UNITED FIRE GROUP INC
Form 10-Q
August 06, 2013
Table of Contents

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

FORM 10-Q

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

for the quarterly period ended June 30, 2013

Commission File Number 001-34257

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

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

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

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

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

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

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

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

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

As of August 2, 2013, 25,328,593 shares of common stock were outstanding.

Table of Contents

United Fire Group, Inc.
Index to Quarterly Report on Form 10-Q
June 30, 2013

Table of Contents

FORWARD-LOOKING INFORMATION

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

Table of Contents

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.
Consolidated Balance Sheets

(In Thousands, Except Share Data)	June 30, 2013	December 31, 2012
	(unaudited)	
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value $1,499 in 2013 and $1,681 in 2012)	$1,477	$1,655
Available-for-sale, at fair value (amortized cost $2,706,174 in 2013 and $2,657,800 in 2012)	2,764,816	2,808,078
Trading securities, at fair value (amortized cost $11,413 in 2013 and $12,645 in 2012)	12,551	13,353
Equity securities		
Available-for-sale, at fair value (cost $67,455 in 2013 and $66,892 in 2012)	197,157	177,127
Trading securities, at fair value (cost $1,754 in 2013 and $1,772 in 2012)	1,981	2,018
Mortgage loans	4,529	4,633
Policy loans	6,369	6,671
Other long-term investments	33,623	30,028
Short-term investments	800	800
	3,023,303	3,044,363
Cash and cash equivalents	80,789	107,466
Accrued investment income	29,381	30,375
Premiums receivable (net of allowance for doubtful accounts of $853 in 2013 and $866 in 2012)	237,646	188,289
Deferred policy acquisition costs	137,811	105,300
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $34,975 in 2013 and $34,093 in 2012)	43,647	43,090
Reinsurance receivables and recoverables	104,774	114,399
Prepaid reinsurance premiums	3,536	2,963
Income taxes receivable	—	16,536
Goodwill and intangible assets	27,431	28,259
Other assets	12,431	13,613
TOTAL ASSETS	$3,700,749	$3,694,653
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	$968,493	$971,911
Life insurance	1,476,569	1,498,176
Unearned premiums	354,477	311,650
Accrued expenses and other liabilities	159,161	164,111
Income taxes payable	1,567	—
Deferred income taxes	6,099	19,628
TOTAL LIABILITIES	$2,966,366	$2,965,476
Stockholders' Equity		

Common stock, $0.001 par value; authorized 75,000,000 shares; 25,323,880 and 25,227,463 shares issued and outstanding in 2013 and 2012, respectively	$25	$25
Additional paid-in capital	210,503	208,536
Retained earnings	454,975	425,428
Accumulated other comprehensive income, net of tax	68,880	95,188
TOTAL STOCKHOLDERS’ EQUITY	$734,383	$729,177
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$3,700,749	$3,694,653

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

Table of Contents

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

(In Thousands, Except Share Data)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Revenues				
Net premiums earned	$186,367	$170,090	$363,184	$331,593
Investment income, net of investment expenses	29,019	28,749	55,483	57,895
Net realized investment gains				
Other-than-temporary impairment charges	—	(4)	—	(4)
All other net realized gains (includes reclassifications for net unrealized gains on available-for-sale securities of $4,417 and $5,653 in 2013; and $788 and $3,020 in 2012; previously included in accumulated other comprehensive income)	4,151	568	6,060	3,362
Total net realized investment gains	4,151	564	6,060	3,358
Other income	182	243	297	499
Total revenues	$219,719	$199,646	$425,024	$393,345
Benefits, Losses and Expenses				
Losses and loss settlement expenses	$120,435	$106,766	$217,905	$198,250
Future policy benefits	9,869	8,356	18,105	18,494
Amortization of deferred policy acquisition costs	36,708	34,179	74,789	68,730
Other underwriting expenses (includes reclassifications for employee benefit costs of $1,243 and $2,485 in 2013; and $1,732 and $2,375 in 2012; previously included in accumulated other comprehensive income)	23,308	20,541	45,656	42,535
Interest on policyholders' accounts	9,081	10,627	18,401	21,283
Total benefits, losses and expenses	$199,401	$180,469	$374,856	$349,292
Income before income taxes	$20,318	$19,177	$50,168	$44,053
Federal income tax expense (includes reclassifications of $1,111 and $1,109 in 2013; and ($331) and $224 in 2012; previously included in accumulated other comprehensive income)	4,822	4,461	12,279	10,153
Net income	$15,496	$14,716	$37,889	$33,900
Other comprehensive income (loss)				
Change in net unrealized appreciation on investments	$(51,782)	$8,891	$(37,294)	$21,932
Change in liability for underfunded employee benefit plans	—	—	—	—
Other comprehensive income (loss), before tax and reclassification adjustments	$(51,782)	$8,891	$(37,294)	$21,932
Income tax effect	18,115	(3,111)	13,045	(7,675)
Other comprehensive income (loss), after tax, before reclassification adjustments	$(33,667)	$5,780	$(24,249)	$14,257
Reclassification adjustment for net realized gains included in income	$(4,417)	$(788)	$(5,653)	$(3,020)
Reclassification adjustment for employee benefit costs included in expense	1,243	1,732	2,485	2,375
Total reclassification adjustments, before tax	$(3,174)	$944	$(3,168)	$(645)

Income tax effect	1,111	(331)	$1,109	$224
Total reclassification adjustments, after tax	$(2,063)	$613	$(2,059)	$(421)
Comprehensive income (loss)	$(20,234)	$21,109	$11,581	$47,736
Weighted average common shares outstanding	25,297,718	25,476,220	25,271,752	25,491,091
Basic earnings per common share	$0.61	$0.58	$1.50	$1.33
Diluted earnings per common share	0.61	0.58	1.49	1.33
Cash dividends declared per common share	0.18	0.15	0.33	0.30

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

Table of Contents

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

(In Thousands, Except Share Data)	Six Months Ended June 30, 2013
Common stock	
Balance, beginning of year	$25
Shares repurchased (3,577 shares)	—
Shares issued for stock-based awards (99,994 shares)	—
Balance, end of period	$25
Additional paid-in capital	
Balance, beginning of year	$208,536
Compensation expense and related tax benefit for stock-based award grants	601
Shares repurchased	(99)
Shares issued for stock-based awards	1,465
Balance, end of period	$210,503
Retained earnings	
Balance, beginning of year	$425,428
Net income	37,889
Dividends on common stock ($0.33 per share)	(8,342)
Balance, end of period	$454,975
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	$95,188
Change in net unrealized investment appreciation (1)	(27,923)
Change in liability for underfunded employee benefit plans(2)	1,615
Balance, end of period	$68,880
Summary of changes	
Balance, beginning of year	$729,177
Net income	37,889
All other changes in stockholders' equity accounts	(32,683)
Balance, end of period	$734,383

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

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

Table of Contents

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

(In Thousands)	Six Months Ended June 30, 2013		2012	
Cash Flows From Operating Activities				
Net income	$37,889		$33,900	
Adjustments to reconcile net income to net cash provided by operating activities				
Net accretion of bond premium	7,989		7,127	
Depreciation and amortization	2,930		3,671	
Stock-based compensation expense	818		916	
Net realized investment gains	(6,060	)	(3,358	)
Net cash flows from trading investments	1,285		(748	)
Deferred income tax expense	(2,096	)	6,626	
Changes in:				
Accrued investment income	994		(531	)
Premiums receivable	(49,357	)	(38,857	)
Deferred policy acquisition costs	(3,288	)	(4,520	)
Reinsurance receivables	9,625		(24,324	)
Prepaid reinsurance premiums	(573	)	2,876	
Income taxes receivable	16,536		12,288	
Other assets	1,182		3,959	
Future policy benefits and losses, claims and loss settlement expenses	10,716		34,345	
Unearned premiums	42,827		41,306	
Accrued expenses and other liabilities	(2,465	)	5,048	
Income taxes payable	1,567		—	
Deferred income benefit (taxes)	2,720		(2,448	)
Other, net	(2,834	)	(2,131	)
Total adjustments	$32,516		$41,245	
Net cash provided by operating activities	$70,405		$75,145	
Cash Flows From Investing Activities				
Proceeds from sale of available-for-sale investments	$5,971		$13,412	
Proceeds from call and maturity of held-to-maturity investments	180		285	
Proceeds from call and maturity of available-for-sale investments	238,639		302,334	
Proceeds from short-term and other investments	1,882		2,875	
Purchase of available-for-sale investments	(295,586	)	(414,828	)
Purchase of short-term and other investments	(2,575	)	(4,650	)
Net purchases and sales of property and equipment	(2,659	)	(857	)
Net cash used in investing activities	$(54,148	)	$(101,429	)
Cash Flows From Financing Activities				
Policyholders’ account balances				
Deposits to investment and universal life contracts	$52,086		$78,313	
Withdrawals from investment and universal life contracts	(87,827	)	(69,521	)
Repayment of trust preferred securities	—		(15,626	)
Payment of cash dividends	(8,342	)	(7,641	)
Repurchase of common stock	(99	)	(2,134	)
Issuance of common stock	1,465		401	
Tax impact from issuance of common stock	(217	)	(57	)
Net cash used in financing activities	$(42,934	)	$(16,265	)

Net Change in Cash and Cash Equivalents	$(26,677)	$(42,549)
Cash and Cash Equivalents at Beginning of Period	107,466	144,527
Cash and Cash Equivalents at End of Period	$80,789	$101,978

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

Table of Contents

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

United Fire Group, Inc. ("United Fire", "Registrant", the "Company", "we", "us", or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. We report our operations in two business segments: property and casualty insurance and life insurance. We are licensed as a property and casualty insurer in 43 states and the District of Columbia, and as a life insurer in 36 states.

Basis of Presentation

We maintain our records in conformity with the accounting practices prescribed or permitted by the insurance departments of the states in which we are domiciled. To the extent that certain of these practices differ from U.S. generally accepted accounting principles ("GAAP"), we have made adjustments to present the accompanying unaudited Consolidated Financial Statements in conformity with GAAP. Certain financial information that is included in our Annual Report on Form 10-K, including certain financial statement footnote disclosures, are not required by the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting and have been condensed or omitted.

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

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

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

In the opinion of the management of United Fire, the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012. The review report of Ernst & Young LLP as of and for the three- and six-month periods ended June 30, 2013, accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 "Financial Statements."

Cash and Cash Equivalents

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

Table of Contents

For the six-month periods ended June 30, 2013 and 2012, we made payments for income taxes totaling $2,512 and $8,857, respectively. We received tax refunds of $8,744 and $15,508, respectively, during the six-month periods ended June 30, 2013 and 2012.

For the six-month period ended June 30, 2013, we made no interest payments. For the six-month period ended June 30, 2012, we made interest payments totaling $756. These payments exclude interest credited to policyholders' accounts.

Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC, including the related amortization recognized for the six-month period ended June 30, 2013.

	Property & Casualty	Life Insurance	Total
Recorded asset at beginning of period	$64,947	$40,353	$105,300
Underwriting costs deferred	75,432	2,645	78,077
Amortization of deferred policy acquisition costs	(71,349)	(3,440)	(74,789)
Ending unamortized deferred policy acquisition costs	$69,030	$39,558	$108,588
Change in "shadow" deferred policy acquisition costs	—	29,223	29,223
Recorded asset at end of period	$69,030	$68,781	$137,811

Property and casualty policy acquisition costs are deferred and amortized as premium revenue is recognized. The accounting method we follow 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 to be incurred and certain other costs expected to be incurred as the premium is earned.

For traditional life insurance policies, DAC is amortized to income over the premium-paying period in proportion to the ratio of the expected annual premium revenue to the expected total premium revenue. For non-traditional policies, DAC is amortized over the anticipated terms in proportion to the ratio of the expected annual gross profits to the total expected gross profits. Expected premium revenue and gross profits are based on the same mortality and withdrawal assumptions used in determining future policy benefits. For non-traditional policies, changes in the amount or timing of expected gross profits result in adjustments to the cumulative amortization of these costs. The effect on amortization of DAC for revisions to estimated gross profits is reported in earnings in the period the estimated gross profits are revised.

The effect on DAC that results from the assumed realization of unrealized gains (losses) on investments allocated to non-traditional life insurance business is recognized with an offset, or "shadow" DAC, to net unrealized investment appreciation as of the balance sheet date. The "shadow" DAC adjustment decreased the DAC asset by $9,472 and $38,695 at June 30, 2013 and December 31, 2012, respectively.

Income Taxes

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

7

Table of Contents

We reported a federal income tax expense of $12,279 and $10,153 for the six-month periods ended June 30, 2013 and 2012, respectively. Our effective tax rate is different than the federal statutory rate of 35.0% due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.
We did not recognize any liability for unrecognized tax benefits at June 30, 2013 or December 31, 2012. In addition, we have not accrued for interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.
We file a consolidated federal income tax return. We also file income tax returns in various state jurisdictions. We are no longer subject to federal or state income tax examination for years before 2009. The Internal Revenue Service is conducting an examination of our income tax return for the 2011 tax year.

Recently Issued Accounting Standards

Adopted Accounting Standards in 2013

Comprehensive Income

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance that requires significant items that are reclassified out of accumulated other comprehensive income ("AOCI") to net income in their entirety in the same reporting period, to be reported to show the effect of the reclassifications on the respective line items of the statement where net income is presented. These reclassifications can be presented either on the face of the statement where net income is presented or in the notes to the financial statements. For items that are not reclassified to net income in their entirety in the same reporting period a cross reference to other disclosures currently required under GAAP is required in the notes to the financial statements. The new guidance also requires companies to report changes in the accumulated balances of each component of AOCI. This new guidance is effective for annual and interim periods beginning after December 15, 2012. The Company adopted the new guidance effective January 1, 2013. The adoption of the new guidance affects presentation only and therefore had no impact on the Company's results of operations or financial position.

Pending Adoption of Accounting Standards

In July 2013, the FASB issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This new guidance is effective for annual and interim periods beginning after December 15, 2013. The Company currently does not have any liability for unrecognized tax benefits. Therefore, the adoption of the new guidance in not expected to have an impact on the Company's financial position or results of operations.

Adopted Accounting Standards in 2012

Comprehensive Income

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

Fair Value Measurements

In May 2011, the FASB issued updated accounting guidance that changed the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements to

Table of Contents

ensure consistency between GAAP and IFRS. The guidance also requires additional disclosures for fair value measurements that are estimated using significant unobservable (i.e., Level 3) inputs. The Company adopted the updated guidance on a prospective basis effective January 1, 2012, and has provided the additional disclosures required in "Note 3 Fair Value of Financial Instruments." The adoption of the new guidance did not have any impact on the Company's financial position or results of operations.

Indefinite-Lived Intangible Assets

In July 2012, the FASB issued guidance that provides an option to perform a qualitative approach to test indefinite-lived intangible assets for impairment. If an entity concludes that it is more likely than not that the indefinite-lived intangible asset is impaired, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. However, if an entity concludes otherwise, then the entity is not required to take further action. This new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, and early adoption is permitted. The Company early adopted the updated guidance for purposes of the impairment test performed for 2012. The adoption of the new guidance did not have any impact on the Company's financial position or 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 as of June 30, 2013 and December 31, 2012, is as follows:

Table of Contents

June 30, 2013

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities				
Bonds				
States, municipalities and political subdivisions	$1,042	$11	$—	$1,053
Corporate bonds - financial services	200	—	—	200
Mortgage-backed securities	230	11	—	241
Collateralized mortgage obligations	5	—	—	5
Total Held-to-Maturity Fixed Maturities	$1,477	$22	$—	$1,499
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
U.S. Treasury	$35,785	$626	$117	$36,294
U.S. government agency	158,029	236	8,085	150,180
States, municipalities and political subdivisions	722,826	38,639	9,413	752,052
Foreign bonds	191,145	6,722	234	197,633
Public utilities	228,355	9,623	827	237,151
Corporate bonds				
Energy	161,682	5,219	820	166,081
Industrials	246,363	7,269	2,275	251,357
Consumer goods and services	182,015	5,200	1,036	186,179
Health care	106,273	3,844	1,128	108,989
Technology, media and telecommunications	130,789	3,249	2,352	131,686
Financial services	250,945	9,542	1,032	259,455
Mortgage-backed securities	25,959	496	148	26,307
Collateralized mortgage obligations	261,692	3,084	8,029	256,747
Asset-backed securities	3,938	385	—	4,323
Redeemable preferred stocks	378	4	—	382
Total Available-for-Sale Fixed Maturities	$2,706,174	$94,138	$35,496	$2,764,816
Equity securities				
Common stocks				
Public utilities	$7,231	$8,673	$47	$15,857
Energy	5,094	7,704	—	12,798
Industrials	13,015	23,150	71	36,094
Consumer goods and services	10,363	8,860	14	19,209
Health care	7,920	13,238	—	21,158
Technology, media and telecommunications	6,204	6,554	104	12,654
Financial services	15,854	61,912	103	77,663
Nonredeemable preferred stocks	1,774	17	67	1,724
Total Available-for-Sale Equity Securities	$67,455	$130,108	$406	$197,157
Total Available-for-Sale Securities	$2,773,629	$224,246	$35,902	$2,961,973

December 31, 2012

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities				
Bonds				
States, municipalities and political subdivisions	$1,185	$11	$—	$1,196
Corporate bonds - financial services	200	—	—	200
Mortgage-backed securities	256	15	—	271
Collateralized mortgage obligations	14	—	—	14
Total Held-to-Maturity Fixed Maturities	$1,655	$26	$—	$1,681
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
U.S. Treasury	$37,887	$939	$5	$38,821
U.S. government agency	45,566	429	67	45,928
States, municipalities and political subdivisions	739,752	55,572	819	794,505
Foreign bonds	207,359	11,863	62	219,160
Public utilities	232,550	15,208	32	247,726
Corporate bonds				
Energy	169,973	9,758	—	179,731
Industrials	280,185	13,690	212	293,663
Consumer goods and services	193,313	9,813	151	202,975
Health care	115,654	7,111	80	122,685
Technology, media and telecommunications	123,660	6,909	198	130,371
Financial services	271,061	13,858	1,059	283,860
Mortgage-backed securities	27,940	888	21	28,807
Collateralized mortgage obligations	208,042	7,702	1,160	214,584
Asset-backed securities	4,480	406	—	4,886
Redeemable preferred stocks	378	—	2	376
Total Available-for-Sale Fixed Maturities	$2,657,800	$154,146	$3,868	$2,808,078
Equity securities				
Common stocks				
Public utilities	$7,231	$7,268	$83	$14,416
Energy	5,094	6,903	—	11,997
Industrials	13,031	19,827	174	32,684
Consumer goods and services	10,394	8,535	50	18,879
Health care	7,920	10,286	125	18,081
Technology, media and telecommunications	5,367	5,155	95	10,427
Financial services	15,701	52,936	145	68,492
Nonredeemable preferred stocks	2,154	25	28	2,151
Total Available-for-Sale Equity Securities	$66,892	$110,935	$700	$177,127
Total Available-for-Sale Securities	$2,724,692	$265,081	$4,568	$2,985,205

Table of Contents

Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading securities at June 30, 2013, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

	Held-To-Maturity		Available-For-Sale		Trading	
June 30, 2013	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$449	$451	$298,828	$304,189	$2,684	$2,831
Due after one year through five years	793	802	996,401	1,046,833	6,043	6,598
Due after five years through 10 years	—	—	819,748	839,103	—	—
Due after 10 years	—	—	299,608	287,314	2,686	3,122
Asset-backed securities	—	—	3,938	4,323	—	—
Mortgage-backed securities	230	241	25,959	26,307	—	—
Collateralized mortgage obligations	5	5	261,692	256,747	—	—
	$1,477	$1,499	$2,706,174	$2,764,816	$11,413	$12,551

Net Realized Investment Gains and Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net realized investment gains (losses)				
Fixed maturities:				
Available-for-sale	$1,185	$792	$1,905	$2,323
Trading securities				
Change in fair value	(130			