Section 1: 10-Q (10-Q)

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-34257

UNITED FIRE GROUP, INC.

(Exact name of registrant as specified in its charter)

Iowa	45-2302834
(State of incorporation)	**(I.R.S Employer Identification No.)**

118 Second Avenue SE
Cedar Rapids, Iowa 52401
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (319) 399-5700

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES [X] NO [ ]

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]
Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

Securities Registered Pursuant to Section 12(b) of the Exchange Act of 1934:

Title of each class	Trading Symbol	Name of each exchange on which registered

Common Stock, $0.001 par value	**UFCS**	**The NASDAQ Global Select Market**

As of May 6, 2019, 25,202,733 shares of common stock were outstanding.

United Fire Group, Inc.
Index to Quarterly Report on Form 10-Q
March 31, 2019

FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about our operations, anticipated performance and other similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our"), the industry in which we operate, and beliefs and assumptions made by management. Words such as "expect(s)," "anticipate(s)," "intend(s)," "plan(s)," "believe(s)," "continue(s)," "seek(s)," "estimate(s)," "goal(s)," "target(s)," "forecast(s)," "project(s)," "predict(s)," "should," "could," "may," "will continue," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. See Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 for more information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

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

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

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

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.
Consolidated Balance Sheets

(In Thousands, Except Share Data)		**March 31, 2019**		December 31, 2018
		(unaudited)		
ASSETS				
Investments				
Fixed maturities				
Available-for-sale, at fair value (amortized cost $1,709,100 in 2019 and $1,761,289 in 2018)	**$**	**1,730,563**	$	1,749,488
Trading securities, at fair value (amortized cost $12,699 in 2019 and $11,277 in 2018)		**16,409**		13,240
Equity securities at fair value (cost $63,708 in 2019 and $64,819 in 2018)		**269,843**		248,361
Mortgage loans		**34,209**		25,782
Other long-term investments		**40,929**		37,077
Short-term investments		**175**		175
		2,092,128		2,074,123
Cash and cash equivalents		**95,536**		64,454
Accrued investment income		**16,483**		15,774
Premiums receivable (net of allowance for doubtful accounts of $1,125 in 2019 and $785 in 2018)		**365,186**		346,825
Deferred policy acquisition costs		**95,891**		92,796
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $40,856 in 2019 and $39,894 in 2018)		**108,223**		97,194
Reinsurance receivables and recoverables		**56,617**		61,337
Prepaid reinsurance premiums		**7,506**		7,063
Deferred tax asset		**—**		912
Income taxes receivable		**4,388**		15,035
Goodwill and intangible assets		**23,074**		23,252
Other assets		**38,967**		17,933
TOTAL ASSETS	**$**	**2,903,999**	$	2,816,698
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Losses and loss settlement expenses	**$**	**1,303,496**	$	1,312,483
Unearned premiums		**510,713**		492,918
Accrued expenses and other liabilities		**123,563**		122,922
Deferred income liability		**11,036**		—
TOTAL LIABILITIES	**$**	**1,948,808**	$	1,928,323
Stockholders' Equity				
Common stock, $0.001 par value; authorized 75,000,000 shares; 25,167,822 and 25,097,408 shares issued and outstanding in 2019 and 2018, respectively	**$**	**25**	$	25
Additional paid-in capital		**206,788**		203,350
Retained earnings		**751,683**		715,472
Accumulated other comprehensive income (loss), net of tax		**(3,305)**		(30,472)
TOTAL STOCKHOLDERS' EQUITY	**$**	**955,191**	$	888,375
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**2,903,999**	$	2,816,698

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

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

	Three Months Ended March 31,	
(In Thousands, Except Share Data)	**2019**	2018
Revenues		
Net premiums earned	**$ 262,314**	$ 245,167
Investment income, net of investment expenses	**16,512**	13,492
Net realized investment gains (losses) (includes reclassifications for net unrealized investment gains on available-for-sale securities of $90 in 2019 and $37 in 2018; previously included in accumulated other comprehensive income)	**26,713**	(7,864)
Total revenues	**$ 305,539**	$ 250,795
Benefits, Losses and Expenses		
Losses and loss settlement expenses	**$ 164,240**	$ 144,728
Amortization of deferred policy acquisition costs	**52,219**	49,639
Other underwriting expenses (includes reclassifications for employee benefit costs of $1,124 in 2019 and $1,660 in 2018; previously included in accumulated other comprehensive income)	**34,403**	34,855
Total benefits, losses and expenses	**$ 250,862**	$ 229,222
Income from continuing operations before income taxes	**$ 54,677**	$ 21,573
Federal income tax expense (includes reclassifications of $217 in 2019 and $341 in 2018; previously included in accumulated other comprehensive income)	**10,156**	1,209
Income from continuing operations	**$ 44,521**	$ 20,364
Income (loss) from discontinued operations, net of taxes	**—**	(1,912)
Gain on sale of discontinued operations, net of taxes	**—**	$ 27,307
Net income	**$ 44,521**	$ 45,759
Other comprehensive income (loss)		
Change in net unrealized appreciation on investments	**$ 33,354**	$ (51,814)
Change in liability for underfunded employee benefit plans	**—**	—
Other comprehensive income (loss), before tax and reclassification adjustments	**$ 33,354**	$ (51,814)
Income tax effect	**(7,005)**	10,881
Other comprehensive income (loss), after tax, before reclassification adjustments	**$ 26,349**	$ (40,933)
Reclassification adjustment for net realized investment (gains) losses included in income	**$ (90)**	$ (37)
Reclassification adjustment for employee benefit costs included in expense	**1,124**	1,660
Total reclassification adjustments, before tax	**$ 1,034**	$ 1,623
Income tax effect	**(217)**	(341)
Total reclassification adjustments, after tax	**$ 817**	$ 1,282
Comprehensive income	**$ 71,687**	$ 6,108
Diluted weighted average common shares outstanding	**25,604,268**	25,458,090
Earnings per common share from continuing operations:		
Basic	**$ 1.77**	$ 0.82
Diluted	**1.74**	0.80
Earnings per common share:		
Basic	**$ 1.77**	$ 1.84
Diluted	**1.74**	1.80

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

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

	Three Months Ended March 31,	
(In Thousands, Except Share Data)	**2019**	2018
Common stock		
Balance, beginning of year	**$ 25**	$ 25
Shares repurchased (0 shares in 2019 and 120,372 shares in 2018)	**—**	—
Shares issued for stock-based awards (70,414 shares in 2019 and 116,314 shares in 2018)	**—**	—
Balance, end of period	**$ 25**	$ 25
Additional paid-in capital		
Balance, beginning of year	**$ 203,350**	$ 196,334
Compensation expense and related tax benefit for stock-based award grants	**2,688**	1,281
Shares repurchased	**—**	(5,404)
Shares issued for stock-based awards	**750**	2,293
Balance, end of period	**$ 206,788**	$ 194,504
Retained earnings		
Balance, beginning of year	**$ 715,472**	$ 608,700
Cumulative effect of change in accounting principle	**(513)**	191,244
Net unrealized investment depreciation of discontinued operations, sold	**—**	(6,714)
Net income	**44,521**	45,759
Dividends on common stock ($0.31 per share in 2019 and $0.28 per share in 2018)	**(7,797)**	(6,958)
Balance, end of period	**$ 751,683**	$ 832,031
Accumulated other comprehensive income (loss), net of tax		
Balance, beginning of year	**$ (30,472)**	$ 168,314
Cumulative effect of change in accounting principle	**—**	(191,244)
Change in net unrealized investment appreciation(1)	**26,279**	(34,248)
Change in liability for underfunded employee benefit plans(2)	**888**	1,311
Balance, end of period	**$ (3,305)**	$ (55,867)
Summary of changes		
Balance, beginning of year	**$ 888,375**	$ 973,373
Net income	**44,521**	45,759
All other changes in stockholders' equity accounts	**22,295**	(48,439)
Balance, end of period	**$ 955,191**	$ 970,693

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

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

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

	Three Months Ended March 31,	
(In Thousands)	**2019**	2018
Cash Flows From Operating Activities		
Net income	**$ 44,521**	$ 45,759
Less net loss from discontinued operations, net of taxes	**—**	(1,912)
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	**2,763**	2,178
Depreciation and amortization	**1,166**	1,159
Stock-based compensation expense	**2,688**	1,281
Net realized investment (gains) losses	**(26,713)**	7,864
Net cash flows from equity and trading investments	**1,235**	383
Deferred income tax benefit	**4,863**	(3,879)
Changes in:		
Accrued investment income	**(709)**	(1,242)
Premiums receivable	**(18,361)**	(10,494)
Deferred policy acquisition costs	**(3,095)**	(1,734)
Reinsurance receivables	**4,720**	(312)
Prepaid reinsurance premiums	**(443)**	(253)
Income taxes receivable	**10,647**	6,031
Other assets	**(21,034)**	104
Losses and loss settlement expenses	**(8,987)**	(4,202)
Unearned premiums	**17,795**	11,521
Accrued expenses and other liabilities	**1,275**	(6,925)
Income taxes payable	**—**	17,581
Deferred income taxes	**—**	(14,039)
Other, net	**(1,628)**	1,708
Cash from operating activities - continuing operations	**(33,818)**	6,730
Cash from operating activities - discontinued operations	**—**	4,024
Cash from operating activities - gain on sale of discontinued operations	**—**	(34,851)
Total adjustments	**$ (33,818)**	$ (24,097)
Net cash provided by operating activities	**$ 10,703**	$ 23,574
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	**$ 36,490**	$ —
Proceeds from call and maturity of available-for-sale investments	**38,740**	30,320
Proceeds from short-term and other investments	**1,027**	3,078
Proceeds from the sale of discontinued operations	**—**	276,055
Purchase of available-for-sale investments	**(25,007)**	(93,115)
Purchase of short-term and other investments	**(11,807)**	(676)
Net purchases and sales of property and equipment	**(12,017)**	(3,851)
Cash from investing activities - continuing operations	**27,426**	211,811
Cash from investing activities - discontinued operations	**—**	14,343
Net cash provided by investing activities	**$ 27,426**	$ 226,154
Cash Flows From Financing Activities		
Payment of cash dividends	**$ (7,797)**	$ (6,960)
Repurchase of common stock	**—**	(5,404)
Issuance of common stock	**750**	2,293
Cash from financing activities - continuing operations	**(7,047)**	(10,071)
Cash from financing activities - discontinued operations	**—**	(11,547)
Net cash used in financing activities	**$ (7,047)**	$ (21,618)
Net Change in Cash and Cash Equivalents	**$ 31,082**	$ 228,110

Less: increase in cash and cash equivalents - discontinued operations		**—**		(6,820)
Net increase in cash and cash equivalents - continuing operations		**31,082**		221,290
Cash and Cash Equivalents at Beginning of Period - Continuing Operations		**64,454**		95,562
Cash and Cash Equivalents at End of Period - Continuing Operations	**$**	**95,536**	$	316,852

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

UNITED FIRE GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

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

Discontinued Operations

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

Basis of Presentation

The unaudited consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X promulgated by the SEC. Certain financial information that is included in our Annual Report on Form 10-K for the year ended December 31, 2018, including certain financial statement footnote disclosures, is 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; loss settlement expenses; and pension and postretirement benefit obligations.

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

Management of UFG believes the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018.

Cash and Cash Equivalents

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

For the three-month periods ended March 31, 2019 and 2018, we made payments for income taxes totaling $19 and $19, respectively. We received a tax refund of $5,401 and $1,503 for the three month periods ended March 31, 2019 and 2018, respectively.

For the three-month periods ended March 31, 2019 and 2018, we made no interest payments (excluding interest credited to policyholders' accounts).

Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC, including the related amortization recognized for the three-month period ended March 31, 2019.

		Total
Recorded asset at beginning of period	$	92,796
Underwriting costs deferred		55,314
Amortization of deferred policy acquisition costs		(52,219)
Recorded asset at March 31, 2019	$	95,891

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.

Income Taxes

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

We reported consolidated federal income tax expense from continuing operations of $10,156 for the three-month period ended March 31, 2019 compared to income tax expense from continuing operations and discontinued operations of $9,316 during the same period of 2018. Our effective tax rate is different than the federal statutory rate of 21 percent, due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

The Company performs a quarterly review of its tax positions and makes a determination of whether it is more likely than not that the tax position will be sustained upon examination. If, based on review, it appears not more likely than not that the positions will be sustained, the Company will calculate any unrecognized tax benefits and, if necessary, calculate and accrue any related interest and penalties. We did not recognize any liability for unrecognized tax benefits at March 31, 2019 or December 31, 2018. 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 2015. The Internal Revenue Service is conducting an examination of our federal income tax return for the 2017 tax year.

Leases

The Company determines if a contract contains a lease at inception of the contract. The Company's inventory of leases consist of operating leases which are recorded as a lease obligation liability disclosed in accrued expenses and other liabilities line on the Consolidated Balance Sheets and as a lease right-of-use asset disclosed in other assets line on the Consolidated Balance Sheets. The Company's operating leases consist of office space, vehicles, computer equipment and office equipment. The lease right-of-use asset represents the Company's right to use each underlying asset for the lease term and the lease obligation liability represents the Company's obligation over the lease term. The Company's lease obligation is recorded at the present value of the lease payments based on the term of the lease. The Company has elected to categorize its leases into four categories based on length of lease terms and applies an incremental borrowing rate of interest as of the effective date of adoption or the lease effective date equivalent to a collateralized rate with similar terms. The four categories are as follows: less than three years, three to five years, five to ten years and greater than ten years. The discount rate used to calculate the present value of future minimum lease payments is based, where appropriate, on the Company's incremental borrowing rate of its credit facility, described in Note 9 Credit Facility of this Form 10-Q. For leases that existed prior to the adoption of the new accounting guidance on January 1, 2019 or those with terms not similar to the credit facility, the Company has elected to use the remaining lease term based on the four categories noted above as of the date of initial application to measure its incremental borrowing rate. In this case, the incremental borrowing rate is a collateralized rate based on current industry borrowing rates for similar companies with similar ratings.

Certain leases include rental payments adjusted for increases on an annual basis as part of the rental expense and are included in measurement of the lease liability. Lease expenses for lease payments, where appropriate, are recognized on a straight-line basis over the lease term. Short-term leases of 12 months or less are recorded on the Consolidated Balance Sheets and lease payments are recognized on the Consolidated Statement of Income and Comprehensive Income. The Company has agreements with lease and non-lease components, which the Company accounts for separately and continues to follow the guidance and its existing policy for minimum rental payments under Accounting Standard Codification ("ASC") Topic 840 for leases that commenced prior to the effective date. Modified or new leases subsequent to the effective date will follow ASC Topic 842. For more information on leases refer to Note 12 Leases of this Form 10-Q.

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 2019

Leases

In February 2016, the FASB issued guidance on the accounting for leases. The new guidance requires lessees to place a right-of-use asset and a lease liability on their balance sheets. The lease liability will be based on the present value of the future lease payments and the right-of-use asset will be based on the liability. Expenses will be recognized on the income statement in a similar manner as previous methods. The new guidance also requires companies to classify all leases as operating leases or financing leases. The Company has classified all of its leases as operating leases. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods within those years. The Company adopted the new guidance under a modified retrospective transition approach using the package of practical expedients and the Company did not adopt the hindsight practical expedient as of January 1, 2019. The package of practical expedients allowed the Company not to reassess whether the arrangement contains a lease, lease classification and whether previously capitalized costs qualify as initial direct costs. The practical expedients allowed the Company to continue classifying all of its leases as operating leases as they were previously classified under ASC Topic 840. Therefore, the Company's disclosures for the comparative periods presented in 2019 continues to be in accordance with previous lease guidance under ASC Topic 840. The Company used the accounting standard adoption date as its date of initial application.

Adoption of the new guidance resulted in the recording of additional net lease right-of-use assets and lease obligations of $19.8 million and $20.3 million, respectively, as of January 1, 2019. The lease amounts recognized were measured based on the present value of discounted future lease payments, net of reversal of prepaid rent and deferred rent balances that existed prior to January 1, 2019. The Company had no adjustments upon adoption related to unrecorded but expected lease abandonments at December 31, 2018. The difference between the additional lease assets and lease liabilities, net of the deferred tax impact, was recorded as a cumulative change in accounting principles adjustment to retained earnings of $387. The adoption did not have a significant impact on the Company's financial position or results of operations and had no impact on cash flows.

Income Taxes - Intra-entity Transfers

In October 2016, the FASB issued new guidance on the income tax treatment of intra-entity transfers. The new guidance replaces the current guidance which prohibits the recognition of current and deferred income taxes of intra-entity transfers until the asset is sold externally. Under the new guidance, the exemption is eliminated and income taxes will be recognized on transfers of intra-entity assets. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. The Company adopted the new guidance as of January 1, 2019. The adoption did not have a significant impact on the Company's financial position and results of operations.

Financial Instruments - Callable Debt Securities

In March 2016, the FASB issued an update to amend the amortization period for certain purchased callable debt securities held at a premium. The update requires the premium to be amortized to the earliest call date. The update doesn’t change the accounting for securities held at a discount, which will continue to be amortized to maturity. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2018. The Company adopted the new guidance as of January 1, 2019. The adoption of the new guidance resulted in cumulative change in accounting principles adjustment to retained earnings, net of the deferred tax, of $126 on January 1, 2019 and did not have a material impact on net income between the comparable periods.

Pending Adoption of Accounting Standards

Intangibles - Other Internal Use Software

In August 2018, the FASB issued guidance to align the requirements for capitalizing implementation costs incurred in a cloud computing hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance requires the Company to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The new guidance is effective for annual and interim periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2020. Management currently believes that the adoption will not have a significant impact on the Company's financial position or results of operations.

Financial Instruments - Credit Losses

In June 2016, the FASB issued new guidance on the measurement of credit losses for most financial instruments. The new guidance replaces the current incurred loss model for recognizing credit losses with an expected loss model for instruments measured at amortized cost and requires allowances to be recorded for available-for-sale debt securities rather than reduce the carrying amount. These allowances will be remeasured each reporting period. The new guidance is effective for annual periods beginning after December 15, 2019 and interim periods within those years. The new guidance will impact the Company's portfolio of mortgage loan investments which are carried at amortized cost and the impairment model related to our available-for-sale fixed-maturity portfolio. The Company will adopt the new guidance as of January 1, 2020 and is currently reviewing it's incurred loss model for recognizing credit losses and evaluating the impact of moving to an expected loss model for it's available-for-sale fixed-maturity portfolio on the Company's financial position, results of operations and key processes.

Goodwill

In January 2017, the FASB issued new guidance which simplifies the test for goodwill impairment. The new guidance eliminates the implied fair value calculation when measuring a goodwill impairment charge. Under the new guidance, impairment charges will be based on the excess of the carrying value over fair value of goodwill. The new guidance is effective for annual and interim periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2020 and it currently believes the adoption will have no impact on the Company's financial position and results of operations.

Financial Instruments - Disclosures

In August 2018, the FASB issued new guidance which modifies the disclosure requirements on fair value measurements of financial instruments. The new guidance removes the requirement for disclosing the amount and reason for transfers between Level 1 and Level 2 investment securities and the valuation processes for Level 3 fair value measurements. The guidance also requires additional disclosures on the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The new guidance is effective for annual and interim periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2020. Management currently believes the new guidance will modify existing fair value disclosures, but will not have an impact on the Company's financial position and results of operations.

Defined Benefit Plans - Disclosures

In August 2018, the FASB issued new guidance which modifies the disclosure requirements for employers that sponsor defined benefit pension and postretirement plans. The new guidance removes the requirement for disclosing the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs in the next year and the sensitivity of postretirement health plans to one-percentage-point changes in medical trend rates. The new guidance is effective for annual periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2020. Management currently believes the new guidance will modify existing disclosures, but will not have an impact on the Company's financial position and results of operations.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities, presented on a consolidated basis, as of March 31, 2019 and December 31, 2018, is provided below:

March 31, 2019				
Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	**$ 26,821**	**$ 13**	**$ 143**	**$ 26,691**
U.S. government agency	**188,529**	**1,417**	**405**	**189,541**
States, municipalities and political subdivisions				
General obligations:				
Midwest	**86,782**	**1,995**	**98**	**88,679**
Northeast	**31,266**	**866**	**—**	**32,132**
South	**114,500**	**1,755**	**475**	**115,780**
West	**107,580**	**2,592**	**305**	**109,867**
Special revenue:				
Midwest	**139,803**	**3,520**	**194**	**143,129**
Northeast	**62,604**	**1,123**	**406**	**63,321**
South	**229,505**	**4,532**	**1,101**	**232,936**
West	**142,974**	**2,905**	**537**	**145,342**
Foreign bonds	**4,941**	**106**	**—**	**5,047**
Public utilities	**62,774**	**878**	**444**	**63,208**
Corporate bonds				
Energy	**28,158**	**536**	**41**	**28,653**
Industrials	**53,836**	**613**	**171**	**54,278**
Consumer goods and services	**48,151**	**857**	**209**	**48,799**
Health care	**13,974**	**294**	**2**	**14,266**
Technology, media and telecommunications	**25,895**	**463**	**138**	**26,220**
Financial services	**91,876**	**1,366**	**669**	**92,573**
Mortgage-backed securities	**7,401**	**48**	**134**	**7,315**
Collateralized mortgage obligations				
Government national mortgage association	**77,401**	**750**	**763**	**77,388**
Federal home loan mortgage corporation	**108,333**	**889**	**513**	**108,709**
Federal national mortgage association	**52,722**	**635**	**204**	**53,153**
Asset-backed securities	**3,274**	**387**	**125**	**3,536**
Total Available-for-Sale Fixed Maturities	**$ 1,709,100**	**$ 28,540**	**$ 7,077**	**$ 1,730,563**

December 31, 2018				
Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$ 27,632	$ 6	$ 220	$ 27,418
U.S. government agency	215,535	896	1,749	214,682
States, municipalities and political subdivisions				
General obligations:				
Midwest	94,806	1,091	685	95,212
Northeast	37,326	432	103	37,655
South	114,710	754	1,553	113,911
West	107,787	1,229	1,175	107,841
Special revenue:				
Midwest	140,025	1,609	870	140,764
Northeast	62,737	452	1,241	61,948
South	237,848	1,669	3,708	235,809
West	143,829	1,294	2,203	142,920
Foreign bonds	9,698	31	13	9,716
Public utilities	56,808	274	1,023	56,059
Corporate bonds				
Energy	28,909	43	304	28,648
Industrials	53,867	124	906	53,085
Consumer goods and services	54,323	142	819	53,646
Health care	16,721	42	105	16,658
Technology, media and telecommunications	26,819	35	678	26,176
Financial services	81,286	238	2,175	79,349
Mortgage-backed securities	7,642	14	232	7,424
Collateralized mortgage obligations				
Government national mortgage association	78,055	380	1,734	76,701
Federal home loan mortgage corporation	108,403	524	1,304	107,623
Federal national mortgage association	53,267	213	732	52,748
Asset-backed securities	3,256	352	113	3,495
Total Available-for-Sale Fixed Maturities	$ 1,761,289	$ 11,844	$ 23,645	$ 1,749,488

Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at March 31, 2019, by contractual maturity, are shown in the following tables. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

Maturities				
	Available-For-Sale		Trading	
March 31, 2019	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 35,003	$ 35,183	$ 4,572	$ 5,582
Due after one year through five years	231,390	234,309	6,292	8,406
Due after five years through 10 years	537,692	547,933	—	—
Due after 10 years	655,884	663,037	1,835	2,421
Asset-backed securities	3,274	3,536	—	—
Mortgage-backed securities	7,401	7,315	—	—
Collateralized mortgage obligations	238,456	239,250	—	—
	$ 1,709,100	$ 1,730,563	$ 12,699	$ 16,409

Net Realized Investment Gains and Losses

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

	Three Months Ended March 31,	
	2019	2018
Net realized investment gains (losses) from continuing operations:		
Fixed maturities:		
Available-for-sale	**$ 150**	$ 4
Trading securities		
Change in fair value	**1,746**	(111)
Sales	**—**	556
Equity securities		
Change in fair value	**24,634**	(9,188)
Sales	**198**	875
Mortgage loans	**(15)**	—
Total net realized investment gains (losses) from continuing operations	**$ 26,713**	$ (7,864)
Total net realized investment gains (losses) from discontinued operations	**—**	(1,057)
Total net realized investment gains (losses)	**$ 26,713**	$ (8,921)

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

	Three Months Ended March 31,	
	2019	2018
Proceeds from sales	**$ 36,490**	$ —
Gross realized gains	**30**	—
Gross realized losses	**13**	—

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 $16,409 and $13,240 at March 31, 2019 and December 31, 2018, respectively.

Funding Commitment

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed through July 31, 2028 to make capital contributions upon request of the partnership. Our remaining potential contractual obligation was $18,991 at March 31, 2019.

Unrealized Appreciation

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

	Three Months Ended March 31,	
	2019	2018
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities	**$ 33,264**	$ (59,126)
Deferred policy acquisition costs	**—**	7,274
Income tax effect	**(6,985)**	10,890
Net unrealized investment depreciation of discontinued operations, sold	**—**	6,714
Cumulative change in accounting principles	**—**	(191,244)
Total change in net unrealized investment appreciation, net of tax	**$ 26,279**	$ (225,492)

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

The tables on the following pages summarize our fixed maturity and equity securities that were in an unrealized loss position on a consolidated basis at March 31, 2019 and December 31, 2018. The securities are presented by the length of time they have been continuously in an unrealized loss position. It is possible that we could recognize OTTI charges in future periods on securities held at March 31, 2019, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We have evaluated the near-term prospects of the issuers of our fixed maturity securities in relation to the severity and duration of the unrealized loss and determined that these losses did not warrant the recognition of an OTTI charge at March 31, 2019 or at March 31, 2018. We have no intent to sell, and it is more likely than not that we will not be required to sell, these securities until the fair value recovers to at least equal our cost basis or the securities mature.

March 31, 2019	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	**1**	**$ 8,006**	**$ 2**	**5**	**$ 14,672**	**$ 141**	**$ 22,678**	**$ 143**
U.S. government agency	**—**	**—**	**—**	**9**	**44,960**	**405**	**44,960**	**405**
States, municipalities and political subdivisions								
General obligations								
Midwest	**—**	**—**	**—**	**3**	**13,089**	**98**	**13,089**	**98**
South	**—**	**—**	**—**	**8**	**24,642**	**475**	**24,642**	**475**
West	**—**	**—**	**—**	**8**	**24,221**	**305**	**24,221**	**305**
Special revenue								
Midwest	**—**	**—**	**—**	**8**	**18,051**	**194**	**18,051**	**194**
Northeast	**—**	**—**	**—**	**7**	**19,711**	**406**	**19,711**	**406**
South	**—**	**—**	**—**	**25**	**61,235**	**1,101**	**61,235**	**1,101**
West	**—**	**—**	**—**	**18**	**50,929**	**537**	**50,929**	**537**
Public utilities	**4**	**9,755**	**244**	**7**	**16,101**	**200**	**25,856**	**444**
Corporate bonds								
Energy	**—**	**—**	**—**	**2**	**4,224**	**41**	**4,224**	**41**
Industrials	**1**	**5,010**	**17**	**4**	**12,389**	**154**	**17,399**	**171**
Consumer goods and services	**—**	**—**	**—**	**6**	**12,851**	**209**	**12,851**	**209**
Health care	**—**	**—**	**—**	**1**	**351**	**2**	**351**	**2**
Technology, media and telecommunications	**—**	**—**	**—**	**4**	**8,929**	**138**	**8,929**	**138**
Financial services	**1**	**4,744**	**256**	**11**	**29,445**	**413**	**34,189**	**669**
Mortgage-backed securities	**9**	**549**	**4**	**27**	**4,548**	**130**	**5,097**	**134**
Collateralized mortgage obligations								
Government national mortgage association	**1**	**4,841**	**22**	**20**	**43,142**	**741**	**47,983**	**763**
Federal home loan mortgage corporation	**1**	**—**	**—**	**11**	**26,018**	**513**	**26,018**	**513**
Federal national mortgage association	**—**	**—**	**—**	**11**	**21,334**	**204**	**21,334**	**204**
Asset-backed securities	**—**	**—**	**—**	**1**	**2,835**	**125**	**2,835**	**125**
Total Available-for-Sale Fixed Maturities	**18**	**$ 32,905**	**$ 545**	**196**	**$ 453,677**	**$ 6,532**	**$ 486,582**	**$ 7,077**

December 31, 2018	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
AVAILABLE-FOR-SALE								
Fixed maturities:								
Bonds								
U.S. Treasury	1	$ 8,018	$ 7	5	$ 14,645	$ 213	$ 22,663	$ 220
U.S. government agency	4	17,907	81	17	80,696	1,668	98,603	1,749
States, municipalities and political subdivisions								
General obligations								
Midwest	2	2,939	5	7	23,749	680	26,688	685
Northeast	—	—	—	3	12,110	103	12,110	103
South	1	778	2	22	50,174	1,551	50,952	1,553
West	1	1,203	5	16	48,499	1,170	49,702	1,175
Special revenue								
Midwest	4	3,892	8	19	43,854	862	47,746	870
Northeast	—	—	—	14	37,629	1,241	37,629	1,241
South	4	4,298	30	45	107,016	3,678	111,314	3,708
West	4	11,115	32	28	69,667	2,171	80,782	2,203
Foreign bonds	1	2,984	13	—	—	—	2,984	13
Public utilities	12	25,781	552	8	17,253	471	43,034	1,023
Corporate bonds								
Energy	7	12,556	148	2	4,099	156	16,655	304
Industrials	9	21,970	397	4	11,040	509	33,010	906
Consumer goods and services	14	30,399	527	5	9,554	292	39,953	819
Health care	3	6,203	97	1	345	8	6,548	105
Technology, media and telecommunications	6	12,638	288	5	9,619	390	22,257	678
Financial services	13	30,177	650	13	32,855	1,525	63,032	2,175
Mortgage-backed securities	22	1,539	34	22	4,166	198	5,705	232
Collateralized mortgage obligations								
Government national mortgage association	2	3,797	55	22	44,690	1,679	48,487	1,734
Federal home loan mortgage corporation	3	4,541	20	18	38,189	1,284	42,730	1,304
Federal national mortgage association	4	2,107	3	15	38,986	729	41,093	732
Asset-backed securities	1	2,829	113	—	—	—	2,829	113
Total Available-for-Sale Fixed Maturities	118	$ 207,671	$ 3,067	291	$ 698,835	$ 20,578	$ 906,506	$ 23,645

NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- *Level 1*: Valuations are based on unadjusted quoted prices in active markets for identical financial instruments that we have the ability to access.

- *Level 2*: Valuations are based on quoted prices for similar financial instruments, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.

- *Level 3*: Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

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

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

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

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

The mortgage loan portfolio consists entirely of commercial mortgage loans. The fair value of our mortgage loans is determined by modeling performed by our third party fund manager 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.

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

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

The Company formed a rabbi trust in 2014 to fund obligations under the United Fire & Casualty Company Supplemental Executive Retirement and Deferral Plan (the "Executive Retirement Plan"). Within the rabbi trust, corporate-owned life insurance ("COLI") policies are utilized as an investment vehicle and source of funding for the Company's Executive Retirement Plan. The COLI policies invest in mutual funds, which are priced daily by independent sources. As of March 31, 2019, the cash surrender value of the COLI policies was $5,708, which is equal to the fair value measured using Level 2 inputs, based on the underlying assets of the COLI policies, and is included in other assets in the Consolidated Balance Sheets.

A summary of the carrying value and estimated fair value of our financial instruments at March 31, 2019 and December 31, 2018 is as follows:

	March 31, 2019		December 31, 2018	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Assets				
Investments				
Fixed maturities:				
Available-for-sale securities	**$ 1,730,563**	**$ 1,730,563**	$ 1,749,488	$ 1,749,488
Trading securities	**16,409**	**16,409**	13,240	13,240
Equity securities	**269,843**	**269,843**	248,361	248,361
Mortgage loans	**34,856**	**34,209**	26,021	25,782
Other long-term investments	**40,929**	**40,929**	37,077	37,077
Short-term investments	**175**	**175**	175	175
Cash and cash equivalents	**95,536**	**95,536**	64,454	64,454
Corporate-owned life insurance	**5,708**	**5,708**	4,907	4,907

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The following tables present the categorization for our financial instruments measured at fair value on a recurring basis. The table includes financial instruments at March 31, 2019 and December 31, 2018:

March 31, 2019			Fair Value Measurements	
Description	Total	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$ **26,691**	$ —	$ **26,691**	$ —
U.S. government agency	**189,541**	—	**189,541**	—
States, municipalities and political subdivisions				
General obligations				
Midwest	**88,679**	—	**88,679**	—
Northeast	**32,132**	—	**32,132**	—
South	**115,780**	—	**115,780**	—
West	**109,867**	—	**109,867**	—
Special revenue				
Midwest	**143,129**	—	**143,129**	—
Northeast	**63,321**	—	**63,321**	—
South	**232,936**	—	**232,936**	—
West	**145,342**	—	**145,342**	—
Foreign bonds	**5,047**	—	**5,047**	—
Public utilities	**63,208**	—	**63,208**	—
Corporate bonds				
Energy	**28,653**	—	**28,653**	—
Industrials	**54,278**	—	**54,278**	—
Consumer goods and services	**48,799**	—	**48,799**	—
Health care	**14,266**	—	**14,266**	—
Technology, media and telecommunications	**26,220**	—	**26,220**	—
Financial services	**92,573**	—	**92,323**	**250**
Mortgage-backed securities	**7,315**	—	**7,315**	—
Collateralized mortgage obligations				
Government national mortgage association	**77,388**	—	**77,388**	—
Federal home loan mortgage corporation	**108,709**	—	**108,709**	—
Federal national mortgage association	**53,153**	—	**53,153**	—
Asset-backed securities	**3,536**	—	**2,835**	**701**
Total Available-for-Sale Fixed Maturities	$ **1,730,563**	$ —	$ **1,729,612**	$ **951**
TRADING				
Fixed maturities:				
Bonds				
U.S. Treasury	$ **746**	$ —	$ **746**	$ —
Corporate bonds				
Industrials	**399**	—	**399**	—
Consumer goods and services	**1,822**	—	**1,822**	—
Health care	**4,809**	—	**4,809**	—

Technology, media and telecommunications		3,320		—		3,320		—
Financial services		1,840		—		1,840		—
Redeemable preferred stocks		3,473		3,473		—		—
Total Trading Securities	$	16,409	$	3,473	$	12,936	$	—
EQUITY SECURITIES								
Common stocks								
Public utilities	$	15,330	$	15,330	$	—	$	—
Energy		12,412		12,412		—		—
Industrials		61,773		61,773		—		—
Consumer goods and services		26,860		26,860		—		—
Health care		24,234		24,234		—		—
Technology, media and telecommunications		16,370		16,370		—		—
Financial services		108,216		108,216		—		—
Nonredeemable preferred stocks		4,648		4,053		—		595
Total Equity Securities	$	269,843	$	269,248	$	—	$	595
Short-Term Investments	$	175	$	175	$	—	$	—
Money Market Accounts	$	10,039	$	10,039	$	—	$	—
Corporate-Owned Life Insurance	$	5,708	$	—	$	5,708	$	—
Total Assets Measured at Fair Value	$	2,032,737	$	282,935	$	1,748,256	$	1,546

December 31, 2018		Fair Value Measurements		
Description	Total	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$ 27,418	$ —	$ 27,418	$ —
U.S. government agency	214,682	—	214,682	—
States, municipalities and political subdivisions				
General obligations				
Midwest	95,212	—	95,212	—
Northeast	37,655	—	37,655	—
South	113,911	—	113,911	—
West	107,841	—	107,841	—
Special revenue				
Midwest	140,764	—	140,764	—
Northeast	61,948	—	61,948	—
South	235,809	—	235,809	—
West	142,920	—	142,920	—
Foreign bonds	9,716	—	9,716	—
Public utilities	56,059	—	56,059	—
Corporate bonds				
Energy	28,648	—	28,648	—
Industrials	53,085	—	53,085	—
Consumer goods and services	53,646	—	53,646	—
Health care	16,658	—	16,658	—
Technology, media and telecommunications	26,176	—	26,176	—
Financial services	79,349	—	79,099	250
Mortgage-backed securities	7,424	—	7,424	—
Collateralized mortgage obligations				
Government national mortgage association	76,701	—	76,701	—
Federal home loan mortgage corporation	107,623	—	107,623	—
Federal national mortgage association	52,748	—	52,748	—
Asset-backed securities	3,495	—	2,829	666
Total Available-for-Sale Fixed Maturities	$ 1,749,488	$ —	$ 1,748,572	$ 916
TRADING				
Fixed maturities:				
Bonds				
Corporate bonds				
Industrials	$ 397	$ —	$ 397	$ —
Consumer goods and services	1,599	—	1,599	—
Health care	3,236	—	3,236	—
Technology, media and telecommunications	3,028	—	3,028	—
Financial services	2,231	—	2,231	—

Redeemable preferred stocks		2,749		2,749		—		—
Total Trading Securities	$	13,240	$	2,749	$	10,491		—
EQUITY SECURITIES								
Common Stocks								
Public utilities	$	15,949	$	15,949	$	—	$	—
Energy		10,975		10,975		—		—
Industrials		53,536		53,536		—		—
Consumer goods and services		24,465		24,465		—		—
Health care		22,286		22,286		—		—
Technology, media and telecommunications		13,944		13,944		—		—
Financial services		101,555		101,555		—		—
Nonredeemable preferred stocks		5,651		5,056		—		595
Total Equity Securities	$	248,361	$	247,766	$	—	$	595
Short-Term Investments	$	175	$	175	$	—	$	—
Money Market Accounts	$	3,275	$	3,275	$	—	$	—
Corporate-Owned Life Insurance	$	4,907	$	—	$	4,907	$	—
Total Assets Measured at Fair Value	$	2,019,446	$	253,965	$	1,763,970	$	1,511

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

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

At least annually, we review the methodologies and assumptions used by our valuation service providers and verify that they are reasonable and representative of the fair value of the underlying securities held in the investment portfolio. We validate the prices obtained from independent pricing services and brokers prior to their use for reporting purposes by evaluating their reasonableness on a monthly basis. Our validation process includes a review for unusual fluctuations. Unusual fluctuations outside of our expectations are independently corroborated with additional third-party sources that use similar valuation techniques as discussed above. In addition, on a quarterly basis, we also test all securities in the portfolio and independently corroborate the valuations obtained from our third-party valuation service providers. Quarterly, we also perform deep dive analysis of the pricing method used by our third-party valuation service provider by selecting a random sample of securities by asset class and reviewing methodologies. In our opinion, the pricing obtained at March 31, 2019 and December 31, 2018 was reasonable.

For the three-month period ended March 31, 2019, the change in our available-for-sale securities categorized as Level 1 and Level 2 is the result of investment purchases that were made using funds held in our money market accounts, disposals and the change in unrealized gains on both fixed maturities and equity securities. During the three-month period ended March 31, 2019, there were no securities transferred between Level 1 and Level 2.

Securities categorized as Level 3 include holdings in certain private placement fixed maturity and equity securities for which an active market does not currently exist. The fair value of our Level 3 private placement securities is determined by management relying on pricing received from our independent pricing services and brokers consistent with the process to estimate fair value for Level 2 securities. However, securities are categorized as Level 3 if these quotes cannot be corroborated by other market observable data due to the unobservable nature of the brokers' valuation processes. If pricing cannot be obtained from these sources, which occurs on a limited basis, management will perform a discounted cash flow analysis, using an appropriate risk-adjusted discount rate, on the underlying security to estimate fair value. During the three-month period ended March 31, 2019, there were no securities transferred in or out of Level 3.

The following table provides a summary of the changes in fair value of our Level 3 securities for the three-month period ended March 31, 2019:

	Corporate bonds	Asset-backed securities	Equities	Total
Balance at January 1, 2019	**$ 250**	**$ 666**	**$ 595**	**$ 1,511**
Net unrealized gains[(1)]	**—**	**35**	**—**	**35**
Balance at March 31, 2019	**$ 250**	**$ 701**	**$ 595**	**$ 1,546**

(1) Net unrealized gains are recorded as a component of comprehensive income.

Commercial Mortgage Loans

The following tables present the carrying value of our commercial mortgage loans and additional information at March 31, 2019 and December 31, 2018:

Commercial Mortgage Loans		
	March 31, 2019	December 31, 2018
Loan-to-value	**Carrying Value**	Carrying Value
Less than 65%	**$ 25,775**	$ 25,828
65%-75%	**8,496**	—
Total amortized cost	**$ 34,271**	$ 25,828
Valuation allowance	**(62)**	(46)
Total mortgage loans	**$ 34,209**	$ 25,782

Mortgage Loans by Region				
	March 31, 2019		December 31, 2018	
	Carrying Value	**Percent of Total**	Carrying Value	Percent of Total
East North Central	**$ 3,245**	**9.5%**	$ 3,244	12.6%
Southern Atlantic	**6,652**	**19.4**	6,652	25.8
East South Central	**4,937**	**14.4**	4,975	19.3
New England	**6,588**	**19.2**	6,588	25.4
Middle Atlantic	**12,849**	**37.5**	4,369	16.9
Total mortgage loans at amortized cost	**$ 34,271**	**100.0%**	**$ 25,828**	**100.0%**

Mortgage Loans by Property Type						
	March 31, 2019			December 31, 2018		
	Carrying Value		**Percent of Total**	Carrying Value		Percent of Total
Commercial						
Multifamily	**$**	**3,245**	**9.5%**	$	3,244	12.6%
Office		**11,589**	**33.8**		11,627	45.0
Mixed use/Other		**19,437**	**56.7**		10,957	42.4
Total mortgage loans at amortized cost	**$**	**34,271**	**100.0%**	$	25,828	100.0%

The commercial mortgage loans originate with an initial loan-to-value ratio to provide sufficient collateral to absorb losses should a loan be required to foreclose. Mortgage loans are evaluated on a quarterly basis for impairment on an individual basis through a monitoring process and review of key credit indicators, such as economic trends, delinquency rates, property valuations, occupancy and rental rates and loan-to-value ratios. A loan is considered impaired when the Company believes it will not collect the contractual principal and interest set forth in the contractual terms of the loan. A valuation allowance is established on each loan recognizing a loss for amounts which we believe will not be collected according to the contractual terms of the respective loan agreement. As of March 31, 2019 there were no mortgage loan impairments.

NOTE 4. RESERVES FOR LOSSES AND LOSS SETTLEMENT EXPENSES

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

Liabilities for losses and loss settlement expenses reflect management's best estimates at a given point in time of what we expect to pay for claims that have been reported and those that have been incurred but not reported ("IBNR"), based on known facts, circumstances, and historical trends. Because property and casualty insurance reserves are estimates of the unpaid portions of incurred losses that have been reported to us, as well as losses that have been incurred but not reported, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses and related loss settlement expenses may vary materially from recorded amounts. We regularly update our reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported as a component of losses and loss settlement expenses incurred in the period such changes are determined.

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

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

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

The following table provides an analysis of changes in our property and casualty losses and loss settlement expense reserves at March 31, 2019 and December 31, 2018 (net of reinsurance amounts):

	March 31, 2019	December 31, 2018
Gross liability for losses and loss settlement expenses at beginning of year	$ 1,312,483	$ 1,224,183
Ceded losses and loss settlement expenses	(57,094)	(59,871)
Net liability for losses and loss settlement expenses at beginning of year	$ 1,255,389	$ 1,164,312
Losses and loss settlement expenses incurred for claims occurring during		
Current year	$ 168,889	$ 785,778
Prior years	(4,649)	(54,167)
Total incurred	$ 164,240	$ 731,611
Losses and loss settlement expense payments for claims occurring during		
Current year	$ 41,136	$ 306,032
Prior years	125,139	334,502
Total paid	$ 166,275	$ 640,534
Net liability for losses and loss settlement expenses at end of year	$ 1,253,354	$ 1,255,389
Ceded loss and loss settlement expenses	50,142	57,094
Gross liability for losses and loss settlement expenses at end of period	$ 1,303,496	$ 1,312,483

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

The significant drivers of the favorable reserve development in 2019 were our workers' compensation, fidelity and surety, other liability and reinsurance assumed lines of business, partially offset by unfavorable reserve development in commercial fire and allied lines of business. The favorable reserve development in 2019 is attributable to loss adjustment expense ("LAE") where reserve reductions were more than sufficient to offset paid loss adjustment expense. The favorable loss adjustment development was partially offset by unfavorable loss development where reductions in reserves for unpaid loss were not sufficient to offset loss payments. Workers compensation favorable development is primarily attributable to LAE due to successful litigation management. Fidelity and surety favorable development is attributable to a release of loss IBNR due to favorable claim settlements. Commercial liability favorable development is attributable to LAE due to successful litigation management. Commercial fire and allied lines experienced unfavorable development attributable to paid loss coming in higher than anticipated. All other individual lines of business contributed relatively little development although most were favorable.

The significant drivers of the favorable reserve development in 2018 were our workers' compensation, reinsurance assumed, commercial automobile and fidelity and surety. During 2018 the only individual line with unfavorable development was commercial liability. Workers' compensation favorable development was primarily from reserve reductions for both reported claims and loss IBNR which were more than sufficient to offset paid loss with additional favorable development coming from LAE where the LAE IBNR reduction was more than sufficient to offset paid LAE which continues to benefit from additional litigation management efforts when compared to prior years. Reinsurance assumed favorable development is attributable reductions in reserves for both reported claims and loss IBNR as we reviewed our book of business and released excess reserves during 2018. Commercial automobile favorable development was driven by loss adjustment expense where LAE IBNR reductions were more than sufficient to offset paid LAE. Fidelity and surety favorable development is attributable reductions in reserves for both reported claims and loss IBNR which were more than sufficient to offset paid loss. Commercial liability adverse development is attributable to reserve strengthening for both reported claims and loss IBNR primarily in response to an increase in umbrella auto related claims while loss adjustment expense developed favorably with reductions of LAE IBNR more than sufficient to offset paid LAE.

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

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

NOTE 5. 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 March 31,	**2019**	2018	**2019**	2018
Net periodic benefit cost				
Service cost	**$ 1,997**	$ 2,175	**$ 456**	$ 749
Interest cost	**2,080**	1,875	**319**	502
Expected return on plan assets	**(2,696)**	(2,625)	**—**	—
Amortization of prior service credit	**—**	—	**(2,021)**	(1,352)
Amortization of net loss	**901**	1,071	**223**	589
Net periodic benefit cost	**$ 2,282**	$ 2,496	**$ (1,023)**	$ 488

A portion of the service cost component of net periodic pension and postretirement benefit costs is capitalized and amortized as part of deferred acquisition costs and is included in the income statement line titled "amortization of deferred policy acquisition costs." The portion not related to the compensation and the other components of net periodic pension and postretirement benefit costs is included in the income statement line titled "other underwriting expenses."

Employer Contributions

We previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 that we expected to contribute $4,000 to the pension plan in 2019. For the three-month period ended March 31, 2019, we contributed $1,000 to the pension plan.

NOTE 6. 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, restricted stock units, 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 March 31, 2019, there were 800,169 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 United Fire's common stock at the market value of the stock on the date of grant. Options granted prior to March 2017 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. Options granted after March 2017 vest and are exercisable in installments of 33.3 percent of the number of shares covered by the option award each year from the grant date, unless the Board of Directors authorizes the acceleration of vesting. To the extent not exercised, vested option awards accumulate and are exercisable by the awardee, in whole or in part, in any subsequent year included in the option period, but not later than 10 years from the grant date. Restricted and unrestricted stock awards granted pursuant to the Stock Plan are granted at the market value of UFG's common stock on the date of the grant. Restricted stock units fully vest after 3 years or 5 years from the date of issuance, unless accelerated upon the approval of the Board of Directors, at which time UFG common stock will be issued to the awardee.

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

Authorized Shares Available for Future Award Grants	Three Months Ended March 31, 2019	From Inception to March 31, 2019
Beginning balance	**890,857**	1,900,000
Additional shares authorized	**—**	1,500,000
Number of awards granted	**(116,833)**	(3,139,900)
Number of awards forfeited or expired	**26,145**	540,069
Ending balance	**800,169**	800,169
Number of option awards exercised	**27,815**	1,352,429
Number of unrestricted stock awards granted	**—**	9,370
Number of restricted stock awards vested	**41,468**	99,661

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 March 31, 2019, we had 49,163 authorized shares available for future issuance.

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

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

Authorized Shares Available for Future Award Grants	Three Months Ended March 31, 2019	From Inception to March 31, 2019
Beginning balance	**49,163**	300,000
Number of awards granted	—	(274,840)
Number of awards forfeited or expired	—	24,003
Ending balance	**49,163**	49,163
Number of option awards exercised	**1,131**	119,092
Number of restricted stock awards vested	—	71,541

Stock-Based Compensation Expense

For the three-month periods ended March 31, 2019 and 2018, we recognized stock-based compensation expense of $2,688 and $1,281, respectively. Stock-based compensation expense is recognized over the vesting period of the stock options.

As of March 31, 2019, we had $8,818 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 2019 and subsequent years according to the table below, except with respect to awards that are accelerated by the Board of Directors, in which case we will recognize any remaining compensation expense in the period in which the awards are accelerated.

2019	$	3,577
2020		3,388
2021		1,674
2022		179
2023		—
Total	$	8,818

NOTE 7. SEGMENT INFORMATION

On September 19, 2017, the Company announced that it had agreed to sell its subsidiary, United Life, to Kuvare. The sale closed on March 30, 2018. As a result, the life insurance business has been reported as discontinued operations in the Consolidated Financial Statements and all comparable prior periods have been presented to conform to the current period presentation. For more information, refer to Note 11. Discontinued Operations.

Prior to the announcement to sell United Life, we had two reportable business segments in our operations: property and casualty insurance and life insurance. The property and casualty insurance business has six domestic locations from which it conducts its business. The life insurance segment operated from our home office in Cedar Rapids, Iowa. Because all of our insurance is sold domestically, we have no revenues from foreign operations.

After the announcement of the United Life transaction, our continuing operations, the property and casualty insurance business, was reported as one reportable segment. The property and casualty insurance business profit or loss is consistent with consolidated reporting as disclosed on the Consolidated Statements of Income and Comprehensive Income. We analyze the property and casualty insurance business results based on profitability (i.e., loss ratios), expenses and return on equity. The Company's property and casualty insurance business was determined using a management approach to make decisions on operating matters, including allocating resources, assessing performance, determining which products to market and sell, determining distribution networks with insurance agents and monitoring the regulatory environment. The property and casualty insurance business products have similar economic characteristics and use a similar marketing and distribution strategy with our independent agents. The property and casualty insurance business geographic concentration did not change after the announcement of the sale of the life insurance business. We will continue to evaluate our continuing operations on the basis of both statutory accounting principles prescribed or permitted by our states of domicile and GAAP.

NOTE 8. 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, restricted stock awards and restricted stock unit awards.

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

The components of basic and diluted earnings per share were as follows for the three-month periods ended March 31, 2019 and 2018:

	Three Months Ended March 31,			
(In Thousands, Except Share Data)	**2019**		2018	
	Basic	Diluted	Basic	Diluted
Net income (loss) from continuing operations	**$ 44,521**	**$ 44,521**	$ 20,364	$ 20,364
Weighted-average common shares outstanding	**25,130,961**	**25,130,961**	24,915,772	24,915,772
Add dilutive effect of restricted stock unit awards	**—**	**260,829**	—	290,083
Add dilutive effect of stock options	**—**	**212,478**	—	252,235
Weighted-average common shares outstanding	**25,130,961**	**25,604,268**	24,915,772	25,458,090
Earnings per common share from continuing operations	**$ 1.77**	**$ 1.74**	$ 0.82	$ 0.80
Earnings (loss) per common share from discontinued operations	**—**	**—**	(0.08)	(0.07)
Gain on sale of discontinued operations, net of taxes	**—**	**—**	1.10	1.07
Earnings per common share	**$ 1.77**	**$ 1.74**	$ 1.84	$ 1.80
Awards excluded from diluted earnings per share calculation[(1)]	**—**	**63,897**	—	—

(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 9. CREDIT FACILITY

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

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

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

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

There was no outstanding balance on the Credit Agreement at March 31, 2019 and 2018, respectively. For the three-month periods ended March 31, 2019 and 2018, we did not incur any interest expense related to either credit facility. We were in compliance with all covenants of the Credit Agreement at March 31, 2019.

NOTE 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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 March 31, 2019:

	Net unrealized appreciation on investments	Liability for underfunded employee benefit costs(1)	Total
Balance as of January 1, 2019	(9,323)	(21,149)	$ (30,472)
Change in accumulated other comprehensive income before reclassifications	26,349	—	26,349
Reclassification adjustments from accumulated other comprehensive income (loss)	(70)	888	818
Balance as of March 31, 2019	$ 16,956	$ (20,261)	$ (3,305)

(1) The preparation of financial statements in conformity with GAAP requires us to make various estimates and assumptions that affect the reporting of net periodic benefit cost, plan assets and plan obligations for each plan at the date of the financial statements. Actual results could differ from these estimates. One significant estimate relates to the calculation of the benefit obligation for each plan. We annually establish the discount rate, which is an estimate of the interest rate at which these benefits could be effectively settled, that is used to determine the present value of the respective plan's benefit obligations as of December 31.

NOTE 11. DISCONTINUED OPERATIONS

On September 18, 2017, we signed a definitive agreement to sell our subsidiary, United Life, to Kuvare for $280,000 in cash, less a $21 adjustment as set forth in the definitive agreement, for a net amount of $279,979. The sale closed on March 30, 2018 and we reported an after-tax gain on the sale of discontinued operations of $27,307. The life insurance business (previously reported as a separate segment) was considered held for sale and reported as discontinued operations and its financial position, results of operations and cash flows were reported separately for all periods presented, as applicable, unless otherwise noted.

UFG has agreed to provide services to Kuvare through a transition services agreement ("TSA"). The TSA ensures a seamless transfer of the business between UFG and Kuvare. The TSA includes, among other considerations, accounting management, human resources, legal and information technology services, from the closing date for up to 24 months. Since the close date, the Company has received $584 as part of the TSA agreement.

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Summary operating results of discontinued operations were as follows for the periods indicated:

Discontinued Operations
Statements of Income (Unaudited)

	Three Months Ended March 31,	
(In Thousands, Except Share Data)	**2019**	2018
Revenues		
Net premiums earned	**$** —	$ 13,003
Investment income, net of investment expenses	—	12,663
Net realized investment gains (losses)	—	(1,057)
Other income	—	146
Total revenues	**$** —	$ 24,755
Benefits, Losses and Expenses		
Losses and loss settlement expenses	**$** —	$ 10,823
Increase in liability for future policy benefits	—	5,023
Amortization of deferred policy acquisition costs	—	1,895
Other underwriting expenses	—	3,864
Interest on policyholders' accounts	—	4,499
Total benefits, losses and expenses	**$** —	$ 26,104
Income (loss) from discontinued operations before income taxes	**$** —	$ (1,349)
Federal income tax expense	—	563
Net income (loss) from discontinued operations	**$** —	$ (1,912)
Earnings (loss) per common share from discontinued operations:		
Basic	**$** —	(0.08)
Diluted	—	(0.07)

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

The Company's Consolidated Statement of Cash Flows presents operating, investing and financing cash flows of the discontinued operations separately. The Company's cash management and financial management of both continued and discontinued operations is consolidated as a centralized corporate function in our Finance Department.

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NOTE 12. LEASES

The Company has operating leases consisting of office space, vehicle leases, computer equipment, and office equipment. Lease terms and options vary in the Company's operating leases dependent upon the underlying leased asset. We exclude options to extend or terminate a lease from our recognition as part of our right-of-use assets and lease liabilities until those options are known and/or executed, as we typically do not exercise options to purchase the underlying leased asset. As of March 31, 2019, we have leases with remaining terms of 1 year to 7 years, some of which may include no options for renewal and others with options to extend the lease terms from 6 months to 5 years.

The components of our operating leases were as follows:

		As of March 31, 2019
Components of lease expense:		
Operating lease expense	$	1,908
Less sublease income		126
Net lease expense		1,782
Cash flows information related to leases:		
Operating cash outflow from operating leases		1,800

Balance sheet information for operating leases:		As of March 31, 2019
Operating lease right-of-use assets (Other assets on Consolidated Balance Sheets)	$	19,595
Operating lease liabilities(Accrued expenses and other liabilities on Consolidated Balance Sheets)		20,101
Right-of-use assets obtained in exchange for new operating lease liabilities		94
Weighted average remaining lease term		3.45
Weighted average discount rate		4.84%

Maturities of lease liabilities:			As of March 31, 2019
	2019	$	5,707
	2020		7,201
	2021		5,138
	2022		2,246
	2023		1,191
	Thereafter		180
Total lease payments			21,663
Less imputed interest			(1,562)
Lease liability		$	20,101

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 consolidated financial condition and results of operations on the amounts reported in our Consolidated Financial Statements, which we have prepared in accordance with U.S. generally accepted accounting principles ("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 Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no changes in our critical accounting policies from December 31, 2018.

INTRODUCTION

The purpose of this Management's Discussion and Analysis is to provide an understanding of our results of operations and consolidated financial condition. Our Management's Discussion and Analysis should be read in conjunction with our Consolidated Financial Statements and related notes, including those in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2018. 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.

When we provide information on a statutory or other basis, we label it as such, otherwise all other data is presented in accordance with GAAP.

BUSINESS OVERVIEW

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 46 states plus the District of Columbia and are represented by approximately 1,100 independent agencies.

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.

Discontinued Operations

On September 18, 2017, the Company signed a definitive agreement to sell its subsidiary, United Life Insurance Company ("United Life"), to Kuvare US Holdings, Inc. ("Kuvare"). The sale closed on March 30, 2018. The life insurance business has been accounted for as discontinued operations in the Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Cash Flows. All periods presented have been revised to show results from continuing and discontinued operations, as applicable, unless otherwise noted. For more information, refer to Part I, Item 1, Note 11. "Discontinued Operations."

Reportable Segments

Subsequent to the announcement of the sale of the life insurance business on September 19, 2017, we have operated and report as one business segment. The life insurance business has been reported as discontinued operations for all periods presented in this Form 10-Q, as applicable, unless otherwise noted. For more information, refer to Part I, Item 1, Note 7. "Segment Information."

Pooling Arrangement

All of our property and casualty insurance subsidiaries are members of an intercompany reinsurance 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 three-month period ended March 31, 2019, approximately 47.3 percent of our property and casualty premiums were written in Texas, California, Iowa, Missouri and Colorado.

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.

FINANCIAL HIGHLIGHTS

(In Thousands, Except Ratios)	Three Months Ended March 31, 2019	2018	%
Revenues			
Net premiums earned	**$ 262,314**	$ 245,167	7.0 %
Investment income, net of investment expenses	**16,512**	13,492	22.4
Net realized investment gains (losses)	**26,713**	(7,864)	NM
Total revenues	**$ 305,539**	$ 250,795	21.8 %
Benefits, Losses and Expenses			
Losses and loss settlement expenses	**$ 164,240**	$ 144,728	13.5 %
Amortization of deferred policy acquisition costs	**52,219**	49,639	5.2
Other underwriting expenses	**34,403**	34,855	(1.3)
Total benefits, losses and expenses	**$ 250,862**	$ 229,222	9.4 %
Income from continuing operations before income taxes	**$ 54,677**	$ 21,573	153.5
Federal income tax expense (benefit)	**10,156**	1,209	740.0
Net income from continuing operations	**$ 44,521**	$ 20,364	118.6 %
Loss from discontinued operations, net of tax	—	(1,912)	(100.0)%
Gain on sale of discontinued operations, net of tax	—	27,307	(100.0)%
Net income	**$ 44,521**	$ 45,759	(2.7)%
GAAP Ratios:			
Net loss ratio (without catastrophes)	**61.2%**	57.6%	6.3 %
Catastrophes - effect on net loss ratio	**1.4**	1.4	— %
Net loss ratio[1]	**62.6%**	59.0%	6.1 %
Expense ratio[2]	**33.0**	34.5	(4.3)%
Combined ratio[3]	**95.6%**	93.5%	2.2 %

(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.
NM = Not meaningful

The following is a summary of our financial performance for the three-month period ended March 31, 2019:

RESULTS OF OPERATIONS

For the three-month period ended March 31, 2019, net income was $44.5 million compared to net income of $45.8 million for the same period of 2018. In the three-month period ended March 31, 2019, there was an increase in net premiums earned, investment income and net realized gains on equity securities, partially offset by an increase in losses and loss settlement expenses.

Net premiums earned increased to $262.3 million compared to $245.2 million for the same period of 2018 primarily due to rate increases, premium audits and endorsements.

Investment income increased by $3.0 million during the three-month period ended March 31, 2019 compared to the same periods of 2018. The change in net investment income for the three-month period ended March 31, 2019 was due to an increase in the value of our investments in limited liability partnerships and an increase in invested assets. The valuation of these investments in limited liability partnerships varies from period to period due to current equity market conditions, specifically related to financial institutions.

The increase in net realized investment gains was primarily due to strong equity markets during the three-month period ended March 31, 2019 which resulted in an increase in the value of equity securities compared to a decrease in the value on equity securities in first quarter of 2018

Losses and loss settlement expenses increased by 13.5 percentage points during the three-month period ended March 31, 2019 compared to the same period of 2018. The increase was primarily due to lower favorable prior year reserve development from reserve strengthening in our Gulf Coast region on our commercial auto, general liability and commercial property lines of business.

The combined ratio increased 2.1 percentage points to 95.6 percent for the three-month period ended March 31, 2019, compared to 93.5 percent for the same period of 2018. The increase in the combined ratio was primarily driven by an increase in the GAAP net loss ratio. Pre-tax catastrophe losses in the first quarter of 2019 were flat compared to the first quarter of 2018, with catastrophe losses adding 1.4 percentage points to the combined ratio in both periods. Our historical average for first quarter is 2.5 percentage points added to the combined ratio.

The net loss ratio, a component of the combined ratio, increased by 3.6 percentage points to 62.6 percent in the three-month period ended March 31, 2019 as compared to the same period of 2018, primarily due to lower favorable prior year reserve development previously mentioned. Excluding the impact of prior year development, our core loss ration improved 10.1 percentage points.

The expense ratio, a component of the combined ratio, was 33.0 percent for the three-month period ended March 31, 2019, a decrease of 1.5 percentage points as compared with the same periods of 2018. The decrease in the three-month period ended March 31, 2019, was primarily due to a decrease in employee benefit expenses due to post-retirement benefit plan amendments made at the end of 2018.

On March 30, 2018, the sale of United Life closed, resulting in a gain on sale of discontinued operations after-tax of $27.3 million.

For a detailed discussion of our 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.

2019 Development

The property and casualty insurance segment experienced $4.6 million of favorable development in our net reserves for prior accident years for the three-month period ended March 31, 2019. Three lines combined to provide the majority of favorable development. Workers compensation contributed $4.8 million favorable development primarily attributable to loss adjustment expense ("LAE") due to successful litigation management. Fidelity and surety contributed $2.0 million favorable development attributable to reductions in loss IBNR, which was not needed to pay claims. Commercial liability contributed $1.5 million favorable development attributable to LAE due to successful litigation management. The only line with significant unfavorable development was commercial fire and allied lines, which experienced $4.5 million unfavorable development attributable to higher than anticipated paid losses. The overall favorable development is attributable to LAE where reserve reductions were more than sufficient to offset paid expenses. LAE payments continue to benefit from successful management of litigation expenses.

2018 Development

The property and casualty insurance business experienced $38.1 million of favorable development in our net reserves for prior accident years for the three-month period ended March 31, 2018. Three lines combined to provide the majority of favorable development while one line developed adversely. The three largest contributors to favorable development were commercial liability with $14.9 million of favorable development, commercial automobile with $13.9 million of favorable development and commercial fire and allied with $7.8 million of favorable development. Additional favorable development also came from workers compensation with $4.0 million of favorable development. 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 along with reductions in reserves for loss adjustment expense. Reserve reductions were more than sufficient to offset claim payments and LAE payments. LAE payments continue to benefit from successful management of litigation expenses. The only line which partially offset to the favorable development was assumed reinsurance with $4.6 million of adverse development. Adverse development for assumed reinsurance is attributable to the combination of paid loss and the emergence of additional reserves for reported claims which were greater than reductions in prior year IBNR.

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 March 31, 2019, our total reserves were within our actuarial estimates.

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

Three Months Ended March 31,	2019			2018		
(In Thousands, Except Ratios) 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	**$ 78,427**	**$ 38,275**	**48.8 %**	$ 75,593	$ 25,303	33.5 %
Fire and allied lines	**59,174**	**36,786**	**62.2**	57,399	34,229	59.6
Automobile	**75,234**	**70,571**	**93.8**	66,694	53,947	80.9
Workers compensation	**21,875**	**5,945**	**27.2**	23,341	12,060	51.7
Fidelity and surety	**6,375**	**(251)**	**(3.9)**	5,473	658	12.0
Miscellaneous	**427**	**(99)**	**(23.2)**	425	184	43.3
Total commercial lines	**$ 241,512**	**$ 151,227**	**62.6 %**	$ 228,925	$ 126,381	55.2 %
Personal lines						
Fire and allied lines	**$ 10,220**	**$ 6,282**	**61.5 %**	$ 10,438	$ 7,401	70.9 %
Automobile	**7,482**	**5,667**	**75.7**	7,009	5,757	82.1
Miscellaneous	**301**	**(68)**	**(22.6)**	295	(105)	(35.6)
Total personal lines	**$ 18,003**	**$ 11,881**	**66.0 %**	$ 17,742	$ 13,053	73.6 %
Reinsurance assumed	**$ 2,799**	**$ 1,132**	**40.4 %**	$ (1,500)	$ 5,294	NM
Total	**$ 262,314**	**$ 164,240**	**62.6 %**	$ 245,167	$ 144,728	59.0 %

Below are explanations regarding significant changes in the net loss ratios by line of business:

- **Other liability -** The net loss ratio deteriorated 15.3 percentage points in the three-month period ended March 31, 2019 compared to the same period of 2018. This deterioration is attributable to an increase in paid losses which were significantly higher in the first quarter of 2019 compared to the same period of 2018. Also contributing to the deterioration is a decrease in favorable reserve development due to reserve strengthening on auto liability related claims in our Gulf Coast region during the first quarter of 2019.

- **Commercial automobile -** The net loss ratio deteriorated 12.9 percentage points in the three-month period ended March 31, 2019 compared to the same period of 2018. This deterioration is attributable to an increase in paid losses which were significantly higher in the first quarter of 2019 compared to the same period of 2018. Also contributing to the deterioration is a decrease in favorable reserve development due to reserve strengthening in our gulf coast region during the first quarter of 2019.

- **Workers compensation -** The net loss ratio improved 24.5 percentage points in the three-month period ended March 31, 2019, compared to the same period of 2018. The improvement is attributable to favorable changes for both loss and loss adjustment expense. The improvement for loss is attributable to a decrease in both paid losses and reserve changes for reported claims which were more favorable in the first quarter of 2019 compared to the same period of 2018. The improvement for loss adjustment expense is attributable to reductions of paid and unpaid loss adjustment reserves.

- **Fidelity and surety -** The net loss ratio improved 15.9 percentage points in the three-month period ended March 31, 2019, compared to the same period of 2018. The improvement is attributable to favorable changes for both loss and loss adjustment expense. The improvement for loss is attributable to paid loss which was lower in the first quarter of 2019 compared to the same period of 2018 primarily due to a significant payment for a single large claim in 2018. Loss adjustment expenses were relatively higher in 2018, primarily due to significant costs of adjusting the single large claim.

- **Personal fire and allied lines** - The net loss ratio improved 9.4 percentage points in the three-month period ended March 31, 2019 compared to the same period of 2018. The improvement is attributable to the absence of significant storms in the first quarter of 2019 compared to the same period of 2018 which experienced relatively large storm events.

- **Personal automobile** - The net loss ratio improved 6.4 percentage points in the three-month period ended March 31, 2019 compared to the same period of 2018. This improvement is attributable to both a reduction in paid losses and the absence of significant storms in the first quarter of 2019 compared to the same period of 2018 which experienced relatively large storm events resulting in physical damage claims.

Financial Condition

Stockholders' equity increased to $955.2 million at March 31, 2019, from $888.4 million at December 31, 2018. The increase was primarily attributed to net income of $44.5 million, an increase in net unrealized investment gains of $26.3 million, net of tax, partially offset by shareholder dividends of $7.8 million.

At March 31, 2019, the book value per share of our common stock was $37.95. During the three-month period ended March 31, 2019, no shares of common stock were repurchased. Under our share repurchase program, which is scheduled to expire on August 31, 2020, we were authorized to repurchase an additional 2,116,200 shares of our common stock as of March 31, 2019.

Discontinued Operations Results

	Three Months Ended March 31,	
(In Thousands)	**2019**	2018
Revenues		
Net premiums earned	**$ —**	$ 13,003
Investment income, net of investment expenses	**—**	12,663
Net realized investment gains (losses)	**—**	(1,057)
Other income	**—**	146
Total revenues	**$ —**	$ 24,755
Benefits, Losses and Expenses		
Losses and loss settlement expenses	**$ —**	$ 10,823
Increase in liability for future policy benefits	**—**	5,023
Amortization of deferred policy acquisition costs	**—**	1,895
Other underwriting expenses	**—**	3,864
Interest on policyholders' accounts	**—**	4,499
Total benefits, losses and expenses	**$ —**	$ 26,104
Loss from discontinued operations, before income taxes	**$ —**	$ (1,349)

The sale of our discontinued operations closed on March 30, 2018, and therefore no income attributable to that business was earned in the first quarter of 2019. For the three-month period ended March 31, 2018, our discontinued operations had a loss before income taxes of $1.3 million.

Investment Portfolio

Our invested assets totaled $2.1 billion at March 31, 2019, compared to $2.1 billion at December 31, 2018, an increase of $18.0 million. At March 31, 2019, fixed maturity securities and equity securities made up 83.5 percent and 12.9 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 March 31, 2019 is presented at carrying value in the following table:

	Total	
(In Thousands, Except Ratios)		Percent of Total
Fixed maturities [1]		
Available-for-sale	$ 1,730,563	82.7%
Trading securities	16,409	0.8
Equity securities	269,843	12.9
Mortgage loans	34,209	1.6
Other long-term investments	40,929	2.0
Short-term investments	175	—
Total	$ 2,092,128	100.0%

(1) Available-for-sale securities and trading fixed maturities are carried at fair value.

At both March 31, 2019 and December 31, 2018, we classified $1.7 billion, or 99.1 percent, and $1.7 billion, or 99.2 percent, respectively, of our fixed maturities portfolio as available-for-sale. We classify our remaining fixed maturities as trading. We record available-for-sale fixed maturity 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 March 31, 2019 and December 31, 2018, we did not have direct exposure to investments in subprime mortgages or other credit enhancement vehicles.

Credit Quality

The table below shows the composition of fixed maturity securities held in our available-for-sale, held-to-maturity and trading security portfolios, by credit rating at March 31, 2019 and December 31, 2018. 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, Except Ratios)	**March 31, 2019**		December 31, 2018	
Rating	**Carrying Value**	**% of Total**	Carrying Value	% of Total
AAA	**$ 716,356**	**41.0%**	$ 734,471	41.7%
AA	**683,287**	**39.1**	684,863	38.9
A	**174,998**	**10.0**	178,282	10.1
Baa/BBB	**162,063**	**9.3**	157,349	8.9
Other/Not Rated	**10,268**	**0.6**	7,763	0.4
	$ 1,746,972	**100.0%**	$ 1,762,728	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 we use 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.

Investment Results

We invest the premiums received from our policyholders 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 from continuing operations increased by 22.4 percent in the three-month period ended March 31, 2019, compared with the same period of 2018. The change in net investment income for the three-month period ended March 31, 2019 was due to an increase in the value of our investments in limited liability partnerships and an increase in invested assets and not due to a change in our investment philosophy. The valuation of these investments in limited liability partnerships varies from period to period due to current equity market conditions, specifically related to financial institutions.

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-month period ended March 31, 2019, the change in value of our investments in limited liability partnerships from continuing operations resulted in investment gains of $2.5 million as compared to an increase of $1.0 million in investment income in the same periods of 2018. This resulted in an increase of $1.5 million in investment income in the three-month period ended March 31, 2019.

Our net realized investment gains were $26.7 million during the three-month period ended March 31, 2019, as compared with net realized investment losses of $7.9 million in the same period of 2018. $33.8 million of the $34.6 million change in the three-month period ended March 31, 2019 as compared to the same period in 2018 is due to the change in the fair value of equity securities.

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 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 March 31, 2019 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 March 31, 2019 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-month periods ended March 31, 2019 and 2018, 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, 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, the purchase of investments, operating expenses, dividends, pension plan contributions, and in recent years, common stock repurchases.

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

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

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

The following table displays a consolidated summary of cash sources and uses for the three-month periods ended March 31, 2019 and 2018 from continuing and discontinued operations:

Cash Flow Summary	**Three Months Ended March 31,**	
(In Thousands)	**2019**	2018
Cash provided by (used in)		
Operating activities	**$ 10,703**	$ 23,574
Investing activities	**27,426**	226,154
Financing activities	**(7,047)**	(21,618)
Net increase in cash and cash equivalents	**$ 31,082**	$ 228,110

In the Consolidated Statement of Cash Flows, cash flows from discontinued operations are shown in separate lines in each of the operating, investing and financing sections of the Cash Flow Statement. Our cash flows from continuing operations were sufficient to meet our current liquidity needs for the three-month periods ended March 31, 2019 and 2018 and we anticipate they will be sufficient to meet our future liquidity needs.

Operating Activities

Net cash flows provided by operating activities totaled $10.7 million and $23.6 million for the three-month periods ended March 31, 2019 and 2018, respectively.

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 2.

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, $269.2 million, or 15.4 percent, of our fixed maturity portfolio will mature.

We invest funds required for short-term cash needs primarily in money market accounts, which are classified as cash equivalents. At March 31, 2019, our cash and cash equivalents included $10.0 million related to these money market accounts, compared to $3.3 million at December 31, 2018.

Net cash flows provided by investing activities were $27.4 million and $226.2 million for the three-month periods ended March 31, 2019 and 2018, respectively. For the three-month periods ended March 31, 2019 and 2018, we had cash inflows from scheduled and unscheduled investment maturities, redemptions, prepayments, and sales of investments, from continuing operations of $76.3 million and $33.4 million, respectively. We also had net cash inflows from the sale of discontinued operations of $276.1 million for the three-month period ended March 31, 2018.

Our cash outflows for investment purchases from continuing operations were $36.8 million for the three-month period ended March 31, 2019, compared to $93.8 million for the same period of 2018.

Financing Activities

Net cash flows used in financing activities from continuing operations was $7.0 million for the three-month period ended March 31, 2019 which decreased $3.1 million compared to $10.1 million used in the three-month period ended March 31, 2018 primarily due to issuance and repurchase of common stock during first quarter 2018.

Credit Facilities

On February 2, 2016, the Company, as borrower, entered into a credit agreement by and among the Company, with the lenders from time to time party thereto and KeyBank National Association, as administrative agent, swingline lender and letter of credit issuer. As of March 31, 2019 and 2018, there were no balances outstanding under this credit agreement. For further discussion of our credit agreement, refer to Part I, Item 1, Note 9. "Credit Facility."

Dividends

Dividends paid to shareholders totaled $7.8 million and $7.0 million in the three-month periods ended March 31, 2019 and 2018, 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 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, we rely on dividends received from our insurance company subsidiaries in order to pay dividends to our common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled, and if applicable, commercially 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 March 31, 2019, UFG's sole direct insurance company subsidiary, United Fire & Casualty Company, was able to make a maximum of $109.2 million in dividend payments without prior regulatory approval. These restrictions will not have a material impact in meeting the cash obligations of UFG.

Stockholders' Equity

Stockholders' equity increased 7.5 percent to $955.2 million at March 31, 2019, from $888.4 million at December 31, 2018. The increase was primarily attributed to net income of $44.5 million, an increase in net unrealized investment gains of $26.3 million, net of tax, during the first three months of 2019, partially offset by shareholder dividends of $7.8 million. At March 31, 2019, the book value per share of our common stock was $37.95 compared to $35.40 at December 31, 2018.

OFF BALANCE SHEET ARRANGEMENTS

Funding Commitments

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed through July 31, 2028, to make capital contributions upon request of the partnership. Our remaining potential contractual obligation was $19.0 million at March 31, 2019.

MEASUREMENT OF RESULTS

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

Catastrophe losses is a commonly used 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 catastrophe 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 business, 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 March 31,	
(In Thousands)	**2019**	2018
ISO catastrophes	**$ 3,545**	$ 3,438
Non-ISO catastrophes [1]	**85**	(77)
Total catastrophes	**$ 3,630**	$ 3,361

(1) This number includes international assumed losses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

It is our philosophy that we do not utilize financial hedges or derivative financial instruments to manage risks, nor do we enter into any swap, forward or option contracts, but attempt to mitigate our exposure through active portfolio management. In addition, we place the majority of our investments in high-quality, liquid securities and limit the amount of credit exposure to any one issuer. At March 31, 2019, 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, 2018.

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.

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 March 31, 2019 to be ordinary and routine and does not expect these legal proceedings to have a material adverse effect on the Company's financial condition 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 Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 28, 2019, 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 March 31, 2019:

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]
1/1/2019 - 1/31/2019	—	$ —	—	2,116,200
2/1/2019 - 2/28/2019	—	—	—	2,116,200
3/1/2019 - 3/31/2019	—	—	—	2,116,200
Total	—	$ —	—	2,116,200

(1) Our share repurchase program was originally announced in August 2007. In August 2016, our Board of Directors authorized the repurchase of up to an additional 1,500,000 shares of common stock through the end of August 2018. This is in addition to the 1,528,886 shares of common stock remaining under its previous authorizations. In August 2018, our Board of Directors extended our share repurchase program through the end of August, 2020. As of March 31, 2019 we remained authorized to repurchase 2,116,200 shares of common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBIT INDEX

Exhibit number	Exhibit description	Furnished herewith	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 March 31, 2019 formatted in iXBRL: (i) Consolidated Balance Sheets as of March 31, 2019 (unaudited) and December 31, 2018; (ii) Consolidated Statements of Income and Comprehensive Income (unaudited) for the three months ended March 31, 2019 and 2018; (iii) Consolidated Statement of Stockholders' Equity (unaudited) for the three months ended March 31, 2019 and 2018; (iv) Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2019 and 2018; 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	/s/ Dawn M. Jaffray
Randy A. Ramlo	Dawn M. Jaffray
President, Chief Executive Officer,	Senior Vice President, Chief Financial Officer and
Director and Principal Executive Officer	Principal Accounting Officer
May 8, 2019	May 8, 2019
(Date)	(Date)

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Randy A. Ramlo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Fire Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the Consolidated Financial Statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ Randy A. Ramlo

Randy A. Ramlo
Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dawn M. Jaffray, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Fire Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the Consolidated Financial Statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ Dawn M. Jaffray

Dawn M. Jaffray
Chief Financial Officer

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of United Fire Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randy A. Ramlo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2019

/s/ Randy A. Ramlo

Randy A. Ramlo
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to United Fire Group, Inc. and will be retained by United Fire Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of United Fire Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dawn M. Jaffray, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2019

/s/ Dawn M. Jaffray

Dawn M. Jaffray
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to United Fire Group, Inc. and will be retained by United Fire Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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