UFG INSURANCE

2022 TCFD REPORT

ufg INSURANCE

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LETTER FROM OUR PRESIDENT AND CEO

UFG Insurance (UFG) is proud to share this inaugural disclosure aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

As a property and casualty insurer, UFG is acutely aware of the growing risks to the business, insureds and communities stemming from climate change. UFG recognizes that our internal and external stakeholders are increasingly focused on our approach to corporate responsibility, including environmental, social and governance (ESG) matters. In response, UFG has implemented a cross-functional approach to ensure sustainability matters — including climate change — are incorporated into our core business operations and our strategic plan.

Having had the privilege to join UFG in 2022, I am proud to help lead an organization that is taking its responsibilities as an insurer, investor and purpose-driven employer seriously. UFG is a carrier that values service, partnerships, innovation, respect, integrity and trust. These core values encompass the true spirit of UFG.

As UFG strives to deliver on the promise of value to our shareholders, UFG believes it is critical to provide transparency to stakeholders concerning how we are managing climate risk and addressing the global transition to net zero within our business. Disclosure is just the first step. UFG will continue to enhance and act on our understanding of the risks and opportunities a changing climate presents to our business. UFG looks forward to sharing the evolution of our strategy and management of these risks, and how they interplay with their strategic objectives of long-term profitability, diversified growth and continuous innovation.

Kevin J. Leidwinger

Kevin J. Leidwinger
President and Chief Executive Officer

ABOUT UFG INSURANCE

Founded in 1946 as United Fire & Casualty Company, UFG, through its insurance company subsidiaries, is engaged in the business of writing property and casualty insurance, surety bonds, specialty and assumed reinsurance. Through our subsidiaries, we are licensed as a property and casualty insurer in 50 states, plus the District of Columbia.

UFG partners with a select group of approximately 1,000 independent insurance agencies across the country. With more than 1,100 employees at our corporate headquarters in Cedar Rapids, Iowa, and five regional offices in Arizona, California, Colorado, New Jersey and Texas, we deliver insurance protection and services to policyholders throughout the U.S.

UFG is committed to achieving long-term financial strength and stability, using our more than 75 years of experience to successfully guide us through market cycles and industry challenges. UFG holds a financial strength rating of “A” (Excellent) from AM Best Company, which was affirmed in December 2021.

GOVERNANCE

Strong governance principles, coupled with a cross-functional approach to engagement and collaboration, help position our company to better integrate ESG and climate-related risks and opportunities into our corporate strategy and planning.

BOARD OVERSIGHT

Climate change is top of mind for our Board of Directors. Climate-related risks, as a formal part of UFG's wider Enterprise Risk Management (ERM) process, are communicated to the Board's Risk Management Committee on a quarterly basis. This process is further detailed in the Risk Management section of this report. However, given the extensive reach of climate change and its impacts on our lines of business, these risks and opportunities are often presented to the Board more frequently depending on the area of impact.

Under the broader umbrella of ESG oversight, we have made important updates to our governance structure to better address climate-related risks and opportunities. In February 2022, the Nominating and Governance, Audit, Compensation and Human Capital, Investment and Risk Management Committees revised their respective committee charters to incorporate Board committee oversight of relevant ESG-related initiatives:

The Nominating and Governance Committee oversees our ESG policies and practices, generally, and reviews our voluntary ESG disclosures, goals and metrics provided.

The Audit Committee, in its oversight of financial risk exposures, internal controls and financial reporting, reviews policies, processes and internal controls for collecting ESG data to ensure disclosures containing ESG data are accurate, reliable and consistent.

The Compensation and Human Capital Committee oversees our human capital management and diversity, equity and inclusion initiatives, as well as corporate culture matters.

The Investment Committee reviews risks related to our investment portfolio, including oversight of any responsible investment strategies and associated risks (in consultation with the Risk Management Committee).

The Risk Management Committee reviews and evaluates the company's identification, assessment and management of risks associated with ESG matters, including but not limited to climate change and ESG-related emerging risks. It also coordinates with other committees of the Board of Directors on ESG risks specific to such committee's area of oversight.

MANAGEMENT OVERSIGHT

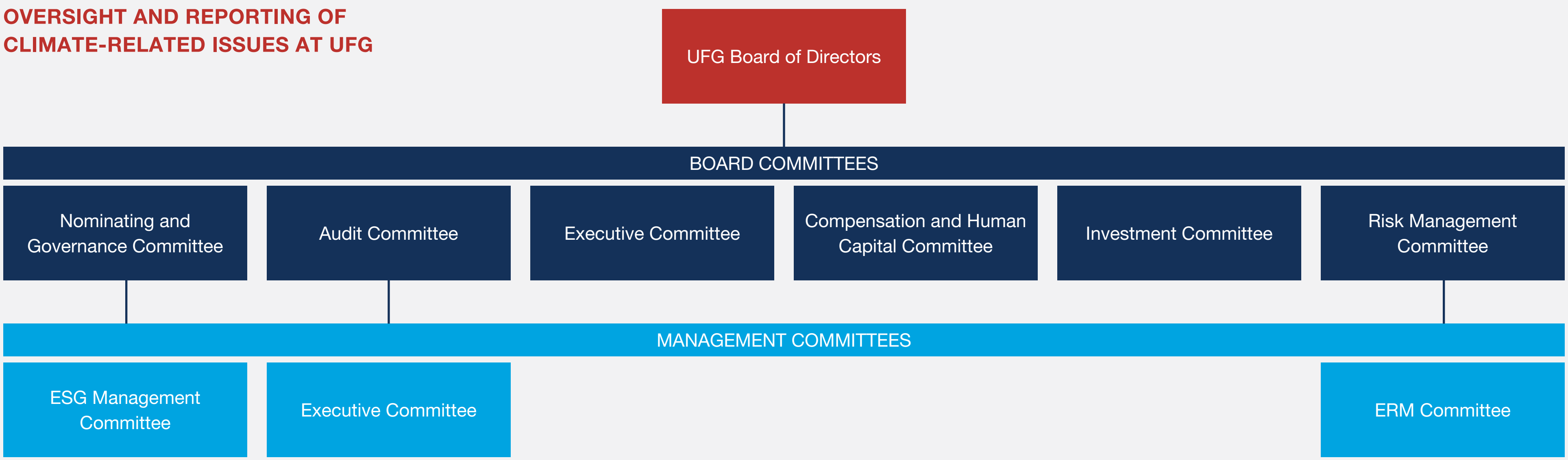
In 2021, UFG established our ESG Management Committee, a cross-functional team of leaders who are dedicated to actively leading UFG's sustainability, corporate social responsibility, health and safety and human capital efforts, as well as cultivating an ESG-focused culture. The ESG Management Committee meets regularly and provides routine updates to the Board's Nominating and Governance Committee. The following individuals at UFG are members of the ESG Management Committee:

» Chief Legal Officer
» Chef Strategy Officer
» Chief Risk Officer
» Chief Underwriting Officer
» Chief Technology Officer
» Chief Marketing Officer
» VP of Human Resources
» Director of Facilities
» Controller, Finance
» Director, Vendor Management Office

We have formally classified the impact of inattention to ESG initiatives as a material emerging risk to our financial and reputational success. Our Chief Risk Officer (CRO), supported by our Chief Legal Officer and Director of Facilities, is responsible for developing and deepening UFG's understanding of climate change as an enterprise-level risk and informing the Board, via reporting from the ERM, how the related risks are monitored and mitigated.

The ERM also communicates with the Board on natural catastrophe experience, exposure and modeling. Specifically, UFG has advised the Risk Management Committee on the following: (i) pockets of CAT risk concentration in UFG's direct book; (ii) direct book benchmarking data, intended to aid underwriting efforts; (iii) models of CAT exposure and loss summaries, reflecting overall declines driven by UFG's exit from the personal lines business and non-renewals of high-risk policies; (iv) the impact of climate change, including rising severe storm losses (also influenced by changes in demography and media coverage); (v) higher rates and the impact of inflation in the reinsurance markets; and (vi) UFG's 2023 goals to reduce rates and increase the aggregate limit in its ceded reinsurance program.

OVERSIGHT AND REPORTING OF CLIMATE-RELATED ISSUES AT UFG



STRATEGY

We view climate change as a transversal risk impacting and elevating other critical enterprise risks and have developed strategies to address and build resiliency to these risks.

CLIMATE-RELATED RISKS, OPPORTUNITIES AND TIME HORIZONS

UFG views climate-related risks as transversal: the breadth of potential risks presented to our business by climate change extend across several categories and subcategories of risks that we monitor. Consequently, while climate change as an individual risk may not constitute one of our top 10 risks, the continuation of the climate crisis may exacerbate risks that are considered urgent and near-term. Climate-related risks may conceivably impact material risks to UFG including, among others, natural catastrophe losses, non-insurance regulatory risks, risks related to corporate financial reporting, publicity and reputational risks and corporate insurance risks.

OUR TIME HORIZONS
Our perspective on time horizons for the consideration of climate-related risks and opportunities is as follows:

- **Short-term** considerations typically span 6-18 months
- **Medium-term** considerations span a period of >18 months-5 years, which is the typical length of our policies
- **Long-term** considerations refer to events we expect to transpire after 5 years

Time Horizon	Climate-Related Risks (Physical, Transition, Liability)	Climate-Related Opportunities
Short-term 6-18 months	» Increased number and duration of wildfires » Increased frequency and severity of heat waves » Risks to reinsurance from catastrophic events » Reputational risks	» Consider green repair options to our insureds » Continue to evaluate the ESG performance of our investments » Higher mandated deductibles for hurricanes, winds and hail
Medium-term 18 months-5 years	» Climate change regulations in the insurance industry » Increased climate change regulations affecting our policyholders' industries » More severe hurricanes and convective storms	» Evaluate and measure the impact of salvage from claims being diverted from landfills through re-use or recycling
Long-term >5 years	» Rising sea levels » Business interruption claims » Liability risks related to expanded insurance coverage in wake of natural disasters	

HOW WE CATEGORIZE CLIMATE-RELATED RISKS

UFG maintains a comprehensive risk register that contains key internal stakeholders' assessment of key enterprise risks, defined as those that could potentially pose a financial impact of at least $2.5 million. Climate change is one such risk. Our taxonomy of climate-related risks comprises three subcategories of risk: physical risk, transition risk and liability risks. UFG identifies and manages these three types of risk through our Corporate Risk Register (CRR), which is discussed further in the Risk Management section of this report.

PHYSICAL RISK AND IMPACTS

Our property and casualty insurance operations expose us to claims following catastrophic events that simultaneously impact multiple policyholders. The list below summarizes catastrophic events, such as natural disasters and extreme weather events, which are related to climate change. While our insureds are based in the United States, we are exposed to natural catastrophes abroad via our assumed reinsurance program. The list below breaks down our risk management strategies for these climate-related catastrophic risks.

While the list below primarily discusses the relevance of climate-related physical risks to our insurance business, the correlative nature of losses from large-scale climate-related catastrophes also constitutes a risk to the reinsurance side of our business.

- **Convective storms, derechos and tornadoes:** UFG maintains its own view of risk on the threat that convective storms, derechos and tornadoes pose to our insureds and our business strategy and operations. We maintain that third-party models mapping these weather events inadequately predict smaller-sized events. Consequently, our in-house view of risk on these matters helps us prepare appropriate expected costs given the exposure of our business's geographic spread to these extreme weather events. We collaborate with a third-party provider of risk management solutions to model risks related to extreme weather, climate change and other catastrophes.
- **Floods:** Floods pose a physical risk to UFG's business headquarters in Cedar Rapids, IA. In response, we have prepared a robust business continuity plan that we can activate in the event of future flooding events *(see: Impact on Strategy and Financial Planning)*. While flood-related perils are covered by UFG's auto policies and in some inland marine forms, UFG does not provide flood coverage for commercial property.
- **Hurricanes:** Our assessment of hurricane risks is likewise informed by extreme weather modeling science. UFG uses hurricane risk prediction models calibrated to near- and long-term frequency rates. We make use of insights from these analyses to appropriately price insurance policies, manage risk, support reinsurance purposing and strategic steering. Additionally, company or state-mandated deductibles for hurricanes, wind and hail could impose additional burdens on insureds in the wake of losses from climate-related extreme weather events. We remain cognizant of this risk in our hurricane-related insurance planning.
- **Wildfires:** Wildfires presently represent a modest risk to UFG. While we recognize that wildfires are a growing climate-related risk to businesses, UFG does not insure substantial quantities of property in wildfire-prone regions, such as West Coast and Rocky Mountain states. We model the potential losses wildfires may cause to us through a third-party reinsurance broker.
- **Heat waves:** The rising severity and frequency of heat waves may result in higher claims rates due to their effects on insureds and their employees.
- **Rising sea levels:** Rising sea levels and coastal flooding caused by storm surges represent significant risk to property in coastal locations. UFG does not write flood insurance. However, we do offer coverage for inland marine buildings, building contents and vehicles within our existing insurance policies.

UFG expects that some geographies are more likely than others to be impacted by chronic and acute physical risks arising from climate change. Consequently, we have identified regions experiencing the impacts of climate change in the immediate term, as well as those most likely to experience particularly severe impacts from climate change in future time horizons, which will inform pricing and coverage considerations.

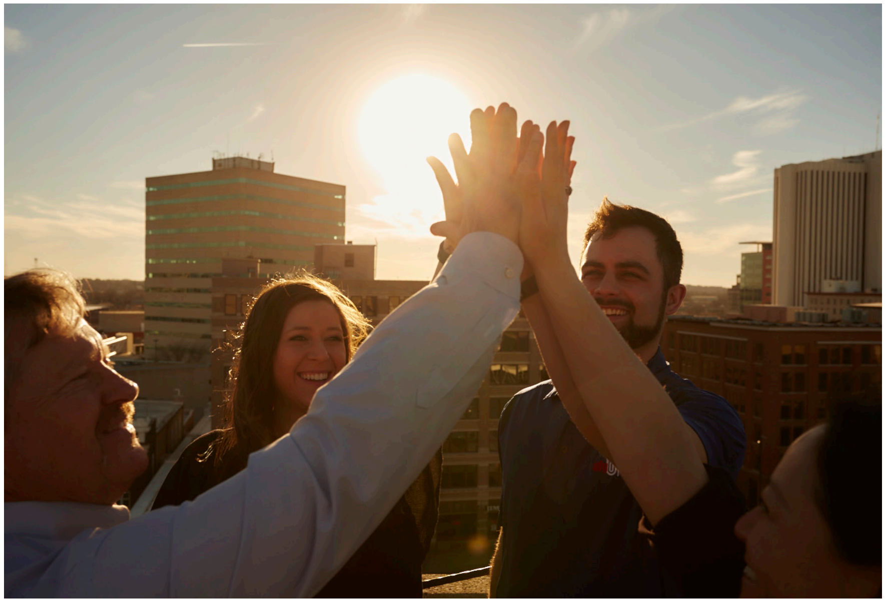
TRANSITION RISK AND IMPACTS

The risks arising from a global transition to a lower-carbon economy could impact long-term returns for UFG and the industries of certain insureds and customers.

» **Regulatory risks to the insurance industry:** Federal- and state-level insurance regulations could shape UFG's climate-related risk management strategy by mandating alternative management plans for risks that we insure. While the shape of these regulatory risks and their likelihood to transpire is uncertain, we envision regulations may cause us to reorient our planned exposure to climate-related risk prone areas or constrain our ability to unwind our exposure to catastrophe-prone regions.

» **Regulatory risks to our insureds' industries:** Environmental regulations that constrain our insureds' capability to do business represent a risk to UFG if this results in business spending on safety and loss prevention being rolled back.

» **Decarbonization of the economy:** UFG does not expect significant impacts to our business model as part of a low-carbon transition as we do not directly write insurance policies for high GHG-emitting sectors of the economy. However, UFG may have indirect exposure to these risks as some of UFG's insured contractors may conduct business activities that support the oil and gas industry.



LIABILITY RISK AND IMPACTS

UFG considers liability risks to encompass potential legal risks to the company and our insureds associated with the defense of claims seeking climate-related damages for which our policies do not currently afford coverage. Following catastrophes, legislative or administrative bodies or the courts may seek to expand insurance coverage for claims beyond the original intent of the policies, issue moratoriums on new insurance policies, prohibit cancellation or limit increases, or prevent the application of deductibles. Our ability to manage catastrophic exposure may be limited by public policy considerations, the political environment, changes in the general economic climate and/or social responsibilities.

CLIMATE-RELATED OPPORTUNITIES

UFG has identified the following opportunities to create value and help address climate change-related issues:

» At UFG, we utilize materials with a low environmental impact such as architectural wall systems instead of drywalls enabling reconfiguring and reuse rather than disposal.

» UFG is pursuing WELL building certification by December 2024 for the 100,000 square-foot American Building in Cedar Rapids.

» The UFG Green Team launched a net-zero waste program, which equips employees with recycling and waste-to-energy receptacles aimed at successfully diverting the 20 tons of landfill-bound trash generated annually from the Cedar Rapids campus by July 2024.

» While we do not maintain sector- or geographic-specific exclusions from our investment portfolio, we do scrutinize portfolio companies' ESG performance before and during the execution of our buy-and-hold investment strategy.

IMPACT ON STRATEGY AND FINANCIAL PLANNING

In response to the company's previous experiences with natural disasters and extreme weather events – such as hurricanes and coastal storms that experts predict will become more frequent, extreme and unpredictable due to climate change – UFG shifted its property insurance exposure away from coastal areas that are predisposed to climate-related disasters. Hurricane Katrina's impact on our business and enterprise value was a concrete example of this kind of strategic pivot.

Moreover, we have taken steps to advance a more proactive climate-related risk management strategy at UFG. Our property catastrophe exposure modeling and management is completed in house, and we incorporate forward-looking climate projections into this analysis. This helps us better connect the effects of climate change and climate-related risks to how we write insurance policies. Moreover, we have placed a particular emphasis on addressing our exposure to severe convective storms when preparing our property CAT reinsurance profile, thereby linking our business needs (appropriately structuring a reinsurance program) to our exposure to extreme weather events. Furthermore, UFG now includes wind and hail deductibles for insureds in coastal zones and regions exposed to severe convective storms. This encourages our policyholders to make use of stronger building codes while reducing UFG's exposure to climate-related risks in these geographies.

UFG has developed a robust business continuity plan that we can roll out in response to extreme weather events that directly impact one or more of our offices. The business continuity plan was developed in the wake of the company's experience with the 2008 flood in Cedar Rapids. Following these disasters, we prepared contingencies that allow UFG staff to transition from office to remote working modalities rapidly following an extreme weather event. Our business continuity plan is tested annually, including failover of all systems to our disaster recovery data center. Additional plans that support continuance of operations after a regional weather event are being developed.

RISK MANAGEMENT

Understanding and managing climate risk is a critical part of implementing our strategic plan to achieve long-term profitability, diversified growth and continuous innovation while decreasing volatility in our business model.

PROCESS OF IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS

UFG's key mechanism in identifying and managing corporate risks is through our Corporate Risk Register (CRR). The CRR gives a comprehensive survey of our dynamic risk landscape and acts as a bridge between risk identification and risk assessment. The CRR includes 66 corporate risks with climate change being among the top 15 risks.

The Enterprise Risk Management (ERM) process consists of six phases as shown to the right.

ENTERPRISE RISK MANAGEMENT IS A PROCESS WHEREBY WE:

IDENTIFY	ASSESS	MEASURE	MONITOR	CONTROL	MITIGATE
Risk register		Risk reports	Risk tolerance	Governance: ERM & Risk Committee	
Identify risks that could cause material adverse consequences to UFG.	**Assess** our exposure to the risks identified.	**Measure** the amount of our individual exposures.	**Monitor** how these measurements change over time.	**Control** risk where it is within our power.	**Mitigate** risk through an enterprise-wide decision framework.

RISK IDENTIFICATION

The CRR identifies risks, inclusive of climate-related risks, which could have material adverse consequences to our business. Each risk identified in the CRR is assigned an owner and an evaluation team that is tasked with assessing the likelihood of the risk occurrence and the financial impact upon potential occurrence.

UFG's CRO maintains the risk register and works with the risk owners and evaluation team members to ensure a complete list of risks are identified. The CRO reports to the Board Risk Management Committee and the ERM every quarter on specific risks identified as critical in the risk register. Risk owners assist the CRO in ensuring that the description and mitigation strategy of the individual risk is captured accurately in the risk register. Additionally, a risk owner is tasked with recommending the appropriate staff in the evaluation team. Members of the evaluation team are expected to assess the risks assigned to them each month as well as make themselves available to the CRO or risk owner to discuss a specific risk when necessary.

RISK ASSESSMENT

The identified risks are assessed for likelihood and impact using standard interpretations and scores. Based on the CRO's assessments, the risks are ranked based on the residual risk score, mitigation adequacy and velocity. The scores enable UFG to report the expected cost of risk (eCOR), which is computed as the probability of occurrence implied by the likelihood score multiplied by the magnitude of potential financial loss implied by the impact score.

The rest of the ERM process includes monitoring the individual exposures and how they change over time. Lastly, the risks are controlled and mitigated through an enterprise-wide decision framework.

PROCESS OF MANAGING AND INTEGRATING CLIMATE-RELATED RISKS

UFG maintains catastrophe exposure modeling and in-house management to incorporate our view of natural peril risk into forward-looking climate-based projections. Our reinsurance program, focused on property catastrophe, is designed to accommodate a changing risk profile. Our core focus, currently, is our exposure to severe convective storms. Additionally, our catastrophe underwriting process requires wind and hail deductibles in coastal and severe convective storm areas to minimize our exposure and encourage policyholders to adopt robust building codes. To manage climate-related risks effectively, UFG seeks to comply with a growing number of SEC, FASB and state regulations pertaining to climate disclosures, frameworks and questionnaires.

Our approach to incorporating environmental climate-related risks into the management of firm-level risk and capital adequacy includes maintaining an economic capital model that evaluates the relative magnitude of various balance sheet risks, including natural catastrophes as well as investment risk, reserve risk and non-CAT pricing risk. With this model, we monitor the probability of statutory surplus being reduced to various levels of financial distress and make capital decisions (e.g., reinsurance program design) with a view on these probabilities. Our corporate risk appetite statement identifies target capitalization that is necessary for our rating and to provide acceptable financial security to our policyholders and shareholders. The effect of environmental climate-related risks is reflected in our corporate risk appetite statement via the modeling we produce to estimate probable maximum loss (PML) each month.

UFG controls our direct insurance exposures in regions that are prone to naturally occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, and reinsurance. We regularly assess our concentration of risk exposures in natural catastrophe exposed areas. In addition, we have strategies and underwriting standards to manage these exposures through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance coverage.

METRICS AND TARGETS

UFG is on a path to right-size our operational footprint through better data measurement, robust environmental initiatives and engagement with our suppliers.

ENVIRONMENTAL DATA

As an insurer, most emissions are from stationary combustion of natural gas and electricity used across our six offices within the United States. Although UFG has not reported Scope 1 and Scope 2 greenhouse gas emissions in the past, we have been tracking our annual consumption for various environmental metrics since 2019. In 2021, the total natural gas consumed dropped by 19% from 2020, while the electricity purchased reduced by 5% for the same period. Currently, UFG does not purchase any electricity from renewable resources. Additionally, UFG plans to develop a digital library of our vendors within our supply chain to be able to keep track of our Scope 3 footprint.

UFG launched a net-zero waste initiative across the Cedar Rapids campus, which encourages staff to recycle paper within our offices. The amount of recycled paper grew by 11% from 17% in 2020. Other environmental metrics include water consumption, which declined by 20% in 2021 from the previous year.

UFG has not currently established any emissions targets. As UFG continues to assess the risks that climate change directly or indirectly presents to our business and operations, we may do so in the future.

Source	2021	2020	2019
Total natural gas consumed (ccf)	195,308	239,919	217,617
Year-over-year change in natural gas consumption (%)	(19%)	10%	-
Total electricity purchased (kWh)	3,971,149	4,189,919	4,039,717
Year-over-year change in electricity purchased (%)	(5%)	4%	-
Percentage of electricity from renewable resources (%)	N/A	N/A	N/A
Water usage (gallons)	2,127,460	2,699,719	3,657,256
Waste generated (tons)	21.0	55.0	51.0
Paper recycled (tons)	8.0	11.4	33.8
Percentage recycled	28%	17%	40%

ABOUT THIS REPORT

This is UFG's first TCFD Report. The quantitative metrics included in this report cover UFG's operations for the 2021 calendar year, and qualitative information includes initiatives through the third quarter of 2022. We believe these sources are reliable, but have not independently verified such information. UFG engaged HXE Partners and Georgeson to support the data collection, content development and report design. The environmental information included in this presentation is subject to revision.

FORWARD-LOOKING STATEMENTS

This release may contain forward-looking statements about our operations, anticipated performance and other similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under the Securities Act of 1933 and the Securities Exchange Act of 1934 for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about the Company, the industry in which we operate, and beliefs and assumptions made by management. Words such as "expect(s)," "anticipate(s)," "intend(s)," "plan(s)," "believe(s)," "continue(s)," "seek(s)," "estimate(s)," "goal(s)," "remain(s) optimistic," "target(s)," "forecast(s)," "project(s)," "predict(s)," "should," "could," "may," "will," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed in such forward-looking statements. Information concerning factors that could cause actual outcomes and results to differ materially from those expressed in the forward-looking statements is contained in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission ("SEC") on February 25, 2022. The risks identified in our Annual Report on Form 10-K and in our other SEC filings are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this release or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.