



UNITED FIRE GROUP, INC.  
2016 YEAR IN REVIEW

THE BUSINESS OF  
promises



## Annual Meeting

The United Fire Group, Inc. (UFG) annual meeting of shareholders will be held at 10 a.m. CT on Wednesday, May 17, 2017, at our corporate headquarters in Cedar Rapids, Iowa. The usual notices and proxy material will be mailed to shareholders in advance of the meeting.

Our 2016 Form 10-K is filed with the Securities and Exchange Commission and is available to shareholders upon request to:

Investor Relations	OR	Registrar and Transfer Agent
United Fire Group, Inc.		Computershare Investor Services
118 Second Avenue SE		P.O. Box 30170
Cedar Rapids, Iowa 52401		College Station, Texas 77842-3170
Telephone: 319-399-5700		

## Disclosure of 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 our 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 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 Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (“SEC”) on February 28, 2017. The risks identified in our Form 10-K 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.

# THE BUSINESS OF promises

Insurance is the business of promises. In the insurance world, policyholders promise to pay their premiums now, and the insurance carrier promises to pay money in the future should an unfortunate event occur. At UFG, we always strive to deliver on our promises. And that includes a promise to our investors too—a promise to make prudent business decisions and seek avenues to profitability and growth.

Our philosophy is this: we believe that by being a trusted partner for our insurance agents, a secure insurer for our policyholders and a great employer for our people, we, in turn, can be a solid investment for our shareholders.

Guided by our *2020 Vision*, UFG is committed to achieving consistent profitability despite our challenges in the insurance industry: difficult insurance cycles, tough investment markets and destructive weather-related losses. To accomplish this, we focus on profit, service, growth and people.

And, in every decision we make and every interaction we have, we simply do what's right. That's our promise to you.

## About UFG

UFG has been protecting the simple—and complex—things in life since 1946. We offer commercial insurance, personal insurance, surety bonds, life insurance and annuities through approximately 1,200 independent property and casualty agents and 1,350 independent life insurance agents across the country.

To serve our customers, we employ more than 1,100 people at our corporate headquarters in Cedar Rapids, Iowa, and five regional offices in Los Angeles, California; Rocklin, California; Westminster, Colorado; Pennington, New Jersey; and Webster, Texas.

A publicly traded multibillion-dollar-asset company, UFG's property and casualty subsidiaries hold a financial strength rating of "A" (Excellent) and our life subsidiary, United Life Insurance Company, holds a financial strength rating of "A-" (Excellent) from A.M. Best Company, as of September 2016. UFG was named to *Forbes'* "America's 50 Most Trustworthy Financial Companies" for the third consecutive year in 2016.

For more information about UFG, visit [www.ufgInsurance.com](http://www.ufgInsurance.com).

## OUR VISION

To be the company of choice for independent agents.

## OUR MISSION

We are committed to our promise of exceptional insurance protection and service for businesses, families and individuals. By balancing technology with personal relationships and offering a diverse selection of products and services, we are the clear company of choice for independent agents and their customers.

## OUR MOTTO

Simple solutions for complex times®

# LETTER TO SHAREHOLDERS

**I**t was a year of progress and milestones at UFG, as 2016 marked our 70th year in business, our 45th year as a publicly held company and our 30th year of being listed on the Nasdaq. In 2016, we produced earnings per share of \$1.93, a combined ratio of 100.3 percent and a return on equity (ROE) of 5.5 percent. Our book value at year end was \$37.04 per share, which is an improvement of 6.0 percent from 2015, and our stock price was in a major uptrend, closing at \$49.17 per share.

Also, for the first time in our history, we reached \$1.0 billion in property and casualty direct written premiums—a significant milestone for our company and a positive follow-up to our 2015 achievement of \$1.0 billion in total revenues, which includes revenue from both our property and casualty and life insurance segments.

At UFG, we value true underwriting, which means evaluating and pricing risks on an individual basis. This requires extreme discipline and expertise on the part of our underwriters, who have done an outstanding job of passing on business that is unfavorable or underpriced. This approach will help guide us through the current softening market cycle, as we are expecting our premium growth to slow moderately in 2017 as competition rises.

## ***Flood of 2016***

For the *second* time in our history, UFG found ourselves in the path of rising floodwaters at our corporate headquarters in downtown Cedar Rapids in late September. However, this time around, both our company and our city were much more prepared, with effective disaster recovery plans in place. In the end, our corporate headquarters was closed for exactly one week, but it was business as usual for our customers, with the majority of our Cedar Rapids employees working remotely.

We owe a huge thanks to Garling Construction Inc. for assisting us in moving office furniture and computer equipment out of the lower levels of our buildings and onto eight semi-trailers for safekeeping. In the near future, we will be converting our lower levels to underground parking for employees, which will lessen the impact of any future flooding.

After the flood, our post-mortem list of lessons learned included such things as using a different type of tape to label employee computers, which tells me we had all our big-ticket items squared away.

## ***Getting analytical***

Though we view our company as an underwriting company and our business as a people business, in recent years, we've recognized the need to have a more sophisticated approach to gathering and analyzing data—in both our property and casualty and life insurance segments. So, we started off 2017 with three new analytics professionals on board: an analytics director, a data scientist and

*continued*

Every day in our business, we make and fulfill promises. Some are simple and some are complex. But, in every promise, is our sincere commitment to deliver—on our good word for our policyholders, insurance agents and shareholders. At UFG, we spend our days purposefully underwriting business, renewing policies, inspecting properties, servicing accounts and adjusting claims. And, through it all, we remain mindful of the important promises we make as an insurance company—that’s why we chose “The Business of Promises” as our theme for this year’s annual report.



Randy A. Ramlo  
President and CEO

a life actuary. We're excited about the impact analytics could have on our performance, helping us make more accurate decisions related to selecting and pricing risks, identifying problematic claims, entering new markets and partnering with new agents.

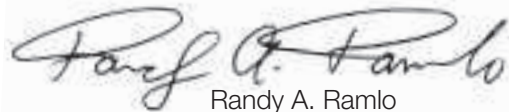
Analytics are a tool that definitely would have benefited UFG in the years before and after Hurricane Katrina, which remains the largest loss in our history. It's been more than 11 years since Hurricane Katrina made landfall in New Orleans on August 29, 2005, and on January 1, 2017, we finally stopped publishing daily claim reports related to this storm. Although Hurricane Katrina hasn't had any financial materiality for years, after countless hours of litigation, we're thankful to have 99.8 percent of the claims from this storm behind us.

### **Looking ahead**

All in all, 2016 was, as I said, a year full of progress and milestones—as well as clarity, on the areas we're excelling in and the areas we need to improve on. In the upcoming year, our emphasis will be primarily on enhancing our profitability as part of our *2020 Vision*.

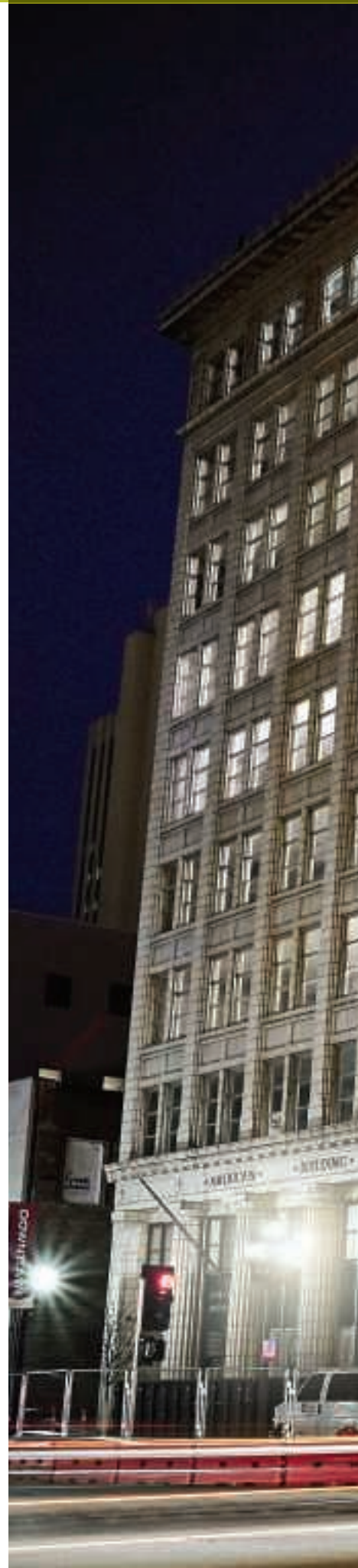
Specifically, we'll be focused on addressing the deterioration in our core loss ratio, which impacted our profitability in 2016. A portion of this deterioration was driven by large losses in our commercial auto and commercial property lines of business, which we are addressing with the implementation of more rigorous loss control requirements, stricter underwriting guidelines, pricing increases and new analytical tools.

With our outstanding team of employees, who show relentless determination and drive in fulfilling our insurance promises, and our supportive team of insurance agents, who share our commitment for offering insurance protection that people can trust in, I am confident we will succeed in achieving all of our *2020 Vision* goals.



Randy A. Ramlo  
President and CEO

Once complete, two UFG buildings will stand connected on First Avenue—one brand new and one more than 100 years old—a nod to both our history and our future in Cedar Rapids.



## ***Update on expansion of corporate headquarters***

UFG has passed the demolition phase of our expansion project in downtown Cedar Rapids, Iowa, which will add approximately 110,000 square feet of office space for future growth. The project includes the complete renovation of the historic American Building and the adjacent construction of a brand-new 10-story building, both of which will stand prominently on First Avenue, the main thoroughfare of Cedar Rapids. After a year of tearing down and clearing out, 2017 will be a year of building up. The expansion project is tentatively slated for completion in 2018.

“With our strong growth comes the need for more hiring,” said UFG President and CEO Randy Ramlo. “Our workforce is currently growing at a pace of nearly 4 percent, with more than 160 new people hired in 2016. Providing exceptional service to our customers of insurance agents and policyholders is a top priority at UFG, which is why we are taking steps to ensure that our workforce is poised to continue to meet their needs by having the right people with the right skills at the right time.”

It’s interesting to note that UFG first opened our doors for business on First Avenue back in 1946, occupying space in a two-story house on the outskirts of downtown Cedar Rapids. Approximately 70 years later, we’ll be back on First Avenue, just a few blocks from where we started.



# Earning business by earning trust

We know that trust is a deciding factor for insurance agents and consumers when choosing an insurance company. In a third-party research study conducted by Vernon Research Group in 2016, 99 percent of UFG insurance agents surveyed said that an insurer's trustworthiness is important and the agents rated UFG as a trustworthy insurance company.

# 99%

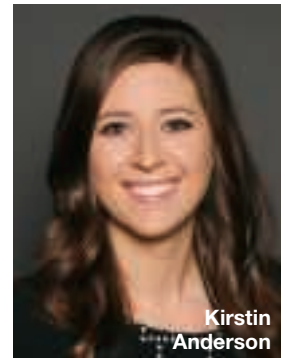
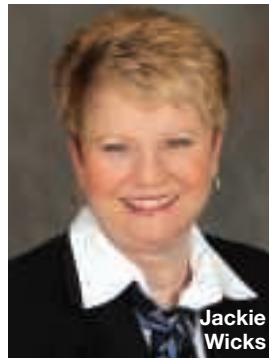
## A promise to our customers



UFG was named one of "America's 50 Most Trustworthy Financial Companies" by *Forbes* for the third consecutive year in 2016. It recognizes us for our transparent accounting practices and solid corporate governance, reinforcing to our customers of insurance agents and policyholders that they can trust us to make good on our promise of protection.

## A promise to our communities

UFG created the Scotty McIntyre Jr. "Go Beyond" award as a promise to give back to our communities. Named after our past leader, a quiet philanthropist, our "Go Beyond" award is given annually to two of our insurance agency employees and one UFG employee, recognizing individuals for their exemplary community service efforts.



### 2016 Winners

- UFG agency employee, **Jackie Wicks** of CSB Insurance in Johnston, Iowa, is involved with *Tori's Angels*, an organization that provides support to central Iowa children battling life-threatening illnesses or diseases.
- United Life agency employee, **Mike Hagerty** of EOI Management/Investment Center in Muscatine, Iowa, is involved with the *Kids First Fund*, an organization that helps children in the Muscatine Community School District in Iowa participate in school activities they could not otherwise afford.
- UFG employee, **Kirstin Anderson**, helped establish the *Deaf Can! Coffee Social Enterprise* program in Jamaica, which exists to inspire deaf youth to believe in their talents and abilities, engage their passions and interests and foster creative, positive thought in a healthy community.



In the spirit of community service and in the name of each award recipient, UFG proudly contributed \$5,000 to these three community service organizations: *Tori's Angels*, *Kids First Fund* and *Deaf Can! Coffee Social Enterprise* program.

"While our primary goal is to grow a financially profitable company, we believe making an investment in the social and educational aspects of our communities also pays great dividends," said UFG President and CEO Randy Ramlo. "A healthy community contributes to the well-being of both people and businesses. We steward the belief that everyone deserves a good life, and we are committed to charitable giving and community service."



## UFG celebrated 30 years on Nasdaq

In April 2016, UFG celebrated our 30-year anniversary on the Nasdaq stock market—an important milestone for our company. Members of our leadership team traveled to Times Square in New York City on April 25 to ring the Nasdaq opening bell, which was broadcast to millions of viewers worldwide.

As part of the bell ceremony, UFG had access to one hour of advertising on the Nasdaq MarketSite Tower, which stands seven stories tall in the heart of Times Square. We created a video promoting UFG as the financially strong and trustworthy insurance company that we are—noting our 70 years in business, 45 years publicly traded and 30 years on the Nasdaq. In other words: a solid investment.

“UFG was beyond honored to participate in the opening bell ceremony last April, which commemorated our 30-year anniversary on the Nasdaq stock market,” said UFG President and CEO Randy Ramlo. “I also had the opportunity to attend our bell ceremony 10 years ago when UFG celebrated our 20-year anniversary on the Nasdaq. Though both experiences were incredibly positive and rewarding, I must admit that my first time at the Nasdaq was much less stressful, as all I was expected to do was smile, wave and clap. This time around, I was responsible for giving an opening speech, followed by a Facebook Live interview—and the one thing that kept going through my head was: thousands of people are watching this.”

A solid investment—our UFCS stock performance over 30 years spans these four pages . . .

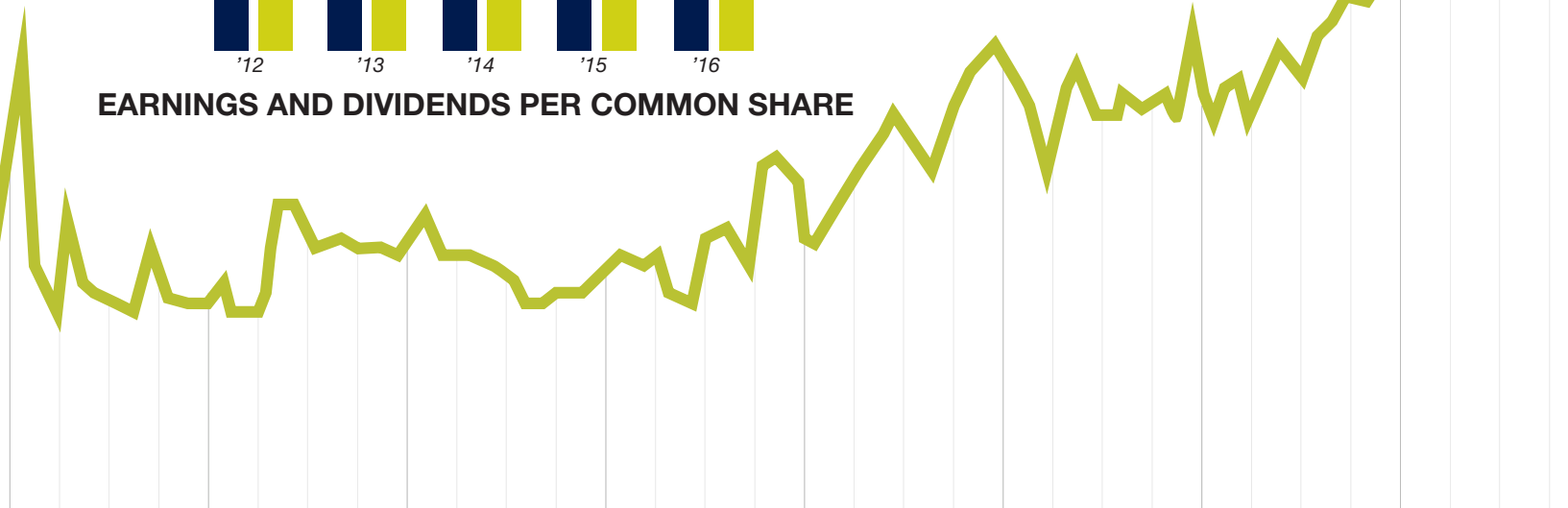
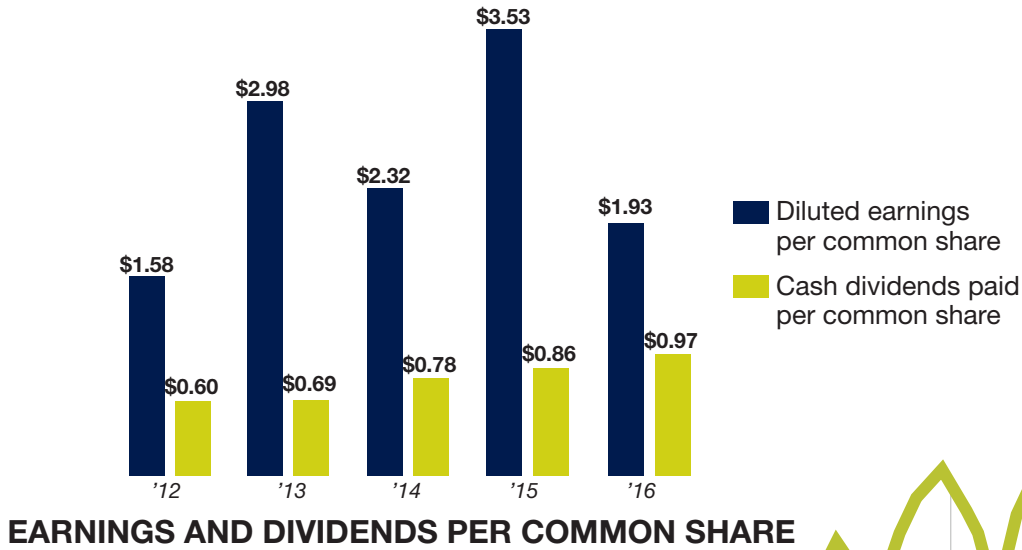
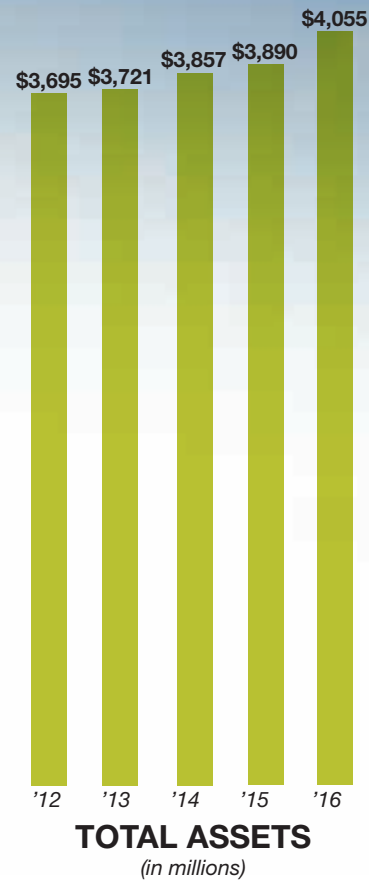
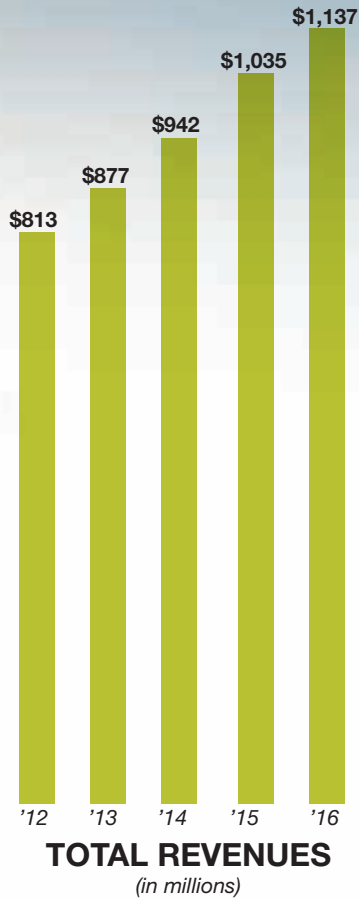
# FINANCIAL HIGHLIGHTS

(Dollars in Thousands Except Per Share Data)

Years Ended December 31	2016	2015	2014	2013	2012
Total assets	<b>\$ 4,054,758</b>	\$ 3,890,376	\$ 3,856,689	\$ 3,720,672	\$ 3,694,653
Total stockholders' equity	<b>\$ 941,884</b>	\$ 878,897	\$ 817,415	\$ 782,833	\$ 729,177
Book value per share	<b>\$ 37.04</b>	\$ 34.94	\$ 32.67	\$ 30.87	\$ 28.90
Closing stock price	<b>\$ 49.17</b>	\$ 38.31	\$ 29.73	\$ 28.66	\$ 21.84
Revenues:					
Net premiums earned	<b>\$ 1,023,401</b>	\$ 930,890	\$ 828,330	\$ 754,846	\$ 694,994
Investment income, net of investment expenses	<b>106,822</b>	100,781	104,609	112,799	111,905
Total realized investment gains	<b>6,103</b>	2,846	7,270	8,695	5,453
Other income	<b>621</b>	401	1,685	702	891
Total revenues	<b>\$ 1,136,947</b>	\$ 1,034,918	\$ 941,894	\$ 877,042	\$ 813,243
Net income	<b>\$ 49,904</b>	\$ 89,126	\$ 59,137	\$ 76,140	\$ 40,212
Basic earnings per common share	<b>\$ 1.97</b>	\$ 3.56	\$ 2.34	\$ 3.01	\$ 1.58
Diluted earnings per common share	<b>\$ 1.93</b>	\$ 3.53	\$ 2.32	\$ 2.98	\$ 1.58
Cash dividends paid per common share	<b>\$ 0.97</b>	\$ 0.86	\$ 0.78	\$ 0.69	\$ 0.60
Combined ratio	<b>100.3%</b>	92.0%	97.8%	94.8%	101.2%



# FINANCIAL HIGHLIGHTS



# MESSAGE FROM THE CHAIRMAN

In the same way that UFG always strives to deliver on its insurance promises, our board of directors always strives to deliver on our commitment to shareholders, making decisions that will contribute to the overall success of UFG.

With the introduction of its *2020 Vision*, UFG has positioned itself to achieve long-term strength and stability through various sustainability measures—including taking advantage of analytics for effective risk management and introducing progressive new benefits to recruit and retain talented employees. UFG is strategically focused with a management team and staff working every day to meet their *2020 Vision* goals.

As chairman of the board of directors for UFG, I am privileged to serve with a diverse and respected group of individuals whose careers span multiple industries, with experience in insurance, finance, accounting, law, information technology, academia, broadcasting, marketing, branding, construction and real estate. They offer their valuable insight and individual expertise at every meeting.

Over the past five years, we've had four new members join our board: John-Paul Besong, formerly of Rockwell Collins; Scott Carlton of SGL Carbon LLC; Sarah Fisher Gardial of the University of Iowa Tippie College of Business; and Susan Voss, former Iowa insurance commissioner and currently with American Enterprise Group, Inc. Additionally, we're excited to have Brenda Clancy, formerly the global chief technology officer for AEGON N.V., stand for election to our board in 2017, bringing her vast knowledge and fresh perspective to UFG.

Our longtime board member, Casey Mahon, announced in 2016 that she will not stand for re-election to our board after serving for more than 20 years. Casey contributed greatly over the years, as her legal experience proved to be invaluable to UFG, particularly in dealing with mergers and acquisitions. We thank her for her years of dedicated service.

I speak for our entire board when I say we are proud to represent the shareholders of a company with such vigor and integrity. The board and management team endeavor jointly to build an organization that serves all stakeholders and we take this responsibility seriously.

I encourage you to attend the UFG annual meeting on May 17, 2017, and hear directly from our leadership. Thank you, as shareholders, for the confidence you have placed in us. We will continue to earn your trust.



Jack Evans  
Chairman of the Board



JACK B. EVANS  
CHAIRMAN

JOHN-PAUL E.  
BESONG

BRENDA K.  
CLANCY

GEORGE D.  
MILLIGAN

SARAH F.  
GARDIAL

KYLE D.  
SKOGMAN

CASEY D.  
MAHON

## **PROFIT** *Maximize our return on equity (ROE)*

- We strive to produce double-digit ROEs, which we did not achieve in 2016, producing an ROE of 5.5 percent for the year. This is due primarily to commercial auto and commercial property losses; however, UFG is already executing plans of action to improve these lines of business.
- The insurance market remained competitive in 2016, impacting the pricing of both our renewal business and new business. Overall, we experienced low single-digit pricing increases on both commercial and personal lines renewal business. Despite increased competition in pricing, our premium retention and policy retention rates remained strong. In addition, we continued to non-renew or increase pricing on marginally performing accounts.

## **SERVICE** *Provide exceptional service for agents and policyholders*

- To enhance our position as a small business partner for agents, UFG launched a new Small Business Unit (SBU) at the end of 2016, with a dedicated team of specialists providing competitive insurance solutions for small-sized businesses. Through our SBU, we offer a broadened class appetite and streamlined quoting process, providing ease and speed of doing business for our agents and their small business customers.
- For increased efficiency and effectiveness, we created a new Claims Customer Service Center, which is comprised of a dedicated team of employees handling all claims-related administrative functions for UFG, from the first notice of loss to the final payment of the claim. This has allowed us to elevate the customer experience for our policyholders, with faster response times, adjuster assignments and payment of claims—all without the automated messages or menu options normally associated with customer service centers.

Throughout 2016, UFG continued to set our sights on our *2020 Vision*, progressing toward our goals related to profit, service, growth and people:

### **PROFIT**

Maximize our return on equity

### **SERVICE**

Provide exceptional service for agents and policyholders

### **GROWTH**

Increase our written premiums

### **PEOPLE**

Be the best place to work by enhancing employee recruitment and retention



SCOTT L.  
CARLTON

MARY K.  
QUASS

SUSAN E.  
VOSS

RANDY A.  
RAMLO

CHRISTOPHER R.  
DRAHOZAL

JAMES W. NOYCE  
VICE CHAIRMAN

## **GROWTH** *Increase our written premiums*

- We produced property and casualty direct premiums written of \$1.0 billion at year-end 2016, an increase of 8.6 percent from year-end 2015, indicative of our strategy to increase written premiums by focusing primarily on organic growth, boosting our market share in the regions where we currently operate through increases in new business premiums, renewal prices and policy retention rates.
- UFG appointed 53 new agencies in 2016 and six of our 10 target growth states—Alabama, Arizona, Mississippi, Nevada, North Dakota and Tennessee—have now met their premium growth goals. In addition, we continue to expand our presence in our new state of Ohio, which we entered in September 2015. We currently have 25 insurance agencies appointed throughout the state, and produced over \$7 million in written premiums in Ohio during 2016.
- In early 2014, UFG launched our specialty division, UFG Specialty Insurance Company, offering excess and surplus lines of insurance for commercial risks through wholesale brokers. Located in Los Angeles, our specialty division is currently doing business in the states of Arizona, California, Colorado, Nevada, New Mexico, Oregon and Utah, with plans to expand into Idaho and Washington in early 2017.
- Our surety segment, UFG Surety, continues to grow and expand, providing new opportunities for profitable business. In 2016, the division increased its bond limits for contractors and expanded into five new states: Hawaii, Maine, Massachusetts, New York and Vermont.
- Our life insurance segment experienced a 10.2-percent increase in premiums in 2016, driven by record sales of our single premium whole life policies, as well as growth in sales of our single premium immediate annuity and long-term care rider, which can be added to several of our life insurance products. In the fourth quarter, United Life launched an E-App for deferred annuities, which allows our life insurance agents to quickly and easily complete and submit annuity applications electronically. While our life insurance segment focused on increasing business in its noncore states in 2016, which resulted in an overall 10-percent increase in premium in those states, our primary focus for 2017 is to improve profitability in our life insurance segment.



## **PEOPLE** *Be the best place to work*

- In 2016, UFG was named a Top Workplace in Iowa by *The Des Moines Register* for the third time, ranking 12th out of 20 companies in the large employer category. This award is based solely on the results of employee surveys, reflecting our initiatives to offer jobs that are rewarding and fulfilling, a work environment that is positive and productive, training opportunities to learn and grow, and a work-life balance that works with flexible schedules.
- In support of the communities where we live and work, UFG began offering community service hours in 2015, which provides our employees with paid leave for participating in community service activities during work hours. In 2016, more than 200 employees volunteered close to 1,400 hours at various organizations. We are proud to offer this benefit to our employees and we expect the number of participants to grow substantially in coming years.
- “Great attitudes at peak altitudes” is the tagline for our newly named Rocky Mountain Regional Office in Colorado, which was formerly known as the Denver Regional Office. This new name is more all-encompassing of the region, allowing us the opportunity to develop a strong brand identity that our employees can connect with and commit to.
- UFG has long valued the contributions of women to our business and is proud of the fact that women currently make up approximately 60 percent of our employee workforce and 50 percent of our managerial and supervisory positions, as well as one third of the seats on our board of directors. To show our support for women in the workforce, UFG joined the EPIC Corporate Challenge in 2016, which brings together Iowa businesses to formally commit to growing and retaining women at all levels of company leadership. As a company, we are excelling in the majority of the EPIC goals and will maintain our strong commitment to recruiting and retaining women at UFG and monitoring and addressing any gender-based pay differences. Our main focus area is to increase the percentage of women among the top 10 percent of our senior positions.





UNITED FIRE GROUP, INC.

United Fire & Casualty Company

United Life Insurance Company

UFG Specialty Insurance Company

United Fire & Indemnity Company

United Fire Lloyds

Addison Insurance Company

Financial Pacific Insurance Company

Franklin Insurance Company

Lafayette Insurance Company

Mercer Insurance Company

Mercer Insurance Company of New Jersey, Inc.

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Cedar Rapids, Iowa 52401

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[ufgInsurance.com](http://ufgInsurance.com)