COHEN & STEERS INFRASTRUCTURE FUND INC
Form N-Q
November 25, 2015

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

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21485

Cohen & Steers Infrastructure Fund, Inc.
(Exact name of registrant as specified in charter)

280 Park Avenue

New York, NY 10017
(Address of principal executive offices) (Zip code)

Tina M. Payne

280 Park Avenue

New York, NY 10017
(Name and address of agent for service)

Registrant s telephone number, including area code: (212) 832-3232

Date of fiscal year end: December 31

Date of reporting period: September 30, 2015

Item 1. Schedule of Investments

COHEN & STEERS INFRASTRUCTURE FUND, INC.

SCHEDULE OF INVESTMENTS

September 30, 2015 (Unaudited)

	Number of Shares/Units		Value
COMMON STOCK 119.5%			
AUSTRALIA 5.2%			
PIPELINES C-CORP 0.8%			
APA Group(a),(b)	2,422,109	$	14,618,467
TOLL ROADS 4.4%			
Transurban Group(a),(b)	12,088,571		84,677,966
TOTAL AUSTRALIA			99,296,433
CANADA 5.5%			
ELECTRIC INTEGRATED ELECTRIC 0.2%			
TransAlta Renewables(a)	531,500		4,094,283
MARINE PORTS 0.5%			
Westshore Terminals Investment Corp.(a)	457,561		8,708,917
PIPELINES C-CORP 2.4%			
Enbridge(a)	759,892		28,214,798
TransCanada Corp.(a)	586,450		18,544,916
			46,759,714
RAILWAYS 2.4%			
Canadian National Railway Co.	459,380		26,086,037
Canadian Pacific Railway Ltd(a)	133,664		19,184,715
			45,270,752
TOTAL CANADA			104,833,666
CHILE 0.3%			
WATER			
Aguas Andinas SA, Class A	12,000,000		6,241,065
CHINA 1.1%			
TOLL ROADS			
Jiangsu Expressway Co., Ltd., Class H (HKD)(a),(b)	16,542,000		21,253,831
FRANCE 4.6%			
COMMUNICATIONS SATELLITES 2.1%			
Eutelsat Communications(a),(b)	1,322,077		40,549,466
RAILWAYS 2.5%			
Groupe Eurotunnel SA(a),(b)	3,406,286		46,408,833
TOTAL FRANCE			86,958,299
HONG KONG 2.1%			
ELECTRIC REGULATED ELECTRIC 1.8%			
Power Assets Holdings Ltd.(a),(b)	3,684,500		34,889,760

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	Number of Shares/Units	Value
MARINE PORTS 0.3%		
Cosco Pacific Ltd. (Bermuda)(b)	5,308,000	$ 5,830,818
TOTAL HONG KONG		40,720,578
ITALY 6.3%		
COMMUNICATIONS TOWERS 2.2%		
Ei Towers S.p.A.(a),(b)	228,722	14,065,643
Infrastrutture Wireless Italiane S.p.A., 144A(b),(c),(d)	3,184,977	15,648,317
RAI Way S.p.A., 144A(a),(b),(c)	2,708,587	12,924,984
		42,638,944
ELECTRIC INTEGRATED ELECTRIC 1.1%		
Enel S.p.A.(a),(b)	4,769,031	21,279,374
GAS DISTRIBUTION 1.4%		
Snam S.p.A.(a),(b)	5,009,051	25,725,880
TOLL ROADS 1.6%		
Atlantia S.p.A.(a),(b)	1,069,413	29,914,350
TOTAL ITALY		119,558,548
JAPAN 5.4%		
ELECTRIC INTEGRATED ELECTRIC 2.7%		
Chugoku Electric Power Co. (The)(b)	1,057,300	14,572,911
Electric Power Development Co., Ltd.(a),(b)	565,200	17,249,533
Tohoku Electric Power Co.(b)	1,498,400	20,305,611
		52,128,055
GAS DISTRIBUTION 1.2%		
Tokyo Gas Co., Ltd.(a),(b)	4,874,000	23,577,063
RAILWAYS 1.5%		
Central Japan Railway Co.(a),(b)	175,900	28,359,946
TOTAL JAPAN		104,065,064
LUXEMBOURG 0.8%		

		(In Thousands, Except Share Data)	2015	2014	2015	2014
COMMUNICATIONS SATELLITES						
Revenues						
Net premiums earned	$ 239,421	$	212,021	$ 681,817	$ 607,189	
Investment income, net of investment expenses	24,050	22,837		74,205	77,202	
Net realized investment gains (includes reclassifications for net unrealized investment gains on available-for-sale securities of $1,825 and $4,715 in 2015 and $985 and $4,073 in 2014; previously included in accumulated other comprehensive income (loss))	966	894		2,622	5,796	
Other income	123	113		318	1,255	
Total revenues	$ 264,560	$	235,865	$ 758,962	$ 691,442	
Benefits, Losses and Expenses						
Losses and loss settlement expenses	$ 144,526	$	154,346	$ 421,297	$ 422,299	
Increase in liability for future policy benefits	12,784	10,552		32,503	26,450	
Amortization of deferred policy acquisition costs	48,697	44,644		135,526	124,374	

Other underwriting expenses (includes reclassifications for employee benefit costs of $1,867 and $5,601 in 2015 and $768 and $2,304 in 2014; previously included in accumulated other comprehensive income (loss))	26,161	21,665	73,241	68,869
Interest on policyholders' accounts	5,568	7,503	18,207	23,342
Total benefits, losses and expenses	$ 237,736	$ 238,710	$ 680,774	$ 665,334
Income (loss) before income taxes	$ 26,824	$ (2,845)	$ 78,188	$ 26,108
Federal income tax expense (benefit) (includes reclassifications of $15 and $310 in 2015 and ($76) and ($619) in 2014; previously included in accumulated other comprehensive income (loss))	7,290	(3,170)	19,957	1,767
Net income	$ 19,534	$ 325	$ 58,231	$ 24,341
Other comprehensive income (loss)				
Change in net unrealized appreciation on investments	$ (2,008)	$ (12,410)	$ (25,131)	$ 38,767
Change in liability for underfunded employee benefit plans	—	—	—	—
Other comprehensive income (loss), before tax and reclassification adjustments	$ (2,008)	$ (12,410)	$ (25,131)	$ 38,767
Income tax effect	703	4,344	8,795	(13,569)
Other comprehensive income (loss), after tax, before reclassification adjustments	$ (1,305)	$ (8,066)	$ (16,336)	$ 25,198
Reclassification adjustment for net realized investment gains included in income	$ (1,825)	$ (985)	$ (4,715)	$ (4,073)
Reclassification adjustment for employee benefit costs included in expense	1,867	768	5,601	2,304
Total reclassification adjustments, before tax	$ 42	$ (217)	$ 886	$ (1,769)
Income tax effect	(15)	76	(310)	619
Total reclassification adjustments, after tax	$ 27	$ (141)	$ 576	$ (1,150)
Comprehensive income (loss)	$ 18,256	$ (7,882)	$ 42,471	$ 48,389
Weighted average common shares outstanding	25,067,080	25,188,381	25,027,382	25,295,842
Basic earnings per common share	$ 0.78	$ 0.01	$ 2.33	$ 0.96
Diluted earnings per common share	0.77	0.01	2.31	0.95

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

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

(In Thousands, Except Share Data)	Nine Months Ended September 30, 2015
Common stock	
Balance, beginning of year	$25
Shares repurchased (79,396 shares)	—
Shares issued for stock-based awards (113,498 shares)	—
Balance, end of period	$25
Additional paid-in capital	
Balance, beginning of year	$202,676
Compensation expense and related tax benefit for stock-based award grants	1,342
Shares repurchased	(2,423)
Shares issued for stock-based awards	2,679
Balance, end of period	$204,274
Retained earnings	
Balance, beginning of year	$523,541
Net income	58,231
Dividends on common stock ($0.64 per share)	(16,024)
Balance, end of period	$565,748
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	$91,173
Change in net unrealized investment appreciation(1)	(19,400)
Change in liability for underfunded employee benefit plans(2)	3,640
Balance, end of period	$75,413
Summary of changes	
Balance, beginning of year	$817,415
Net income	58,231
All other changes in stockholders' equity accounts	(30,186)
Balance, end of period	$845,460

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

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

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United Fire Group, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,			
(In Thousands)	2015		2014	
Cash Flows From Operating Activities				
Net income	$58,231		$24,341	
Adjustments to reconcile net income to net cash provided by operating activities				
Net accretion of bond premium	10,534		10,985	
Depreciation and amortization	7,706		5,449	
Stock-based compensation expense	1,817		1,445	
Net realized investment gains	(2,622	)	(5,796	)
Net cash flows from trading investments	2,663		(6,933	)
Deferred income tax benefit	(3,854	)	(2,639	)
Changes in:				
Accrued investment income	(304	)	398	
Premiums receivable	(46,628	)	(39,945	)
Deferred policy acquisition costs	(16,884	)	(10,219	)
Reinsurance receivables	12,395		3,384	
Prepaid reinsurance premiums	(266	)	(552	)
Income taxes receivable	(1,928	)	(3,173	)
Other assets	(1,561	)	482	
Future policy benefits and losses, claims and loss settlement expenses	60,932		70,994	
Unearned premiums	50,097		49,974	
Accrued expenses and other liabilities	811		(9,153	)
Income taxes payable	(5,012	)	—	
Deferred income taxes	(499	)	(1,330	)
Other, net	(1,221	)	(368	)
Total adjustments	$66,176		$63,003	
Net cash provided by operating activities	$124,407		$87,344	
Cash Flows From Investing Activities				
Proceeds from sale of available-for-sale investments	$8,228		$3,091	
Proceeds from call and maturity of held-to-maturity investments	108		243	
Proceeds from call and maturity of available-for-sale investments	527,365		390,967	
Proceeds from short-term and other investments	4,221		2,370	
Purchase of available-for-sale investments	(502,086	)	(432,112	)
Purchase of short-term and other investments	(4,643	)	(2,803	)
Net purchases and sales of property and equipment	(10,763	)	(5,692	)
Net cash provided by (used in) investing activities	$22,430		$(43,936	)
Cash Flows From Financing Activities				
Policyholders’ account balances				
Deposits to investment and universal life contracts	$78,733		$131,134	
Withdrawals from investment and universal life contracts	(175,840	)	(170,570	)
Payment of cash dividends	(16,024	)	(14,672	)
Repurchase of common stock	(2,423	)	(11,249	)
Issuance of common stock	2,679		1,782	
Tax impact from issuance of common stock	(475	)	(94	)
Net cash used in financing activities	$(113,350	)	$(63,669	)
Net Change in Cash and Cash Equivalents	$33,487		$(20,261	)

Cash and Cash Equivalents at Beginning of Period	90,574	92,193
Cash and Cash Equivalents at End of Period	$124,061	$71,932

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

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UNITED FIRE GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share amounts or as otherwise noted)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

United Fire Group, Inc. ("UFG", the "Registrant", the "Company", "we", "us", or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. We report our operations in two business segments: property and casualty insurance and life insurance. Our insurance company subsidiaries are licensed as a property and casualty insurer in 45 states and the District of Columbia, and as a life insurer in 37 states.

Basis of Presentation

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

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

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

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

Management of UFG believes the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. The review report of Ernst & Young LLP as of September 30, 2015 and for the three- and nine-month periods ended September 30, 2015 and 2014 accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 "Financial Statements."

Cash and Cash Equivalents

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

For the nine-month periods ended September 30, 2015 and 2014, we made payments for income taxes totaling $31,724 and $9,619, respectively. We did not receive a tax refund during the nine-month period ended September 30, 2015. We received a tax refund of $615 during the nine-month period ended September 30, 2014.

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For the nine-month periods ended September 30, 2015 and 2014, we made no interest payments (excluding interest credited to policyholders' accounts).

Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC, including the related amortization recognized for the nine-month period ended September 30, 2015.

	Property & Casualty Insurance	Life Insurance	Total
Recorded asset at beginning of period	$72,861	$66,858	$139,719
Underwriting costs deferred	147,980	4,430	152,410
Amortization of deferred policy acquisition costs	(130,305)	(5,221)	(135,526)
Ending unamortized deferred policy acquisition costs	$90,536	$66,067	$156,603
Impact of unrealized gains and losses on available-for-sale securities	—	2,113	2,113
Recorded asset at September 30, 2015	$90,536	$68,180	$158,716

Property and casualty insurance policy acquisition costs deferred are amortized as premium revenue is recognized. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value. This takes into account the premium to be earned, losses and loss settlement expenses expected to be incurred and certain other costs expected to be incurred as the premium is earned. With the completion of the Mercer Insurance Group, Inc. integration, we determined it was the appropriate time to review our DAC models. After reviewing our DAC model at March 31, 2015, we enhanced our property & casualty insurance segment DAC model by updating our aggregation of certain lines of business in a manner consistent with how the policies are currently being marketed and managed. The impact of these updates to the model resulted in an increase to DAC amortization of $994 and an increase to the DAC asset of $3,586 for the nine-month period ended September 30, 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 and losses on available-for-sale securities decreased the DAC asset by $11,270 and $13,383 at September 30, 2015 and December 31, 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

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rates. Deferred income tax expense is measured by the year-to-year change in the net deferred tax asset or liability, except for certain changes in deferred tax amounts that affect stockholders' equity and do not impact federal income tax expense.

We reported a federal income tax expense of $19,957 and $1,767 for the nine-month periods ended September 30, 2015 and 2014, respectively. Our effective tax rate is different than the federal statutory rate of 35.0 percent due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

The Company performs a quarterly review of its tax position and makes a determination of whether it is more likely than not that the tax position will be sustained upon examination. If based on review, it appears not more likely than not that the position will be sustained, the Company will calculate any unrecognized tax benefits and, if necessary, calculate and accrue any related interest and penalties. We did not recognize any liability for unrecognized tax benefits at September 30, 2015 or December 31, 2014. 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.

Subsequent Events

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

Recently Issued Accounting Standards

Accounting Standards Adopted in 2015

Troubled Debt Restructuring

In August 2014, the Financial Accounting Standards Board ("FASB") issued updated guidance on the accounting for creditors who are holding receivables with troubled debt restructuring, specifically related to the classification of certain government guaranteed mortgage loans that are in foreclosure. The objective of this update is to provide greater consistency and transparency by addressing the classification of certain foreclosed mortgage loans guaranteed through government programs. The guidance is effective for interim and annual periods beginning after December 15, 2014. The Company adopted the guidance on January 1, 2015. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Discontinued Operations

In April 2014, the FASB issued new guidance on reporting discontinued operations and disclosures of disposals of components of an entity. The new guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual periods beginning after December 15, 2014. The Company adopted the guidance on January 1, 2015. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

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Pending Adoption of Accounting Standards
Short Duration Contracts

In May 2015, the FASB issued guidance on disclosure requirements for short-duration contracts. The new guidance requires additional disclosures about the liability for unpaid loss and loss adjustment expenses and requires disclosure of any information about significant changes in methodologies and assumptions used to calculate the liability. The new guidance is effective for annual periods beginning after December 15, 2015 and interim periods beginning the following year. The Company will adopt the new guidance on January 1, 2016 and is currently evaluating its disclosures for short-duration contracts and the impact on the Company's financial statement disclosures.

Other Internal Use Software

In April 2015, the FASB issued guidance which clarifies customers' accounting for fees paid for cloud computing arrangements. The new guidance provides guidance to customers about whether a cloud computing arrangement includes a software license or whether the arrangement is considered a service contract. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company will adopt the new guidance on January 1, 2016 and is currently evaluating its accounting for cloud computing arrangements and the impact on the Company's financial position and results of operations.

Debt Issuance Costs

In April 2015, the FASB issued new guidance on the presentation of debt issuance costs. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company will adopt the new guidance on January 1, 2016. At this point in time, Management does not expect the adoption of the new guidance to have an impact on the Company's financial position or results of operations.

Consolidation

In February 2015, the FASB issued amendments to the consolidation analysis that a reporting entity performs to determine whether it should consolidate certain legal entities. Specifically, the new guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIE"), eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that have VIE's, particularly those with fee arrangements and related party relationships. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company will adopt the guidance on January 1, 2016. Management currently does not expect the adoption of the new guidance to have an impact on the Company's financial position or results of operations.

Going Concern

In August 2014, the FASB issued new guidance on the disclosure of uncertainties about an entity's ability to continue as a going concern. The new guidance requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, to disclose the fact and what the entity's plans are to alleviate that doubt. The guidance is effective for annual periods ending after December 15, 2015 and interim periods within annual periods beginning after December 15, 2015. The Company will adopt the guidance on January 1, 2016. Management currently does not expect the adoption of the new guidance to have an impact on the Company's financial position or results of operations.

Share Based Payments

In June 2014, the FASB issued new guidance on the accounting for share based payments when the terms of an

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award provide that a performance target could be achieved after the requisite service period. The new guidance requires a performance target that affects vesting and that could be achieved after the service period, be treated as a performance condition. The guidance is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively or retrospectively and early adoption is permitted. The Company will adopt the guidance on January 1, 2016 and is currently evaluating the impact on the Company's financial position and results of operations.

Revenue Recognition

In May 2014, the FASB issued comprehensive new guidance on revenue recognition which supersedes nearly all existing revenue recognition guidance under GAAP. The new guidance requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard creates a five-step model that requires companies to exercise judgment when considering the terms of the contract(s) and all relevant facts and circumstances. Insurance contracts are not within the scope of this new guidance. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company will adopt the guidance on January 1, 2018 and is currently evaluating the impact on the Company's financial position and results of operations and considering which transition method it will use in implementing the new guidance.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities as of September 30, 2015 and December 31, 2014, is as follows:

September 30, 2015

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	$200	$—	$—	$200
Mortgage-backed securities	89	2	—	91
Total Held-to-Maturity Fixed Maturities	$289	$2	$—	$291
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$21,654	$270	$2	$21,922
U.S. government agency	235,045	3,410	1,208	237,247
States, municipalities and political subdivisions				
General obligations:				
Midwest	165,797	5,107	94	170,810
Northeast	56,812	1,674	19	58,467
South	124,580	3,328	370	127,538
West	98,780	2,775	259	101,296
Special revenue:				
Midwest	148,385	4,544	166	152,763

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Northeast	21,197	742	153	21,786
South	103,539	3,814	112	107,241
West	74,463	2,852	24	77,291
Foreign bonds	89,473	3,343	1,628	91,188
Public utilities	201,218	5,661	688	206,191
Corporate bonds				
Energy	113,692	2,056	1,391	114,357
Industrials	226,222	5,379	4,397	227,204
Consumer goods and services	179,716	4,315	651	183,380
Health care	96,149	2,697	590	98,256
Technology, media and telecommunications	145,531	2,560	1,348	146,743
Financial services	249,063	7,531	633	255,961
Mortgage-backed securities	14,102	438	25	14,515
Collateralized mortgage obligations	362,732	10,064	2,180	370,616
Asset-backed securities	5,595	219	169	5,645
Total Available-for-Sale Fixed Maturities	$2,733,745	$72,779	$16,107	$2,790,417
Equity securities:				
Common stocks				
Public utilities	$7,231	$11,430	$163	$18,498
Energy	6,103	5,428	159	11,372
Industrials	13,252	28,415	250	41,417
Consumer goods and services	10,315	11,474	5	21,784
Health care	7,763	17,932	—	25,695
Technology, media and telecommunications	6,151	6,673	85	12,739
Financial services	17,433	74,451	131	91,753
Nonredeemable preferred stocks	4,368	65	2	4,431
Total Available-for-Sale Equity Securities	$72,616	$155,868	$795	$227,689
Total Available-for-Sale Securities	$2,806,361	$228,647	$16,902	$3,018,106

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December 31, 2014

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
States, municipalities and political subdivisions				
Special revenue:				
Midwest	$55	$—	$—	$55
Corporate bonds - financial services	200	—	—	200
Mortgage-backed securities	142	7	—	149
Total Held-to-Maturity Fixed Maturities	$397	$7	$—	$404
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$25,856	$168	$52	$25,972
U.S. government agency	349,747	4,347	2,422	351,672
States, municipalities and political subdivisions				
General obligations:				
Midwest	179,491	6,599	170	185,920
Northeast	59,084	2,120	50	61,154
South	122,055	4,453	288	126,220
West	75,102	3,350	19	78,433
Special revenue:				
Midwest	126,192	5,356	146	131,402
Northeast	11,767	864	—	12,631
South	106,917	4,368	63	111,222
West	68,024	3,285	6	71,303
Foreign bonds	136,487	4,132	446	140,173
Public utilities	206,366	6,479	488	212,357
Corporate bonds				
Energy	135,068	2,858	793	137,133
Industrials	211,256	6,373	2,154	215,475
Consumer goods and services	172,623	4,702	324	177,001
Health care	86,017	3,228	210	89,035
Technology, media and telecommunications	131,465	3,863	799	134,529
Financial services	215,095	8,574	87	223,582
Mortgage-backed securities	17,121	483	46	17,558
Collateralized mortgage obligations	335,092	7,003	4,806	337,289
Asset-backed securities	2,741	277	—	3,018
Total Available-for-Sale Fixed Maturities	$2,773,566	$82,882	$13,369	$2,843,079

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Equity securities:				
Common stocks				
Public utilities	$7,231	$13,103	$44	$20,290
Energy	5,094	8,623	—	13,717
Industrials	13,284	32,299	124	45,459
Consumer goods and services	10,294	13,295	275	23,314
Health care	7,920	22,436	—	30,356
Technology, media and telecommunications	6,207	7,846	58	13,995
Financial services	16,637	77,077	51	93,663
Nonredeemable preferred stocks	4,984	72	7	5,049
Total Available-for-Sale Equity Securities	$71,651	$174,751	$559	$245,843
Total Available-for-Sale Securities	$2,845,217	$257,633	$13,928	$3,088,922

Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at September 30, 2015, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

	Held-To-Maturity		Available-For-Sale		Trading	
September 30, 2015	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$—	$—	$129,230	$130,254	$1,181	$1,659
Due after one year through five years	200	200	789,739	820,780	6,865	6,955
Due after five years through 10 years	—	—	988,569	998,254	1,610	1,818
Due after 10 years	—	—	443,778	450,353	2,224	2,486
Asset-backed securities	—	—	5,595	5,645	—	—
Mortgage-backed securities	89	91	14,102	14,515	—	—
Collateralized mortgage obligations	—	—	362,732	370,616	—	—
	$289	$291	$2,733,745	$2,790,417	$11,880	$12,918

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Net Realized Investment Gains and Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net realized investment gains (losses)				
Fixed maturities:				
Available-for-sale	$407	$984	$2,363	$2,336
Trading securities				
Change in fair value	(999)	(253)	(1,461)	695
Sales	531	181	1,230	701
Equity securities:				
Available-for-sale	1,418	—	2,352	1,736
Trading securities				
Change in fair value	(430)	(17)	(634)	329
Sales	39	(1)	85	(1)
Other long-term investments	—	—	(1,313)	—
Total net realized investment gains	$966	$894	$2,622	$5,796

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Proceeds from sales	$—	$3,081	$8,228	$3,091
Gross realized gains	—	900	1,030	900
Gross realized losses	—	—	—	(56)

There were no sales of held-to-maturity securities during the three- and nine-month periods ended September 30, 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. Our portfolio of trading securities had a fair value of $17,015 and $20,928 at September 30, 2015 and December 31, 2014, respectively.

Funding Commitment

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed through December 31, 2023 to make capital contributions upon request of the partnership. Our remaining potential contractual obligation was $8,450 at September 30, 2015.

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Unrealized Appreciation

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

	Nine Months Ended September 30,	
	2015	2014
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities	$(12,841)	$44,586
Available-for-sale equity securities	(19,119)	3,872
Deferred policy acquisition costs	2,113	(13,764)
Income tax effect	10,447	(12,143)
Total change in net unrealized investment appreciation, net of tax	$(19,400)	$22,551

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

The tables on the following pages summarize our fixed maturity and equity securities that were in an unrealized loss position at September 30, 2015 and December 31, 2014. 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 September 30, 2015, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We have evaluated the near-term prospects of the issuers of our fixed maturity securities in relation to the severity and duration of the unrealized loss, and unless otherwise noted, these losses did not warrant the recognition of an OTTI charge at September 30, 2015 or at September 30, 2014. 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 intent to sell, and it is more likely than not that we will not be required to sell, these securities until the fair value recovers to at least equal 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 September 30, 2015. Our largest unrealized loss greater than 12 months on an individual equity security at September 30, 2015 was $163. We have no intention to sell any of these securities prior to a recovery in value, but will continue to monitor the fair value reported for these securities as part of our overall process to evaluate investments for OTTI recognition.

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September 30, 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	—	$—	$ —	2	$1,652	$ 2	$1,652	$ 2
U.S. government agency	26	70,261	814	7	22,056	394	92,317	1,208
States, municipalities and political subdivisions								
General obligations								
Midwest	11	11,332	94	—	—	—	11,332	94
Northeast	7	6,031	19	—	—	—	6,031	19
South	11	14,767	188	12	6,549	182	21,316	370
West	13	19,733	259	—	—	—	19,733	259
Special revenue								
Midwest	17	20,088	122	1	2,483	44	22,571	166
Northeast	1	4,814	153	—	—	—	4,814	153
South	8	12,527	84	2	1,828	28	14,355	112
West	8	8,447	24	—	—	—	8,447	24
Foreign bonds	9	15,153	1,628	—	—	—	15,153	1,628
Public utilities	13	28,383	376	5	2,926	312	31,309	688
Corporate bonds								
Energy	7	14,922	884	3	6,876	507	21,798	1,391
Industrials	20	35,955	1,282	3	7,878	3,115	43,833	4,397
Consumer goods and services	17	46,527	647	4	2,502	4	49,029	651
Health care	13	31,567	505	2	3,806	85	35,373	590
Technology, media and telecommunications	19	53,402	850	2	8,987	498	62,389	1,348
Financial services	21	42,848	633	—	—	—	42,848	633
Mortgage-backed securities	2	1,503	15	4	198	10	1,701	25
Collateralized mortgage obligations	23	35,007	472	31	73,973	1,708	108,980	2,180
Asset-backed securities	1	2,598	169	—	—	—	2,598	169
Total Available-for-Sale Fixed Maturities	247	$475,865	$ 9,218	78	$141,714	$ 6,889	$617,579	$ 16,107
Equity securities:								
Common stocks								
Public utilities	—	$—	$ —	3	$145	$ 163	$145	$ 163
Energy	8	1,934	159	—	—	—	1,934	159
Industrials	5	301	11	4	219	239	520	250
Consumer goods and services	—	—	—	2	13	5	13	5
Technology, media and telecommunications	10	478	71	2	12	14	490	85
Financial services	6	311	67	1	172	64	483	131

Nonredeemable preferred stocks	1	351	2	—	—	—	351	2
Total Available-for-Sale Equity Securities	30	$3,375	$ 310	12	$561	$ 485	$3,936	$ 795
Total Available-for-Sale Securities	277	$479,240	$ 9,528	90	$142,275	$ 7,374	$621,515	$ 16,902

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December 31, 2014	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
AVAILABLE-FOR-SALE								
Fixed maturities:								
Bonds								
U.S. Treasury	4	$2,343	$ 6	4	$5,069	$ 46	$7,412	$ 52
U.S. government agency	11	41,064	70	35	95,198	2,352	136,262	2,422
States, municipalities and political subdivisions								
General obligations								
Midwest	1	3,650	74	14	9,856	96	13,506	170
Northeast	—	—	—	9	7,377	50	7,377	50
South	1	3,085	58	19	13,475	230	16,560	288
West	1	1,023	1	5	2,700	18	3,723	19
Special revenue								
Midwest	9	10,219	41	8	11,631	105	21,850	146
South	6	12,882	11	3	2,137	52	15,019	63
West	—	—	—	4	3,671	6	3,671	6
Foreign bonds	6	17,158	446	—	—	—	17,158	446
Public utilities	10	21,839	194	4	3,611	294	25,450	488
Corporate bonds								
Energy	8	17,416	420	3	7,061	373	24,477	793
Industrials	8	17,103	362	3	9,592	1,792	26,695	2,154
Consumer goods and services	11	28,344	258	7	10,064	66	38,408	324
Health care	3	8,244	36	3	7,104	174	15,348	210
Technology, media and telecommunications	4	8,860	68	4	15,742	731	24,602	799
Financial services	3	5,908	31	2	6,131	56	12,039	87
Mortgage-backed securities	9	425	21	2	1,991	25	2,416	46
Collateralized mortgage obligations	10	20,746	112	56	122,550	4,694	143,296	4,806
Total Available-for-Sale Fixed Maturities	105	$220,309	$ 2,209	185	$334,960	$ 11,160	$555,269	$ 13,369
Equity securities:								
Common stocks								
Public utilities	3	$263	$ 44	—	$—	$ —	$263	$ 44
Industrials	3	280	70	2	58	54	338	124
Consumer goods and services	1	129	272	2	15	3	144	275
Technology, media and telecommunications	4	503	14	5	218	44	721	58
Financial services	1	186	51	—	—	—	186	51
Nonredeemable preferred stocks	—	—	—	1	700	7	700	7
	12	$1,361	$ 451	10	$991	$ 108	$2,352	$ 559

Total Available-for-Sale Equity Securities								
Total Available-for-Sale Securities	117	$221,670	$ 2,660	195	$335,951	$ 11,268	$557,621	$ 13,928

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NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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The fair value of our mortgage loans is determined by modeling performed by us based on the stated principal and coupon payments provided for in the loan agreements. These cash flows are then discounted using an appropriate risk-adjusted discount rate to determine the security's fair value, which is a Level 3 fair value measurement.
The fair value of our policy loans is equivalent to carrying value, which is a reasonable estimate of fair value and are classified as Level 2. We do not make policy loans for amounts in excess of the cash surrender value of the related policy. In all instances, the policy loans are fully collateralized by the related liability for future policy benefits for traditional insurance policies or by the policyholders' account balance for non-traditional policies.
Our other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting. The fair value of the partnerships is obtained from the fund managers, which is based on the fair value of the underlying investments held in the partnerships. In management's opinion, these values represent a reasonable estimate of fair value. We have not adjusted the net asset value provided by the fund managers.
For cash and cash equivalents and accrued investment income, carrying value is a reasonable estimate of fair value due to the short-term nature of these financial instruments.

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

A summary of the carrying value and estimated fair value of our financial instruments at September 30, 2015 and December 31, 2014 is as follows:

	September 30, 2015		December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets				
Investments				
Fixed maturities:				
Held-to-maturity securities	$291	$289	$404	$397
Available-for-sale securities	2,790,417	2,790,417	2,843,079	2,843,079
Trading securities	12,918	12,918	16,862	16,862
Equity securities:				
Available-for-sale securities	227,689	227,689	245,843	245,843
Trading securities	4,097	4,097	4,066	4,066
Mortgage loans	4,326	4,022	4,559	4,199
Policy loans	5,569	5,569	5,916	5,916
Other long-term investments	51,278	51,278	50,424	50,424
Short-term investments	175	175	175	175
Cash and cash equivalents	124,061	124,061	90,574	90,574
Corporate-owned life insurance	1,545	1,545	918	918
Liabilities				
Policy reserves				
Annuity (accumulations) (1)	$761,998	$765,907	$865,802	$863,606
Annuity (benefit payments)	129,683	95,017	176,592	99,121

(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 September 30, 2015 and December 31, 2014:

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September 30, 2015		Fair Value Measurements		
Description	Total	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$21,922	$—	$21,922	$—
U.S. government agency	237,247	—	237,247	—
States, municipalities and political subdivisions				
General obligations				
Midwest	170,810	—	170,810	—
Northeast	58,467	—	58,467	—
South	127,538	—	127,538	—
West	101,296	—	101,296	—
Special revenue				
Midwest	152,763	—	152,333	430
Northeast	21,786	—	21,786	—
South	107,241	—	107,241	—
West	77,291	—	77,291	—
Foreign bonds	91,188	—	91,188	—
Public utilities	206,191	—	206,191	—
Corporate bonds				
Energy	114,357	—	114,357	—
Industrials	227,204	—	227,204	—
Consumer goods and services	183,380	—	182,098	1,282
Health care	98,256	—	98,256	—
Technology, media and telecommunications	146,743	—	146,743	—
Financial services	255,961	—	245,693	10,268
Mortgage-backed securities	14,515	—	14,515	—
Collateralized mortgage obligations	370,616	—	370,616	—
Asset-backed securities	5,645	—	4,453	1,192
Total Available-for-Sale Fixed Maturities	$2,790,417	$—	$2,777,245	$13,172
Equity securities:				
Common stocks				
Public utilities	$18,498	$18,498	$—	$—
Energy	11,372	11,372	—	—
Industrials	41,417	41,416	1	—
Consumer goods and services	21,784	21,784	—	—
Health care	25,695	25,695	—	—
Technology, media and telecommunications	12,739	12,739	—	—
Financial services	91,753	87,656	119	3,978
Nonredeemable preferred stocks	4,431	562	3,869	—
Total Available-for-Sale Equity Securities	$227,689	$219,722	$3,989	$3,978

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Total Available-for-Sale Securities	$3,018,106	$219,722	$2,781,234	$17,150
TRADING				
Fixed maturities:				
Corporate bonds				
Industrials	$3,559	$—	$3,559	$—
Consumer goods and services	118	—	118	—
Health care	1,862	—	1,862	—
Technology, media and telecommunications	307	—	307	—
Financial services	4,177	—	4,177	—
Redeemable preferred stocks	2,895	2,895	—	—
Equity securities:				
Energy	257	257	—	—
Industrials	913	913	—	—
Consumer goods and services	901	901	—	—
Health care	285	285	—	—
Financial services	222	222	—	—
Nonredeemable preferred stocks	1,519	1,519	—	—
Total Trading Securities	$17,015	$6,992	$10,023	$—
Short-Term Investments	$175	$175	$—	$—
Money Market Accounts	$41,002	$41,002	$—	$—
Corporate-Owned Life Insurance	$1,545	$—	$1,545	$—
Total Assets Measured at Fair Value	$3,077,843	$267,891	$2,792,802	$17,150

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

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

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

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

We validate the prices obtained from independent pricing services and brokers prior to their use for reporting purposes by evaluating their reasonableness on a monthly basis. Our validation process includes a review for unusual fluctuations. In our opinion, the pricing obtained at September 30, 2015 and December 31, 2014 was reasonable. Unusual fluctuations outside of our expectations are independently corroborated with an additional third party sources that use similar valuation techniques as discussed above. In addition, we also randomly select securities and independently corroborate the valuations obtained from our third party valuation service providers.

For the three- and nine-month periods ended September 30, 2015, 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.

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During the three- and nine-month periods ended September 30, 2015, there were no securities transferred between Level 1 and Level 2.
Securities categorized as Level 3 include holdings in certain private placement fixed maturity and equity securities for which an active market does not currently exist. The fair value of our Level 3 private placement securities is determined by management relying on pricing received from our independent pricing services and brokers consistent with the process to estimate fair value for Level 2 securities. However, securities are categorized as Level 3 if these quotes cannot be corroborated by other market observable data due to the unobservable nature of the brokers' valuation processes. If pricing cannot be obtained from these sources, which occurs on a limited basis, management will perform a discounted cash flow analysis, using an appropriate risk-adjusted discount rate, on the underlying security to estimate fair value.

The following table provides a summary of the changes in fair value of our Level 3 securities for the three-month period ended September 30, 2015:

	States, municipalities and political subdivisions	Corporate bonds	Asset-backed securities	Equities	Total
Balance at June 30, 2015	$430	$11,944	$1,311	$3,978	$17,663
Net unrealized gains (losses)(1)	—	(87)	17	—	(70)
Purchases	—	100	—	—	100
Disposals	—	(407)	(136)	—	(543)
Balance at September 30, 2015	$430	$11,550	$1,192	$3,978	$17,150

(1) 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 the nine-month period ended September 30, 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
Net unrealized gains (losses)(1)	(14)	62	(23)	—	25
Purchases	—	100	—	121	221
Disposals	(75)	(924)	(397)	(15)	(1,411)
Balance at September 30, 2015	$430	$11,550	$1,192	$3,978	$17,150

(1) Unrealized gains (losses) are recorded as a component of comprehensive income.
The fixed maturities reported as disposals relate to the receipt of principal on calls or sinking fund bonds, in accordance with the indentures.

Corporate-Owned Life Insurance

The Company formed a rabbi trust in 2014 to fund obligations under the United Fire & Casualty Company Non-qualified Deferred Compensation Plan and United Fire Group Supplemental Executive Retirement and Deferral Plan (collectively the "Executive Retirement Plans"). Within the rabbi trust, corporate-owned life insurance ("COLI") policies are utilized as an investment vehicle and source of funding for the Company's Executive Retirement Plans. The COLI policies invest in mutual funds, which are priced daily by independent sources. As of September 30, 2015, the cash surrender value of the COLI policies was $1,545, 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.

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NOTE 4. EMPLOYEE BENEFITS

Net Periodic Benefit Cost

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

	Pension Plan		Postretirement Benefit Plan	
Three Months Ended September 30,	2015	2014	2015	2014
Net periodic benefit cost				
Service cost	$1,669	$1,303	$1,305	$924
Interest cost	1,500	1,468	713	586
Expected return on plan assets	(1,950)	(1,739)	—	—
Amortization of net loss	1,136	544	731	224
Net periodic benefit cost	$2,355	$1,576	$2,749	$1,734

	Pension Plan		Postretirement Benefit Plan	
Nine Months Ended September 30,	2015	2014	2015	2014
Net periodic benefit cost				
Service cost	$5,007	$3,909	$3,915	$2,772
Interest cost	4,500	4,404	2,139	1,758
Expected return on plan assets	(5,850)	(5,217)	—	—
Amortization of net loss	3,408	1,632	2,193	672
Net periodic benefit cost	$7,065	$4,728	$8,247	$5,202

Employer Contributions

We previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014 that we expected to contribute $6,352 to the pension plan in 2015. For the nine-month period ended September 30, 2015, we contributed $6,352 to the pension plan. We anticipate that the total contribution in 2015 will not vary significantly from our expected contribution.

NOTE 5. STOCK-BASED COMPENSATION

Non-qualified Employee Stock Award Plan

The United Fire Group, Inc. 2008 Stock Plan (the "2008 Stock Plan") 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 UFG common stock to employees. In May 2014, the Registrant's shareholders approved an additional 1,500,000 shares of UFG 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 September 30, 2015, there were 1,389,623 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 UFG.

Options granted pursuant to the Stock Plan are granted to buy shares of UFG'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

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exercisable by the awardee, in whole or in part, in any subsequent year included in the option period, but not later than 10 years from the grant date. Restricted and unrestricted stock awards granted pursuant to the Stock Plan are granted at the market value of our common stock on the date of the grant. Restricted stock awards fully vest after 5 years from the date of issuance. All awards are generally granted free of charge to the eligible employees of UFG as designated by the Board of Directors.

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

Authorized Shares Available for Future Award Grants	Nine Months Ended September 30, 2015	From Inception to September 30, 2015
Beginning balance	1,646,947	1,900,000
Additional shares authorized	—	1,500,000
Number of awards granted	(366,274)	(2,362,783)
Number of awards forfeited or expired	108,950	352,406
Ending balance	1,389,623	1,389,623
Number of option awards exercised	97,694	565,257
Number of unrestricted stock awards granted	920	6,200
Number of restricted stock awards vested	—	18,576

Non-qualified Non-employee Director Stock Option and Restricted Stock Plan

The United Fire Group, Inc. 2005 Non-Qualified Non-Employee Director Stock Option and Restricted Stock Plan (the "Director Plan") authorizes the issuance of restricted stock awards and non-qualified stock options to purchase shares of UFG's common stock to non-employee directors. At September 30, 2015, we had 69,938 authorized shares available for future issuance.

The Board of Directors has the authority to determine which non-employee directors receive awards, when options and restricted stock shall be granted, the option price, the option expiration date, the date of grant, the vesting schedule of options or whether the options shall be immediately vested, the terms and conditions of options and restricted stock (other than those terms and conditions set forth in the Director 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 Director 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	Nine Months Ended September 30, 2015	From Inception to September 30, 2015
Beginning balance	87,194	300,000
Number of awards granted	(17,256)	(236,065)
Number of awards forfeited or expired	—	6,003
Ending balance	69,938	69,938
Number of option awards exercised	8,450	13,125
Number of restricted stock awards vested	6,434	17,876

Stock-Based Compensation Expense

For the three-month periods ended September 30, 2015 and 2014, we recognized stock-based compensation expense of $616 and $500, respectively. For the nine-month periods ended September 30, 2015 and 2014, we recognized stock-based compensation expense of $1,817 and $1,445, respectively. Stock-based compensation expense is recognized over the vesting period of the stock options.

As of September 30, 2015, we had $6,560 in stock-based compensation expense that has yet to be recognized through our results of operations. We expect this compensation to be recognized over the remainder of 2015 and subsequent years according to the following table, except with respect to awards that are accelerated by the Board of

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Directors, in which case we will recognize any remaining compensation expense in the period in which the awards are accelerated.

2015	$616
2016	2,096
2017	1,864
2018	1,337
2019	584
2020	63
Total	$6,560

NOTE 6. SEGMENT INFORMATION

We have two reportable business segments in our operations: property and casualty insurance and life insurance. The property and casualty insurance segment has seven domestic locations from which it conducts its business. The life insurance segment operates from our home office in Cedar Rapids, Iowa. Because all of our insurance is sold domestically, we have no revenues from foreign operations.

We evaluate the two segments on the basis of both statutory accounting principles prescribed or permitted by our states of domicile and GAAP. We analyze results based on profitability (i.e., loss ratios), expenses, and return on equity. The basis we use to determine and analyze segments and to measure segment profit or loss have not changed from that reported in our Annual Report on Form 10-K for the year ended December 31, 2014.

We have reconciled the amounts in the following table for the three-month periods ended September 30, 2015 and 2014 to the amounts reported in our unaudited Consolidated Financial Statements, adjusting for intersegment eliminations.

	Property and Casualty Insurance	Life Insurance	Total
Three Months Ended September 30, 2015			
Net premiums earned	$218,993	$20,627	$239,620
Investment income, net of investment expenses	10,741	13,334	24,075
Net realized investment gains	732	234	966
Other income	—	123	123
Total reportable segment	$230,466	$34,318	$264,784
Intersegment eliminations	(25)	(199)	(224)
Total revenues	$230,441	$34,119	$264,560
Net income	$18,020	$1,514	$19,534
Assets	$2,231,851	$1,644,165	$3,876,016
Invested assets	$1,572,222	$1,524,232	$3,096,454
Three Months Ended September 30, 2014			
Net premiums earned	$195,195	$16,958	$212,153
Investment income, net of investment expenses	8,191	14,647	22,838
Net realized investment gains (losses)	(22)	916	894
Other income (loss)	(102)	215	113
Total reportable segment	$203,262	$32,736	$235,998
Intersegment eliminations	(1)	(132)	(133)
Total revenues	$203,261	$32,604	$235,865
Net income (loss)	$(1,880)	$2,205	$325
Assets	$2,094,173	$1,731,155	$3,825,328

Invested assets	$1,515,753	$1,623,195	$3,138,948

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We have reconciled the amounts in the following table for the nine-month periods ended September 30, 2015 and 2014 to the amounts reported in our unaudited Consolidated Financial Statements, adjusting for intersegment eliminations.

	Property and Casualty Insurance	Life Insurance	Total
Nine Months Ended September 30, 2015			
Net premiums earned	$628,396	$54,009	$682,405
Investment income, net of investment expenses	33,610	40,623	74,233
Net realized investment gains	316	2,306	2,622
Other income	—	318	318
Total reportable segment	$662,322	$97,256	$759,578
Intersegment eliminations	(28)	(588)	(616)
Total revenues	$662,294	$96,668	$758,962
Net income	$54,420	$3,811	$58,231
Assets	$2,231,851	$1,644,165	$3,876,016
Invested assets	$1,572,222	$1,524,232	$3,096,454
Nine Months Ended September 30, 2014			
Net premiums earned	$562,521	$45,065	$607,586
Investment income, net of investment expenses	31,135	46,011	77,146
Net realized investment gains	3,682	2,114	5,796
Other income	693	562	1,255
Total reportable segment	$598,031	$93,752	$691,783
Intersegment eliminations	56	(397)	(341)
Total revenues	$598,087	$93,355	$691,442
Net income	$19,471	$4,870	$24,341
Assets	$2,094,173	$1,731,155	$3,825,328
Invested assets	$1,515,753	$1,623,195	$3,138,948

NOTE 7. EARNINGS PER COMMON SHARE

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

We determine the dilutive effect of our outstanding stock options using the "treasury stock" method. Under this method, we assume the exercise of all of the outstanding stock options whose exercise price is less than the weighted-average 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.

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The components of basic and diluted earnings per share were as follows for the three-month periods ended September 30, 2015 and 2014:

(In Thousands Except Share Data)	Three Months Ended September 30, 2015 Basic	2015 Diluted	2014 Basic	2014 Diluted
Net income	$19,534	$19,534	$325	$325
Weighted-average common shares outstanding	25,067,080	25,067,080	25,188,381	25,188,381
Add dilutive effect of restricted stock awards	—	125,135	—	114,313
Add dilutive effect of stock options	—	187,133	—	101,655
Weighted-average common shares	25,067,080	25,379,348	25,188,381	25,404,349
Earnings per common share	$0.78	$0.77	$0.01	$0.01
Awards excluded from diluted earnings per share calculation(1)	—	260,035	—	868,020

(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.

The components of basic and diluted earnings per share were as follows for the nine-month periods ended September 30, 2015 and 2014:

(In Thousands Except Share Data)	Nine Months Ended September 30, 2015 Basic	2015 Diluted	2014 Basic	2014 Diluted
Net income	$58,231	$58,231	$24,341	$24,341
Weighted-average common shares outstanding	25,027,382	25,027,382	25,295,842	25,295,842
Add dilutive effect of restricted stock awards	—	125,135	—	114,313
Add dilutive effect of stock options	—	19,364	—	126,414
Weighted-average common shares	25,027,382	25,171,881	25,295,842	25,536,569
Earnings per common share	$2.33	$2.31	$0.96	$0.95
Awards excluded from diluted earnings per share calculation(1)	—	410,425	—	889,080

(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 8. CREDIT FACILITY

In December 2011, UFG entered into a credit agreement with a syndicate of financial institutions as lenders. KeyBank National Association is the administrative agent, lead arranger, sole book runner, swingline lender, and letter of credit issuer, and Bankers Trust Company is the syndication agent. The four-year credit agreement provides for a $100,000 unsecured revolving credit facility that includes a $20,000 letter of credit subfacility and a swingline subfacility 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 have 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 is available for general corporate purposes, including working capital, acquisitions and liquidity purposes. Any principal outstanding under the credit facility is due in full at maturity, on December 22, 2015. The interest rate is based on our monthly choice of either a base rate or the London Interbank Offered Rate ("LIBOR") plus, in each

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case, a calculated margin amount. A commitment fee on each lender's unused commitment under the credit facility is also payable quarterly.

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

There was no outstanding balance on the credit facility at September 30, 2015 and 2014. For the nine-month periods ended September 30, 2015 and 2014, we did not incur any interest expense related to this credit facility. We were in compliance with all covenants for the credit agreement at September 30, 2015.

NOTE 9. 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 three-month period ended September 30, 2015:

	Net unrealized appreciation on investments	Liability for underfunded employee benefit costs	Total
Balance as of June 30, 2015	$132,714	$(56,023)	$76,691
Change in accumulated other comprehensive income before reclassifications	(1,305)	—	(1,305)
Reclassification adjustments from accumulated other comprehensive income (loss)	(1,186)	1,213	27
Balance as of September 30, 2015	$130,223	$(54,810)	$75,413

The following table shows the changes in the components of our accumulated other comprehensive income (loss), net of tax, for the nine-month period ended September 30, 2015:

	Net unrealized appreciation on investments	Liability for underfunded employee benefit costs	Total
Balance as of January 1, 2015	$149,623	$(58,450)	$91,173
Change in accumulated other comprehensive income before reclassifications	(16,336)	—	(16,336)
Reclassification adjustments from accumulated other comprehensive income (loss)	(3,064)	3,640	576
Balance as of September 30, 2015	$130,223	$(54,810)	$75,413

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Review Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
United Fire Group, Inc.

We have reviewed the consolidated balance sheet of United Fire Group, Inc. (the "Company") as of September 30, 2015, and the related consolidated statements of income and comprehensive income for the three- and nine-month periods ended September 30, 2015 and 2014, the consolidated statements of cash flows for the nine-month periods ended September 30, 2015 and 2014, and the consolidated statement of stockholders' equity for the nine-month period ended September 30, 2015. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Fire Group, Inc. as of December 31, 2014, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated March 2, 2015. In our opinion, the accompanying consolidated balance sheet of United Fire Group, Inc. as of December 31, 2014 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP
Ernst & Young LLP

Des Moines, Iowa
November 5, 2015

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Part I, Item 1 "Financial Statements."

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are representative of significant judgments and uncertainties and that potentially may result in materially different results under different assumptions and conditions. We base our discussion and analysis of our results of operations and financial condition on the amounts reported in our Consolidated Financial Statements, which we have prepared in accordance with GAAP. As we prepare these Consolidated Financial Statements, we must make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the reporting period. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Our critical accounting policies are more fully described in our Management's Discussion and Analysis of Financial Condition and Results of Operations presented in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no changes in our critical accounting policies from December 31, 2014.

INTRODUCTION

The purpose of this Management's Discussion and Analysis is to provide an understanding of our results of operations and consolidated financial position. Our Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and related notes, including those in our Annual Report on Form 10-K for the year ended December 31, 2014. When we provide information on a statutory basis, we label it as such, otherwise, all other data is presented in accordance with GAAP.

OUR BUSINESS

Founded in 1946 as United Fire & Casualty Company, United Fire Group, Inc. ("UFG", the "Registrant", the "Company", "we", "us", or "our") and its consolidated insurance subsidiaries provide insurance protection for individuals and businesses through several regional offices. Our property and casualty insurance company subsidiaries are licensed in 45 states plus the District of Columbia and are represented by approximately 1,200 independent agencies. Our life insurance subsidiary is licensed in 37 states and is represented by approximately 1,200 independent agencies.

Segments

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

- property and casualty insurance, which includes commercial lines insurance, personal lines 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 each has different products, pricing, and expense structures.

For the nine-month period ended September 30, 2015, property and casualty insurance business accounted for approximately 92.2 percent of our net premiums earned, of which 91.8 percent was generated from commercial

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lines. Life insurance business accounted for approximately 7.8 percent of our net premiums earned, of which 69.3 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, United Fire Group Specialty Insurance Company (formerly known as Texas General Indemnity Company) entered the pooling arrangement. The Company's pooling arrangement permits the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant’s own surplus level.

Geographic Concentration

For the nine-month period ended September 30, 2015, approximately 48.7 percent of our property and casualty premiums were written in Texas, California, Iowa, Missouri and New Jersey; approximately 64.3 percent of our life insurance premiums were written in Iowa, Minnesota, Wisconsin, Illinois and Nebraska.

Segment Revenue and Expense

We evaluate segment profit or loss based upon operating and investment results. Segment profit or loss described in the following sections of this Management's Discussion and Analysis is reported on a pre-tax basis. Additional segment information is presented in Part I, Item 1, Note 6 "Segment Information" to the unaudited Consolidated Financial Statements.

Our primary sources of revenue are premiums and investment income. Major categories of expenses include losses and loss settlement expenses, 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, effective use of ceded reinsurance and effective and efficient use of technology.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In Thousands)	2015	2014	%	2015	2014	%
Revenues						
Net premiums earned	$239,421	$212,021	12.9 %	$681,817	$607,189	12.3 %
Investment income, net of investment expenses	24,050	22,837	5.3	74,205	77,202	(3.9)
Net realized investment gains	966	894	8.1	2,622	5,796	(54.8)
Other income	123	113	8.8	318	1,255	(74.7)
Total revenues	$264,560	$235,865	12.2 %	$758,962	$691,442	9.8 %
Benefits, Losses and Expenses						
Losses and loss settlement expenses	$144,526	$154,346	(6.4)%	$421,297	$422,299	(0.2)%
Increase in liability for future policy benefits	12,784	10,552	21.2	32,503	26,450	22.9
Amortization of deferred policy acquisition costs	48,697	44,644	9.1	135,526	124,374	9.0
Other underwriting expenses	26,161	21,665	20.8	73,241	68,869	6.3
Interest on policyholders' accounts	5,568	7,503	(25.8)	18,207	23,342	(22.0)
Total benefits, losses and expenses	$237,736	$238,710	(0.4)%	$680,774	$665,334	2.3 %
Income (loss) before income taxes	$26,824	$(2,845)	NM	$78,188	$26,108	199.5 %
Federal income tax expense (benefit)	7,290	(3,170)	NM	19,957	1,767	NM
Net income	$19,534	$325	NM	$58,231	$24,341	139.2 %

NM = Not meaningful

The following is a summary of our financial performance for the three- and nine-month periods ended September 30, 2015:

Consolidated Results of Operations

For the three-month period ended September 30, 2015, net income was $19.5 million compared to $0.3 million for the same period of 2014. The improvement in net income was driven by organic growth from new business and rate increases and a decrease in losses and loss settlement expenses from lower catastrophe losses and a better performing underlying book of business. Consolidated net premiums earned increased to $239.4 million compared to $212.0 million for the same period of 2014. This increase is a result of organic growth with a combination of new business writings and rate increases.

For the nine-month period ended September 30, 2015, net income was $58.2 million compared to $24.3 million for the same period of 2014. The improvement in net income was driven by organic growth from new business and rate increases and a decrease in losses and loss settlement expenses from lower catastrophe losses and a better performing underlying book of business. Consolidated net premiums earned increased to $681.8 million compared to $607.2 million for the same period of 2014. This increase is a result of organic growth with a combination of new business writings and rate increases.

Losses and loss settlement expenses decreased by $9.8 million during the three-month period ended September 30, 2015 compared to the same period of 2014. The net loss ratio decreased by 13.4 percentage points during the three-month period ended September 30, 2015 compared to the same period of 2014. The decrease in the net loss ratio is primarily due to higher prior year catastrophe losses and commercial fire losses. Pre-tax catastrophe losses were

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significantly lower on a higher premium base, totaling $7.0 million compared to $23.3 million in the same period of 2014, which experienced an increase in the frequency of claims from catastrophes losses associated with carryover losses from late second quarter 2014 convective storms in regions of the U.S. where we conduct much of our business.

Losses and loss settlement expenses decreased by $1.0 million during the nine-month period ended September 30, 2015 compared to the same period of 2014. The net loss ratio decreased by 7.9 percentage points during the nine-month period ended September 30, 2015 compared to the same period of 2014. The decrease in the net loss ratio is primarily due to higher prior year catastrophe losses and commercial fire losses. Pre-tax catastrophe losses for the nine-months year-to-date were lower, on a higher premium base, totaling $27.3 million compared to $47.2 million in the same period of 2014, which experienced an increase in the frequency of claims from catastrophes losses associated with late second quarter 2014 convective storms in regions of the U.S. where we conduct much of our business.

Investment income increased by $1.2 million and decreased $3.0 million, respectively, during the three- and nine-month periods ended September 30, 2015 compared to the same periods of 2014. The increase in the three-month period ended September 30, 2015 was due to the change in value of our investments in limited liability partnerships as compared to the same period in 2014 partially offset by the decline of reinvestment interest rates from the continued low interest rate environment and a lower asset base in our life segment due to declining annuity deposits. The decrease in the nine-month period ended September 30, 2015 is primarily due to the decline of reinvestment interest rates from the continued low interest rate environment and a lower asset base in our life segment due to declining annuity deposits.

Consolidated Financial Condition

At September 30, 2015, the book value per share of our common stock was $33.73. We repurchased 79,396 shares of our common stock at a total cost of $2.4 million and an average share price of $30.51 in the nine-month period ended September 30, 2015. Under our share repurchase program, which is scheduled to expire on August 31, 2016, we are authorized to repurchase an additional 1,528,886 shares of our common stock as of September 30, 2015.

Net unrealized investment gains totaled $130.2 million as of September 30, 2015, a decrease of $19.4 million, net of tax, or 13.0 percent, since December 31, 2014. The decrease in the net unrealized investment gains is due to changes in the fair value of our equity investment portfolio due to overall equity market declines at September 30, 2015 and to a lesser extent, by a decrease in net unrealized investment gains in our fixed maturity investment portfolio from rising interest rates.

Our stockholders' equity increased to $845.5 million at September 30, 2015, from $817.4 million at December 31, 2014. The increase was primarily attributable to net income of $58.2 million partially offset by a decrease in net unrealized investment gains of $19.4 million, net of tax, and shareholder dividends of $16.0 million.

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RESULTS OF OPERATIONS

Property and Casualty Insurance Segment Results

	Three Months Ended September 30,				Nine Months Ended September 30,			
(In Thousands Except Ratios)	2015		2014		2015		2014	
Net premiums written	$216,124		$190,551		$678,242		$611,941	
Net premiums earned	$218,993		$195,195		$628,396		$562,521	
Losses and loss settlement expenses	(137,696	)	(148,815	)	(400,087	)	(402,964	)
Amortization of deferred policy acquisition costs	(46,847	)	(42,902	)	(130,305	)	(119,280	)
Other underwriting expenses	(21,505	)	(17,843	)	(59,625	)	(57,207	)
Underwriting gain (loss)	$12,945		$(14,365	)	$38,379		$(16,930	)
Investment income, net of investment expenses	10,716		8,190		33,582		31,191	
Net realized investment gains (losses)	732		(22	)	316		3,682	
Other income (loss)	—		(102	)	—		693	
Income (loss) before income taxes	$24,393		$(6,299	)	$72,277		$18,636	
GAAP Ratios:								
Net loss ratio (without catastrophes)	59.7	%	64.4	%	59.3	%	63.2	%
Catastrophes - effect on net loss ratio	3.2		11.9		4.4		8.4	
Net loss ratio(1)	62.9	%	76.3	%	63.7	%	71.6	%
Expense ratio(2)	31.2		31.1		30.2		31.4	
Combined ratio(3)	94.1	%	107.4	%	93.9	%	103.0	%

(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 unaudited 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 three- and nine-month periods ended September 30, 2015, our property and casualty segment reported income before taxes of $24.4 million and $72.3 million, respectively, or an increase of $30.7 million and $53.6 million, respectively, compared to the same periods of 2014. The increase in the three- and nine-month periods ended September 30, 2015 was driven by organic premium growth from new business and rate increases, and a decrease in losses and loss settlement expenses due to lower catastrophe losses and a better performing underlying book of business.

Net premiums earned increased 12.2 percent to $219.0 million in the three-month period ended September 30, 2015, compared to $195.2 million in the same period of 2014. Net premiums earned increased 11.7 percent to $628.4 million in the nine-month period ended September 30, 2015, compared to $562.5 million in the same period of 2014. These increases are a result of organic growth from a combination of new business writings and rate increases.

The combined ratio decreased 13.3 percentage points and 9.1 percentage points to 94.1 percent and 93.9 percent, respectively, for the three- and nine-month periods ended September 30, 2015, compared to 107.4 percent and 103.0 percent for the same periods of 2014. The decrease in the combined ratio in the three- and nine-month periods ended September 30, 2015, as compared to the same periods of 2014, was primarily attributable to actions taken to improve profitability, including more adequate pricing of our products to improve our underlying underwriting performance, and less catastrophe activity.

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The net loss ratio, a component of the combined ratio, decreased by 13.4 percentage points to 62.9 percent and 7.9 percentage points to 63.7 percent in the three- and nine-month periods ended September 30, 2015, respectively, as compared to the same periods of 2014 primarily due to lower catastrophe losses and a better performing underlying book of business. Pre-tax catastrophe losses totaled $7.0 million and $27.3 million for the three- and nine-month periods ended September 30, 2015, respectively, as compared to $23.3 million and $47.2 million in the same periods of 2014.

The expense ratio, a component of the combined ratio, was 31.2 percent and 30.2 percent for the three- and nine-month periods ended September 30, 2015, an increase of 0.1 percentage points and a decrease of 1.2 percentage points, respectively, as compared with the same periods of 2014. The decrease in the nine-month period ended September 30, 2015 was primarily due to an 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 pension and post-retirement benefit costs.

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

Reserve Development

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

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

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

2015 Development

The property and casualty insurance segment experienced $0.7 million and $24.1 million of favorable development in our net reserves for prior accident years for the three- and nine-month periods ended September 30, 2015, respectively. Three lines in aggregate accounted for a majority of the favorable development. The largest single contributor was workers' compensation with $1.9 million and $13.6 million, respectively, of favorable development followed by long-tail liability with $2.4 million and $8.8 million, respectively, of favorable development, and auto physical damage with $0.4 million and $4.1 million, respectively, of favorable development in the three- and nine-month periods ended September 30, 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 due to 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 from commercial auto liability of

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$6.2 million and $2.7 million, respectively, in the three- and nine-month periods ended September 30, 2015. This adverse development experience is the result of lower fuel prices and an increase in highway roadway use by commercial vehicles. Development on assumed property and liability reinsurance is mixed with favorable development of $1.7 million for the three-month period ended September 30, 2015 and adverse development of $4.2 million for the nine-month period ended September 30, 2015. No other line of business contributed a significant portion of the total development.

2014 Development

The property and casualty insurance segment experienced $6.8 million and $32.5 million of favorable development in our net reserves for prior accident years for the three- and nine-month periods ended September 30, 2014, respectively. The significant drivers of the favorable reserve development in 2014 were our long-tail liability lines, including workers' compensation and automobile (both liability and physical damage), which have contributed $9.0 million and $38.0 million, respectively, of the three- and nine-month reserve development totals. Commercial auto liability, with $7.1 million of favorable year-to-date reserve development, continues to benefit from loss control and re-underwriting initiatives over the past two years. Development from the property lines provided a partial offset to the favorable development noted above.

Development amounts can vary significantly from quarter-to-quarter and 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. At September 30, 2015, our total reserves were within our actuarial estimates.

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

Three Months Ended September 30,	2015			2014		
(In Thousands) Unaudited	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	$67,752	$32,483	47.9 %	$58,807	$32,842	55.8 %
Fire and allied lines	51,913	29,534	56.9	46,448	49,120	105.8
Automobile	47,840	45,326	94.7	42,181	36,938	87.6
Workers' compensation	24,721	14,654	59.3	22,955	12,239	53.3
Fidelity and surety	5,709	(85)	(1.5)	5,095	150	2.9
Miscellaneous	386	57	14.8	692	(28)	(4.0)
Total commercial lines	$198,321	$121,969	61.5 %	$176,178	$131,261	74.5 %
Personal lines						
Fire and allied lines	$11,084	$9,295	83.9 %	$11,151	$12,163	109.1 %
Automobile	6,119	4,952	80.9	5,877	5,622	95.7
Miscellaneous	260	116	44.6	251	1,622	NM
Total personal lines	$17,463	$14,363	82.2 %	$17,279	$19,407	112.3 %
Reinsurance assumed	$3,209	$1,364	42.5 %	$1,738	$(1,853)	(106.6)%
Total	$218,993	$137,696	62.9 %	$195,195	$148,815	76.3 %

NM = Not meaningful

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Nine Months Ended September 30,	2015				2014			
(In Thousands) Unaudited	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	$191,725	$101,162	52.8	%	$167,851	$87,704	52.3	%
Fire and allied lines	149,732	98,602	65.9		133,802	126,618	94.6	
Automobile	136,966	116,588	85.1		121,022	88,539	73.2	
Workers' compensation	71,224	36,464	51.2		64,981	46,577	71.7	
Fidelity and surety	15,030	2,540	16.9		13,654	1,145	8.4	
Miscellaneous	1,735	181	10.4		2,039	(18)	(0.9)	
Total commercial lines	$566,412	$355,537	62.8	%	$503,349	$350,565	69.6	%
Personal lines								
Fire and allied lines	$32,990	$24,364	73.9	%	$33,253	$32,548	97.9	%
Automobile	17,917	12,807	71.5		17,349	16,588	95.6	
Miscellaneous	759	228	30.0		742	1,710	NM	
Total personal lines	$51,666	$37,399	72.4	%	$51,344	$50,846	99.0	%
Reinsurance assumed	$10,318	$7,151	69.3	%	$7,828	$1,553	19.8	%
Total	$628,396	$400,087	63.7	%	$562,521	$402,964	71.6	%

NM = Not meaningful

- Commercial fire and allied lines - The net loss ratio improved 48.9 percentage points and 28.7 percentage points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same periods of 2014. The change is primarily attributable to elevated losses in the prior year. In 2014, there was an increase in the frequency of claims associated with the harsh winter weather experienced in the United States ("U.S.") in the first quarter, an increase in catastrophes from spring storms experienced in regions of the U.S. where we conduct much of our business in the second quarter and an increase in frequency and severity in commercial fire losses.

- Commercial automobile - The net loss ratio deteriorated 7.1 percentage points and 11.9 percentage points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same periods of 2014. The change was due to an increase in severity of claims combined with additional reserves for incurred but not reported claims in 2015 as compared to the prior year primarily from an adverse development experience trend from lower fuel prices and an increase in highway roadway use by commercial vehicles.

- Workers' compensation - The net loss ratio deteriorated 6.0 percentage points in the three-month period ended September 30, 2015 compared to the same periods of 2014. The change is primarily attributable to more favorable reserve development in the prior year in reserves for reported claims. The net loss ratio improved 20.5 percentage points in the nine-month period ended September 30, 2015 compared to the same periods of 2014. The change was due to the combined effects of a decrease in severity and frequency of claims in 2015 as compared to the prior year.

- Personal fire and allied lines - The net loss ratio improved 25.2 percentage points and 24.0 percentage points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same period of 2014. The change is primarily attributable to higher losses in the prior year. In 2014, there was a higher level of catastrophe loss experience from convective storms in regions of the U.S. where we conduct much of our business.

- Personal automobile - The net loss ratio improved 14.8 percentage points and 24.1 percentage points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same period of

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2014. The change is primarily attributable to higher losses in the prior year along with favorable reserve development on liability claims in the current year. In 2014, there was an increase in claim frequency and severity due to harsh winter weather experienced in the U.S. in the first quarter, and due to an increase in catastrophe loss experience from convective storms in regions of the U.S. where we conduct much of our business.

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Life Insurance Segment Results

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2015	2014	2015	2014
Revenues				
Net premiums earned	$20,428	$16,826	$53,421	$44,668
Investment income, net of investment expenses	13,334	14,647	40,623	46,011
Net realized investment gains	234	916	2,306	2,114
Other income	123	215	318	562
Total revenues	$34,119	$32,604	$96,668	$93,355
Benefits, Losses and Expenses				
Losses and loss settlement expenses	$6,830	$5,531	$21,210	$19,335
Increase in liability for future policy benefits	12,784	10,552	32,503	26,450
Amortization of deferred policy acquisition costs	1,850	1,742	5,221	5,094
Other underwriting expenses	4,656	3,822	13,616	11,662
Interest on policyholders' accounts	5,568	7,503	18,207	23,342
Total benefits, losses and expenses	$31,688	$29,150	$90,757	$85,883
Income before income taxes	$2,431	$3,454	$5,911	$7,472

Income before income taxes decreased $1.0 million and $1.6 million, respectively, in the three- and nine-month periods ended September 30, 2015 as compared to the same periods of 2014. The decrease in net income is due to a decrease in investment income, an increase in losses and loss settlement expenses and an increase in the increase in liability for future policy benefits, all partially offset by an increase in net premiums earned from higher sales of single premium whole life policies ("SPWL") and a decrease in interest on policyholders' accounts due to a decline in the amount of expense associated with the payment of interest to policyholders on annuity accounts.

Net premiums earned increased 21.4 percent to $20.4 million for the three-month period ended September 30, 2015, compared to $16.8 million in the same period of 2014. In the nine-month period ended September 30, 2015, net premiums earned increased 19.6 percent to $53.4 million, compared to $44.7 million in the same period of 2014. The increase in net premiums earned was primarily due to an increase in sales of SPWL policies.

Net investment income decreased 9.0 percent to $13.3 million for the three-month period ended September 30, 2015, compared to $14.6 million for the same period of 2014. In the nine-month period ended September 30, 2015, investment income decreased 11.7 percent to $40.6 million compared to $46.0 million in the same period of 2014. The decrease is due to a lower asset base from declining annuity deposits and the decline of reinvestment rates from the continued low interest rate environment.
The increase in liability for future policy benefits increased in the three- and nine-month periods ended September 30, 2015, compared to the same periods of 2014 due to an increase in sales SPWL policies.

Deferred annuity deposits decreased 51.5 percent and 50.0 percent, respectively, for the three- and nine-month periods ended September 30, 2015 compared to the same periods of 2014. We gradually lowered the credited rate offered on our deferred annuity products during the low interest rate environment over the last year, which has resulted in a decrease in deferred annuity deposits for the three- and nine-month periods ended September 30, 2015 as compared with the same periods of 2014.

Net cash outflow related to our annuity business was $27.3 million and $106.5 million, respectively, in the three- and nine-month periods ended September 30, 2015, compared to a net cash outflow of $23.8 million and $50.6 million, respectively, in the same periods of 2014. We attribute this to the interest rate activity described above.

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

Investment Portfolio

Our invested assets totaled $3.1 billion at September 30, 2015, compared to $3.2 billion at December 31, 2014, a decrease of $74.5 million. At September 30, 2015, fixed maturity securities and equity securities made up 90.5 percent and 7.5 percent of the value of our investment portfolio, respectively. Because the primary purpose of our investment portfolio is to fund future claims payments, we use a conservative investment philosophy, investing in a diversified portfolio of high-quality, intermediate-term taxable corporate bonds, taxable U.S. government bonds and tax-exempt U.S. municipal bonds. Our overall investment strategy is to keep our cash on hand low in the current interest rate environment. If additional cash is needed, we can 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, regulatory requirements, interest rates and credit quality of assets. 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 September 30, 2015 is presented at carrying value in the following table:

	Property & Casualty Insurance Segment			Life Insurance Segment			Total		
(In Thousands)		Percent of Total			Percent of Total			Percent of Total	
Fixed maturities [1]									
Held-to-maturity	$201	—	%	$88	—	%	$289	—	%
Available-for-sale	1,313,685	83.6		1,476,732	96.9		2,790,417	90.1	
Trading securities	12,918	0.8		—	—		12,918	0.4	
Equity securities									
Available-for-sale	204,246	13.0		23,443	1.5		227,689	7.4	
Trading securities	4,097	0.3		—	—		4,097	0.1	
Mortgage loans	—	—		4,022	0.3		4,022	0.1	
Policy loans	—	—		5,569	0.4		5,569	0.2	
Other long-term investments	36,900	2.3		14,378	0.9		51,278	1.7	
Short-term investments	175	—		—	—		175	—	
Total	$1,572,222	100.0	%	$1,524,232	100.0	%	$3,096,454	100.0	%

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

At September 30, 2015, we classified $2.8 billion, or 99.5 percent, of our fixed maturities portfolio as available-for-sale, compared to $2.8 billion, or 99.4 percent, at December 31, 2014. We classify our remaining fixed maturities as held-to-maturity or trading. We record held-to-maturity securities at amortized cost. We record available-for-sale securities at fair value, with any changes in fair value recognized in accumulated other comprehensive income. We record trading securities, primarily convertible redeemable preferred debt securities, at fair value, with any changes in fair value recognized in earnings.

As of September 30, 2015 and December 31, 2014, we did not have direct exposure to investments in subprime mortgages or other credit enhancement vehicles.

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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 September 30, 2015 and December 31, 2014. Information contained in the table is generally based upon the issued credit ratings provided by Moody's, unless the rating is unavailable, in which case we obtain credit ratings from Standard & Poor's.

(In Thousands)	September 30, 2015			December 31, 2014		
Rating	Carrying Value	% of Total		Carrying Value	% of Total	
AAA	$823,816	29.4	%	$896,367	31.4	%
AA	686,186	24.5		637,305	22.3	
A	663,483	23.7		621,293	21.7	
Baa/BBB	570,662	20.3		641,497	22.4	
Other/Not Rated	59,477	2.1		63,876	2.2	
	$2,803,624	100.0	%	$2,860,338	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 at September 30, 2015 was 5.0 years compared to 5.0 years at December 31, 2014.

Property and Casualty Insurance Segment

The weighted average effective duration of our portfolio of fixed maturity securities at September 30, 2015 was 5.0 years compared to 4.8 years at December 31, 2014.

Life Insurance Segment

The weighted average effective duration of our portfolio of fixed maturity securities at September 30, 2015 was 5.1 years compared to 5.2 years at December 31, 2014.

Investment Results
We invest the premiums received from our policyholders and annuitants in order to generate investment income, which is an important component of our revenues and profitability. The amount of investment income that we are able to generate is affected by many factors, some of which are beyond our control. Some of these factors are volatility in the financial markets, economic growth, inflation, interest rates, world political conditions, terrorist attacks or threats of terrorism, adverse events affecting other companies in our industry or the industries in which we invest and other unpredictable national or world events. Our net investment income increased by 5.3 percent and decreased 3.9 percent in the three- and nine-month periods ended September 30, 2015 compared with the same period of 2014. The increase in the three-month period ended September 30, 2015 was due to the change in value of our investments in limited liability partnerships as compared to the same period in 2014 partially offset by a lower asset base in our life segment

due to declining annuity deposits and the decline of reinvestment interest rates from the continued low interest rate environment. The decrease in the nine-month period ended September 30, 2015 is primarily due to a lower asset base in our life segment due to declining annuity deposits and the decline of

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reinvestment interest rates from the continued low interest rate environment. We are maintaining our investment philosophy of purchasing fixed income investments rated investment grade or better.

We hold certain investments in limited liability partnerships that are recorded on the equity method of accounting, with changes in value of these investments recorded in investment income. In the three- and nine-month periods ended September 30, 2015, the change in value of our investments in limited liability partnerships resulted in a decrease of $0.2 million and $0.7 million, respectively, to investment income as compared to a decrease of $2.6 million and an increase of $0.4 million, respectively, to investment income in the same periods of 2014.

Our net realized investment gains were $1.0 million and $2.6 million, respectively, during the three- and nine-month periods ended September 30, 2015, as compared with $0.9 million and $5.8 million, respectively, in the same periods of 2014.

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. 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 September 30, 2015 are temporary based upon our current analysis of the issuers of the securities that we hold and current market conditions. It is possible that we could recognize impairment charges in future periods on securities that we own at September 30, 2015 if future events and information cause us to determine that a decline in value is other-than-temporary. However, we endeavor to invest in high quality assets to provide protection from future credit quality issues and corresponding other-than-temporary impairment write-downs. In the three- and nine-month periods ended September 30, 2015, there were no other-than-temporary impairment write-downs.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures our ability to generate sufficient cash flows to meet our short- and long-term cash obligations. Our cash inflows are primarily a result of 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 U.S.

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.

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

The following table displays a summary of cash sources and uses in 2015 and 2014.

Cash Flow Summary	Nine Months Ended September 30,	
(In Thousands)	2015	2014
Cash provided by (used in)		
Operating activities	$124,407	$87,344
Investing activities	22,430	(43,936)
Financing activities	(113,350)	(63,669)
Net increase (decrease) in cash and cash equivalents	$33,487	$(20,261)

Operating Activities

Net cash flows provided by operating activities totaled $124.4 million and $87.3 million for the nine-month periods ended September 30, 2015 and 2014, respectively. The increase in operating cash flows in the nine-month period ended September 30, 2015 reflects an increase in net income and the timing of the settlement of loss payments. Our cash flows from operations were sufficient to meet our liquidity needs for the nine-month periods ended September 30, 2015 and 2014.

Investing Activities

Cash in excess of operating requirements is generally invested in fixed maturity securities and equity securities. Fixed maturities provide regular interest payments and allow us to match the duration of our liabilities. Equity securities provide dividend income, potential dividend income growth and potential appreciation. For further discussion of our investments, including our philosophy and our strategy for our portfolio, see the "Investment Portfolio" section of 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 31.2 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 September 30, 2015, our cash and cash equivalents included $41.0 million related to these money market accounts, compared to $28.1 million at December 31, 2014.

Net cash flows provided by investing activities were $22.4 million for the nine-month period ended September 30, 2015 compared to net cash flows used in investing activities of $43.9 million for the nine-month period ended September 30, 2014. For the nine-month periods ended September 30, 2015 and 2014, we had cash inflows from scheduled and unscheduled investment maturities, redemptions, prepayments, and sales of investments of $539.9 million and $396.7 million, respectively.

Our cash outflows for investment purchases were $506.7 million for the nine-month period ended September 30, 2015, compared to $434.9 million for the same period of 2014.

Financing Activities

Net cash flows used in financing activities were $113.4 million and $63.7 million for the nine-month periods ended September 30, 2015 and 2014, respectively. The increase reflects a higher level of net annuity withdrawals in the nine-month period ended September 30, 2015, compared to the same period of 2014.

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Credit Facilities

In December 2011, UFG entered into a credit agreement with a syndicate of financial institutions as lenders, KeyBank National Association as administrative agent, lead arranger, sole book runner, swingline lender, and letter of credit issuer, and Bankers Trust Company as syndication agent.

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. As of September 30, 2015, there were no balances outstanding under this credit agreement. For further discussion of our credit agreement, refer to Part I, Item 1, Note 8 "Credit Facility" to the unaudited Consolidated Financial Statements.

Dividends

Dividends paid to shareholders totaled $16.0 million and $14.7 million in the nine-month periods ended September 30, 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 September 30, 2015, United Fire Group Inc.'s sole direct insurance company subsidiary, United Fire & Casualty Company, is able to make a maximum of $36.1 million in dividend payments without prior regulatory approval. These restrictions will not have a material impact in meeting our cash obligations.

Stockholders' Equity

Stockholders' equity increased 3.4 percent to $845.5 million at September 30, 2015, from $817.4 million at December 31, 2014. The increase was primarily attributable to net income of $58.2 million partially offset by a decrease in net unrealized investment gains of $19.4 million, net of tax, during the first nine months of 2015 and shareholder dividends of $16.0 million. At September 30, 2015, the book value per share of our common stock was $33.73 compared to $32.67 at December 31, 2014.

Funding Commitments

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed through December 31, 2023, to make capital contributions upon request of the partnership. Our remaining potential contractual obligation was $8.5 million at September 30, 2015.

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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 section provides further explanation of the key measures management uses to evaluate our results.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2015	2014	2015	2014
ISO catastrophes	$4,916	$18,909	$24,950	$43,562
Non-ISO catastrophes [1]	2,039	4,373	2,386	3,598
Total catastrophes	$6,955	$23,282	$27,336	$47,160

(1) This number includes international assumed losses.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

It is our philosophy that we do not utilize financial hedges or derivative financial instruments to manage risks, nor do we enter into any swap, forward or option contracts, but attempt to mitigate our exposure through active portfolio management. In addition, we place the majority of our investments in high-quality, liquid securities and limit the amount of credit exposure to any one issuer. At September 30, 2015, we did not have direct exposure to investments in sub-prime mortgages or other credit-enhancement exposures.

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

There have been no material changes in our market risk or market risk factors from what we reported in our Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, 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 is 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.

Changes in Internal Control Over Financial Reporting

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

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 September 30, 2015 to be ordinary and routine and does not expect these legal proceedings to have a material adverse effect on the Company's financial position or results of operations.

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, including those identified in Part I, Item 1A "Risk Factors" in our 2014 Annual Report on Form 10-K filed with the SEC on March 2, 2015, that could have a material effect on our business, results of operations, financial condition, and/or liquidity and that could cause our operating results to vary significantly from period to period. The risks described in the above mentioned report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also have a material effect on our business, results of operations, financial condition and/or liquidity.

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

Under our share repurchase program, first announced in August 2007, we may purchase UFG 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.

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 three-month period ended September 30, 2015.

Period	Total Number of Shares Purchased	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]
7/1/2015 - 7/31/2015	—	$—	—	1,558,577
8/1/2015 - 8/31/2015	1,908	33.00	1,908	1,556,669
9/1/2015 - 9/30/2015	27,783	32.99	27,783	1,528,886
Total	29,691	$32.99	29,691	

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit number	Exhibit description	Filed herewith
31.1	Certification of Randy A. Ramlo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in XBRL: (i) Consolidated Balance Sheets at September 30, 2015 (unaudited) and December 31, 2014; (ii) Consolidated Statements of Income and Comprehensive Income (unaudited) for the three and nine months ended September 30, 2015 and 2014; (iii) Consolidated Statement of Stockholders' Equity (unaudited) for the nine months ended September 30, 2015; (iv) Consolidated Statements of Cash Flows (unaudited) for the three and nine months ended September 30, 2015 and 2014; and (v) Notes to Unaudited Consolidated Financial Statements, tagged as a block of text.	X

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SIGNATURES

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

UNITED FIRE GROUP, INC.
(Registrant)

/s/ Randy A. Ramlo Randy A. Ramlo	/s/ Dawn M. Jaffray Dawn M. Jaffray
President, Chief Executive Officer,	Senior Vice President, Chief Financial Officer and
Director and Principal Executive Officer	Principal Accounting Officer
November 5, 2015 (Date)	November 5, 2015 (Date)