INSURANCE

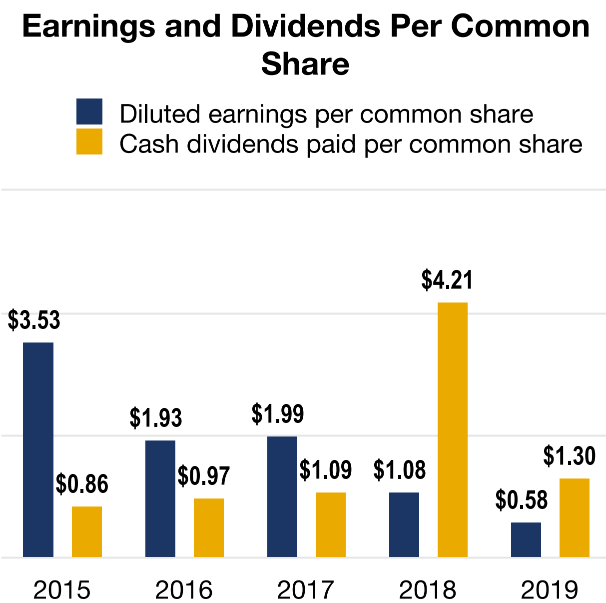
2019

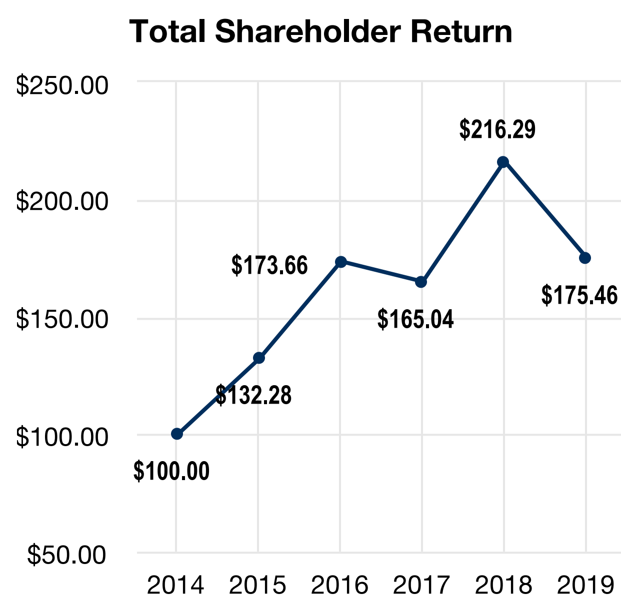
ANNUAL REPORT
UNITED FIRE GROUP, INC.

Financial Highlights

Years Ended December 31		**2019**		2018		2017		2016		2015
Net Income ($000s)	**$**	**14,820**	$	27,650	$	51,023	$	49,904	$	89,126
Basic earnings per common share	**$**	**0.59**	$	1.11	$	2.03	$	1.97	$	3.56
Diluted earnings per common share	**$**	**0.58**	$	1.08	$	1.99	$	1.93	$	3.53
Cash dividends paid per common share	**$**	**1.30**	$	4.21	$	1.09	$	0.97	$	0.86
Book value per share	**$**	**36.40**	$	35.40	$	39.06	$	37.04	$	34.94
Closing stock price	**$**	**43.73**	$	55.45	$	45.58	$	49.17	$	38.31
Combined ratio		**109.0 %**		104.0 %		104.0 %		100.3 %		92.0 %

All current and prior periods in this table have been presented on a consolidated basis, including both continuing and discontinued operations.





The value of “Indexed Total Shareholder Return” at each year-end shown is based on the then-current value of an assumed $100 investment in UFCS common stock on December 31, 2014. It reflects changes in stock price and assumes that dividends paid to shareholders are reinvested in our common stock on the date paid.

About UFG Insurance

Founded in 1946, UFG is a successful publicly traded and multibillion-dollar-asset insurance company. We offer commercial and personal insurance for businesses, homes and vehicles, as well as surety bonds.

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.

At UFG, we are committed to achieving long-term financial strength and stability, having used our nearly 75 years of experience to successfully guide us through market cycles and industry challenges. We hold a financial strength rating of “A” (Excellent) from A.M. Best Company, which was affirmed in December 2019.

Annual Meeting of Shareholders

United Fire Group, Inc.’s (UFG) annual meeting of shareholders will be held at 10 a.m. CT on Wednesday, May 20, 2020, at 118 2nd Ave SE, Cedar Rapids, IA 52401. You will be able to attend, vote and submit questions by logging on to www.meetingcenter.io/216769913 using a 15-digit Control Number. The password for the meeting is UFCS2020. Our Annual Report on Form 10-K for 2019 is filed with the Securities and Exchange Commission and is available (without exhibits) to shareholders, free of charge, upon written or oral request to:

Investor Relations United Fire Group, Inc. 118 Second Avenue SE Cedar Rapids, Iowa 52401 Telephone: 319-399-5700	or	Registrar and Transfer Agent Computershare P.O. Box 505000 Louisville, KY 40233-5000

Letter to Shareholders

There are no words to express our disappointment in the year’s financial results, because the numbers speak for themselves. In 2019, we produced net income of $0.58 per diluted share, a combined ratio of 109% and return on equity of 1.6%.

Of course, what the numbers don’t explain is why and that can be summed up in two words: commercial auto. Specifically, our 2019 results were negatively impacted by increased severity of commercial auto losses and prior-year reserve strengthening in our commercial auto line for the Gulf Coast region.

Though we benefited from strong equity market performance and an average level of catastrophe losses in 2019, commercial auto continued to be a drag on our profitability. While nearly all other lines of business performed within our expectations from a profitability standpoint in 2019, commercial auto remains our largest and most unprofitable line of business.

Despite our best efforts to manage poor-performing and higher-risk commercial auto accounts with double-digit rate increases and nonrenewals, these efforts proved insufficient to return this line of business to underwriting profitability in 2019.There were definitely some positive signs of progress in our commercial auto line of business in 2019, including a decrease in claims frequency, policy retention and number of insured units (whoever thought I’d be bragging about lower retention and insuring fewer units!). But these positives weren’t significant enough to offset the continued rise in severity of commercial auto claims.

For a company committed to top-quartile performance, these results are unacceptable. As we enter 2020, we are more determined and prepared than ever to turn around the commercial auto line of business that is impacting our overall profitability.

Solving our commercial auto issue

With the continued escalation of commercial auto losses industrywide and no signs of improvement in the key auto metrics we track, such as miles driven, driver shortages, distracted driving and social inflation, we plan to take stronger corrective actions in the year ahead.

To reduce the size of our commercial auto book of business, we plan to aggressively nonrenew accounts in 2020, with intense focus on the bottom 30% of our book of business, underperforming accounts and accounts that our model has identified as having characteristics predictive of adverse future loss experience. In addition, we do not plan to write new classes of business that are heavy in auto.

Through these actions, we're confident we'll achieve better diversification in our overall book of business, which has become too heavily weighted in commercial auto in recent years. Although we stand to lose some of our commercial package policy business as a consequence, we believe these actions will have the most immediate and profound impact on our profitability.

We also plan to continue to seek rate increases on commercial auto policies. Over the past three years, we've achieved a cumulative renewal rate increase of almost 30% in our commercial auto book, but it's clear that our commercial auto issue cannot be solved with rate increases alone.

As we initiate these actions in the year ahead, we expect that our policy count, premium retention and insured auto units will continue to decline, with no expected premium growth in 2020.

Strengthening our loss reserves

Similar to our peers, we also continue to experience the impact of what our industry has termed "social inflation," with higher-than-expected legal settlements associated with claims. As a result, we strengthened our current-accident-year loss reserves in 2019 in response to commercial auto claims in our Gulf Coast region, with the majority of this strengthening occurring in the first half of the year.

It is worth noting that our overall approach to reserving remains conservative at UFG, and we've experienced annual favorable reserve development every year since 2009.

New Strategic Direction

Throughout 2019, we focused on developing a new strategic direction for UFG. We initiated a deep dive into our entire operations, helping us clearly identify our strengths and weaknesses, as well as opportunities for success in both the short term and long term.

This new path includes several initiatives to position UFG for sustainable and profitable financial performance. As a general overview, we're focusing on implementing more consistent underwriting practices across our six regions; better diversifying our overall book of business; adopting proven best practices for our agents and policyholders; enhancing our claims service with new efficiencies to shorten cycle time; and leveraging analytics for improved pricing and risk selection.

We also continue to make progress on our OASIS initiative, which stands for Optimizing Achievement with a Strategic Insurance System. This is a major multiyear initiative to upgrade our underwriting technology and analytics platform and one that we'll be working toward and providing updates on for the next several years.

The first release of OASIS was completed in mid-2019 and included the launch of our new and improved ufgagent.com for agents to process business and manage accounts. For the next release, we're focusing entirely on improving our online quoting capabilities for our business owners policy (BOP) products at ufgagent.com, aiming to significantly increase our percentage of straight-through processed policies to meet the changing needs of our agents.

Speaking of change, the insurance industry today is advancing faster than I've seen in my 35 years at UFG, with constant change becoming the new normal. Our new strategic plan is designed to prepare us for the future, guiding us forward as we adapt to our rapidly evolving industry with innovation and agility.

It's a plan with a far-reaching vision for success, one that builds on our greatest strength as a company: our more than 1,100 experienced and knowledgeable employees who are dedicated to coming together, rolling up their sleeves and starting down a promising—and more profitable—path for UFG.

Strong Balance Sheet

Despite the challenges we faced in 2019, our overall balance sheet remains strong at UFG, with $3 billion in total assets, $910 million of total stockholders' equity, a conservative investment portfolio and zero debt.

In 2019, we paid total quarterly dividends of $1.30 per share, returning $33 million to our shareholders over the course of the year. UFG has a more than 50-year history of paying dividends to our shareholders, with the fourth quarter of 2019 marking our 207th consecutive quarter.

We also repurchased 258,756 shares of common stock in 2019. Under our current stock repurchase program expiring in August 2020, we are authorized by our board of directors to purchase an additional 1.9 million shares of common stock.

As an insurance carrier, UFG has multiple stakeholders in our company—shareholders, employees, insurance agents, policyholders, communities—and we strive to be a trusted and valued partner to all. To us, the insurance business is a people business and we are continuously mindful of the commitments we make as a company, balancing our business objectives with the expectations of our stakeholders.

A Look Back, A Look Ahead

Though our efforts are not yet reflected in our financial results, I believe we'll look back on 2019 as both a transitional and transformational year at UFG. We opened a new headquarters building to accommodate our future workforce, completed the first release in our multiyear OASIS initiative, launched a new and improved ufgagent.com for our agency partners and developed a new strategic direction forward.

Another positive in 2019 was A.M. Best's affirmation of the "A" (Excellent) financial strength rating with a stable outlook for the property and casualty subsidiaries of United Fire Group, Inc. for the 26th year in a row. A.M. Best ratings are a meaningful measure in the insurance industry, with an "A" rating given to companies that have an excellent ability to meet their ongoing insurance obligations.

Also, UFG was named to Business Insurance's 2019 list of Best Places to Work in Insurance as part of the large employer category. This award honors workplaces where employees can thrive, enjoy their work and help their companies grow, which has always been important to us.

As we look ahead to a new decade of success, we are confident in our abilities to overcome the challenges we face and seize new opportunities that come our way. After all, we've been in business for almost 75 years and have been through many evolutions as a company—and we'll go through many more in the next 75.

Our plans for 2020 are ambitious but with our exceptional team of people at UFG, I believe we will achieve everything we set out to do. We're excited to move forward with our strategic initiatives in the months ahead and optimistic that we'll have positive results to show for it next year as we celebrate the 75th anniversary of UFG in 2021.

Thank you for investing in UFG and also for your continued patience and support. I assure you that we are committed to solving our commercial auto issue and producing strong results in the year ahead to create long-term value for you, our esteemed shareholder.

Randy Ramlo, President & CEO

UNITED FIRE GROUP, INC.

United Fire & Casualty Company

Addison Insurance Company

Financial Pacific Insurance Company

Franklin Insurance Company

Lafayette Insurance Company

Mercer Insurance Company

Mercer Insurance Company of New Jersey, Inc.

UFG Specialty Insurance Company

United Fire & Indemnity Company

United Fire Lloyds

United Real Estate Holdings, LLC

118 Second Ave. SE, Cedar Rapids IA 52401, 319-399-5700, ufginsurance.com

Disclosure of Forward-Looking Statements

This document 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(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, 2019, filed with the Securities and Exchange Commission ("SEC") on February 28, 2020. The risks identified in our Annual Report on 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, and now include the ongoing impact of the novel coronavirus (COVID-19 virus). 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.