UNITED FIRE GROUP INC.

THIRD QUARTER 2022 CONFERENCE CALL

CORPORATE PARTICIPANTS

- Kevin Leidwinger, President and CEO
- Eric Martin, SVP, Chief Financial Officer

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3Q EARNINGS CONFERENCE CALL

OPERATOR

Good morning. My name is Jordan and I'll be your conference operator today. At this time I would like to welcome everyone to the UFG Insurance third quarter of 2022 financial results conference call.

(Operator Instruction). Thank you. I will now turn the call over to UFG Senior Vice President and Chief Financial Officer Eric Martin.

ERIC MARTIN, SVP AND CHIEF FINANCIAL OFFICER

Good morning and thank you for joining this call. Yesterday afternoon, we issued a press release on our results. To find a copy of this document, please visit our website at ufginsurance.com. Press releases and slides are located under the Investors tab.

Joining me today on the call is UFG President and Chief Executive Officer Kevin Leidwinger.

Before I turn the call over to Kevin, a couple of reminders. First, please note that our presentation today may include forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. The company cautions investors that any forward-looking statements include risks and uncertainties and are not a guarantee of future performance. These forward-looking statements are based on management's current expectations. The actual results may differ, materially, due to a variety of factors, which are described in our press release and SEC filings. Also please note that in our discussion today, we may use some non-GAAP financial measures. Reconciliations of these measures to the most comparable GAAP measures are also available in our press release and SEC filings.

At this time, I will turn the call over to Mr. Kevin Leidwinger, CEO of UFG Insurance.

KEVIN LEIDWINGER, PRESIDENT AND CEO

Thanks Eric. Good morning, everyone and welcome to our third quarter 2022 conference call.

Today marks my first quarterly earnings call since joining UFG as president and chief executive officer in mid-August. As I've stepped into my new position over the past several weeks, I am grateful for the support shown to me by my fellow board members, the management team and my incredible UFG colleagues, all helping to ensure a seamless transition. In addition, I have had the opportunity to meet with a number of our agents, and I value our strong partnerships and their ongoing support of UFG.

A special thanks also to UFG's retired leaders, Randy Ramlo and Mike Wilkins, for their hand in building a company with great people, a positive culture and strong relationships.

Turning now to results, net written premium increased 9% to $247 million compared to $227 million in the third quarter of 2021. Net written premium growth was driven by our specialty, surety and assumed reinsurance businesses. Our core commercial business made up of small business, construction, middle market and marine, was down in the third quarter but at a smaller rate than we experienced in the first half of the year. Core commercial's retention ratios are stabilizing, and new business production is increasing. We expect the core commercial portfolio to contribute growth in the future.

The combined ratio was 111.7% in the third quarter, a two point deterioration over the third quarter of 2021. The third quarter combined ratio was impacted by 11.4 points of catastrophe activity in addition to 5.9 points of adverse development. The underlying combined ratio for the third quarter was 94%, a four-point improvement over the third quarter of last year and the best third quarter in five years.

Although the third quarter combined ratio was impacted by catastrophe loss activity and adverse development, we are pleased with the improvement in underlying loss ratio for the quarter and through the first nine months of 2022. The underlying loss ratio in the third quarter was 59.3% compared to 61.5% in

the third quarter of 2021, while the underlying loss ratio through the first nine months 2022 was 57.5% compared to 65.0% as of nine months in 2021.

The ongoing improvement in underlying loss ratio is the result of significant actions taken over the past several years to improve profitability, diversify growth, strengthen underwriting governance and reduce volatility. Those actions include:

- Exiting subscale personal lines business which reduced our catastrophe and improved volatility.
- Executing a re-underwriting exercise to improve portfolio fundamentals with a specific focus on non-renewing underperforming accounts and rightsizing the automobile line of business to 20% of the portfolio.
- Centralizing underwriting strategy and governance to improve consistency and quality of underwriting decisions.
- Introducing predictive models to improve pricing and risk selection.
- Transforming claims to specialized line of business operating model.
- Restructuring our reinsurance program to reduce volatility.
- Establishing feedback loops to improve information sharing across the organization.

With our re-underwriting actions largely concluded, the underlying portfolio is sound, and we have emerged as a more effective portfolio manager. With better data and deeper insights, we are positioned to act on trends sooner, allowing us to continuously refine our portfolio avoiding major re-underwriting exercises in the future. We believe we are now well positioned to profitably grow across our portfolio including small business, construction, middle market, marine, specialty, surety and assumed reinsurance.

While we have seen improvement in many aspects of the business, we recognize a 35% expense ratio is unsustainable. Going forward, we will apply the same level of intensity to improving the expense ratio as we have to the loss ratio; however, we will continue to invest in talent, technology and analytics to advance the business.

In closing, let me express how truly honored I am to be here serving as the sixth leader in UFG’s 76-year history. Our team is excited for what the future holds as we continue to move the company forward with an intense focus on consistently

delivering superior financial results and creating long-term value for all UFG stakeholders.

I will now turn the call over to our Chief Financial Officer Eric Martin for a detailed discussion of the third quarter.

ERIC MARTIN, SVP AND CHIEF FINANCIAL OFFICER

Thanks Kevin and good morning, again.

This quarter, we're pleased to introduce an enhanced format for our quarterly earnings release and presentation, which will continue to evolve in the quarters ahead for easier readability, greater transparency and improved understanding.

In the third quarter, we reported a net loss of $0.91 per diluted share and non-GAAP adjusted operating loss of $0.47 per diluted share.

As Kevin mentioned, net written premiums increased 9% in the third quarter compared to the third quarter of 2021. Our renewal premium change was 9.5% for the quarter. Rate increases remained stable at 5.7% while exposure increased to 3.8% as our underwriters continue to focus on adequate property valuation, particularly considering today's inflationary environment.

The total catastrophe impact for third quarter was $27 million, or 11.4 points of our combined ratio, with Hurricane Ian accounting for half of that. The adverse development of $14 million, or 5.9 points, impacted the other liability and property lines of business, but was partially offset by favorable development in automobile and workers compensation. The adverse development in the other liability line of business was primarily due to an increase in frequency in excess umbrella line of business as a growing number of losses projected to exhaust the primary limits.

The combined ratio through the first nine months of 2022 was 101%, a 5-point improvement over the first nine months of 2021.The underlying combined ratio through the first nine months of 2022 was 92%, which is the best underlying combined ratio over the last five comparable periods.

Net investment income was $11.6 million in the third quarter, up slightly compared to the third quarter of 2021. Within that result, we see the positive impact of higher fixed income reinvestment rates improving investment income by $2.1 million dollars in the quarter compared to prior year. Our efforts to strategically position our portfolio to a shorter duration profile have, and will continue, to pay off as we reinvest at rates meaningfully higher than our current portfolio yield. We are benefiting from new money rates of approximately 5%. The impact from higher bond yields were offset by negative valuation impacts on our limited partnership portfolio. In addition, realized losses on investments of $14.3 million were driven by negative changes in the valuation of our core equity portfolio.

On a year-to-date basis, return on equity was negative 0.9%. This, in conjunction with the declining value of fixed maturity securities from increasing interest rates, negatively impacted our balance sheet, resulting in a book value per common share of $27.82. Our investment portfolio balance was $1.8B of invested assets in the third quarter, 85% of which is allocated to a high-quality fixed income book.

During the third quarter, we declared and paid a $0.16 per share cash dividend to shareholders of record as of September 2, 2022, marking our 218th consecutive quarter. UFG has a 54-year history of paying dividends, dating back to March 1968.

This concludes our prepared remarks. I will now open the line for questions. Operator.