2 "Summary of Investments," of this section. The impact to net realized gains (losses) would equal the change in net unrealized gains and losses on available-for-sale equity securities between December 31, 2016 and December 31, 2015, in the same tables.

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

In August 2016, the FASB issued an update that clarifies the classification of certain cash receipts and payments in the Statement of Cash Flows. The update addresses eight existing cash flow issues by clarifying the correct classification to establish uniformity in practice. The updated guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2018 and is currently reviewing the updates to the eight existing cash flow issues. Currently, management believes that one existing cash flow issue will be impacted by these updates. Management believes the update will have no impact on the Company's financial position and results of operations but may effect the current classification of the cash flow in the Statement of Cash Flows.

Leases

In February 2016, the FASB issued guidance on the accounting for leases. The new guidance requires lessees to place most leases on their balance sheets with expenses recognized on the income statement in a similar manner as previous methods. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2019. The Company has created an inventory of its leases and has calculated the current minimum future lease payment which is disclosed in Note 13 "Lease Commitments."

Financial Instruments - Credit Losses

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

Income Taxes - Intra-entity Transfers

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

Goodwill

In January 2017, the FASB issued new guidance which simplifies the test for goodwill impairment. The new guidance eliminates the implied fair value calculation when measuring a goodwill impairment charge. Under the new guidance, impairment charges will be based on the excess of the carrying value over fair value of goodwill. The new guidance is effective for annual and interim periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2020 and is currently evaluating the impact on the Company's financial position and results of operations.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

The table that follows is a reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and available-for-sale equity securities as of December 31, 2016 and 2015.

December 31, 2016					
Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	
HELD-TO-MATURITY					
Fixed maturities					
Bonds					
Corporate bonds - financial services	\$ 150	\$ —	\$ —	\$ 150	
Mortgage-backed securities	48	1	—	49	
Total Held-to-Maturity Fixed Maturities	\$ 198	\$ 1	\$ —	\$ 199	
AVAILABLE-FOR-SALE					
Fixed maturities					
Bonds					
U.S. Treasury	\$ 23,216	\$ 87	\$ 108	\$ 23,195	
U.S. government agency	76,692	1,445	540	77,597	
States, municipalities and political subdivisions					
General obligations:					
Midwest	143,747	1,808	1,412	144,143	
Northeast	57,731	909	231	58,409	
South	129,475	1,249	2,355	128,369	
West	114,524	1,380	2,173	113,731	
Special revenue:					
Midwest	167,430	2,313	1,433	168,310	
Northeast	70,202	487	2,624	68,065	
South	244,225	1,753	6,791	239,187	
West	134,287	1,509	4,052	131,744	
Foreign bonds	62,995	2,239	—	65,234	
Public utilities	212,360	3,761	447	215,674	
Corporate bonds					
Energy	107,084	2,195	419	108,860	
Industrials	225,526	5,359	982	229,903	
Consumer goods and services	178,135	3,847	295	181,687	
Health care	81,211	2,063	151	83,123	
Technology, media and telecommunications	143,402	2,029	819	144,612	
Financial services	269,981	5,328	1,358	273,951	
Mortgage-backed securities	17,288	201	241	17,248	
Collateralized mortgage obligations					
Government national mortgage association	145,947	1,279	2,766	144,460	
Federal home loan mortgage corporation	176,226	1,638	3,406	174,458	
Federal national mortgage association	101,414	1,816	1,334	101,896	
Asset-backed securities	4,407	145	282	4,270	
Total Available-For-Sale Fixed Maturities	\$ 2,887,505	\$ 44,840	\$ 34,219	\$ 2,898,126	
Equity securities					
Common stocks					
Public utilities	\$ 6,394	\$ 13,465	\$ 188	\$ 19,671	
Energy	6,514	8,555	22	15,047	
Industrials	13,252	38,715	173	51,794	
Consumer goods and services	10,324	13,851	58	24,117	
Health care	7,763	19,657	—	27,420	
Technology, media and telecommunications	5,931	9,476	38	15,369	
Financial services	17,289	98,728	67	115,950	
Nonredeemable preferred stocks	1,037	11	—	1,048	
Total Available-for-Sale Equity Securities	\$ 68,504	\$ 202,458	\$ 546	\$ 270,416	
Total Available-for-Sale Securities	\$ 2,956,009	\$ 247,298	\$ 34,765	\$ 3,168,542	

December 31, 2015					
Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	
HELD-TO-MATURITY					
Fixed maturities					
Bonds					
Corporate bonds					
Technology, media and telecommunications	\$ 450	\$ 1	\$ —	\$ 451	
Financial services	150	—	—	150	
Mortgage-backed securities	72	2	—	74	
Total Held-to-Maturity Fixed Maturities	\$ 672	\$ 3	\$ —	\$ 675	
AVAILABLE-FOR-SALE					
Fixed maturities					
Bonds					
U.S. Treasury					
U.S. Treasury	\$ 21,587	\$ 100	\$ 38	\$ 21,649	
U.S. government agency					
U.S. government agency	232,808	2,622	2,400	233,030	
States, municipalities and political subdivisions					
General obligations:					
Midwest					
Midwest	160,484	4,990	18	165,456	
Northeast					
Northeast	56,449	1,996	—	58,445	
South					
South	125,565	3,358	134	128,789	
West					
West	103,721	3,160	67	106,814	
Special revenue:					
Midwest					
Midwest	152,780	4,956	30	157,706	
Northeast					
Northeast	23,892	919	212	24,599	
South					
South	144,183	4,281	27	148,437	
West					
West	78,935	3,150	44	82,041	
Foreign bonds					
Foreign bonds	82,580	2,405	2,457	82,528	
Public utilities					
Public utilities	213,233	3,701	1,251	215,683	
Corporate bonds					
Energy					
Energy	116,800	1,032	4,713	113,119	
Industrials					
Industrials	227,589	3,329	6,663	224,255	
Consumer goods and services					
Consumer goods and services	172,529	2,844	776	174,597	
Health care					
Health care	92,132	2,168	791	93,509	
Technology, media and telecommunications					
Technology, media and telecommunications	142,431	1,972	2,003	142,400	
Financial services					
Financial services	259,382	5,246	1,143	263,485	
Mortgage-backed securities					
Mortgage-backed securities	16,413	376	51	16,738	
Collateralized mortgage obligations					
Government national mortgage association					
Government national mortgage association	120,220	1,391	1,985	119,626	
Federal home loan mortgage corporation					
Federal home loan mortgage corporation	137,874	2,377	1,342	138,909	
Federal national mortgage association					
Federal national mortgage association	106,021	2,400	941	107,480	
Asset-backed securities					
Asset-backed securities	5,461	221	16	5,666	
Total Available-For-Sale Fixed Maturities	\$ 2,793,069	\$ 58,994	\$ 27,102	\$ 2,824,961	
Equity securities					
Common stocks					
Public utilities					
Public utilities	\$ 7,231	\$ 12,022	\$ 193	\$ 19,060	
Energy					
Energy	6,103	5,374	266	11,211	
Industrials					
Industrials	13,251	31,872	313	44,810	
Consumer goods and services					
Consumer goods and services	10,301	13,017	3	23,315	
Health care					
Health care	7,763	20,454	—	28,217	
Technology, media and telecommunications					
Technology, media and telecommunications	5,931	7,538	105	13,364	
Financial services					
Financial services	17,392	78,411	109	95,694	
Nonredeemable preferred stocks					
Nonredeemable preferred stocks	542	34	—	576	
Total Available-for-Sale Equity Securities	\$ 68,514	\$ 168,722	\$ 989	\$ 236,247	
Total Available-for-Sale Securities	\$ 2,861,583	\$ 227,716	\$ 28,091	\$ 3,061,208	

Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at December 31, 2016, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

December 31, 2016	Held-To-Maturity		Available-For-Sale		Trading	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 150	\$ 150	\$ 106,058	\$ 107,080	\$ 1,753	\$ 1,774
Due after one year through five years	—	—	840,603	862,053	7,841	8,882
Due after five years through 10 years	—	—	807,723	815,182	1,302	1,406
Due after 10 years	—	—	687,839	671,479	2,158	2,328
Asset-backed securities	—	—	4,407	4,270	—	—
Mortgage-backed securities	48	49	17,288	17,248	—	—
Collateralized mortgage obligations	—	—	423,587	420,814	—	—
	\$ 198	\$ 199	\$ 2,887,505	\$ 2,898,126	\$ 13,054	\$ 14,390

Net Realized Investment Gains and Losses

Net realized gains (losses) on disposition of investments are computed using the specific identification method and are included in the computation of net income. A summary of net realized investment gains (losses) for 2016, 2015 and 2014, is as follows:

	2016	2015	2014
Net realized investment gains (losses)			
Fixed maturities:			
Available-for-sale	\$ 2,160	\$ 3,294	\$ 3,353
Trading securities			
Change in fair value	189	(1,353)	609
Sales	931	1,381	1,339
Equity securities:			
Available-for-sale	2,359	2,521	1,732
Trading securities			
Change in fair value	301	(448)	238
Sales	(6)	66	(1)
Other long-term investments	—	(1,315)	—
Other-than-temporary-impairment charges:			
Fixed maturities	—	(1,300)	—
Cash equivalents	169	—	—
Total net realized investment gains	\$ 6,103	\$ 2,846	\$ 7,270

The proceeds and gross realized gains (losses) on the sale of available-for-sale securities for 2016, 2015 and 2014, were as follows:

	2016	2015	2014
Proceeds from sales	\$ 14,322	\$ 11,543	\$ 3,091
Gross realized gains	985	1,134	900
Gross realized losses	(639)	—	(56)

There were no sales of held-to-maturity securities in 2016, 2015 and 2014.

Our investment portfolio includes trading securities with embedded derivatives. These securities are primarily convertible securities which are recorded at fair value. Income or loss, including the change in the fair value of these trading securities, is recognized currently in earnings as a component of net realized investment gains and losses. Our portfolio of trading securities had a fair value of \$20,034 and \$16,975 at December 31, 2016 and 2015, respectively.

Net Investment Income

Net investment income for the years ended December 31, 2016, 2015 and 2014, is comprised of the following:

Years Ended December 31,	2016	2015	2014
Investment income			
Interest on fixed maturities	\$ 92,362	\$ 92,777	\$ 97,969
Dividends on equity securities	7,050	7,208	6,602
Income on other long-term investments			
Investment income	2,394	2,567	1,927
Change in value ⁽¹⁾	10,742	3,266	1,917
Interest on mortgage loans	221	237	252
Interest on short-term investments	84	6	5
Interest on cash and cash equivalents	445	305	255
Other	1,227	1,452	1,998
Total investment income	\$ 114,525	\$ 107,818	\$ 110,925
Less investment expenses	7,703	7,037	6,316
Net investment income	\$ 106,822	\$ 100,781	\$ 104,609

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

Funding Commitment

At December 31, 2016, pursuant to an agreement with our limited liability partnership investments, we are contractually committed to make capital contributions up to \$8,428 upon request of the partnerships through December 31, 2023.

Unrealized Appreciation and Depreciation

A summary of changes in net unrealized investment appreciation for 2016, 2015 and 2014, is as follows:

	2016	2015	2014
Change in net unrealized investment appreciation			
Available-for-sale fixed maturities	\$ (21,271)	\$ (37,621)	\$ 51,814
Available-for-sale equity securities	34,179	(6,459)	15,781
Deferred policy acquisition costs	(4,410)	11,380	(16,789)
Income tax effect	(2,975)	11,446	(17,784)
Total change in net unrealized investment appreciation, net of tax	\$ 5,523	\$ (21,254)	\$ 33,022

We continually monitor the difference between our cost basis and the estimated fair value of our investments. Our accounting policy for impairment recognition requires other-than-temporary impairment ("OTTI") charges to be recorded when we determine that it is more likely than not that we will be unable to collect all amounts due according to the contractual terms of the fixed maturity security or that the anticipated recovery in fair value of the equity security will not occur in a reasonable amount of time. Impairment charges on investments are recorded based on the fair value of the investments at the measurement date or based on the value calculated using a discounted cash flow model. Credit-related impairments on fixed maturity securities that we do not plan to sell, and for which we are not more likely than not to be required to sell, are recognized in net income. Any non-credit related impairment is recognized as a component of other comprehensive income. Factors considered in evaluating whether

a decline in value is other-than-temporary include: the length of time and the extent to which fair value has been less than cost; the financial condition and near-term prospects of the issuer; our intention to hold the investment; and the likelihood that we will be required to sell the investment.

The tables on the following pages summarize our fixed maturity and equity securities that were in an unrealized loss position at December 31, 2016 and 2015. The securities are presented by the length of time they have been continuously in an unrealized loss position. It is possible that we could recognize OTTI charges in future periods on securities held at December 31, 2016 if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We have evaluated the near-term prospects of the issuers of our fixed maturity securities in relation to the severity and duration of the unrealized loss and determined that these losses did not warrant the recognition of an OTTI charge in 2016 or 2014. In 2015, we recognized a \$1,300 credit loss OTTI on an energy sector fixed maturity security in our Consolidated Statements of Income and Comprehensive Income. All fixed maturity securities in the investment portfolio continue to pay the expected coupon payments under the contractual terms of the securities. We believe the unrealized depreciation in value of other securities in our fixed maturity portfolio is primarily attributable to changes in market interest rates and not the credit quality of the issuer. We have no intention to sell and it is more likely than not that we will not be required to sell these securities until the fair value recovers to at least equal to our cost basis or the securities mature.

We have evaluated the near-term prospects of the issuers of our equity securities in relation to the severity and duration of the unrealized loss and, unless otherwise noted, these losses do not warrant the recognition of an OTTI charge at December 31, 2016. There were no OTTI losses on equity securities recognized in 2016, 2015 or 2014. Our largest unrealized loss greater than 12 months on an individual equity security at December 31, 2016, 2015 and 2014 was \$188, \$225 and \$54, respectively. We have no intention to sell any of these securities prior to a recovery in value, but will continue to monitor the fair value reported for these securities as part of our overall process to evaluate investments for OTTI recognition.

December 31, 2016	Less than 12 months			12 months or longer			Total		
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	
AVAILABLE-FOR-SALE									
Fixed maturities									
Bonds									
U.S. Treasury	9	\$ 10,800	\$ 108	—	\$ —	\$ —	\$ 10,800	\$ 108	
U.S. government agency	10	36,593	540	—	—	—	36,593	540	
States, municipalities and political subdivisions									
General obligations									
Midwest	27	40,545	1,412	—	—	—	40,545	1,412	
Northeast	9	9,874	231	—	—	—	9,874	231	
South	37	53,699	2,355	—	—	—	53,699	2,355	
West	30	55,265	2,173	—	—	—	55,265	2,173	
Special revenue									
Midwest	41	62,937	1,433	—	—	—	62,937	1,433	
Northeast	22	54,993	2,624	—	—	—	54,993	2,624	
South	79	152,979	6,791	—	—	—	152,979	6,791	
West	44	81,676	4,052	—	—	—	81,676	4,052	
Public utilities	20	38,511	423	2	2,122	24	40,633	447	
Corporate bonds									
Energy	8	15,938	313	3	8,232	106	24,170	419	
Industrials	24	42,854	596	3	5,641	386	48,495	982	
Consumer goods and services	11	21,059	295	—	—	—	21,059	295	
Health care	9	20,918	151	—	—	—	20,918	151	
Technology, media and telecommunications	16	41,230	516	3	10,241	303	51,471	819	
Financial services	37	75,286	1,358	—	—	—	75,286	1,358	
Mortgage-backed securities	16	9,611	187	5	1,198	54	10,809	241	
Collateralized mortgage obligations									
Government national mortgage association	36	82,430	2,261	9	13,603	505	96,033	2,766	
Federal home loan mortgage corporation	41	105,775	3,165	3	5,141	241	110,916	3,406	
Federal national mortgage association	27	46,633	1,091	4	4,341	243	50,974	1,334	
Asset-backed securities	1	971	29	1	2,559	253	3,530	282	
Total Available-for-Sale Fixed Maturities	554	\$1,060,577	\$ 32,104	33	\$ 53,078	\$ 2,115	\$1,113,655	\$ 34,219	
Equity securities									
Common stocks									
Public utilities	—	\$ —	\$ —	3	\$ 120	\$ 188	\$ 120	\$ 188	
Energy	—	—	—	1	163	22	163	22	
Industrials	—	—	—	6	239	173	239	173	
Consumer goods and services	3	282	55	2	15	3	297	58	
Technology, media and telecommunications	7	26	5	8	33	33	59	38	
Financial services	3	53	3	2	150	64	203	67	
Total Available-for-Sale Equity Securities	13	\$ 361	\$ 63	22	\$ 720	\$ 483	\$ 1,081	\$ 546	
Total Available-for-Sale Securities	567	\$1,060,938	\$ 32,167	55	\$ 53,798	\$ 2,598	\$1,114,736	\$ 34,765	

December 31, 2015	Less than 12 months			12 months or longer			Total		
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	
AVAILABLE-FOR-SALE									
Fixed maturities									
Bonds									
U.S. Treasury	6	\$ 6,408	\$ 26	2	\$ 1,634	\$ 12	\$ 8,042	\$ 38	
U.S. government agency	38	104,621	1,771	6	18,821	629	123,442	2,400	
States, municipalities and political subdivisions									
General obligations									
Midwest	4	2,417	12	1	528	6	2,945	18	
South	3	4,805	55	8	3,743	79	8,548	134	
West	4	8,927	23	2	2,274	44	11,201	67	
Special revenue									
Midwest	—	—	—	1	2,494	30	2,494	30	
Northeast	1	4,755	212	—	—	—	4,755	212	
South	4	7,445	26	2	1,851	1	9,296	27	
West	4	6,851	44	—	—	—	6,851	44	
Foreign bonds	9	16,991	1,289	2	4,036	1,168	21,027	2,457	
Public utilities	35	72,680	880	5	2,840	371	75,520	1,251	
Corporate bonds									
Energy	29	61,496	3,286	4	7,991	1,427	69,487	4,713	
Industrials	38	78,588	3,631	3	6,649	3,032	85,237	6,663	
Consumer goods and services	24	64,661	770	4	2,491	6	67,152	776	
Health care	18	43,992	652	2	3,737	139	47,729	791	
Technology, media and telecommunications	22	59,503	1,478	2	8,940	525	68,443	2,003	
Financial services	49	92,814	1,143	—	—	—	92,814	1,143	
Mortgage-backed securities	9	7,423	43	4	183	8	7,606	51	
Collateralized mortgage obligations									
Government national mortgage association	17	29,769	437	14	40,027	1,548	69,796	1,985	
Federal home loan mortgage corporation	20	35,343	644	6	19,887	698	55,230	1,342	
Federal national mortgage association	15	32,800	524	11	11,962	417	44,762	941	
Asset-backed securities	1	985	16	—	—	—	985	16	
Total Available-for-Sale Fixed Maturities	350	\$743,274	\$ 16,962	79	\$140,088	\$ 10,140	\$ 883,362	\$ 27,102	
Equity securities									
Common stocks									
Public utilities	—	\$ —	\$ —	3	\$ 115	\$ 193	\$ 115	\$ 193	
Energy	10	2,868	266	—	—	—	2,868	266	
Industrials	3	177	44	5	193	269	370	313	
Consumer goods and services	—	—	—	2	14	3	14	3	
Technology, media and telecommunications	9	438	91	2	12	14	450	105	
Financial services	6	326	51	1	136	58	462	109	
Total Available-for-Sale Equity Securities	28	\$ 3,809	\$ 452	13	\$ 470	\$ 537	\$ 4,279	\$ 989	
Total Available-for-Sale Securities	378	\$747,083	\$ 17,414	92	\$140,558	\$ 10,677	\$ 887,641	\$ 28,091	

NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial instruments recorded at fair value are categorized in the fair value hierarchy as follows:

- *Level 1:* Valuations are based on unadjusted quoted prices in active markets for identical financial instruments that we have the ability to access.
- *Level 2:* Valuations are based on quoted prices for similar financial instruments, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.
- *Level 3:* Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

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

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

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

When possible, we use quoted market prices to determine the fair value of fixed maturities, equity securities, trading securities and short-term investments. When quoted market prices do not exist, we base estimates of fair value on market information obtained from independent pricing services and brokers or on valuation techniques that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument. Our valuation techniques are discussed in more detail throughout this section.

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

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

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

For cash and cash equivalents and accrued investment income, carrying value is a reasonable estimate of fair value due to the short-term nature of these financial instruments.

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

The Company formed a rabbi trust in 2014 to fund obligations under the United Fire & Casualty Company Non-qualified Deferred Compensation Plan and United Fire Group Supplemental Executive Retirement and Deferral Plan (collectively the "Executive Retirement Plans"). Within the rabbi trust, corporate-owned life insurance ("COLI") policies are utilized as an investment vehicle and source of funding for the Company's Executive Retirement Plans. The COLI policies invest in mutual funds, which are priced daily by independent sources. As of December 31, 2016, the cash surrender value of the COLI policies was \$2,592, which is equal to the fair value measured using Level 2 inputs, based on the underlying assets of the COLI policies, and is included in other assets in the Consolidated Balance Sheets.

A summary of the carrying value and estimated fair value of our financial instruments at December 31, 2016 and 2015 is as follows:

	December 31, 2016		December 31, 2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets				
Investments				
Fixed maturities:				
Held-to-maturity securities	\$ 199	\$ 198	\$ 675	\$ 672
Available-for-sale securities	2,898,126	2,898,126	2,824,961	2,824,961
Trading securities	14,390	14,390	12,622	12,622
Equity securities:				
Available-for-sale securities	270,416	270,416	236,247	236,247
Trading securities	5,644	5,644	4,353	4,353
Mortgage loans	3,895	3,706	4,237	3,961
Policy loans	5,366	5,366	5,618	5,618
Other long-term investments	67,639	67,639	54,151	54,151
Short-term investments	175	175	175	175
Cash and cash equivalents	110,853	110,853	106,449	106,449
Corporate-owned life insurance	2,592	2,592	1,716	1,716
Liabilities				
Policy reserves				
Annuity (accumulations) ⁽¹⁾	\$ 646,764	\$ 666,711	\$ 707,190	\$ 744,931
Annuity (benefit payments)	144,283	95,129	131,899	95,467

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

The following tables present the categorization for our financial instruments measured at fair value on a recurring basis in our Consolidated Balance Sheets at December 31, 2016 and 2015:

Description	December 31, 2016	Fair Value Measurements		
		Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
U.S. Treasury	\$ 23,195	\$ —	\$ 23,195	\$ —
U.S. government agency	77,597	—	77,597	—
States, municipalities and political subdivisions				
General obligations				
Midwest	144,143	—	144,143	—
Northeast	58,409	—	58,409	—
South	128,369	—	128,369	—
West	113,731	—	113,731	—
Special revenue				
Midwest	168,310	—	168,142	168
Northeast	68,065	—	68,065	—
South	239,187	—	239,187	—
West	131,744	—	131,744	—
Foreign bonds	65,234	—	65,234	—
Public utilities	215,674	—	215,674	—
Corporate bonds				
Energy	108,860	—	108,860	—
Industrials	229,903	—	229,903	—
Consumer goods and services	181,687	—	180,590	1,097
Health care	83,123	—	83,123	—
Technology, media and telecommunications	144,612	—	144,612	—

Financial services	273,951	—	265,154	8,797
Mortgage-backed securities	17,248	—	17,248	—
Collateralized mortgage obligations				
Government national mortgage association	144,460	—	144,460	—
Federal home loan mortgage corporation	174,458	—	174,458	—
Federal national mortgage association	101,896	—	101,896	—
Asset-backed securities	4,270	—	3,821	449
Total Available-For-Sale Fixed Maturities	\$ 2,898,126	\$ —	\$ 2,887,615	\$ 10,511
Equity securities				
Common stocks				
Public utilities	\$ 19,671	\$ 19,671	\$ —	\$ —
Energy	15,047	15,047	—	—
Industrials	51,794	51,794	—	—
Consumer goods and services	24,117	24,117	—	—
Health care	27,420	27,420	—	—
Technology, media and telecommunications	15,369	15,369	—	—
Financial services	115,950	111,958	—	3,992
Nonredeemable preferred stocks	1,048	453	—	595
Total Available-for-Sale Equity Securities	\$ 270,416	\$ 265,829	\$ —	\$ 4,587
Total Available-for-Sale Securities	\$ 3,168,542	\$ 265,829	\$ 2,887,615	\$ 15,098
TRADING				
Fixed maturities				
Bonds				
Corporate bonds				
Industrials	\$ 3,919	\$ —	\$ 3,919	\$ —
Consumer goods and services	127	—	127	—
Health care	3,410	—	3,410	—
Technology, media and telecommunications	787	—	787	—
Financial services	4,842	—	4,842	—
Redeemable preferred stocks	1,305	1,305	—	—
Equity securities				
Public utilities	613	613	—	—
Energy	286	286	—	—
Industrials	877	877	—	—
Consumer goods and services	1,202	1,202	—	—
Health care	339	339	—	—
Financial Services	206	206	—	—
Nonredeemable preferred stocks	2,121	2,121	—	—
Total Trading Securities	\$ 20,034	\$ 6,949	\$ 13,085	\$ —
Short-Term Investments	\$ 175	\$ 175	\$ —	\$ —
Money Market Accounts	\$ 16,802	\$ 16,802	\$ —	\$ —
Corporate-Owned Life Insurance	\$ 2,592	\$ —	\$ 2,592	\$ —
Total Assets Measured at Fair Value	\$ 3,208,145	\$ 289,755	\$ 2,903,292	\$ 15,098

Description	Fair Value Measurements			
	December 31, 2015	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
U.S. Treasury	\$ 21,649	\$ —	\$ 21,649	\$ —
U.S. government agency	233,030	—	233,030	—
States, municipalities and political subdivisions				
General obligations				
Midwest	165,456	—	165,456	—
Northeast	58,445	—	58,445	—
South	128,789	—	128,789	—
West	106,814	—	106,814	—
Special revenue				
Midwest	157,706	—	157,363	343
Northeast	24,599	—	24,599	—
South	148,437	—	148,437	—
West	82,041	—	82,041	—
Foreign bonds	82,528	—	82,528	—
Public utilities	215,683	—	215,683	—
Corporate bonds				
Energy	113,119	—	113,119	—
Industrials	224,255	—	224,255	—
Consumer goods and services	174,597	—	173,364	1,233
Health care	93,509	—	93,509	—
Technology, media and telecommunications	142,400	—	142,400	—
Financial services	263,485	—	253,823	9,662
Mortgage-backed securities	16,738	—	16,738	—
Collateralized mortgage obligations				
Government national mortgage association	119,626	—	119,626	—
Federal home loan mortgage corporation	138,909	—	138,909	—
Federal national mortgage association	107,480	—	107,480	—
Asset-backed securities	5,666	—	4,630	1,036
Total Available-For-Sale Fixed Maturities	\$ 2,824,961	\$ —	\$ 2,812,687	\$ 12,274
Equity securities				
Common stocks				
Public utilities	\$ 19,060	\$ 19,060	\$ —	\$ —
Energy	11,211	11,211	—	—
Industrials	44,810	44,810	—	—
Consumer goods and services	23,315	23,315	—	—
Health care	28,217	28,217	—	—
Technology, media and telecommunications	13,364	13,364	—	—
Financial services	95,694	91,588	128	3,978
Nonredeemable preferred stocks	576	576	—	—
Total Available-for-Sale Equity Securities	\$ 236,247	\$ 232,141	\$ 128	\$ 3,978
Total Available-for-Sale Securities	\$ 3,061,208	\$ 232,141	\$ 2,812,815	\$ 16,252
TRADING				
Fixed maturities				
Bonds				
Corporate bonds				
Industrials	\$ 3,558	\$ —	\$ 3,558	\$ —
Consumer goods and services	118	—	118	—
Health care	2,032	—	2,032	—
Technology, media and telecommunications	335	—	335	—

Financial services	4,094	—	4,094	—
Redeemable preferred stocks	2,485	2,485	—	—
Equity securities				
Energy	267	267	—	—
Industrials	986	986	—	—
Consumer goods and services	942	942	—	—
Health care	304	304	—	—
Financial Services	229	229	—	—
Nonredeemable preferred stocks	1,625	1,625	—	—
Total Trading Securities	\$ 16,975	\$ 6,838	\$ 10,137	\$ —
Short-Term Investments	\$ 175	\$ 175	\$ —	\$ —
Money Market Accounts	\$ 20,805	\$ 20,805	\$ —	\$ —
Corporate-Owned Life Insurance	\$ 1,716	\$ —	\$ 1,716	\$ —
Total Assets Measured at Fair Value	\$ 3,100,879	\$ 259,959	\$ 2,824,668	\$ 16,252

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

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

At least annually, we review the methodologies and assumptions used by our valuation service providers and verify that they are reasonable and representative of the fair value of the underlying securities held in the investment portfolio. We validate the prices obtained from independent pricing services and brokers prior to their use for reporting purposes by evaluating their reasonableness on a monthly basis. Our validation process includes a review for unusual fluctuations. Unusual fluctuations outside of our expectations are independently corroborated with additional third-party sources that use similar valuation techniques as discussed above. In addition, we also randomly select securities and independently corroborate the valuations obtained from our third-party valuation service providers. In our opinion, the pricing obtained at December 31, 2016 and 2015 was reasonable.

For the year ended December 31, 2016, the change in our available-for-sale securities categorized as Level 1 and Level 2 is the result of investment purchases that were made using funds held in our money market accounts, disposals and the change in unrealized gains on both fixed maturities and equity securities. During the twelve month period ended December 31, 2016, there were no securities transferred between Level 1 and Level 2.

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

underlying security to estimate fair value. During the twelve month period ended December 31, 2016, there were no securities transferred in or out of Level 3.

The following table provides a summary of the changes in fair value of our Level 3 securities for 2016:

	States, municipalities and political subdivisions	Corporate bonds	Asset-backed securities	Equities	Total
Balance at January 1, 2016	\$ 343	\$ 10,895	\$ 1,036	\$ 3,978	\$ 16,252
Unrealized gains (losses) ⁽¹⁾	(15)	134	(39)	—	80
Purchases	—	—	—	727	727
Disposals	(160)	(1,135)	(548)	(118)	(1,961)
Balance at December 31, 2016	\$ 168	\$ 9,894	\$ 449	\$ 4,587	\$ 15,098

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

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

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

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

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

NOTE 4. REINSURANCE

Property and Casualty Insurance Segment

Ceded and Assumed Reinsurance

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

We account for premiums, written and earned, and losses incurred net of reinsurance ceded. The ceding of insurance does not legally discharge us from primary liability under our policies, and we must pay the loss if the reinsurer fails to meet its obligation. We periodically monitor the financial condition of our reinsurers to confirm that they are financially stable. We believe that all of our reinsurers are in an acceptable financial condition and there were no reinsurance balances at December 31, 2016 for which collection is at risk that would result in a material impact on

our Consolidated Financial Statements. The amount of reinsurance recoverable on paid losses totaled \$2,447 and \$11,887 at December 31, 2016 and 2015, respectively.

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

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

Years Ended December 31,	2016	2015	2014
Ceded Business			
Ceded premiums written	\$ 57,988	\$ 56,916	\$ 50,290
Ceded premiums earned	57,996	56,758	49,818
Loss and loss settlement expenses ceded	13,278	3,868	9,728
Assumed Business			
Assumed premiums written	\$ 16,834	\$ 18,290	\$ 16,421
Assumed premiums earned	17,037	18,396	16,265
Loss and loss settlement expenses assumed	9,814	14,415	7,727

In 2016, we renewed our participation in all of our assumed programs. Loss and loss settlement expenses ceded increased in 2016 as compared to 2015, primarily due to an increase in significant large losses and catastrophe losses.

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

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.

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

Reinsurance Programs and Retentions

We have several programs that provide reinsurance coverage. This reinsurance coverage limits the risk of loss that we retain by reinsuring direct risks in excess of our retention limits. The following table provides a summary of our primary reinsurance programs. Retention amounts reflect the accumulated retentions and co-participation of all layers within a program. For 2016, there was an all lines annual aggregate excess of loss program with a variable retention of 7.73 percent of gross net earned premium with a minimum retention of \$52.0 million and a maximum of \$65.0 million. Our all line aggregate recovery is also limited to a maximum of \$30.0 million. For 2014 and 2015, there was a \$4,000 aggregate annual deductible on our multi-line core program (casualty excess and property excess).

Type of Reinsurance	2016 Reinsurance Programs			
	Stated Retention		Limits	Coverage
Casualty excess of loss	\$ 2,500	\$	40,000	100% of \$ 37,500
Property excess of loss	2,500		25,000	100% of \$ 22,500
Surety excess of loss	1,500		36,000	100% of \$ 34,500
Property catastrophe, excess	20,000		250,000	100% of \$ 230,000
Boiler and machinery	N/A		50,000	100% of \$ 50,000

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

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

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

Life Insurance Segment

Ceded Reinsurance

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

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

Years Ended December 31,	2016	2015	2014
Ceded Business			
Ceded insurance in-force	\$ 1,023,197	\$ 1,165,868	\$ 1,130,059
Ceded premiums earned	2,768	3,161	2,959
Loss and loss settlement expenses ceded	3,359	2,113	3,467

The ceding of insurance does not legally discharge United Life from primary liability under its policies. United Life must pay the loss if the reinsurer fails to meet its obligations. We periodically monitor the financial condition of our reinsurers to confirm that they are financially stable and have strong credit ratings. We believe that all of our reinsurers are in an acceptable financial condition. Approximately 99 percent of ceded life insurance in force as of December 31, 2016 was ceded to five reinsurers.

NOTE 5. RESERVES FOR LOSSES AND LOSS SETTLEMENT EXPENSES

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

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

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

Our IBNR methodologies and assumptions are reviewed periodically, but changes are infrequent. Between calendar year 2015 and 2016, in response to an increase in miles driven by commercial vehicles, we revised our commercial

automobile frequency and severity assumptions, resulting in an increase to our carried loss IBNR. We also reviewed our methodology and assumptions in our product liability line, associated with our construction defects business, and decreased our frequency and severity assumptions due to improvement in development patterns related to the statute of limitations on accident years that have matured 13 to 15 years which haven't developed to the extent we initially expected. These assumption changes resulted in a release of IBNR in 2016 in our product liability line. Beside the changes to our assumptions used for our commercial automobile line and product liability line, we did not make any other significant methodology or assumption changes in 2016.

We do not discount loss reserves based on the time value of money.

The following table provides an analysis of changes in our property and casualty losses and loss settlement expense reserves for 2016, 2015 and 2014 (net of reinsurance amounts):

Years Ended December 31,	2016	2015	2014
Gross liability for losses and loss settlement expenses at beginning of year	\$ 1,003,895	\$ 969,437	\$ 960,651
Ceded losses and loss settlement expenses	(54,653)	(63,757)	(75,150)
Net liability for losses and loss settlement expenses at beginning of year	\$ 949,242	\$ 905,680	\$ 885,501
Losses and loss settlement expenses incurred for claims occurring during			
Current year	\$ 683,662	\$ 560,482	\$ 566,555
Prior years	(31,229)	(40,395)	(56,744)
Total incurred	\$ 652,433	\$ 520,087	\$ 509,811
Losses and loss settlement expense payments for claims occurring during			
Current year	\$ 277,053	\$ 225,022	\$ 247,651
Prior years	260,520	251,503	241,981
Total paid	\$ 537,573	\$ 476,525	\$ 489,632
Net liability for losses and loss settlement expenses at end of year	\$ 1,064,102	\$ 949,242	\$ 905,680
Ceded loss and loss settlement expenses	59,794	54,653	63,757
Gross liability for losses and loss settlement expenses at end of year	\$ 1,123,896	\$ 1,003,895	\$ 969,437

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

The significant drivers of the favorable reserve development in 2016 were our commercial liability and workers compensation. Much of the favorable commercial liability development came from loss adjustment expense and is attributed to our continued litigation management efforts. Workers compensation favorable development was due to the combined effects of decreases in claim reserves along with favorable changes affecting loss adjustment expense. Loss adjustment expense, closely tied to loss, generally decreases when loss decreases. Commercial property, commercial automobile and assumed reinsurance exhibited adverse development which provided a partial offset to the favorable development previously noted. The adverse development for all three lines is due to paid loss which

was greater than reductions in reported loss reserves and reserves for claims incurred but not reported. No other single line of business contributed a significant portion of the total development.

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

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

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

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

The following tables provide information about incurred and paid losses and loss settlement expense development as of December 31, 2016, net of reinsurance, as well as cumulative development, cumulative claim frequency and IBNR liabilities. Claim data for Mercer Insurance Group, which was acquired on March 28, 2011, is presented retrospectively.

The cumulative number of reported claims, for calendar year 2016, are counted for all lines of business on a per claimant per coverage basis and a single event may result in multiple claims due to the involvement of multiple individual claimants and / or multiple independent coverages. Claim counts for calendar years 2015 and prior are counted on a per claim and per coverage basis. Claim counts include open claims, claims that have been paid and closed, and reported claims that have been closed without the need for any payment.

Line of business: Commercial other liability													
Incurred losses and allocated loss settlement expenses, net of reinsurance											As of December 31, 2016		
Accident Year	For the years ended December 31,										Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative development	Cumulative number of reported claims
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016			
<i>(Unaudited)</i>													
2007	\$ 64,793	\$ 64,117	\$ 71,032	\$ 72,407	\$ 67,115	\$ 61,811	\$ 76,740	\$ 76,130	\$ 74,956	\$ 76,049	\$ 12,056	11,256	6,948
2008		79,455	84,944	81,963	73,892	63,231	78,152	75,178	74,115	74,915	14,050	(4,540)	6,506
2009			88,298	85,991	73,545	65,831	84,286	83,660	85,761	86,757	15,018	(1,541)	5,915
2010				88,987	69,533	65,299	82,865	78,564	77,948	78,291	15,154	(10,696)	5,060
2011					81,522	64,738	88,371	88,200	79,591	80,801	17,772	(721)	5,193
2012						100,389	96,158	94,195	91,980	92,537	21,130	(7,852)	5,426
2013							104,982	91,460	90,502	86,119	16,331	(18,863)	5,787
2014								118,928	117,958	106,486	26,590	(12,442)	5,769
2015									137,386	125,307	43,435	(12,079)	6,309
2016										139,144	71,618		5,279
									Total	\$ 946,406			

Line of business: Commercial other liability											
Cumulative paid losses and allocated loss settlement expenses, net of reinsurance											
For the years ended December 31,											
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
	<i>(Unaudited)</i>										
2007	\$ 6,054	\$ 17,542	\$ 31,120	\$ 41,306	\$ 51,337	\$ 53,663	\$ 56,838	\$ 59,085	\$ 60,429	\$ 61,499	
2008		9,220	24,096	34,482	42,545	47,112	50,143	52,659	55,843	59,052	
2009			8,375	21,151	32,073	41,696	50,098	56,789	63,149	67,733	
2010				7,103	15,230	24,577	35,043	51,336	56,761	60,116	
2011					6,236	13,670	26,260	40,595	50,146	56,150	
2012						6,875	24,620	39,948	55,316	64,574	
2013							9,835	25,228	39,953	54,559	
2014								10,207	29,679	50,211	
2015									11,185	27,182	
2016										13,782	
									Total	\$ 514,858	
										All outstanding liabilities for unpaid losses and loss settlement expenses before 2007, net of reinsurance	26,712
										Liabilities for unpaid losses and loss settlement expenses, net of reinsurance	\$ 458,261

Line of business: Commercial fire & allied														
Incurred losses and allocated loss settlement expenses, net of reinsurance											As of December 31, 2016			
Accident Year	For the years ended December 31,										Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative development	Cumulative number of reported claims	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016				
<i>(Unaudited)</i>														
2007	\$ 94,762	\$ 90,694	\$ 89,790	\$ 88,746	\$ 89,160	\$ 87,407	\$ 71,495	\$ 71,454	\$ 71,542	\$ 71,569	\$	14	(23,193)	18,351
2008		157,303	141,384	138,602	140,321	134,821	116,940	118,115	118,376	118,329		64	(38,974)	21,086
2009			113,754	106,085	105,031	105,614	87,751	87,845	87,932	88,891		188	(24,863)	18,017
2010				113,139	106,152	108,246	83,836	83,932	83,767	83,981		205	(29,158)	16,647
2011					148,220	142,330	117,082	120,492	119,820	120,219		519	(28,001)	15,989
2012						138,602	110,448	108,774	108,047	107,958		735	(30,644)	6,361
2013							91,521	88,550	91,498	92,212		1,142	691	6,484
2014								126,216	131,198	128,762		2,178	2,546	7,650
2015									103,177	108,293		3,577	5,116	6,976
2016										147,473		14,476		7,142
										Total	\$ 1,067,687			

Line of business: Commercial fire & allied										
Cumulative paid losses and allocated loss settlement expenses, net of reinsurance										
For the years ended December 31,										
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<i>(Unaudited)</i>										
2007	\$ 40,578	\$ 56,759	\$ 59,322	\$ 63,329	\$ 68,928	\$ 70,960	\$ 71,178	\$ 71,360	\$ 71,376	\$ 71,406
2008		80,005	102,804	107,480	112,678	115,804	115,897	117,553	117,690	118,003
2009			53,219	72,181	77,732	82,809	86,930	87,544	87,721	88,037
2010				52,660	72,271	78,284	80,352	82,037	83,000	83,374
2011					85,585	104,800	109,429	112,497	116,614	118,183
2012						71,008	94,380	100,078	103,197	105,250
2013							59,331	78,226	82,853	86,115
2014								84,456	113,663	116,750
2015									67,217	90,454
2016										92,895
									Total	\$ 970,467
										All outstanding liabilities for unpaid losses and loss settlement expenses before 2007, net of reinsurance 564
										Liabilities for unpaid losses and loss settlement expenses, net of reinsurance \$ 97,785

Line of business: Commercial automobile													
Incurred losses and allocated loss settlement expenses, net of reinsurance											As of December 31, 2016		
Accident Year	For the years ended December 31,										Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative development	Cumulative number of reported claims
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016			
<i>(Unaudited)</i>													
2007	\$ 71,186	\$ 68,864	\$ 67,566	\$ 69,968	\$ 69,802	\$ 69,368	\$ 68,986	\$ 68,756	\$ 68,900	\$ 68,872	\$ 5	(2,314)	15,851
2008		80,461	78,391	76,051	76,527	75,070	75,021	73,506	73,431	73,463	68	(6,998)	18,113
2009			80,021	69,328	68,569	64,121	64,516	63,605	63,560	63,567	38	(16,454)	15,018
2010				75,781	68,068	65,860	67,015	67,563	67,296	68,086	121	(7,695)	16,239
2011					84,887	87,299	90,750	92,519	92,379	91,336	647	6,449	15,224
2012						100,039	90,848	94,755	95,321	96,594	1,127	(3,445)	14,335
2013							104,356	98,037	102,943	103,726	2,647	(630)	15,462
2014								107,723	106,076	113,720	6,443	5,997	17,045
2015									125,506	129,816	15,837	4,310	19,302
2016										174,018	47,509		22,910
										Total	\$ 983,198		

Line of business: Commercial automobile												
Cumulative paid losses and allocated loss settlement expenses, net of reinsurance												
For the years ended December 31,												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
<i>(Unaudited)</i>												
2007	\$ 27,058	\$ 42,688	\$ 53,231	\$ 62,272	\$ 65,798	\$ 67,634	\$ 68,074	\$ 68,439	\$ 68,794	\$ 68,834		
2008		30,527	47,271	58,926	68,629	70,459	72,122	72,984	72,990	73,018		
2009			27,674	44,867	53,451	58,087	61,398	62,732	63,495	63,503		
2010				29,329	41,141	52,953	57,947	62,231	65,169	67,622		
2011					34,332	50,931	65,021	79,383	85,348	87,475		
2012						39,247	57,201	71,469	82,944	90,292		
2013							43,592	67,630	79,663	90,780		
2014								45,704	68,033	87,590		
2015									50,782	78,225		
2016										66,013		
									Total	\$ 773,352		
											All outstanding liabilities for unpaid losses and loss settlement expenses before 2007, net of reinsurance	137
											Liabilities for unpaid losses and loss settlement expenses, net of reinsurance	\$ 209,984

Line of business: Workers' compensation													
Incurred losses and allocated loss settlement expenses, net of reinsurance											As of December 31, 2016		
Accident Year	For the years ended December 31,										Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative development	Cumulative number of reported claims
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016			
<i>(Unaudited)</i>													
2007	\$ 36,494	\$ 35,972	\$ 33,430	\$ 32,986	\$ 31,933	\$ 31,945	\$ 32,276	\$ 31,200	\$ 31,095	\$ 31,255	\$ 261	(5,239)	4,660
2008		42,739	42,301	39,895	41,278	40,474	40,010	39,386	39,680	39,768	564	(2,971)	5,035
2009			43,560	39,009	36,294	36,837	36,823	36,158	36,014	35,026	392	(8,534)	4,243
2010				38,210	42,531	41,180	41,167	40,647	41,422	41,468	745	3,258	3,923
2011					39,967	38,481	35,352	34,309	33,585	33,314	640	(6,653)	3,799
2012						48,848	46,279	42,158	38,423	38,553	716	(10,295)	3,687
2013							64,048	62,579	56,369	54,584	1,252	(9,464)	3,949
2014								64,051	60,729	58,284	1,921	(5,767)	4,105
2015									53,788	55,578	2,818	1,790	4,366
2016										70,419	10,858		3,847
									Total	\$ 458,249			

Line of business: Workers' compensation												
Cumulative paid losses and allocated loss settlement expenses, net of reinsurance												
For the years ended December 31,												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
<i>(Unaudited)</i>												
2007	\$ 8,246	\$ 18,220	\$ 22,444	\$ 24,768	\$ 26,284	\$ 27,330	\$ 27,922	\$ 29,212	\$ 29,444	\$ 29,577		
2008		10,082	21,227	25,736	30,123	31,980	33,770	34,319	34,862	35,292		
2009			10,478	20,292	24,189	27,747	29,898	31,003	31,886	32,911		
2010				11,821	22,606	28,765	31,887	33,119	34,143	35,052		
2011					10,322	21,678	26,033	27,497	28,247	29,022		
2012						11,802	23,023	28,397	30,933	33,063		
2013							14,136	30,209	38,023	42,941		
2014								13,965	30,289	38,441		
2015									12,063	27,304		
2016										14,413		
									Total	\$ 318,016		
											All outstanding liabilities for unpaid losses and loss settlement expenses before 2007, net of reinsurance	20,072
											Liabilities for unpaid losses and loss settlement expenses, net of reinsurance	\$ 160,303

Line of business: Personal														
Incurred losses and allocated loss settlement expenses, net of reinsurance											As of December 31, 2016			
Accident Year	For the years ended December 31,										Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative development	Cumulative number of reported claims	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016				
<i>(Unaudited)</i>														
2007	\$ 29,005	\$ 28,358	\$ 28,074	\$ 27,837	\$ 27,521	\$ 27,427	\$ 27,376	\$ 27,384	\$ 27,368	\$ 27,345	\$	34	(1,660)	12,703
2008		49,961	44,686	43,408	43,672	43,577	43,535	43,515	43,482	42,882		70	(7,079)	15,821
2009			34,597	33,519	31,945	32,026	32,134	32,029	32,085	32,070		140	(2,527)	13,501
2010				36,686	34,347	33,928	33,865	33,403	33,413	33,432		201	(3,254)	13,312
2011					50,014	48,534	47,090	47,035	46,968	47,013		300	(3,001)	14,839
2012						47,924	46,199	46,403	46,150	44,715		427	(3,209)	10,749
2013							39,232	38,525	37,262	37,086		628	(2,146)	9,213
2014								53,910	52,661	52,944		796	(966)	10,843
2015									42,848	41,088		989	(1,760)	9,313
2016										48,072		3,928		10,291
											Total	\$	406,647	

Line of business: Personal										
Cumulative paid losses and allocated loss settlement expenses, net of reinsurance										
For the years ended December 31,										
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	<i>(Unaudited)</i>									
2007	\$ 19,900	\$ 25,024	\$ 26,073	\$ 26,840	\$ 27,214	\$ 27,257	\$ 27,260	\$ 27,259	\$ 27,311	\$ 27,311
2008		32,032	40,114	41,735	42,414	42,613	42,627	42,748	42,748	42,787
2009			22,086	27,926	29,801	30,829	31,564	31,644	31,718	31,804
2010				24,499	29,867	31,340	32,076	32,771	32,997	33,165
2011					36,489	43,801	45,306	45,949	46,487	46,573
2012						30,415	41,979	43,375	44,448	43,569
2013							25,505	32,788	34,297	35,306
2014								37,055	47,912	49,710
2015									29,551	37,431
2016										32,999
									Total	\$ 380,655
										All outstanding liabilities for unpaid losses and loss settlement expenses before 2007, net of reinsurance 1,800
										Liabilities for unpaid losses and loss settlement expenses, net of reinsurance \$ 27,793

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The reconciliation of the net incurred and loss development tables to the liability for unpaid losses and loss settlement expenses in the consolidated statement of financial position is as follows.

	December 31, 2016
Net outstanding liabilities for unpaid losses and allocated loss settlement expenses:	
Commercial other liability	\$ 458,261
Commercial fire and allied	97,785
Commercial automobile	209,984
Commercial workers' compensation	160,303
Personal	27,793
All other lines	26,510
Net outstanding liabilities for unpaid losses and allocated loss settlement expenses	980,636
Net outstanding liabilities for unpaid unallocated loss settlement expenses	79,751
Fair value adjustment (purchase accounting adjustment for Mercer acquisition)	3,715
Liabilities for unpaid losses and loss settlement expenses, net of reinsurance	1,064,102
Reinsurance recoverable on unpaid losses and allocated loss settlement expenses:	
Commercial other liability	21,173
Commercial fire and allied	9,748
Commercial automobile	1,544
Commercial workers' compensation	29,686
Personal	41
All other lines	1,155
Reinsurance recoverable on unpaid losses and allocated loss settlement expenses	63,347
Reinsurance fair value amortization (purchase accounting adjustment for Mercer acquisition)	(3,553)
Total reinsurance recoverable on unpaid losses and loss settlement expenses	59,794
Total gross liability for unpaid losses and loss settlement expenses	\$ 1,123,896

The following is supplementary information about average historical claims duration as of December 31, 2016.

Average annual percentage payout of incurred claims by age, net of reinsurance										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	<i>(Unaudited)</i>									
Commercial other liability	9.4%	15.3%	15.6%	14.3%	11.9%	5.8%	4.8%	4.2%	3.0%	1.4%
Commercial fire and allied	63.9%	21.0%	4.7%	3.9%	3.7%	1.2%	0.6%	0.2%	0.1%	—%
Commercial automobile	40.5%	21.2%	15.1%	11.3%	5.5%	2.7%	1.7%	0.2%	0.3%	0.1%
Commercial workers' compensation	26.4%	29.1%	13.3%	8.0%	4.4%	3.2%	2.0%	2.8%	0.9%	0.4%
Personal	71.5%	19.2%	4.0%	2.3%	0.9%	0.3%	0.3%	0.1%	0.1%	—%

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

Statutory capital and surplus in regards to policyholders at December 31, 2016, 2015 and 2014 and statutory net income for the years then ended are as follows:

	Statutory Capital and Surplus	Statutory Net Income (Loss)
2016		
Property and casualty ⁽¹⁾	\$ 770,908	\$ 39,087
Life, accident and health	139,806	(3,177)
2015		
Property and casualty ⁽¹⁾	\$ 722,404	\$ 75,554
Life, accident and health	138,855	(1,524)
2014		
Property and casualty ⁽¹⁾	\$ 685,866	\$ 54,233
Life, accident and health	155,667	3,517

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

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

State laws and regulations generally limit the amount of funds that an insurance company may distribute to a parent as a dividend without Commissioner approval. As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay 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, 2016, our insurance company subsidiary, United Fire & Casualty Company, is able to make a maximum of \$53,091 in dividend payments without prior approval. At December 31, 2016, we were in compliance with applicable state laws and regulations. These restrictions will not have a material impact in meeting our cash obligations. In addition, United Fire Group, Inc. maintains a credit agreement, as discussed in Part II, Note 14 "Credit Facility," which permits us to borrow up to an aggregate principal amount of \$50,000 and allows the Company to increase the aggregate amount of the commitments thereunder by up to \$100,000.

We paid dividends to our common shareholders of \$24,591, \$21,658 and \$19,680 in 2016, 2015 and 2014, respectively. Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors, out of funds legally available, and subject to any other restrictions that may be applicable to us.

In 2016, 2015 and 2014, United Fire & Casualty Company received dividends from its wholly owned subsidiaries of \$26,000, \$16,500 and \$13,500, respectively. In 2016, 2015 and 2014, United Fire & Casualty Company paid dividends to United Fire Group, Inc. totaling \$24,000, \$22,500 and \$29,000, respectively. These intercompany dividend payments are eliminated for reporting in our Consolidated Financial Statements.

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

At December 31, 2016, United Life had net admitted assets, on a statutory basis, of \$1,524,559, \$200,238 in excess of its legal reserve requirement. Therefore, any restriction on funds deposited by United Life with the Iowa Insurance Commissioner would not materially affect its financial position or results of operations and its cash flows are sufficient to meet its operational requirements. Under the material transaction and dividend standards described above, United Life currently is not able to enter into an affiliate transaction and/or pay a dividend without approval from the Commissioner.

Our property and casualty and life insurance subsidiaries are required to prepare and file statutory-basis financial statements in conformity with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director. The accounting principles used to prepare these statutory-basis financial statements follow prescribed or permitted accounting practices that differ from GAAP. Prescribed statutory accounting principles include state laws, regulations and general administrative rules issued by the state of domicile, as well as a variety of publications and manuals of the NAIC. Permitted accounting practices encompass all accounting practices not prescribed, but allowed by the state of domicile. No material permitted accounting practices were used to prepare our statutory-basis financial statements during 2016, 2015 and 2014. Statutory accounting principles primarily differ from GAAP in that policy acquisition and certain sales inducement costs are charged to expense as incurred, goodwill is amortized, life insurance reserves are established based on different actuarial assumptions and the values reported for investments, pension obligations and deferred taxes are established on a different basis.

We are directed by the state insurance departments' solvency regulations to calculate a required minimum level of statutory capital and surplus based on insurance risk factors. The risk-based capital results are used by the NAIC and state insurance departments to identify companies that merit regulatory attention or the initiation of regulatory action. Both United Life and United Fire & Casualty Company and its property and casualty insurance subsidiaries and affiliates had statutory capital and surplus in regards to policyholders well in excess of their required levels at December 31, 2016.

NOTE 7. FEDERAL INCOME TAX

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

Years Ended December 31,	2016	2015	2014
Current	\$ 3,239	\$ 37,649	\$ 15,649
Deferred	5,524	(5,324)	1,677
Total	\$ 8,763	\$ 32,325	\$ 17,326

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

Years Ended December 31,	2016	2015	2014
Computed expected income tax expense	\$ 20,533	\$ 42,508	\$ 26,762
Tax-exempt municipal bond interest income	(8,330)	(7,669)	(7,417)
Nontaxable dividend income	(1,317)	(1,337)	(1,232)
Valuation allowance reduction	(547)	(548)	(548)
Other, net	(1,576)	(629)	(239)
Federal income tax expense	\$ 8,763	\$ 32,325	\$ 17,326

The significant components of our net deferred tax liability at December 31, 2016 and 2015 are as follows:

December 31,	2016	2015
Deferred tax liabilities		
Net unrealized appreciation on investment securities:		
Equity securities	\$ 70,640	\$ 58,674
All other securities	3,711	11,159
Deferred policy acquisition costs	52,031	53,960
Prepaid pension cost	4,449	1,920
Net bond discount accretion	1,134	1,430
Depreciation	854	1,791
Revaluation of investment basis ⁽¹⁾	1,342	1,824
Identifiable intangible assets ⁽¹⁾	3,311	3,560
Other	10,943	7,627
Gross deferred tax liability	\$ 148,415	\$ 141,945
Deferred tax assets		
Financial statement reserves in excess of income tax reserves	\$ 29,174	\$ 34,535
Unearned premium adjustment	30,697	28,679
Net operating loss carryforwards	718	1,265
Underfunded benefit plan obligation	13,374	25,810
Post-retirement benefits other than pensions	20,221	17,838
Other-than-temporary impairment of investments	4,658	5,609
Contingent ceding commission accrual	2,769	3,342
Compensation expense related to stock options	4,578	4,627
Other	7,356	6,852
Gross deferred tax asset	\$ 113,545	\$ 128,557
Valuation allowance	(718)	(1,265)
Deferred tax asset	\$ 112,827	\$ 127,292
Net deferred tax liability	\$ 35,588	\$ 14,653

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

Due to our determination that we may not be able to fully realize the benefits of the net operating losses ("NOLs") acquired in the purchase of American Indemnity Financial Corporation in 1999, which are only available to offset the future taxable income of our property and casualty insurance operations and are further limited as to the amount that can be utilized in any given year, we have recorded a valuation allowance against these NOLs that totaled \$718 and \$1,265, respectively, at December 31, 2016 and 2015. Based on a yearly review, we determine whether the benefit of the NOLs can be realized, and, if so, the decrease in the valuation allowance is recorded as a reduction to current federal income tax expense. If NOLs expire during the year, the decrease in the valuation allowance is offset

with a corresponding decrease to the deferred income tax asset. The valuation allowance was reduced by \$547 and \$548 during 2016 and 2015, respectively, due to the realization of \$1,565 in NOLs. No portion of the NOLs expired in 2015 or 2016 or will expire in 2017. At December 31, 2016, we had \$1,194 of alternative minimum tax ("AMT") credit carryforwards.

NOTE 8. EMPLOYEE BENEFITS

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

Pension and Post-retirement Benefit Plans

We offer a noncontributory defined benefit pension plan in which all of our employees are eligible to participate after they have completed one year of service, attained 21 years of age and have met the hourly service requirements. Retirement benefits under our pension plan are based on the number of years of service and level of compensation. Our policy to fund the pension plan on a current basis is to not less than the minimum amounts required by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended, is to assure that plan assets will be adequate to provide retirement benefits. We estimate that we will contribute approximately \$6,400 to the pension plan in 2017.

We also offer a health and dental benefit plan to all of our eligible employees and retirees that consists of two programs: (1) the self-funded employee health and dental benefit plan and (2) the self-funded (pre-65) and fully-funded (post-65) retiree health and dental benefit plan (the "post-retirement benefit plan"). Effective January 1, 2017, there was a plan amendment, which included the following changes: eliminated the pre-65 retirement plan with a \$500 hundred dollar deductible; for retirements after January 1, 2017, the retiree will pay 50 percent of the lower cost supplemental plan if they are 65 or older and 100 percent of the premium if less than 65; and removed spousal coverage after the death of the participant. The financial impact of these changes are reflected in accumulated other comprehensive income at December 31, 2016.

The post-retirement benefit plan provides health and dental benefits to our retirees (and covered dependents) who have met the service and participation requirements stipulated by the post-retirement benefit plan. The third party administrators for the post-retirement benefit plan are responsible for making medical and dental care benefit payments. Participants are required to submit claims for reimbursement or payment to the claims administrator within twelve months after the end of the calendar year in which the charges were incurred. An unfunded benefit obligation is reported for the post-retirement benefit plan in the accompanying Consolidated Balance Sheets.

Investment Policies and Strategies

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

The investments held by the pension plan at December 31, 2016 include the following asset categories:

- Fixed income securities, which may include bonds, and convertible securities;
- Equity securities, which may include various types of stock, such as large-cap, mid-cap, small-cap, and international stocks;
- Pooled separate accounts, which includes two separate funds, a core plus bond separate account and a real estate separate account;
- An arbitrage fund, which is a fund that takes advantage of price discrepancies, primarily equity securities, for the same asset in different markets;
- A group annuity contract that is administered by United Life, a subsidiary of United Fire; and

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

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

As of December 31, 2016, we had six external investment managers that are allowed to exercise investment discretion, subject to limitations, if any, established by the investment/retirement committee. We utilize multiple investment managers in order to maximize the pension plan's investment return while mitigating risk. None of our investment managers uses leverage in managing the pension plan. Annually, the investment/retirement committee meets with each investment manager to review the investment manager's goals, objectives and the performance of the assets they manage. The decision to establish or terminate a relationship with an investment manager is at the discretion of our investment/retirement committee.

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

The following is a summary of the pension plan's actual and target asset allocations at December 31, 2016 and 2015 by asset category:

Pension Plan Assets	2016	% of Total	2015	% of Total	Target Allocation
Fixed maturity securities - corporate bonds	\$ 9,451	7.4%	\$ 6,894	6.5%	0% - 15%
Redeemable preferred stock	3,144	2.4	3,744	3.5	0% - 10%
Equity securities	69,770	54.3	58,613	55.0	50% - 70%
Pooled separate accounts					
Core plus bond separate account fund	10,401	8.1	6,605	6.2	0% - 40%
U.S. property separate account fund	14,330	11.1	11,252	10.5	0% - 25%
Arbitrage fund	8,292	6.5	7,856	7.4	0% - 10%
United Life annuity	9,377	7.3	8,931	8.4	5% - 10%
Cash and cash equivalents	3,665	2.9	2,705	2.5	0% - 10%
Total plan assets	\$ 128,430	100.0%	\$ 106,600	100.0%	

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

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

Valuation of Investments

Fixed Maturity and Equity Securities

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

Pooled Separate Accounts

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

Arbitrage Fund

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

United Life Annuity

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

Cash and Cash Equivalents

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

Fair Value Measurement

The following tables present the categorization of the pension plan's assets measured at fair value on a recurring basis at December 31, 2016 and 2015:

Description	December 31, 2016	Fair Value Measurements		
		Level 1	Level 2	Level 3
Fixed maturity securities - corporate bonds	\$ 9,451	\$ —	\$ 9,451	\$ —
Redeemable preferred stock	3,144	3,144	—	—
Equity securities	69,770	69,770	—	—
Pooled separate accounts				
Core plus bond separate account fund	10,401	—	10,401	—
U.S. property separate account fund	14,330	—	—	14,330
Arbitrage fund	8,292	—	8,292	—
Money market funds	3,659	3,659	—	—
Total assets measured at fair value	\$ 119,047	\$ 76,573	\$ 28,144	\$ 14,330

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

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

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

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

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

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

	U.S. property separate account fund
Balance at January 1, 2016	\$ 11,252
Unrealized gains	1,078
Purchases	2,000
Balance at December 31, 2016	\$ 14,330

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

Estimates and Assumptions

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

In October 2014, the Society of Actuaries finalized a new mortality table and a new mortality improvement scale. The mortality improvement scale was further refined by the Society of Actuaries in 2015 and 2016. These updated tables reflect improved life expectancies and an expectation that the trend will continue. We have reviewed these updated tables and have updated the mortality assumptions based on this information and also based on research provided by our external actuaries. We will continue to monitor mortality assumptions and make changes as appropriate to reflect additional research and our resulting best estimate of future mortality rates.

Assumptions Used to Determine Benefit Obligations

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

Weighted-average assumptions as of December 31,	Pension Benefits		Post-retirement Benefits	
	2016	2015	2016	2015
Discount rate	4.17%	4.21%	4.17%	4.21%
Rate of compensation increase	3.00	3.00	N/A	N/A

Decreasing interest rates resulted in a decrease in the discount rates we use to value our respective plan's benefit obligations at December 31, 2016 compared to December 31, 2015.

Assumptions Used to Determine Net Periodic Benefit Cost

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

Weighted-average assumptions as of January 1,	Pension Benefits			Post-retirement Benefits		
	2016	2015	2014	2016	2015	2014
Discount rate	4.21%	3.86%	4.84%	4.21%	3.86%	4.84%
Expected long-term rate of return on plan assets	7.50	7.50	7.50	N/A	N/A	N/A
Rate of compensation increase	3.00	3.00	3.50	N/A	N/A	N/A

Assumed Health Care Cost Trend Rates

Years Ended December 31,	Health Care Benefits		Dental Claims	
	2016	2015	2016	2015
Health care cost trend rates assumed for next year	7.00%	7.00%	4.00%	4.00%
Rate to which the health care trend rate is assumed to decline (ultimate trend rate)	4.50%	4.50%	N/A	N/A
Year that the rate reaches the ultimate trend rate	2025	2024	N/A	N/A

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

	1% Increase	1% Decrease
Effect on the net periodic post-retirement health care benefit cost	\$ 839	\$ (663)
Effect on the accumulated post-retirement benefit obligation	7,922	(6,429)

Benefit Obligation and Funded Status

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

Years Ended December 31,	Pension Benefits		Post-retirement Benefits	
	2016	2015	2016	2015
<i>Reconciliation of benefit obligation</i>				
Benefit obligation at beginning of year	\$ 160,390	\$ 157,600	\$ 72,175	\$ 74,552
Service cost	6,490	6,675	3,728	5,220
Interest cost	6,654	5,999	3,015	2,856
Actuarial (gain) loss	2,215	(5,678)	1,468	(9,253)
Adjustment for plan amendment	—	—	(32,289)	—
Benefit payments	(3,873)	(4,206)	(1,312)	(1,200)
Benefit obligation at end of year ⁽¹⁾	\$ 171,876	\$ 160,390	\$ 46,785	\$ 72,175
<i>Reconciliation of fair value of plan assets</i>				
Fair value of plan assets at beginning of year	\$ 106,600	\$ 102,800	\$ —	\$ —
Actual return on plan assets	9,320	1,654	—	—
Employer contributions	16,383	6,352	1,311	1,200
Benefit payments and adjustments	(3,873)	(4,206)	(1,311)	(1,200)
Fair value of plan assets at end of year	\$ 128,430	\$ 106,600	\$ —	\$ —
Funded status at end of year	\$ (43,446)	\$ (53,790)	\$ (46,785)	\$ (72,175)

(1) For the pension plan, the benefit obligation is the projected benefit obligation. For the post-retirement benefit plan, the benefit obligation is the accumulated post-retirement benefit obligation.

Our accumulated pension benefit obligation was \$152,620 and \$141,550 at December 31, 2016 and 2015, respectively.

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

Years Ended December 31	Pension Benefits		Post-retirement Benefits	
	2016	2015	2016	2015
<i>Amounts recognized in AOCI</i>				
Unrecognized prior service cost	\$ —	\$ —	\$ (32,289)	\$ —
Unrecognized actuarial (gain) loss	49,745	52,936	20,756	20,806
Total amounts recognized in AOCI	\$ 49,745	\$ 52,936	\$ (11,533)	\$ 20,806

We anticipate amortization of the net actuarial losses for our pension plan in 2017 to be \$3,562. We anticipate amortization of the net actuarial losses for our post-retirement benefit plan in 2017 to be \$1,846.

Net Periodic Benefit Cost

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

Years Ended December 31,	Pension Plan			Post-retirement Benefit Plan		
	2016	2015	2014	2016	2015	2014
Net periodic benefit cost						
Service cost	\$ 6,490	\$ 6,675	\$ 5,210	\$ 3,728	\$ 5,220	\$ 3,696
Interest cost	6,654	5,999	5,874	3,015	2,856	2,342
Expected return on plan assets	(7,952)	(7,800)	(6,956)	—	—	—
Amortization of net loss	3,968	4,546	2,174	1,518	2,920	898
Net periodic benefit cost	\$ 9,160	\$ 9,420	\$ 6,302	\$ 8,261	\$ 10,996	\$ 6,936

Projected Benefit Payments

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

	2017	2018	2019	2020	2021	2022 - 2026
Pension benefits	\$ 5,120	\$ 5,500	\$ 6,010	\$ 6,600	\$ 7,300	\$ 47,540
Post-retirement benefits	\$ 1,150	\$ 1,290	\$ 1,450	\$ 1,600	\$ 1,750	\$ 11,700

Profit-Sharing Plan and Employee Stock Ownership Plan

We have a profit-sharing plan in which employees who meet service requirements are eligible to participate. The amount of our contribution is discretionary and is determined annually, but cannot exceed the amount deductible for federal income tax purposes. Our contribution to the profit-sharing plan for 2016, 2015 and 2014, was \$2,904, \$7,706 and \$3,847, respectively.

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

NOTE 9. STOCK-BASED COMPENSATION

Non-Qualified Employee Stock Award Plan

The United Fire Group, Inc. 2008 Stock Plan (the "2008 Stock Plan") authorized the issuance of restricted and unrestricted stock awards, stock appreciation rights, incentive stock options, and non-qualified stock options for up to 1,900,000 shares of United Fire common stock to employees. In May 2014, the Registrant's shareholders approved an additional 1,500,000 shares of United Fire common stock issuable at any time and from time to time pursuant to the 2008 Stock Plan, among other amendments, and renamed such plan as the United Fire Group, Inc. Stock Plan, (as amended, the "Stock Plan"). At December 31, 2016, there were 1,248,651 authorized shares remaining available for future issuance. The Stock Plan is administered by the Board of Directors, which determines those employees who will receive awards, when awards will be granted, and the terms and conditions of the awards. The Board of Directors may also take any action it deems necessary and appropriate for the administration of the Stock Plan. Pursuant to the Stock Plan, the Board of Directors may, at its sole discretion, grant awards to our employees who are in positions of substantial responsibility with United Fire.

Options granted pursuant to the Stock Plan are granted to buy shares of United Fire's common stock at the market value of the stock on the date of grant. All outstanding option awards vest and are exercisable in installments of 20.0 percent of the number of shares covered by the option award each year from the grant date, unless the Board of Directors authorizes the acceleration of vesting. To the extent not exercised, vested option awards accumulate and are exercisable by the awardee, in whole or in part, in any subsequent year included in the option period, but not later than 10 years from the grant date. Restricted and unrestricted stock awards granted pursuant to the Stock Plan are granted at the market value of our common stock on the date of the grant. Restricted stock awards fully vest after 3 years or 5 years from the date of issuance, unless accelerated upon the approval of the Board of Directors, at which time United Fire common stock will be issued to the awardee. All awards are generally granted free of charge to the eligible employees of United Fire as designated by the Board of Directors.

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

	Year Ended December 31, 2016	From Inception to December 31, 2016
Authorized Shares Available for Future Award Grants		
Beginning balance	1,394,578	1,900,000
Additional shares authorized	—	1,500,000
Number of awards granted	(249,638)	(2,612,566)
Number of awards forfeited or expired	103,711	461,217
Ending balance	1,248,651	1,248,651
Number of option awards exercised	298,549	949,068
Number of unrestricted stock awards granted	980	7,325
Number of restricted stock awards vested	18,394	36,970

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

The United Fire Group, Inc. 2005 Non-Qualified Non-Employee Director Stock Option and Restricted Stock Plan (the "Director Plan") authorizes the issuance of restricted stock awards and non-qualified stock options to purchase shares of United Fire's common stock to non-employee directors. At December 31, 2016, we had 74,771 authorized shares available for future issuance.

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

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

Authorized Shares Available for Future Award Grants	Year Ended December 31, 2016	From Inception to December 31, 2016
Beginning balance	69,938	300,000
Number of awards granted	(13,167)	(249,232)
Number of awards forfeited or expired	18,000	24,003
Ending balance	74,771	74,771
Number of option awards exercised	37,666	52,473
Number of restricted stock awards vested	11,385	31,556

Stock-Based Compensation Expense

In 2016, 2015 and 2014, we recognized stock-based compensation expense of \$3,696, \$2,510 and \$1,944, respectively. Stock-based compensation expense is recognized over the vesting period of the stock options.

As of December 31, 2016, we had \$7,120 in stock-based compensation expense that has yet to be recognized through our results of operations. We expect this compensation to be recognized in subsequent years according to the following table, except with respect to awards that are accelerated by the Board of Directors, in which case we will recognize any remaining compensation expense in the period in which the awards are accelerated.

2017	\$	2,958
2018		2,259
2019		1,191
2020		640
2021		72
Total	\$	7,120

Analysis of Award Activity

The analysis below details the award activity for 2016 and the awards outstanding at December 31, 2016, for both of our plans and ad hoc options, which were granted prior to the adoption of the other plans:

Options	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2016	1,383,880	\$ 28.66		
Granted	180,912	39.91		
Exercised	(336,215)	30.26		
Forfeited or expired	(107,900)	38.24		
Outstanding at December 31, 2016	1,120,677	\$ 29.08	6.63	\$ 22,519
Exercisable at December 31, 2016	462,639	\$ 25.85	2.83	\$ 10,789

Intrinsic value is the difference between our share price on the last day of trading (i.e., December 31, 2016) and the price of the options when granted and represents the value that would have been received by option holders had they exercised their options on that date. These values change based on the fair market value of our shares. The intrinsic value of options exercised totaled \$4,339, \$1,546 and \$790 in 2016, 2015 and 2014, respectively.

The analysis below details the award activity for the restricted stock awards outstanding at December 31, 2016:

Restricted stock awards	Shares	Weighted-Average Grant Date Fair Value	
Non-vested at January 1, 2016	144,763	\$	27.81
Granted	80,913		40.22
Vested	(29,779)		23.94
Forfeited	(13,811)		26.16
Non-vested at December 31, 2016	182,086	\$	34.08

In 2016, 2015 and 2014 we recognized \$1,766, \$924 and \$588, respectively, in compensation expense related to the restricted stock awards. At December 31, 2016, we had \$3,674 in compensation expense that has yet to be recognized through our results of operations related to the restricted stock awards. The intrinsic value of the non-vested restricted stock awards outstanding totaled \$2,747, \$1,520 and \$459 at December 31, 2016, 2015 and 2014, respectively.

Assumptions

The weighted-average grant-date fair value of the options granted under our plans has been estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

December 31,	2016		2015		2014	
Risk-free interest rate	1.53%		1.94%		2.19%	
Expected volatility	25.44%		21.92%		36.58%	
Expected option life (in years)	7		7		7	
Expected dividends (in dollars)	\$	0.88	\$	0.80	\$	0.78
Weighted-average grant-date fair value of options granted during the year (in dollars)	\$	8.42	\$	4.98	\$	9.15

The following table summarizes information regarding the stock options outstanding and exercisable at December 31, 2016:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding (in shares)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable (in shares)	Weighted-Average Exercise Price	
\$ 15.01 - 21.00	144,163	4.27	\$ 20.25	129,463	\$ 20.18	
21.01 - 28.00	194,025	5.48	23.37	122,391	23.11	
28.01 - 35.00	595,544	6.95	29.77	200,285	30.70	
35.01 - 41.00	186,945	8.62	39.60	10,500	35.23	
\$ 15.01 - 41.00	1,120,677	6.63	\$ 29.08	462,639	\$ 25.85	

NOTE 10. SEGMENT INFORMATION

We have two reportable business segments in our operations: property and casualty insurance and life insurance. The property and casualty insurance segment has seven domestic locations from which it conducts its business. The life insurance segment operates from our home office. Because all of our insurance is sold domestically, we have no revenues allocable to foreign operations. The accounting policies of the segments are the same as those described in Note 1 to our Consolidated Financial Statements. We analyze results based on profitability (i.e., loss ratios), expenses and return on equity.

Property and Casualty Insurance Segment

We write both commercial and personal lines of property and casualty insurance. We focus on our commercial lines, which represented 92.5% of our property and casualty insurance premiums earned for 2016. Our personal lines represented 7.5% of our property and casualty insurance premiums earned for 2016.

Products

Our primary commercial policies are tailored business packages that include the following coverages: fire and allied lines, other liability, automobile, workers' compensation and surety. Our personal lines consist primarily of automobile and fire and allied lines coverage, including homeowners.

Pricing

Pricing levels for our property and casualty insurance products are influenced by many factors, including an estimation of expected losses, the expenses of producing, issuing and servicing business and managing claims, the time value of money associated with such loss and expense cash flows, and a reasonable allowance for profit. We have a disciplined approach to underwriting and risk management that emphasizes profitable growth rather than premium volume or market share. Our insurance company subsidiaries are subject to state laws and regulations regarding rate and policy form approvals. The applicable state laws and regulations establish standards in certain lines of business to ensure that rates are not excessive, inadequate, unfairly discriminatory, or used to engage in unfair price competition. Our ability to increase rates and the relative timing of the process are dependent upon each respective state's requirements, as well as the competitive market environment.

Seasonality

Our property and casualty insurance segment experiences some seasonality with regard to premiums written, which are generally highest in January and July and lowest during the fourth quarter. Although we experience some seasonality in our premiums written, premiums are earned ratably over the period of coverage. Losses and loss settlement expenses incurred tend to remain consistent throughout the year, with the exception of catastrophe losses which generally are highest in the second and third quarters. Catastrophes inherently are unpredictable and can occur at any time during the year from man-made or natural disaster events that include, but are not limited to, hail, tornadoes, hurricanes and windstorms.

Life Insurance Segment

Products

United Life underwrites all of our life insurance business and sells annuities. Our principal products are single premium annuities, universal life products and traditional life (primarily single premium whole life insurance) products. We also underwrite and market other traditional products, including term life insurance and whole life insurance. We do not write variable annuities or variable insurance products.

Life insurance in force, before ceded reinsurance, totaled \$5,314,548 and \$5,491,932 as of December 31, 2016 and 2015, respectively. Traditional life insurance products represented 73.0 percent and 68.5 percent of our insurance in force at December 31, 2016 and 2015, respectively. Universal life insurance represented 26.6 percent and 26.3 percent of insurance in force at December 31, 2016 and 2015, respectively.

Pricing

Premiums for our life and health insurance products are based on assumptions with respect to mortality, morbidity, investment yields, expenses, and lapses and are also affected by state laws and regulations, as well as competition. Pricing assumptions are based on our experience, as well as the industry in general, depending upon the factor being considered. The actual profit or loss produced by a product will vary from the anticipated profit if the actual experience differs from the assumptions used in pricing the product.

Premiums Earned by Segment

The following table sets forth our net premiums earned by segment before intersegment eliminations:

Years Ended December 31,	2016	2015	2014
Property and casualty insurance segment			
Net premiums earned			
Other liability	\$ 289,982	\$ 261,303	\$ 228,426
Fire and allied lines	265,221	246,450	226,086
Automobile	239,216	210,090	187,813
Workers' compensation	103,605	95,672	88,522
Fidelity and surety	22,507	21,362	19,212
Reinsurance assumed	12,765	13,639	13,145
Other	2,835	3,179	3,735
Total net premiums earned	\$ 936,131	\$ 851,695	\$ 766,939
Life insurance segment			
Net premiums earned			
Ordinary life (excluding universal life)	\$ 63,668	\$ 53,114	\$ 35,557
Universal life policy fees	11,577	12,834	13,190
Immediate annuities with life contingencies	10,533	12,223	11,639
Accident and health	1,434	1,425	1,274
Other	58	388	261
Total net premiums earned	\$ 87,270	\$ 79,984	\$ 61,921

Total revenue by segment includes sales to external customers and intersegment sales that are eliminated to arrive at the total revenues as reported in the accompanying Consolidated Statements of Income and Comprehensive Income. We account for intersegment sales on the same basis as sales to external customers.

The following table sets forth certain data for each of our business segments and is reconciled to our Consolidated Financial Statements. Depreciation and amortization expense and property and equipment acquisitions for 2016, 2015 and 2014 are reported in the property and casualty insurance segment.

	2016	2015	2014
Property and casualty insurance:			
Revenues:			
Net premiums earned	\$ 936,131	\$ 851,695	\$ 766,939
Investment income, net of investment expenses	55,441	46,606	44,219
Net realized investment gains	4,947	1,124	4,177
Other income (loss)	—	(107)	910
Total revenues before eliminations	\$ 996,519	\$ 899,318	\$ 816,245
Intersegment eliminations	(157)	(47)	18
Total revenues	\$ 996,362	\$ 899,271	\$ 816,263
Net income before income taxes:			
Revenues	\$ 996,519	\$ 899,318	\$ 816,245
Benefit, losses and expenses	938,864	784,691	750,768
Total net income before eliminations	\$ 57,655	\$ 114,627	\$ 65,477
Intersegment eliminations	(158)	743	548
Income before income taxes	\$ 57,497	\$ 115,370	\$ 66,025
Income tax expense	8,379	30,050	13,649
Net income	\$ 49,118	\$ 85,320	\$ 52,376
Assets			
Total segment	\$ 2,662,272	\$ 2,490,138	\$ 2,360,764
Intersegment eliminations	(213,132)	(209,464)	(233,141)
Total assets	\$ 2,449,140	\$ 2,280,674	\$ 2,127,623
Life insurance:			
Revenues:			
Net premiums earned	\$ 87,270	\$ 79,984	\$ 61,921
Investment income, net of investment expenses	51,538	54,222	60,373
Net realized investment gains	1,156	1,722	3,093
Other income	621	508	774
Total revenues before eliminations	\$ 140,585	\$ 136,436	\$ 126,161
Intersegment eliminations	—	(789)	(530)
Total revenues	\$ 140,585	\$ 135,647	\$ 125,631
Net income before income taxes:			
Revenues	\$ 140,585	\$ 136,436	\$ 126,161
Benefit, losses and expenses	139,671	129,771	115,361
Total net income before eliminations	\$ 914	\$ 6,665	\$ 10,800
Intersegment eliminations	256	(584)	(362)
Income before income taxes	\$ 1,170	\$ 6,081	\$ 10,438
Income tax expense	384	2,275	3,677
Net income	\$ 786	\$ 3,806	\$ 6,761
Assets	\$ 1,605,618	\$ 1,609,702	\$ 1,729,066
Consolidated totals:			
Total revenues	\$ 1,136,947	\$ 1,034,918	\$ 941,894
Total net income	\$ 49,904	\$ 89,126	\$ 59,137
Total assets	\$ 4,054,758	\$ 3,890,376	\$ 3,856,689

NOTE 11. QUARTERLY SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth our selected unaudited quarterly financial information:

<i>(In Thousands Except Share Data)</i>						
Quarters	First	Second	Third	Fourth	Total	
Year Ended December 31, 2016						
Total revenues	\$ 265,685	\$ 279,773	\$ 289,494	\$ 301,995	\$ 1,136,947	
Income before income taxes	28,774	864	15,175	13,854	58,667	
Net income	\$ 22,427	\$ 3,114	\$ 12,368	\$ 11,995	\$ 49,904	
Basic earnings per share ⁽¹⁾	\$ 0.89	\$ 0.12	\$ 0.49	\$ 0.47	\$ 1.97	
Diluted earnings per share ⁽¹⁾	0.88	0.12	0.48	0.46	1.93	
Year Ended December 31, 2015						
Total revenues	\$ 238,484	\$ 255,918	\$ 264,560	\$ 275,956	\$ 1,034,918	
Income before income taxes	31,831	19,533	26,824	43,263	121,451	
Net income	\$ 23,679	\$ 15,018	\$ 19,534	\$ 30,895	\$ 89,126	
Basic earnings per share ⁽¹⁾	\$ 0.95	\$ 0.60	\$ 0.78	\$ 1.23	\$ 3.56	
Diluted earnings per share ⁽¹⁾	0.94	0.59	0.77	1.21	3.53	

(1) The sum of the quarterly reported amounts may not equal the full year, as each is computed independently.

NOTE 12. EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share gives effect to all dilutive common shares outstanding during the reporting period. The dilutive shares we consider in our diluted earnings per share calculation relate to our outstanding stock options and restricted stock awards.

We determine the dilutive effect of our outstanding stock options using the "treasury stock" method. Under this method, we assume the exercise of all of the outstanding stock options whose exercise price is less than the weighted-average market value of our common stock during the reporting period. This method also assumes that the proceeds from the hypothetical stock option exercises are used to repurchase shares of our common stock at the weighted-average market value of the stock during the reporting period. The net of the assumed stock options exercised and assumed common shares repurchased represents the number of dilutive common shares, which we add to the denominator of the earnings per share calculation.

The components of basic and diluted earnings per share were as follows:

	Years Ended December 31,					
	2016		2015		2014	
<i>(In Thousands Except Share and Per Share Data)</i>						
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income	\$ 49,904	\$ 49,904	\$ 89,126	\$ 89,126	\$ 59,137	\$ 59,137
Weighted-average common shares outstanding	25,335,706	25,335,706	25,047,405	25,047,405	25,230,854	25,230,854
Add dilutive effect of restricted stock awards	—	155,059	—	122,840	—	114,313
Add dilutive effect of stock options	—	313,913	—	65,751	—	148,496
Weighted-average common shares	25,335,706	25,804,678	25,047,405	25,235,996	25,230,854	25,493,663
Earnings per common share	\$ 1.97	\$ 1.93	\$ 3.56	\$ 3.53	\$ 2.34	\$ 2.32
Awards excluded from diluted calculation ⁽¹⁾	—	—	—	343,390	—	835,610

(1) Outstanding awards that are not "in-the-money" are excluded from the diluted earnings per share calculation because the effect of including them would have been anti-dilutive.

NOTE 13. LEASE COMMITMENTS

At December 31, 2016, we were obligated under noncancelable operating lease agreements for office space, vehicles, computer equipment and office equipment. Most of our leases include renewal options, purchase options or both. These provisions may be exercised by us upon the expiration of the related lease agreements. Rental expense under our operating lease agreements was \$6,908, \$6,256 and \$7,040 for 2016, 2015 and 2014, respectively. Our most significant lease commitment is for mainframe computer equipment. This lease was signed in November 2016 and has a term of 5 years. The monthly lease payments for this lease are \$154.

At December 31, 2016, our future minimum rental payments were as follows:

2017	\$	6,218
2018		5,761
2019		5,270
2020		4,715
2021		3,529
Thereafter		174
Total	\$	25,667

NOTE 14. CREDIT FACILITY

On February 2, 2016, the Company, as borrower, entered into a Credit Agreement (the "New Credit Agreement") by and among the Company, with the lenders from time to time party thereto and KeyBank National Association ("Key Bank"), as administrative agent, swingline lender and letter of credit issuer. The New Credit Agreement provides for a \$50,000 four-year unsecured revolving credit facility that includes a \$20,000 letter of credit subfacility and a swingline subfacility in the amount up to \$5,000. The New Credit Agreement allows the Company to increase the aggregate amount of the commitments thereunder by up to \$100,000, provided that no event of default has occurred and is continuing and certain other conditions are satisfied.

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

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

The New Credit Agreement contains customary representations, conditions to borrowing, covenants and events of default, including certain covenants that limit or restrict, subject to certain exceptions, the ability of the Company and its subsidiaries to sell or transfer assets, enter into a merger or consolidate with another company, create liens, impose restrictions on subsidiary dividends, enter into sale-leaseback transactions, make investments or acquisitions, enter into certain reinsurance agreements, pay dividends during any period of default, enter into transactions with affiliates, change the nature of its business, or incur indebtedness. The New Credit Agreement also includes financial covenants that require the Company to (i) maintain a minimum consolidated net worth, (ii) maintain a minimum consolidated statutory surplus and (iii) not exceed a 0.35 to 1.0 debt to total capitalization ratio. As of December 31, 2016 we were in compliance with all covenants of the New Credit Agreement.

In December 2011, United Fire & Casualty Company entered into a credit agreement with a syndicate of financial institutions as lenders, which terminated by expiration on its stated termination date of December 22, 2015. KeyBank National Association was the administrative agent, lead arranger, sole book runner, swingline lender, and letter of credit issuer, and Bankers Trust Company was the syndication agent. The four-year credit agreement

provided for a \$100,000 unsecured revolving credit facility that included a \$20,000 letter of credit subfacility and a swing line subfacility in the amount of up to \$5,000.

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

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

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

There was no outstanding balance on the credit facility at December 31, 2016 or 2015. We did not incur any interest expense related to these credit facilities in 2016, 2015 or 2014. We were in compliance with all covenants of the credit agreement on its stated termination date of December 22, 2015.

NOTE 15. INTANGIBLE ASSETS

The carrying value of our goodwill was \$15,091 at both December 31, 2016 and 2015, respectively. The goodwill is fully allocated to our property and casualty insurance segment.

Our major classes of intangible assets are presented in the following table:

	Year Ended December 31,	
	2016	2015
Agency relationships	\$ 10,338	\$ 10,338
Accumulated amortization - agency relationships	(4,929)	(4,292)
	\$ 5,409	\$ 6,046
Software	\$ 3,260	\$ 3,260
Accumulated amortization - software	(3,260)	(3,260)
	\$ —	\$ —
Trade names	\$ 1,978	\$ 1,978
Accumulated amortization - trade names	(758)	(626)
	\$ 1,220	\$ 1,352
Favorable contract	\$ 286	\$ 286
Accumulated amortization - favorable contract	(286)	(286)
	\$ —	\$ —
State insurance licenses ⁽¹⁾	\$ 3,020	\$ 3,020
Net intangible assets	\$ 9,649	\$ 10,418

(1) The intangible asset for licenses has an indefinite life and therefore is not amortized.

The estimated useful lives assigned to our major classes of amortizable intangible assets are as follows:

	Useful Life
Agency relationships	Fifteen years
Software	Two years
Trade names	Fifteen years
Favorable contract	Two years

Our estimated aggregate amortization expense for each of the next five years is as follows:

2017	\$	769
2018		719
2019		709
2020		709
2021		709

NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table shows the changes in the components of our accumulated other comprehensive income (loss), net of tax, for the years ended December 31, 2016, 2015 and 2014:

	Net unrealized appreciation on investments	Liability for underfunded employee benefit costs	Total
Balance as of January 1, 2014	\$ 116,601	\$ (29,451)	\$ 87,150
Change in accumulated other comprehensive income before reclassifications	36,328	(30,996)	5,332
Reclassification adjustments from accumulated other comprehensive income	(3,306)	1,997	(1,309)
Balance as of December 31, 2014	\$ 149,623	\$ (58,450)	\$ 91,173
Change in accumulated other comprehensive income before reclassifications	(18,321)	5,664	(12,657)
Reclassification adjustments from accumulated other comprehensive income	(2,933)	4,854	1,921
Balance as of December 31, 2015	\$ 128,369	\$ (47,932)	\$ 80,437
Change in accumulated other comprehensive income before reclassifications	8,461	19,529	27,990
Reclassification adjustments from accumulated other comprehensive income	(2,938)	3,566	628
Balance as of December 31, 2016	\$ 133,892	\$ (24,837)	\$ 109,055

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
United Fire Group, Inc.

We have audited the accompanying consolidated balance sheets of United Fire Group, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Fire Group, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), United Fire Group, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report, dated February 28, 2017, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Ernst & Young LLP

Des Moines, Iowa
February 28, 2017

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this report, were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of United Fire Group, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. United Fire Group, Inc.'s internal control over financial reporting is a process designed under the supervision of its Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its Consolidated Financial Statements for external purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2016, United Fire Group, Inc.'s management assessed the effectiveness of United Fire Group Inc.'s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, United Fire Group, Inc.'s management determined that effective internal control over financial reporting was maintained as of December 31, 2016, based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the Consolidated Financial Statements of United Fire Group, Inc. included in this Annual Report on Form 10-K, has audited the effectiveness of internal control over financial reporting as of December 31, 2016. Their attestation report, which expresses an unqualified opinion on the effectiveness of United Fire Group, Inc.'s internal control over financial reporting as of December 31, 2016, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
United Fire Group, Inc.

We have audited United Fire Group, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). United Fire Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, United Fire Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016 of United Fire Group, Inc. and our report dated February 28, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Ernst & Young LLP

Des Moines, Iowa
February 28, 2017

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15 and 15d-15) that occurred during the fiscal quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 regarding the Company's executive officers is included in "Executive Officers of the Company" under Part I, Item 1 of this report.

The information required by this Item regarding our directors and corporate governance matters is included under the captions "Board of Directors," subheading "Corporate Governance" and "Proposal One-Election of Directors," in our definitive Proxy Statement for our annual meeting of shareholders to be held on May 17, 2017 (the "2017 Proxy Statement") and is incorporated herein by reference.

The information required by this Item regarding our Code of Ethics is included under the caption "Board of Directors," subheading "Corporate Governance," subpart "Code of Ethics" in our 2017 Proxy Statement and is incorporated herein by reference.

The information required by this Item regarding compliance with Section 16(a) of the Exchange Act is included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this Item regarding our executive compensation and our Compensation Committee Report is included under the caption "Executive Compensation" and the subheading "Report of the Compensation Committee" in our 2017 Proxy Statement and is incorporated herein by reference. The information required by this Item regarding Compensation Committee interlocks and insider participation is included under the caption "Board of Directors," subheading "Committees of the Board," subheading "Compensation Committee," subpart "Compensation Committee Interlocks and Insider Participation" in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required under this Item is included under the captions "Security Ownership of Certain Beneficial Owners," "Security Ownership of Management" and "Securities Authorized for Issuance under Equity Compensation Plans" in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required under this Item is included under the captions "Board of Directors" and "Transactions with Related Persons" in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required under this Item is included under the caption "Proposal Two - Ratification of the Audit Committee's Appointment of Independent Registered Public Accounting Firm," subheading "Information About Our Independent Registered Public Accounting Firm" in our 2017 Proxy Statement and is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

We have filed the following documents as part of this Annual Report on Form 10-K:

	Page
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(a) 1. Financial Statements	
Consolidated Balance Sheets at December 31, 2016 and 2015	73
Consolidated Statements of Income and Comprehensive Income for the three years ended December 31, 2016	74
Consolidated Statements of Stockholders' Equity for the three years ended December 31, 2016	75
Consolidated Statements of Cash Flows for the three years ended December 31, 2016	76
Notes to Consolidated Financial Statements	78
<hr/>	
(a) 2. Financial Statement Schedules required to be filed by Item 8 of this Form:	
Schedule I. Summary of Investments — Other than Investments in Related Parties	145
Schedule II. Condensed Financial Statements of Parent Company	146
Schedule III: Supplementary Insurance Information	149
Schedule IV: Reinsurance	150
Schedule V: Valuation and Qualifying Accounts	151
Schedule VI: Supplemental Information Concerning Property and Casualty Insurance Operations	152
All other schedules have been omitted as not required, not applicable, not deemed material or because the information is included in the Consolidated Financial Statements.	
<hr/>	
(a) 3. See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.	
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Schedule I. Summary of Investments — Other than Investments in Related Parties

December 31, 2016			
<i>(In thousands)</i>			
Type of Investment	Cost or Amortized Cost	Fair Value	Amounts at Which Shown in Balance Sheet
Fixed maturities			
Bonds			
United States Government and government agencies and authorities	\$ 99,908	\$ 100,792	\$ 100,792
States, municipalities and political subdivisions	1,061,621	1,051,958	1,051,958
Foreign governments	62,995	65,234	65,234
Public utilities	212,360	215,674	215,674
All other bonds	1,462,594	1,477,753	1,477,752
Redeemable preferred stock	1,279	1,304	1,304
Total fixed maturities	\$ 2,900,757	\$ 2,912,715	\$ 2,912,714
Equity securities			
Common stocks			
Public utilities	\$ 6,995	\$ 20,284	\$ 20,284
Banks, trusts and insurance companies	17,493	116,156	116,156
Industrial, miscellaneous and all other	46,431	136,451	136,451
Nonredeemable preferred stocks	3,019	3,169	3,169
Total equity securities	\$ 73,938	\$ 276,060	\$ 276,060
Mortgage loans on real estate	\$ 3,706	\$ 3,895	\$ 3,706
Policy loans	5,366	5,366	5,366
Other long-term investments	48,908	67,639	67,639
Short-term investments	175	175	175
Total investments	\$ 3,032,850	\$ 3,265,850	\$ 3,265,660

Schedule II. Condensed Financial Statements of Parent Company

United Fire Group, Inc. (parent company only)
Condensed Balance Sheets

	December 31,	
<i>(In thousands, except share data)</i>	2016	2015
Assets		
Fixed maturities, held-to-maturity, at amortized cost (fair value \$150 in 2016 and \$150 in 2015)	\$ 150	\$ 150
Investment in subsidiary	925,887	871,590
Cash and cash equivalents	14,325	6,565
Federal income tax receivable	1,521	591
Accrued investment income	1	1
Total assets	\$ 941,884	\$ 878,897
Liabilities and stockholders' equity		
Liabilities	\$ —	\$ —
Stockholders' equity		
Common stock, \$0.001 par value, authorized 75,000,000 shares; 25,429,769 and 25,151,428 issued and outstanding in 2016 and 2015, respectively	\$ 25	\$ 25
Additional paid-in capital	216,482	207,426
Retained earnings	616,322	591,009
Accumulated other comprehensive income, net of tax	109,055	80,437
Total stockholders' equity	\$ 941,884	\$ 878,897
Total liabilities and stockholders' equity	\$ 941,884	\$ 878,897

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8 of this Annual Report on Form 10-K.

Schedule II. Condensed Financial Statements of Parent Company (continued)

United Fire Group, Inc. (parent company only)
Condensed Statements of Income and Comprehensive Income

<i>(In thousands)</i>	For the Years Ended December 31,		
	2016	2015	2014
Revenues			
Investment income	\$ 66	\$ 25	\$ 22
Total revenues	66	25	22
Expenses			
Other operating expenses	\$ 73	\$ 116	\$ 297
Total expenses	73	116	297
Loss before income taxes and equity in net income of subsidiary	(7)	(91)	(275)
Federal income tax benefit	(3)	(42)	(107)
Net loss before equity in net income of subsidiary	\$ (4)	\$ (49)	\$ (168)
Equity in net income of subsidiary	49,908	89,175	59,305
Net income	\$ 49,904	\$ 89,126	\$ 59,137
Other comprehensive income (loss)			
Change in unrealized appreciation on investments held by subsidiary	\$ 13,017	\$ (28,185)	\$ 55,888
Change in liability for underfunded employee benefit plans of subsidiary	30,045	8,714	(47,685)
Other comprehensive income (loss), before tax and reclassification adjustments	\$ 43,062	\$ (19,471)	\$ 8,203
Income tax effect	(15,072)	6,814	(2,871)
Other comprehensive income (loss), after tax, before reclassification adjustments	\$ 27,990	\$ (12,657)	\$ 5,332
Reclassification adjustment for net realized gains of the subsidiary included in income	(4,520)	(4,513)	(5,085)
Reclassification adjustment for employee benefit costs of the subsidiary included in expense	5,486	7,468	3,072
Total reclassification adjustments, before tax	\$ 966	\$ 2,955	\$ (2,013)
Income tax effect	(338)	(1,034)	704
Total reclassification adjustments, after tax	\$ 628	\$ 1,921	\$ (1,309)
Comprehensive income	\$ 78,522	\$ 78,390	\$ 63,160

United Fire Group, Inc. and its subsidiaries file a consolidated federal income tax return. The federal income tax provision represents an allocation under its tax allocation agreements.

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8 of this Annual Report on Form 10-K.

Schedule II. Condensed Financial Statements of Parent Company (continued)

United Fire Group, Inc. (parent company only)
Condensed Statements of Cash Flows

	For the Years Ended December 31,		
<i>(In thousands)</i>	2016	2015	2014
Cash flows from operating activities			
Net income	\$ 49,904	\$ 89,126	\$ 59,137
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in net income of subsidiary	(49,908)	(89,175)	(59,305)
Dividends received from subsidiary	24,000	22,500	29,000
Other, net	2,995	1,269	700
Total adjustments	\$ (22,913)	\$ (65,406)	\$ (29,605)
Net cash provided by operating activities	\$ 26,991	\$ 23,720	\$ 29,532
Cash flows from investing activities			
Purchase of held-to-maturity investments	\$ —	\$ —	\$ —
Net cash used in investing activities	\$ —	\$ —	\$ —
Cash flows from financing activities			
Repurchase of common stock	\$ (3,746)	\$ (2,423)	\$ (12,942)
Issuance of common stock	9,922	5,496	2,260
Tax impact from issuance of common stock	(816)	(833)	(160)
Payment of cash dividends	(24,591)	(21,658)	(19,680)
Net cash used in financing activities	\$ (19,231)	\$ (19,418)	\$ (30,522)
Net change in cash and cash equivalents	\$ 7,760	\$ 4,302	\$ (990)
Cash and cash equivalents at beginning of period	6,565	2,263	3,253
Cash and cash equivalents at end of year	\$ 14,325	\$ 6,565	\$ 2,263

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8 of this Form 10-K.

Schedule III. Supplementary Insurance Information

<i>(In thousands)</i>	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Expenses	Unearned Premiums	Earned Premium Revenue	Investment Income, Net	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Policy Acquisition Costs	Other Underwriting Expenses	Interest on Policyholders' Accounts	Premiums Written ⁽²⁾
Year Ended December 31, 2016										
Property and casualty	\$ 93,362	\$ 1,123,896	\$ 443,802	\$ 936,131	\$ 55,284	\$ 652,433	\$ 202,892	\$ 83,540	\$ —	\$ 964,970
Life, accident and health ⁽¹⁾	70,750	1,350,503	71	87,270	51,538	91,334	8,121	19,881	20,079	—
Total	\$ 164,112	\$ 2,474,399	\$ 443,873	\$ 1,023,401	\$ 106,822	\$ 743,767	\$ 211,013	\$ 103,421	\$ 20,079	\$ 964,970
Year Ended December 31, 2015										
Property and casualty	\$ 90,547	\$ 1,003,895	\$ 414,971	\$ 851,695	\$ 46,559	\$ 520,087	\$ 180,183	\$ 83,631	\$ —	\$ 887,874
Life, accident and health ⁽¹⁾	77,717	1,372,358	86	79,195	54,222	79,946	6,634	19,306	23,680	—
Total	\$ 168,264	\$ 2,376,253	\$ 415,057	\$ 930,890	\$ 100,781	\$ 600,033	\$ 186,817	\$ 102,937	\$ 23,680	\$ 887,874
Year Ended December 31, 2014										
Property and casualty	\$ 72,861	\$ 969,437	\$ 378,635	\$ 766,939	\$ 44,236	\$ 509,811	\$ 161,310	\$ 79,117	\$ —	\$ 804,715
Life, accident and health ⁽¹⁾	66,858	1,447,764	90	61,391	60,373	63,055	6,139	15,754	30,245	—
Total	\$ 139,719	\$ 2,417,201	\$ 378,725	\$ 828,330	\$ 104,609	\$ 572,866	\$ 167,449	\$ 94,871	\$ 30,245	\$ 804,715

(1) Annuity deposits are included in future policy benefits, losses, claims and loss expenses.

(2) Pursuant to Regulation S-X, premiums written does not apply to life insurance companies.

Schedule IV. Reinsurance

<i>(In thousands)</i>	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net Earned
Year Ended December 31, 2016					
Life insurance in force	\$ 5,314,548	\$ 1,023,197	\$ —	\$ 4,291,351	
Premiums earned					
Property and casualty insurance	\$ 977,090	\$ 57,996	\$ 17,037	\$ 936,131	1.82%
Life, accident and health insurance	90,038	2,768	—	87,270	—%
Total	\$ 1,067,128	\$ 60,764	\$ 17,037	\$ 1,023,401	1.66%
Year Ended December 31, 2015					
Life insurance in force	\$ 5,491,932	\$ 1,165,868	\$ —	\$ 4,326,064	
Premiums earned					
Property and casualty insurance	\$ 890,057	\$ 56,758	\$ 18,396	\$ 851,695	2.16%
Life, accident and health insurance	82,356	3,161	—	79,195	—%
Total	\$ 972,413	\$ 59,919	\$ 18,396	\$ 930,890	1.98%
Year Ended December 31, 2014					
Life insurance in force	\$ 5,366,061	\$ 1,130,059	\$ —	\$ 4,236,002	
Premiums earned					
Property and casualty insurance	\$ 800,492	\$ 49,818	\$ 16,265	\$ 766,939	2.12%
Life, accident and health insurance	64,350	2,959	—	61,391	—%
Total	\$ 864,842	\$ 52,777	\$ 16,265	\$ 828,330	1.96%

Schedule V. Valuation And Qualifying Accounts

<i>(In thousands)</i>				
Description	Balance at beginning of period	Charged to costs and expenses	Deductions	Balance at end of period
Allowance for bad debts				
Year Ended December 31, 2016	\$ 867	\$ 388	\$ —	\$ 1,255
Year Ended December 31, 2015	618	249	—	867
Year Ended December 31, 2014	896	—	278	618
Deferred tax asset valuation allowance ⁽¹⁾				
Year Ended December 31, 2016	\$ 1,265	\$ —	\$ 547	\$ 718
Year Ended December 31, 2015	1,813	—	548	1,265
Year Ended December 31, 2014	2,361	—	548	1,813

(1) Recorded in connection with the purchase of American Indemnity Financial Corporation in 1999.

Schedule VI. Supplemental Information Concerning Property and Casualty Insurance Operations

(In thousands)

Affiliation with Registrant: United Fire & Casualty Company and consolidated property and casualty subsidiaries	Deferred Policy Acquisition Costs	Reserves for Unpaid Claims and Claim Adjustment Expenses	Unearned Premiums	Earned Premiums	Net Realized Investment Gains	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related to:		Amortization of Deferred Policy Acquisition Costs ⁽¹⁾	Paid Claims and Claim Adjustment Expenses	Premiums Written
							Current Year	Prior Years			
2016	\$ 93,362	\$ 1,123,896	\$ 443,802	\$ 936,131	\$ 4,947	\$ 55,284	\$ 683,662	\$ (31,229)	\$ 202,892	\$ 537,573	\$ 964,970
2015	\$ 90,547	\$ 1,003,895	\$ 414,971	\$ 851,695	\$ 1,124	\$ 46,559	\$ 560,482	\$ (40,395)	\$ 180,183	\$ 476,525	\$ 887,874
2014	\$ 72,861	\$ 969,437	\$ 378,635	\$ 766,939	\$ 4,177	\$ 44,236	\$ 566,555	\$ (56,744)	\$ 161,310	\$ 489,631	\$ 804,715

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED FIRE GROUP, INC.

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

Date: 2/28/2017

By: /s/ Dawn M. Jaffray
Dawn M. Jaffray, Senior Vice President, Chief Financial Officer, Principal Financial Officer and Principal Accounting Officer

Date: 2/28/2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By /s/ Jack B. Evans
Jack B. Evans, Chairman and Director
Date 2/28/2017

By /s/ John P. Besong
John P. Besong, Director
Date 2/28/2017

By /s/ Scott L. Carlton
Scott L. Carlton, Director
Date 2/28/2017

By: /s/ Brenda K. Clancy
Brenda K. Clancy, Director
Date 2/28/2017

By /s/ Christopher R. Drahozal
Christopher R. Drahozal, Director
Date 2/28/2017

By /s/ Sarah Fisher Gardial
Sarah Fisher Gardial, Director
Date 2/28/2017

By /s/ Dawn M. Jaffray
Dawn M. Jaffray, Senior Vice President, Chief Financial Officer, Principal Financial Officer and Principal Accounting Officer
Date 2/28/2017

By /s/ Casey D. Mahon
Casey D. Mahon, Director
Date 2/28/2017

By /s/ George D. Milligan
George D. Milligan, Director
Date 2/28/2017

By /s/ James W. Noyce
James W. Noyce, Vice Chairman and Director
Date 2/28/2017

By /s/ Mary K. Quass
Mary K. Quass, Director
Date 2/28/2017

By /s/ Randy A. Ramlo
Randy A. Ramlo, Chief Executive Officer, Director and Principal Executive Officer
Date 2/28/2017

By /s/ Kyle D. Skogman
Kyle D. Skogman, Director
Date 2/28/2017

By /s/ Susan E. Voss
Susan E. Voss, Director
Date 2/28/2017

Exhibit Index

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference			
			Form	Period ending	Exhibit	Filing date
2.1	Agreement and Plan of Reorganization among United Fire & Casualty Company, United Fire Group, Inc. and UFC MergeCo, Inc.		8-K		2.1	5/25/2011
3.1	Articles of Incorporation of United Fire Group, Inc.		S-4		Annex II	5/25/2011
3.2	Articles of Amendment to Articles of Incorporation of United Fire Group, Inc.		8-K		3.1	5/26/2015
3.3	Bylaws of United Fire Group, Inc.		S-4		Annex III	5/25/2011
10.1	Employee Stock Purchase Plan		10-K	12/31/2007	10.2	2/27/2008
10.2	* 2005 Non-qualified Non-employee Director Stock Option and Restricted Stock Plan (as amended)		DEF14A		Exhibit A	4/18/2011
10.4	* United Fire Group, Inc. Amended and Restated Annual Incentive Plan (Amended February 24, 2012)		10-K	12/31/2011	10.4	3/15/2012
10.5	* Non-qualified Deferred Compensation Plan		10-Q	9/30/2007	10.3	10/25/2007
10.6	* United Fire Group, Inc. Stock Plan, amended as of February 21, 2014 (amending and restating the United Fire & Casualty Company 2008 Stock Plan) (the "Stock Plan")		DEF14A		App A	4/8/2014
10.7	* Form of Non-qualified Employee Stock Option Agreement under the Stock Plan		10-K	12/31/2007	10.7	2/27/2008
10.8	* Form of Option Issued Pursuant to the 2005 Non-qualified Non-employee Director Stock Option and Restricted Stock Plan		10-K	12/31/2007	10.8	2/27/2008
10.9	* Form of Stock Award Agreement under the Stock Plan		8-K		99.2	5/22/2008
10.10	* Form of Non-qualified Stock Option Agreement for the Purchase of Stock under the Stock Plan		8-K		99.3	5/22/2008
10.11	* Form of Incentive Stock Option Agreement for the Purchase of Stock under the Stock Plan		8-K		99.4	5/22/2008
10.12	* Amendment to Non-qualified Stock Option Agreements for John A. Rife		8-K/A		99.1	2/24/2009
10.13	* Form of Restricted Stock Agreement under the 2005 Non-qualified Non-employee Director Stock Option and Restricted Stock Plan		10-K	12/31/2011	10.14	3/15/2012
10.14	* Director's Restricted Stock Agreement amended		10-Q	6/30/2016	10.1	8/3/2016
10.14	* United Fire Group, Inc. Plan for Allocation of Equity Compensation to Management Team		10-K	12/31/2011	10.15	3/15/2012
10.15	* Deferred Compensation Plan for United Fire Group, Inc. Non-Employee Directors		8-K		10.1	11/19/2012
10.16	* United Fire Group, Inc. Executive Nonqualified Excess Plan		8-K		0.0101	5/22/2014
10.17	* United Fire & Casualty Company Executive Nonqualified Excess Plan Adoption Agreement		8-K		0.0102	5/22/2014
10.18	* United Fire & Casualty Company Rabbi Directed Trust Agreement		8-K		0.0103	5/22/2014
10.19	* United Fire Group, Inc. Template Change in Control Severance Agreement		8-K		0.0104	5/22/2014

*Indicates a management contract or compensatory plan or arrangement.

Exhibit Index

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference			
			Form	Period ending	Exhibit	Filing date
10.20 *	Amendment Number One to United Fire & Casualty Company Nonqualified Deferred Compensation Plan		8-K		0.0105	5/22/2014
10.21 *	Form of Non-Qualified Employee Stock Option Agreement under the United Fire Group, Inc. Stock Plan		10-Q	6/30/14	10.7	8/5/2014
10.22 *	Form of Stock Award Agreement under the United Fire Group, Inc. Stock Plan		10-Q	6/30/14	10.8	8/5/2014
10.24	Credit Agreement between United Fire & Casualty Company and syndicated lenders		8-K		10.1	12/23/2011
10.25	First Amendment to Credit Agreement between United Fire & Casualty Company and syndicated lenders		8-K		10.1	1/30/2012
10.26	Second Amendment to Credit Agreement between United Fire & Casualty Company and syndicated lenders		8-K		10.1	12/21/2012
10.27	Assignment, Joinder, Assumption, and Release Agreement, between and among United Fire Group, Inc., United Fire & Casualty Company, a syndicate of financial institutions, as lenders party thereto, and KeyBank National Association, as Administrative Agent, Lead Arranger, Sole Book Runner, Swingline Lender, and Letter of Credit Issuer		8-K		10.1	6/5/2013
10.28	Credit Agreement dated as of February 2, 2016, by and among United Fire Group, Inc., as borrower, the lenders from time to time party thereto, and KeyBank National Association, as administrative agent, swingline lender and letter of credit issuer.		8-K		10.1	2/5/2016
11	Statement Re Computation of Per Share Earnings. All information required by Exhibit 11 is presented within Note 12 of the Notes to Consolidated Financial Statements	X				
12	Statement Re Computation of Ratios	X				
14	Code of Ethics		8-K/A		14.1	1/31/2013
21	Subsidiaries of the Registrant	X				
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm	X				
23.2	Consent of Griffith, Ballard & Company, Independent Actuary	X				
23.3	Consent of Regnier Consulting Group, Inc., Independent Actuary	X				
31.1	Certification of Randy A. Ramlo Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				

*Indicates a management contract or compensatory plan or arrangement.

Exhibit Index

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference			
			Form	Period ending	Exhibit	Filing date
31.2	Certification of Dawn M. Jaffray Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of Randy A. Ramlo Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of Dawn M. Jaffray Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.1	The following financial information from United Fire Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2016 and 2015; (ii) Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2016, 2015 and 2014; (iii) Consolidated Statement of Stockholders' Equity for the years ended December 31, 2016, 2015 and 2014; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014; and (v) Notes to Consolidated Financial Statements.	X				

EXHIBIT 12. COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

<i>(In Thousands)</i>					
Years ended December 31	2016	2015	2014	2013	2012
Earnings					
Income (loss) before income taxes	\$ 58,667	\$ 121,451	\$ 76,463	\$ 101,902	\$ 46,074
Add: fixed charges	21,461	24,931	31,653	36,467	42,612
Total earnings	\$ 80,128	\$ 146,382	\$ 108,116	\$ 138,369	\$ 88,686
Fixed charges					
Interest on policyholders' accounts	\$ 20,079	\$ 23,680	\$ 30,245	\$ 35,163	\$ 41,409
Portion of rent representative of interest factor	1,382	1,251	1,408	1,304	1,203
Total fixed charges	\$ 21,461	\$ 24,931	\$ 31,653	\$ 36,467	\$ 42,612
Ratio of earnings to fixed charges	3.73	5.87	3.42	3.79	2.08

EXHIBIT 21. SUBSIDIARIES OF THE REGISTRANT

Subsidiary	Jurisdiction of Organization	% of Ownership by United Fire Group, Inc. or one of its Subsidiaries
United Fire & Casualty Company	Iowa	100% owned by United Fire Group, Inc.
United Life Insurance Company	Iowa	100% owned by United Fire & Casualty Company
Addison Insurance Company	Iowa	100% owned by United Fire & Casualty Company
UFG Specialty Insurance Company	Iowa	100% owned by United Fire & Casualty Company
Lafayette Insurance Company	Louisiana	100% owned by United Fire & Casualty Company
Financial Pacific Insurance Company	California	100% owned by United Fire & Casualty Company
Mercer Insurance Company	Pennsylvania	100% owned by United Fire & Casualty Company
Franklin Insurance Company	Pennsylvania	100% owned by Mercer Insurance Company
Mercer Insurance Company of New Jersey, Inc.	New Jersey	100% owned by Mercer Insurance Company
United Fire & Indemnity Company	Texas	100% owned by United Fire & Casualty Company
United Fire Lloyds	Texas	Operationally and financially controlled by United Fire & Indemnity Company, its Corporate Attorney-in-Fact
United Real Estate Holdings, LLC	Iowa	Single-member LLC 100% owned by United Fire & Casualty Company

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements of United Fire Group, Inc. (United Fire) described in the following table of our reports dated February 28, 2017, with respect to the consolidated financial statements and schedules of United Fire and the effectiveness of internal control over financial reporting of United Fire included in this Annual Report (Form 10-K) of United Fire for the year ended December 31, 2016.

Registration Statement Form	Number	Purpose
S-8, S-8 POS	333-42895	Pertaining to United Fire's employee stock purchase plan
S-8	333-63103	Pertaining to United Fire's non-qualified employee stock option plan
S-8, S-8 POS	333-107041	Pertaining to the United Fire Group 401(k) plan
S-8, S-8 POS	333-129923/ 333-178095	Pertaining to United Fire's 2005 non-qualified non-employee director stock option and restricted stock plan
S-8, S-8 POS	333-151074/ 333-196251	Pertaining to United Fire's Stock Plan

/s/ Ernst & Young LLP

Ernst & Young LLP

Des Moines, Iowa
February 28, 2017

EXHIBIT 23.2

Consent of Independent Actuary

We consent to the use of and reference to our name in the Annual Report on Form 10-K of United Fire Group, Inc. (“United Fire”) for the year ended December 31, 2016 in Item 1, “Business” under the heading “Reserves” under the subheading “Life Insurance Segment” and in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” under the subheading “Critical Accounting Policies” under the heading “Independent Actuary” under “Future Policy Benefits and Losses, Claims and Loss Settlement Expenses - Life Insurance Segment.” We also consent to the incorporation by reference of such use and reference into the Registration Statements of United Fire described in the following table:

Registration Statement		
Form	Number	Purpose
S-8, S-8 POS	333-42895	Pertaining to United Fire's employee stock purchase plan
S-8	333-63103	Pertaining to United Fire's non-qualified employee stock option plan
S-8, S-8 POS	333-107041	Pertaining to the United Fire Group 401(k) plan
S-8, S-8 POS	333-129923/ 333-178095	Pertaining to United Fire's 2005 non-qualified non-employee director stock option and restricted stock plan
S-8, S-8 POS	333-151074/ 333-196251	Pertaining to United Fire's Stock Plan

February 28, 2017

/s/ Steve Griffith

Griffith, Ballard and Company

President

EXHIBIT 23.3

Consent of Independent Actuary

We consent to the use of and reference to our name in the Annual Report on Form 10-K of United Fire Group, Inc. (“United Fire”) for the year ended December 31, 2016 in Item 1. “Business” under the heading “Reserves” under the subheading “Property and Casualty Insurance Segment” and Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” under the heading “Critical Accounting Policies” under the subheadings “Incurred But Not Reported (IBNR) Reserves” and “Independent Actuary” under “Loss and Loss Settlement Expenses - Property and Casualty Insurance Segment.” We also consent to the incorporation by reference of such use and reference into the Registration Statements of United Fire described in the following table:

Registration Statement		
Form	Number	Purpose
S-8, S-8 POS	333-42895	Pertaining to United Fire's employee stock purchase plan
S-8	333-63103	Pertaining to United Fire's non-qualified employee stock option plan
S-8, S-8 POS	333-107041	Pertaining to the United Fire Group 401(k) plan
S-8, S-8 POS	333-129923/ 333-178095	Pertaining to United Fire's 2005 non-qualified non-employee director stock option and restricted stock plan
S-8, S-8 POS	333-151074/ 333-196251	Pertaining to United Fire's Stock Plan

February 28, 2017

/s/ Steven J. Regnier

Regnier Consulting Group, Inc.

Steven J. Regnier, President

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Randy A. Ramlo, certify that:

1. I have reviewed this annual report on Form 10-K of United Fire Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the Consolidated Financial Statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/ Randy A. Ramlo
Randy A. Ramlo
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dawn M. Jaffray, certify that:

1. I have reviewed this annual report on Form 10-K of United Fire Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the Consolidated Financial Statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/ Dawn M. Jaffray

Dawn M. Jaffray

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of United Fire Group, Inc. (the "Company") on Form 10-K for the period ending December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randy A. Ramlo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 28, 2017

/s/ Randy A. Ramlo

Randy A. Ramlo

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to United Fire Group, Inc. and will be retained by United Fire Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of United Fire Group, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dawn M. Jaffray, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 28, 2017

/s/ Dawn M. Jaffray

Dawn M. Jaffray

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to United Fire Group, Inc. and will be retained by United Fire Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.



UNITED FIRE GROUP, INC.

United Fire & Casualty Company

United Life Insurance Company

UFG Specialty Insurance Company

United Fire & Indemnity Company

United Fire Lloyds

Addison Insurance Company

Financial Pacific Insurance Company

Franklin Insurance Company

Lafayette Insurance Company

Mercer Insurance Company

Mercer Insurance Company of New Jersey, Inc.

Corporate Headquarters:

118 Second Avenue SE

Cedar Rapids, Iowa 52401

Telephone: 319-399-5700

ufgInsurance.com