

UNITED FIRE GROUP, INC.
ANNUAL REPORT
2022



About UFG Insurance

Founded in 1946, UFG Insurance is a successful publicly traded company with over 75 years of local market expertise and a growing national footprint. We offer commercial insurance, excess and surplus lines and surety bonds, partnering with approximately 1,000 independent agency partners across the country.

Our company is headquartered in Cedar Rapids, Iowa, with branch offices in Arizona, California, Colorado, New Jersey and Texas. With more than 1,000 employees, we pride ourselves on delivering outstanding people-centered service to our agents and policyholders.

At UFG, we are committed to achieving superior financial and operational performance, using our seven decades of experience to successfully guide us through market cycles and industry challenges. We hold a financial strength rating of “A” (Excellent) from AM Best Company, which was affirmed for the 29th consecutive year in December 2022.



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 17, 2023. The meeting is being held virtually online via live audio webcast, from the company's headquarters at 118 2nd Ave SE, Cedar Rapids, IA 52401. You will be able to attend virtually, submit questions and vote online by logging on to www.meetnow.global/M5Y2PNQ.

Our Annual Report on Form 10-K/A for 2022 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

Board of directors

James W. Noyce, *Chairman of the Board*
Kyle D. Skogman*, *Vice Chairman of the Board*
John-Paul E. Besong
Scott L. Carlton
Brenda K. Clancy
Christopher R. Drahozal

Matthew R. Foran
Mark A. Green
Kevin J. Leidwinger
Lura E. McBride
George D. Milligan
Susan E. Voss

*Kyle Skogman tendered his resignation from the board of directors, effective May 17, 2023, due to the age limit in our bylaws.

Letter to shareholders

Dear UFG shareholders,

Last August, I had the honor of becoming the sixth leader in UFG's history. After 30 years in the insurance industry, I was drawn to UFG for several reasons, including its proud history of doing business and treating people the right way, as well as its inspiring corporate vision built on delivering promises.

As I have stepped into the role of CEO over the past several months, I continue to be grateful for the support shown to me by my fellow board members, the management team and my incredible UFG colleagues across the country.

Since taking over leadership, I am pleased with our progress and especially proud of our people. They have worked tirelessly to fulfill our promises as an insurance company while executing on our strategy to achieve superior financial and operational performance.

UFG has taken significant actions in recent years to improve profitability, diversify growth, strengthen underwriting governance and reduce volatility — and we have emerged as a much stronger company. These actions included:

- Exiting subscale personal lines business through a renewal rights agreement, which provided our independent insurance agents the opportunity to transfer their personal lines policies to Nationwide Mutual Insurance Company, to reduce our catastrophe exposure and earnings volatility.
- Executing a re-underwriting exercise of our core commercial book of business 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 the consistency and quality of our underwriting decisions.
- Introducing predictive models to improve pricing and risk selection.
- Transforming claims to a specialized line of business operating model to maximize our adjusters' expertise and resolve claims more efficiently.
- Diversifying our portfolio through carefully curated assumed reinsurance transactions.
- Restructuring our reinsurance program to reduce volatility.
- Establishing regular feedback procedures across the organization to improve information sharing.

Today, these actions are either completed or well underway at UFG, but they tell the important story of where we have been as a company and where we are heading as part of our ongoing transformation.

With better data and deeper insights, I believe we are well-positioned to move UFG boldly forward in the right direction — effectively managing our portfolio; responsibly and profitably growing our business; and swiftly responding to changing markets and trends, including the hardening reinsurance market, ongoing economic and social inflation, and elevated weather events.

OUR PERFORMANCE

Throughout 2022, our team worked together as one to deliver on our strategic priorities of long-term profitability, diversified growth, continuous innovation, expense management and people development, all of which I view as foundational to our long-term success.

To recap our financial results in 2022, we produced net income of \$0.59 per diluted share, a combined ratio of 101.4%, and return on equity of 1.9%. The combined ratio was impacted by 7.7 points of catastrophe loss activity, a 2.5-point improvement over 2021.

Full-year net investment income of \$45 million was down \$11 million from 2021, a result of lower long-term partnership valuations in the first half of the year that decreased investment income by \$17 million. This decrease more than offset increased fixed maturity income of \$5.5 million for the full year as the increased earnings power of reinvesting cash and other fixed maturities at higher interest rates was realized in the second half of the year.

At UFG, we are committed to delivering underwriting profitability despite the challenges we face in our industry. Although we did not meet that objective in 2022, I am

pleased to note we showed continued improvement in our underlying loss ratio, which we view as a key measure of our core profitability.

For the full year of 2022, our underlying loss ratio was 59.2% — a 5-point improvement over the full year of 2021 and the lowest reported underlying loss ratio in 10 years. This is a testament to the quality of our portfolio, as well as the relentless discipline by our people when selecting risks, pricing policies, servicing accounts and adjusting claims.

In 2022, we achieved net written premium growth of 4.6% to \$984 million, with the fourth quarter marking the third consecutive quarter of year-over-year premium growth. Growth was driven by our specialty, surety and assumed reinsurance businesses, while our core commercial business continues to recover from past years' re-underwriting actions.

Our core commercial business, which includes our construction, middle market, small business and marine lines of business, was down slightly for the year. However, we were encouraged to see improved renewal retention and increased new business production in the fourth quarter of 2022.

Within our core commercial business, the average renewal premium change was 8.3% for the year, with rate increases of 5.2% and exposure increases of 3.1% as we continue to focus on adequate property valuation considering the current inflationary environment.

We expect the core commercial business to return to profitable growth in the coming quarters as we deepen our partnerships with existing agents in 2023 and continue our transformation from a generalist to a specialist underwriting company.

At UFG, we consistently strive to deliver simple insurance solutions to our agents to enhance ease-of-doing-business. One example of the many ways we are innovating our company for the future is the launch of our new Pro-Quote platform for quoting and binding small business. This seamless new platform is currently available to agents in 10 states and is scheduled to be rolled out in additional states in 2023.

We also constantly look for ways to improve the customer journey and better meet policyholders' changing preferences. To that end, we recently

expanded our claims payment options by providing a faster alternative to paper checks for our policyholders and claimants following a loss.

Although we've made significant progress in many areas of our company, we recognize our expense ratio of 34.4% at year-end 2022 is not sustainable in the long term. Through disciplined expense management, we will apply the same level of intensity to improving the expense ratio as we did the loss ratio in previous years, while continuing to invest in our future.

We were pleased to note slight improvement in the expense ratio in the fourth quarter of 2022, as early benefits of our expense management actions began to take effect. We expect improvements in our expense ratio going forward.

Finally, at UFG, we understand our people are essential to our success. To continue to retain and attract top talent, we support our employees with paths to success through career development, continuous learning, leadership opportunities and work-life balance. We're also proud of our growing network of employee resource groups, illustrating the inclusive workplace culture that exists at UFG.

We are equally passionate about supporting the communities where our people live and work, carrying forward a decades-long legacy of corporate giving at UFG. In addition to providing our employees with paid time off to volunteer, we are pleased to present our "Scotty McIntyre Jr. Go Beyond" award annually to both an employee and agent. This award honors individuals for their community service, with UFG proudly donating \$5,000 to a charity of the winner's choice.

OUR STRENGTH

2022 ended on a positive note with AM Best's affirmation of our "A" financial strength rating for the 29th consecutive year. AM 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. The outlook of our rating remains negative as we continue to execute our strategic plan for improved performance.

As of December 31, 2022, our balance sheet remained strong, with \$2.9 billion in total assets, \$740 million in

total stockholders' equity and a \$1.8 billion investment portfolio, of which 84% is allocated to a high-quality fixed income book. Book value per common share was \$29.36 as of December 31, 2022.

In 2022, we paid total quarterly dividends of \$0.64 per share, returning \$15.9 million to our shareholders over the course of the year. UFG has a 54-year history of paying dividends to our shareholders, with the fourth quarter of 2022 marking our 219th consecutive quarter.

A NEW YEAR AT UFG

As I write this letter, a promising new year has already begun at UFG. In January, we welcomed our new Executive Vice President and Chief Operating Officer Julie Stephenson to the leadership team, succeeding Michael Wilkins, who retired at the end of September.

Julie is an accomplished leader who brings a wealth of operational, underwriting and portfolio management experience to our company. We are thrilled to have her onboard with us as she oversees efforts to drive profitable growth across our businesses.

Looking ahead to our annual shareholders meeting on May 17, we will bid farewell to our longstanding board

member Kyle D. Skogman after 22 years of dedicated service. Kyle currently serves as vice chairman of the board and is retiring due to the age limit in our bylaws.

Although our time together on the board has been brief, I appreciate Kyle's many lasting contributions to UFG's success, as well as his vast knowledge of our company's history. I congratulate him on a well-deserved retirement and wish him all the best as he closes this chapter of his esteemed career.

In the year ahead, I am committed to providing a clear pathway for our people as we advance our strategies centered on long-term profitability, diversified growth, continuous innovation, expense management and people development. I am confident that our actions will put us in a stronger position for 2023.

In closing, I thank our employees for embracing ambitious goals for 2023, our distribution partners for entrusting us with their business, and our valued shareholders for the trust and confidence you've placed in our company.

I am excited for what the new year holds as we continue to position UFG for superior financial and operational performance.



A handwritten signature in black ink that reads "Kevin J. Leidwinger". The signature is written in a cursive, flowing style.

Kevin J. Leidwinger, UFG President and 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

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

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 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/A for the year ended December 31, 2022, filed with the Securities and Exchange Commission (“SEC”) on March 1, 2023. The risks identified in our Annual Report on Form 10-K/A 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.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2022

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission File Number 001-34257

UNITED FIRE GROUP, INC.

(Exact name of registrant as specified in its charter)

Iowa
(State or other jurisdiction of
incorporation or organization)

45-2302834
(I.R.S. Employer Identification No.)

118 Second Avenue SE

Cedar Rapids Iowa 52401

(Address of principal executive offices) (Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value	UFCS	The NASDAQ Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2022 was approximately \$0.8 billion. For purposes of this calculation, all directors and executive officers of the registrant are considered affiliates. As of February 23, 2023, 25,216,296 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for its annual shareholder meeting to be held on May 17, 2023.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A to the United Fire Group, Inc. Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the U.S. Securities and Exchange Commission on February 28, 2023 (the "Original 10-K"), is being filed solely for the purpose of correcting exhibits 31.1, 31.2, 32.1, and 32.2 of the Original 10-K (the "Certifications"), which inadvertently referred to a quarterly report on Form 10-Q, rather than an annual report on Form 10-K.

No other changes have been made to any of the disclosures in the Original 10-K. This Amendment No. 1 speaks as of the original filing date of the Original 10-K, does not reflect events that may have occurred subsequent to such original filing date, and does not modify or update in any way disclosures made in the Original 10-K, except with regard to the Certifications as set forth above.

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FORWARD-LOOKING INFORMATION

This report 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 (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), 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 United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our"), 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. See Part I, Item 1A "Risk Factors" of this report for more information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

Risks and uncertainties that may affect the actual financial condition and results of the Company include, but are not limited to, the following:

- Our ability to effectively underwrite and adequately price insured risks;
- Risks related to our investment portfolio that could negatively affect our profitability;
- Geographic concentration risk in our property and casualty insurance business;
- The properties we insure are exposed to various natural perils that can give rise to significant claims costs;
- Changing weather patterns and climate change add to the unpredictability, frequency and severity of catastrophe losses and may adversely affect our results of operations, liquidity and financial condition;
- Lowering of one or more of the financial strength ratings of our operating subsidiaries or our issuer credit ratings and the adverse impact such action may have on our premium writings, policy retention, profitability and liquidity;
- We may be unable to attract, retain or effectively manage the succession of key personnel;
- The risk of not being able to predict the rising cost of insurance claims resulting from changing societal expectations that lead to increasing litigation, broader definitions of liability, broader contract interpretations, more plaintiff-friendly legal decisions and larger compensatory jury awards;
- The potential disruption of our operations and reputation due to unauthorized data access, cyber-attacks or cyber-terrorism and other security breaches;
- The adequacy of our reserves for property and casualty insurance losses and loss settlement expenses;
- Competitive, legal, regulatory or tax changes that affect the distribution cost or demand for our products through our independent agent/agency distribution network;
- Governmental actions, policies and regulations, including, but not limited to, domestic health care reform, financial services regulatory reform, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and other federal stimulus relief legislation, corporate governance, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions; changes in laws, regulations and stock exchange requirements relating to corporate governance and the cost of compliance;
- We will be at a competitive disadvantage if, over time, our competitors are more effective than us in their utilization of technology and evolving data analytics; and
- We may be unable to secure reinsurance capacity that provides necessary risk protection at a reasonable cost.

These are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in 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 report or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission ("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.

PART I.

ITEM 1. BUSINESS

GENERAL DESCRIPTION

United Fire Group, Inc. ("UFG", "United Fire", the "Registrant", the "Company", "we", "us", or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance through a network of independent agencies. Our insurance company subsidiaries are currently licensed as a property and casualty insurer in 50 states, plus the District of Columbia. United Fire & Casualty Company was incorporated in Iowa in January 1946. Our principal executive office is located at 118 Second Avenue SE, Cedar Rapids, Iowa 52401; telephone: 319-399-5700.

United Fire Group, Inc. owns 100 percent of one subsidiary, United Fire & Casualty Company. United Fire & Casualty Company owns 100 percent of eight subsidiaries: (1) Addison Insurance Company; (2) Lafayette Insurance Company; (3) United Fire & Indemnity Company; (4) Mercer Insurance Company; (5) Financial Pacific Insurance Company; (6) UFG Specialty Insurance Company; (7) United Real Estate Holdings LLC and (8) McIntyre Cedar UK Limited. Mercer Insurance Company owns 100 percent of two subsidiaries: (1) Franklin Insurance Company; and (2) Mercer Insurance Company of New Jersey, Inc. United Fire Lloyds, which is organized as a Texas Lloyds plan, is an affiliate of United Fire & Indemnity Company. McIntyre Cedar UK Limited owns 100 percent of McIntyre Cedar Corporate Member LLP.

Reportable Segments

Our property and casualty insurance business is reported as one business segment. Our property and casualty insurance business is comprised of commercial lines insurance, including surety bonds, and assumed reinsurance. The company announced its intent to withdraw from personal lines insurance in 2020, and by 2022 minimal exposure from personal lines remains. All of our property and casualty insurance subsidiaries and our affiliates belong to an intercompany reinsurance pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant's own surplus level. Under such arrangements, the members share substantially all of the insurance business that is written and allocate the combined premiums, losses and expenses based on percentages defined in the arrangement.

Available Information

We provide free and timely access to all our reports filed with the SEC in the Investor Relations section of our website at www.ufginsurance.com. Under the "Investors" tab, select "Financial Documents" and then, select "SEC Filings" to view the list of our SEC filings, which includes annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, beneficial ownership reports on Forms 3, 4 and 5 and amendments to reports filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Exchange Act. Such reports are made available as soon as reasonably practicable after they are filed with or furnished to the SEC. They are also available on the SEC's website at www.sec.gov.

Our Code of Ethics and Business Conduct is also available at www.ufginsurance.com in the Investor Relations section. To view it, under the "Investors" tab, select "Overview," then "Governance Documents" and then "Code of Ethics and Business Conduct."

Free paper copies of any materials that we file with or furnish to the SEC can also be obtained by writing to Investor Relations, United Fire Group, Inc., 118 Second Avenue SE, Cedar Rapids, Iowa 52401.

REVENUE GENERATING ACTIVITIES

Marketing and Distribution

We market our products through our home office in Cedar Rapids, Iowa, and five regional offices: (1) Westminster, Colorado, a suburb of Denver; (2) Webster, Texas, a suburb of Houston; (3) Princeton, New Jersey; (4) Phoenix, Arizona; and (5) Rocklin, California. We are represented through approximately 1,000 independent property and casualty agencies.

Property and Casualty Insurance Business

We staff our regional offices with underwriting, claims and marketing representatives and administrative technicians, all of whom provide support and assistance to the independent agencies. Also, home office staff technicians and specialists provide support to our subsidiaries, regional offices and independent agencies. We use management reports to monitor subsidiary and regional offices for overall results and conformity to our business policies.

Products and Competition

The property and casualty insurance industry is highly competitive. We compete with numerous property and casualty insurance companies in the regional and national market, many of which are substantially larger and have considerably greater financial and other resources. Except for regulatory considerations, there are limited barriers to entry into the insurance industry. Our competitors may be domestic or foreign, as well as licensed or unlicensed. The exact number of competitors within the industry is not known. Insurers compete on the basis of reliability, financial strength and stability, ratings, underwriting consistency, service, business ethics, price, performance, capacity, policy terms and coverage conditions.

In addition, because our products are marketed exclusively through independent insurance agencies, most of which represent more than one company, we face competition within each agency and competition to retain qualified independent agents. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers.

Because we rely solely on independent agencies, we offer a competitive commissions program and a rewarding profit-sharing plan as incentives for agents to place high-quality property and casualty insurance business with us. We tier our agents to objectively recognize our top performers including additional compensation in our profit-sharing plan. We offer incentive trips and promotions to build UFG loyalty. Property and casualty insurance agencies will receive profit-sharing payments of \$13.7 million in 2023, based on profitable business produced by the agencies in 2022. In 2022 for 2021 business, agencies received \$15.1 million in profit-sharing payments and in 2021 for 2020 business, agencies received \$15.4 million in payments.

Our competitive advantage includes our commitment to:

- Strong agency relationships —
 - A stable workforce allows our agents to consistently work with the same, highly-experienced personnel.
 - Our organization is relatively flat, allowing our agents to be close to the highest levels of management and is designed to ensure that our agents will quickly receive answers to their questions.
- Exceptional service — our agents and policyholders always have the option to speak with a real person.
- Fair and prompt claims handling — we view claims as an opportunity to prove to our customers that they have chosen the right insurance company.
- Disciplined underwriting — we empower our underwriters with the knowledge and tools needed to make good decisions for the Company.
- Superior loss control services — our loss control representatives make multiple visits to businesses and job sites each year to ensure safety.
- Effective and efficient use of technology — we use technology to provide enhanced service to our agents and policyholders, not to replace our personal relationships, but to reinforce them.

REINSURANCE

Incorporated by reference from Note 4 "Reinsurance" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

RESERVES

Property and Casualty Insurance Business

Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property, or the loss of its income-producing abilities. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases, casualty insurance also obligates the insurance company to provide a defense for the insured in litigation, arising out of events covered by the policy.

Liabilities for loss and loss settlement expenses reflect management's best estimates at a given point in time of what we expect to pay for claims that have been reported and those that have been incurred but not reported ("IBNR") based on known facts, circumstances, and historical trends.

The determination of reserves (particularly those relating to liability lines of insurance that have relatively longer lag in claim reporting) requires significant work to reasonably project expected future claims reporting and payment patterns. If during the course of our regular monitoring of reserves we determine that coverages previously written are incurring higher than expected losses, we will take action that may include, among other things, increasing the related reserves. Any adjustments we make to reserves are reflected in operating results in the year in which we make those adjustments. We engage an independent actuary, Regnier Consulting Group, Inc. ("Regnier"), to render an opinion as to the reasonableness of our statutory reserves annually. The actuarial opinion is filed in those states where we are licensed.

On a quarterly basis, United Fire's actuarial staff and consultants perform a detailed actuarial review of IBNR reserves. This review includes a comparison of results from the most recent analysis of reserves completed by both our internal and external actuaries. Senior management meets to review, on a quarterly basis, the adequacy of carried reserves based on results from this actuarial analysis. There are two fundamental types or sources of IBNR reserves. We record IBNR reserves for "normal" types of claims and also specific IBNR reserves related to unique circumstances or events. A major hurricane is an example of an event that might necessitate establishing specific IBNR reserves because an analysis of existing historical data would not provide an appropriate estimate.

We do not discount loss reserves based on the time value of money.

For a more detailed discussion of our loss reserves, refer to the "Critical Accounting Policies" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 5 "Reserves for Losses and Loss Settlement Expenses" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

INVESTMENTS

Incorporated by reference from Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the headings "Investments," "Market Risk" and "Critical Accounting Policies"; and Note 1 "Summary of Significant Accounting Policies" under the heading "Investments," Note 2 "Summary of Investments," and Note 3 "Fair Value of Financial Instruments," contained in Part II, Item 8, "Financial Statements and Supplementary Data."

COMPLIANCE WITH GOVERNMENT REGULATION

The insurance industry is subject to comprehensive and detailed regulation and supervision. Each jurisdiction in which we operate has established supervisory agencies with broad administrative powers. While we are not aware of any currently proposed or recently enacted state or federal regulation that would have a material impact on our operations, we cannot predict the effect that future regulatory changes might have on us.

State Regulation

We are subject to extensive regulation, primarily at the state level. The method, extent and substance of such regulation varies by state, but generally has its source in National Association of Insurance Commissioners ("NAIC") model laws and regulations that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state regulatory agency. Moreover, the NAIC Accreditation Program requires state regulatory agencies to meet baseline standards of solvency regulation, particularly with respect to regulation of multi-state insurers. In general, such regulation is intended for the protection of those who purchase or use our insurance products, and not our shareholders. These rules have a substantial effect on our business and relate to a wide variety of matters including: insurance company licensing and examination; the licensing of insurance agents and adjusters; price setting or premium rates; trade practices; approval of policy forms; claims practices; restrictions on transactions between our subsidiaries and their affiliates, including the payment of dividends; investments; underwriting standards; advertising and marketing practices; capital adequacy; and the collection, remittance and reporting of certain taxes, licenses and fees.

The state laws and regulations that have the most significant effect on our insurance operations and financial reporting are discussed below.

Insurance Holding Company Regulation

We are regulated as an insurance holding company system in the states of domicile of our property and casualty insurance companies: Iowa (United Fire & Casualty Company, UFG Specialty Insurance Company and Addison Insurance Company), California (Financial Pacific Insurance Company), Louisiana (Lafayette Insurance Company), New Jersey (Mercer Insurance Company of New Jersey, Inc.), Pennsylvania (Mercer Insurance Company and Franklin Insurance Company) and Texas (United Fire & Indemnity Company and its affiliate, United Fire Lloyds, which is organized as a Texas Lloyds plan). These regulations require that we annually furnish financial and other information about the operations of the individual companies within our holding company system. Generally, the insurance laws of these states provide that notice to the state insurance commissioner is required before finalizing any transaction affecting the ownership or control of an insurer and before finalizing certain material transactions between an insurer and any person or entity within its holding company system. In addition, some of those transactions cannot be finalized without the commissioner's prior approval.

Most states have now adopted the version of the Model Insurance Holding Company System Regulation Act and Regulation as amended by the NAIC in December 2010 (the "Amended Model Act") to introduce the concept of "enterprise risk" within an insurance company holding system. Enterprise risk is defined as any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or the liquidity of the insurer or its insurance holding company system as a whole. The Amended Model Act imposes more extensive informational requirements on us, including requiring us to prepare an annual enterprise risk report that identifies the material risks within our insurance company holding system that could pose enterprise risk to our licensed insurers.

Restrictions on Shareholder Dividends

As an insurance holding company with no independent operations or source of revenue, our capacity to pay dividends to our shareholders is based on the ability of our insurance company subsidiaries to pay dividends to us. The ability of our subsidiaries to pay dividends to us is regulated by the laws of their state of domicile. Under these laws, insurance companies must provide advance informational notice to the domicile state insurance regulatory authority prior to payment of any dividend or distribution to its shareholders. Prior approval from the state insurance regulatory authority must be obtained before payment of an "extraordinary dividend" as defined under the state's insurance code. The amount of ordinary dividends that may be paid to us is subject to certain limitations, the amounts of which change each year. In all cases, we may pay dividends only from our earned surplus. Refer to Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" under the heading "Dividends" and Note 6 "Statutory Reporting, Capital Requirements and Dividends and Retained Earnings Restrictions," contained in Part II, Item 8, "Financial Statements and Supplementary Data" for additional information about the dividends we paid during 2022.

Price Regulation

Nearly all states have insurance laws requiring us to file rate schedules, policy or coverage forms, and other information with the state's regulatory authority. In certain states, rate schedules, policy forms, or both, must be approved prior to use. While insurance laws vary from state to state, their objectives are generally the same: an insurance rate cannot be excessive, inadequate or unfairly discriminatory. The speed with which we can change our rates in response to competition or in response to increasing costs depends, in part, on the willingness of state regulators to allow adequate rates for the business we write.

Investment Regulation

We are subject to various state regulations requiring investment portfolio diversification and limiting the concentration of investments we may maintain in certain asset categories. Failure to comply with these regulations leads to the treatment of nonconforming investments as non-admitted assets for purposes of measuring statutory surplus. Further, in some instances, state regulations require us to sell certain nonconforming investments.

Exiting Geographic Markets; Canceling and Non-renewing Policies

Most states regulate our ability to exit a market. For example, states limit, to varying degrees, our ability to cancel and non-renew insurance policies. Some states prohibit us from withdrawing one or more types of insurance business from the state, except upon prior regulatory approval. Regulations that limit policy cancellation and non-renewal may restrict our ability to exit unprofitable markets.

Insurance Guaranty Associations

Each state has insurance guaranty association laws. Membership in a state's insurance guaranty association is generally mandatory for insurers wishing to do business in that state. Under these laws, associations may assess their members for certain obligations that insolvent insurance companies have incurred with regard to their policyholders and claimants.

Typically, states assess each solvent association member with an amount related to that member's proportionate share of business written by all association members within the state. Most state guaranty associations allow solvent insurers to recoup the assessments they are charged through future rate increases, surcharges or premium tax credits. However, there is no assurance that we will ultimately recover these assessments. We cannot predict the amount and timing of any future assessments or refunds under these laws.

Shared Market and Joint Underwriting Plans

State insurance regulations often require insurers to participate in assigned risk plans, reinsurance facilities and joint underwriting associations. These are mechanisms that generally provide applicants with various types of basic insurance coverage that may not otherwise be available to them through voluntary markets. Such mechanisms are most commonly instituted for automobile and workers' compensation insurance, but many states also mandate participation in Fair Access to Insurance Requirements Plans or Windstorm Plans, which provide basic property coverage. Participation is based upon the amount of a company's voluntary market share in a particular state for the classes of insurance involved. Policies written through these mechanisms may require different underwriting standards and may pose greater risk than those written through our voluntary application process.

Statutory Accounting Principles

For public reporting, insurance companies prepare financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"). However, state laws require us to calculate and report certain data according to statutory accounting principles as defined in the NAIC Accounting Practices and Procedures Manual. While not a substitute for any GAAP measure of performance, statutory data frequently is used by industry analysts and other recognized reporting sources to facilitate comparisons of the performance of insurance companies.

Insurance Reserves

State insurance laws require that insurance companies analyze the adequacy of their reserves annually. Our appointed actuaries must submit an opinion that our statutory reserves are adequate to meet policy claims-paying obligations and related expenses.

Financial Solvency Ratios

The NAIC annually calculates 13 financial ratios to assist state insurance regulators in monitoring the financial condition of insurance companies. A "usual range" of results for each of these ratios is used by insurance regulators as a benchmark. Departure from the usual range on four or more of the ratios could lead to inquiries from individual state insurance departments as to certain aspects of a company's business. In addition to the financial ratios, states also require us to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These "risk-based capital" results are used by state insurance regulators to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2022, all of our insurance companies had capital in excess of the required levels.

Federal Regulation

Although the federal government and its regulatory agencies generally do not directly regulate the business of insurance, federal initiatives and legislation often have an impact on our business. These initiatives and legislation include tort reform proposals, proposals addressing natural catastrophe exposures, terrorism risk mechanisms, federal financial services reforms, various tax proposals affecting insurance companies, and possible regulatory limitations, impositions and restrictions arising from the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), and the Patient Protection and Affordable Care Act.

Various legislative and regulatory efforts to reform the tort liability system have impacted and will continue to impact our industry. Although there has been some tort reform with positive impact to the insurance industry, new causes of action and theories of damages continue to be proposed in state court actions or by federal or state legislatures that continue to expand liability for insurers and their policyholders. For example, some state legislatures have from time-to-time considered legislation addressing direct actions against insurers related to bad faith claims. As a result of this unpredictability in the law, insurance underwriting is expected to continue to be difficult in commercial lines, professional liability and other specialty coverages.

Dodd-Frank expanded the federal presence in insurance oversight and may increase regulatory requirements that are applicable to us. Dodd-Frank's requirements include streamlining the state-based regulation of reinsurance and non-admitted insurance (property or casualty insurance placed with insurers that are eligible to accept insurance, but are not licensed to write insurance in a particular state). Dodd-Frank also established the Federal Insurance Office within the U.S. Department of the Treasury that is authorized to, among other things, gather data and information to monitor aspects of the insurance industry, identify issues in the regulation of insurers about insurance matters, and preempt state insurance measures under certain circumstances.

Dodd-Frank also contains a number of provisions related to corporate governance and disclosure matters. In response to Dodd-Frank, the SEC has adopted or proposed rules regarding director independence, director and officer hedging activities, executive compensation clawback policies, compensation advisor independence, pay versus performance disclosures, internal pay equity disclosures, and shareholder proxy access. We continue to monitor developments under Dodd-Frank and their impact on us, insurers of similar size and the insurance industry as a whole.

FINANCIAL STRENGTH AND ISSUER CREDIT RATING

Our financial strength, as measured by statutory accounting principles, is regularly reviewed by an independent rating agency that assigns a rating based upon criteria such as results of operations, capital resources and minimum policyholders' surplus requirements. An insurer's financial strength rating is one of the primary factors evaluated by those in the market to purchase insurance. A poor rating indicates that there is an increased likelihood that the insurer could become insolvent and therefore not able to fulfill its obligations under the insurance policies it issues. This rating can also affect an insurer's level of premium writings, the lines of business it can write and, for insurers like us that are also public registrants, the market value of its securities.

Our property and casualty subsidiaries (collectively known as "United Fire & Casualty Group") are rated by A.M. Best Company, Inc. ("A.M. Best") on a group basis. United Fire & Casualty Group received a Financial Strength Rating (FSR) of "A" (Excellent). According to A.M. Best, companies rated "A" have "an excellent ability to meet their ongoing obligations to policyholders." A.M. Best revised the outlooks to negative from stable in December 2020, and there was no change in the outlook in December 2022.

A.M. Best also assigns issuer credit ratings based on a company's ability to repay its debts. All of our property and casualty insurers have received an issuer credit rating of "a" from A.M. Best. Beginning in 2012, our holding company parent was also rated by A.M. Best, receiving an issuer credit rating of "bbb."

HUMAN CAPITAL RESOURCES

Organization core values

Working together as one, we are always striving to deliver on our promises of employee success, policyholder protection, agent opportunity, shareholder value and community support. That is our mission. Its unified ideology guides every aspect of the way we conduct business at UFG.

Strategy for success

Our "One UFG: Boldly Forward" strategic plan unites our people in purpose and drives our mission of superior operational and financial performance. It is centered on five strategic pillars of long-term profitability, diversified growth, people development, continuous innovation and expense management. These pillars provide us with a strong foundation of success as we work together to deliver on our promises to all UFG stakeholders.

Diversity Equity and Inclusion

We are committed to fostering, cultivating and preserving a culture of diversity, equity, and inclusion. Our purpose is to invest in people to build enduring relationships with those we serve. Diversity, equity, and inclusion are core to this purpose and are an integral part of our values and culture.

We are committed to building a diverse, equitable, and inclusive culture that encourages, supports, and celebrates the distinct voices of our people. We invite our people to bring their authentic whole self to work, be inspired to form lasting relationships and to do their best each day, because we are all different, yet equal, humans. Our commitment extends into every facet of who we are:

- a. We recognize that our people are our most valuable asset. To excel, we must each feel that we belong to a welcoming environment that values both our differences and the collective sum of our individuality, experiences, knowledge, creativity, innovation, self-expression, unique capabilities, talents, beliefs and points of view.
- b. We look to positively impact the communities where we live and work and partner with clients, vendors, and suppliers who share in our beliefs and commit to equity through building awareness, advocacy, and allyship.
- c. Succeeding as a national enterprise means embracing differences in an informed, sensitive, and welcoming manner so that we continue providing our people, clients, vendors and suppliers with the best of our company, because their success is our success.

We embrace and encourage our employees' differences in age, color, disability, ethnicity, family or marital status, gender identity or expression, language, national origin, physical and mental ability, political affiliation, race, religion, sexual orientation, socio-economic status, veteran status, and other ways that make our employees unique.

Our commitment is reinforced through initiatives centered on our people, partners, and philanthropy, creating an inclusive work environment built on the premise of a strong sense of belonging that encourages:

- a. Respectful communication and cooperation between all employees.
- b. Teamwork and participation that empowers and advances all groups and perspectives.
- c. Work-life balance to accommodate employees' varying needs.
- d. Giving back to the communities we serve to advance change and promote greater understanding and respect for diversity.

At UFG, inclusive conduct is centered on:

- a. Treating others with dignity and respect at all times, because how we act is as important as what we accomplish.
- b. Meeting the evolving needs of our expansive risk profile through investment in our talent through training and recruiting.
- c. Striving to do what is right - even when no one is looking.
- d. Continuously listening to our people, agents, partners, vendors, and community to effectuate our goals.
- e. Deepening our sensitivity and understanding towards others, so we can connect in a meaningful way.
- f. Ensuring that employees exhibit conduct that reflects inclusion during work, at work functions on or off the work site, and at all other company-sponsored and company-participating events. Inclusive conduct applies to all in-office, hybrid, remote and field employees, regardless of the location of their physical workplace.

It is through our shared awareness and commitment to these principles that we foster a culture of belonging, where everyone is welcome, respected and appreciated. Championing diversity, equity, and inclusion is not just something we do, it is the core of who we are.

		2022	2021	2020
Employee data				
Workforce data	Headcount	1,091	1,086	1,165
	Average tenure in years	8.7	10.0	10.0
	Percent of self-identified women in workforce	57.4%	54.8%	55.1%
	Percent of self-identified racial/ethnic minorities in workforce	13.8%	13.8%	12.4%
	Voluntary turnover rate	12.3%	11.7%	8.4%
Human rights/Social	Equal employment opportunity policy	Y	Y	Y
	Diversity, equity and inclusion policy	Y	Y	Y
	Human rights policy	Y	Y	Y
Ethics	Anti-bribery & anti-corruption policy	Y	Y	Y
	Code of business conduct & ethics	Y	Y	Y
Community	Employee volunteer hours	1,690	720	2,393

Fulfilling careers; health, safety and wellness; compensation and benefits; talent development

At UFG, health, wellness and education are core cultural values. Employee success is part of our mission. That is why we support continuing education for employees. Our investment in employee health and well-being is built on our foundation of helping people enhance their lives. UFG is dedicated to proactively promoting work-life balance for all employees that respects a variety of values and lifestyles. Employees are encouraged to meet with their managers to develop a flexible work schedule that suits their needs outside of work.

Our commitment to advancing the mental and physical health of our people includes:

- U Fit Wellness Center located on-site: in our Cedar Rapids home office and our Houston and Denver regional offices. We are proud to have built our own state-of-the-art fitness center in Cedar Rapids in 2017. We are also proud to have a full-time Corporate Manager of Holistic Wellness on staff. The manager provides one-on-one coaching, customized wellness plans and group fitness and wellness classes for all skill levels. She also provides change management consulting to business units and/or individual employees.

- Empowering employees to make healthy decisions:
 - Fitness classes – we offer a variety of both in-person group classes as well as virtual classes to cater to our hybrid workforce. We partner with Wellbeats Virtual Fitness to offer tailored virtual fitness to all employees and their families. To mesh our passion for community with wellness, we have also held multiple physical activity fundraisers.
 - Weekly wellness webinars – these webinars are intended to educate employees on everything from nutrition best practices to mental and emotional well-being and mindfulness. Subject matter experts are oftentimes brought in to present on various topics.
 - Enterprise-wide resiliency program – Our Manager of Corporate Wellness offers a monthly resiliency course, year-round. This course focuses on building upon life skills to help employees become more emotionally resilient in their professional and personal lives. In addition, we established a mental wellness employee resource group and held senior leadership training on mental wellness and suicide prevention.
 - A wellness reward system – 84% of our employees are enrolled in our third-party wellness management program designed to cultivate good lifestyle habits. This program also provides monetary incentives based on physical activity and premium credits on health insurance when employees reach certain thresholds.
 - Access to a health advocate program where we are partnering with a service to help employees navigate the healthcare system and address personal and work-related issues at no cost to them. Over 1,400 hours have been utilized to date with this service.
 - A well-being and weight management program - a new digital platform taught by renowned experts that will assist with a personalized approach for weight loss results together with coaching. There were over 100 applicants to the first cohort.

Sustainability

As a property and casualty insurer, UFG is acutely aware of the growing risks to business, insureds and communities stemming from sustainability issues. Sustainability is top of mind for our Management Team and Board of Directors, and as a result we have made important updates to our ESG governance structure. In February 2022 the following committee charters were revised to incorporate Board committee oversight of relevant ESG initiatives:

- a. The Nominating and Governance Committee oversees our ESG policies and practices, generally, and reviews our voluntary ESG disclosures, goals and metrics provided. Additionally, the Nominating and Governance Committee is responsible for oversight of business ethics.
- b. 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. Additionally, the Audit Committee has oversight of the whistleblower program.
- c. The Compensation and Human Capital Committee oversees our human capital management and diversity, equity, and inclusion initiatives, as well as corporate culture matters.
- d. 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).
- e. 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.

Together with Board oversight, 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. Our Chief Risk Officer 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 how the related risks are monitored and mitigated.

In 2022 UFG prepared our inaugural disclosure aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD report may be found on our investor page at: <https://ir.ufginsurance.com/ESG/sustainability>. This document provides transparency to stakeholders concerning how we are managing climate risk and addressing the global transition to net zero within our business. We view climate change as a transversal risk impacting and elevating other critical enterprise risks, and we have begun developing strategies to address and build resiliency to these risks. While this disclosure is a 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 was appointed the insurance provider for members of the state Iowa Land Improvement Contractors Association ("LICA") insurance program. This organization, which is known for its mission of professional conservation of soil and water, as well as best practices in the construction and protection of cities, farms, ranches and rural areas where we live and work, has worked with UFG to develop a program that is customized to this targeted group of insureds. Our program, in partnership with Prins Insurance, is specifically designed for LICA contractors and includes professional risk control services, safety group dividends based on the performance of the group, specialty pricing, and the broadened coverages needed when working to conserve our soil and water.

In addition to establishing a UFG Green Team dedicated to sustainability practices, the facilities team is active in reducing our environmental footprint. Here are a few of our practices intended to lesson our impact on the environment:

- Reducing usage of plastic water bottles through installation of water filling stations in our offices, increasing paper recycling and decreasing our real estate square footage.
- Using low impact materials. This includes a partnership with flooring vendors that manufacture products with low environmental impact and utilizing architectural wall systems instead of drywall. Architectural wall systems reduce drywall construction and carpet waste, and also preserve air quality associated with lack of drywall and paint fumes.
- Using electrostatic disinfection cleaning in our corporate office. This cutting edge cleaning technique greatly reduces the spread of viruses in high-traffic areas, and also sprays approximately 65% less chemicals per square foot.
- Launching a net zero waste program across the Cedar Rapids campus in July 2022 aimed to divert 20 tons of landfill-bound trash generated annually from office buildings by July 2024.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following table sets forth information concerning the following executive officers:

Name	Age	Position
Kevin J. Leidwinger	59	President and Chief Executive Officer, Principal Executive Officer
Eric J. Martin	52	Senior Vice President, Chief Financial Officer and Principal Financial Officer
Julie A. Stephenson	55	Executive Vice President and Chief Operating Officer
Jeremy J. Bahl	45	Vice President and Chief Underwriting Officer
Robert F. Cataldo	52	Vice President and Chief Investment and Strategy Officer
Sarah E. Madsen	44	Vice President, Chief Legal Officer and Corporate Secretary
Corey L. Ruehle	49	Vice President and Chief Claims Officer
Micah G. Woolstenhulme	47	Vice President and Chief Risk Officer

A brief description of the business experience of these officers follows:

Kevin J. Leidwinger became our President and Chief Executive Officer in August 2022. Prior to joining UFG, Mr. Leidwinger served as President and Chief Operating Officer at CNA Commercial from 2015 - 2022. Prior to joining CNA Commercial in 2015, he was global casualty manager for Chubb Commercial Insurance, and was responsible for the company's worldwide portfolio of general liability, workers' compensation, excess umbrella, auto errors and omissions, and environmental business.

Eric J. Martin joined UFG as our Senior Vice President and Chief Financial Officer in April 2022. Prior to joining UFG, he served as Head of Enterprise Transformation at Transamerica Corporation (an insurance company), beginning in 2020. Mr. Martin also held numerous other positions at Transamerica including: Chief Operating Officer, Individual Solutions and Retail Affiliates (2019-2020); Senior Vice President, Controller and Head of Finance (2016-2019) and various other roles dating back to 2001.

Julie A. Stephenson joined UFG as our Executive Vice President and Chief Operating Officer effective as of the end of January 2023. Ms. Stephenson has over 25 years of experience in the insurance industry, most recently serving as global head of casualty reinsurance at Swiss Re. Prior to joining Swiss Re in 2021, she held the positions of Chief Operating Officer-Middle Market (2019-2021) and Commercial Chief Underwriting Officer (2015-2019) at CNA Insurance and Global Liability Manager for Chubb Insurance.

Jeremy J. Bahl became Vice President and Chief Underwriting Officer in 2020. Mr. Bahl joined UFG as an accountant in 2000. He transferred to the underwriting department of the Great Lakes region in 2002 and served as an Underwriting Supervisor from 2010 to 2014. In 2014, he became Underwriting Supervisor of the Denver region. In 2016, he was named Vice President and Branch Manager of our Denver region and assumed oversight of the Sacramento region in 2018. Mr. Bahl has the Chartered Property Casualty Underwriter (CPCU) professional designation.

Robert F. Cataldo became our Vice President and Chief Investment and Strategy Officer of UFG in 2020, serving the Company since 2011. Mr. Cataldo was Vice President and Strategy Officer for UFG from 2018 to 2020. From 2015 to 2018, he served as AVP & Senior Portfolio Manager. Mr. Cataldo joined UFG as a Senior Portfolio Manager in 2011.

Sarah E. Madsen became our Vice President, Chief Legal Officer, and Corporate Secretary in April 2022. Ms. Madsen previously served as Assistant General Counsel from 2018 - 2022. Prior to joining UFG, she served as corporate counsel for a national insurance and financial strategies firm, counsel for a global non-profit and was a partner at a St. Paul, MN based law firm, where she practiced financial services, insurance, and commercial litigation. Ms. Madsen holds a Chartered Property Casualty Underwriter ("CPCU") designation.

Corey L. Ruehle became our Vice President and Chief Claims Officer in 2019. He joined UFG as a Commercial Underwriter in 2001. Between 2001 and 2019 he served in various capacities, including as Underwriting Supervisor, Underwriting Manager and Branch Manager of the Midwest region. Mr. Ruehle has the Associate in Commercial Underwriting (AU) and Certified Insurance Counselor (CIC) professional designations.

Micah G. Woolstenhulme serves as Vice President and Chief Risk Officer. Mr. Woolstenhulme joined UFG in 2020 to lead the enterprise risk management activities. Prior to joining UFG, he served as Head of Risk and Economic Advisory at JLT Re (a reinsurance broker) from 2016-2020 and led the ERM Services group at Guy Carpenter (a global risk and reinsurance specialist company). He also served Swiss Re, Samsung, and Safeco in various roles including financial modeling, product development and corporate strategy. Mr. Woolstenhulme is a Fellow of the Casualty Actuarial Society.

ITEM 1A. RISK FACTORS

We provide readers with the following discussion of risks and uncertainties relevant to our business. These are factors that we believe could cause our actual results to differ materially from our historic or anticipated results. We could also be adversely affected by other factors, in addition to those listed here. Additional information concerning factors that could cause actual results to differ materially from those contained in the forward-looking statements is set forth in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Relating to Our Operations: Underwriting Risks, Claims Risks, Investments Risks, Management Risks, Cyber Risks and Legal Risks

Our success depends primarily on our ability to underwrite risks effectively and adequately price the risks we insure.

The results of our operations and our financial condition depend on our ability to underwrite and set premium rates accurately for a wide variety of risks based on available information. Adequate rates are necessary to generate premiums sufficient to pay losses, loss settlement expenses and underwriting expenses and to earn a profit. To price our products accurately, we must collect and properly analyze a substantial amount of data, develop, and apply appropriate pricing techniques, closely monitor changes in trends and project both severity and frequency of losses with reasonable accuracy. We could underprice risks which would adversely affect our profit margins. Conversely, we could overprice risks, leading to reduced sales volume and competitiveness. Our ability to undertake these efforts successfully is subject to a number of risks and uncertainties, including but not limited to: (1) the availability of sufficient reliable data and our ability to properly analyze available data; (2) market and competitive conditions; (3) changes in medical care expenses and restoration costs; (4) our selection and application of appropriate pricing techniques; and (5) changes in the regulatory market, applicable legal liability standards and in the civil litigation system generally.

The risk presented by market conditions presents a unique set of challenges in the property and casualty insurance industry. The property and casualty insurance marketplace is cyclical in nature and has historically been characterized by soft markets (periods of relatively high levels of price competition, less restrictive underwriting standards and generally low premium rates) followed by hard markets (periods of capital shortages resulting in a lack of insurance availability, relatively low levels of price competition, more selective underwriting of risks and relatively high premium rates). During soft markets, we may lose business to competitors offering competitive insurance at lower prices. We may reduce our premiums or limit premium increases leading to a reduction in our profit margins and revenues.

The demand for property and casualty insurance can also vary significantly, rising as the overall level of economic activity increases and falling as that activity decreases. Fluctuations in demand and competition could produce underwriting results that would have a negative impact on the results of our operations and financial condition.

We continue to compete with many major U.S. and non-U.S. insurers and smaller regional companies, as well as mutual companies, specialty insurance companies, underwriting agencies, and diversified financial services companies, including banks, mutual funds, broker-dealers and asset-managers. Our competitors may always attempt to increase their market share by lowering rates. Losing business to competitors offering similar products at lower prices or who have a competitive advantage may adversely affect the results of our operations.

We are subject to certain risks related to our investment portfolio that could negatively affect our profitability.

Investment income is an important component of our net income and overall profitability. We invest premiums received from policyholders and other available cash to generate investment income and capital appreciation, while also maintaining sufficient liquidity to pay covered claims, operating expenses, and dividends. As discussed in detail below, general economic conditions, changes in financial markets, global events, and many other factors beyond our control can adversely affect the value of our investments and the realization of investment income.

We primarily manage our investment portfolio internally under required statutory guidelines and investment guidelines approved by our Board of Directors and the boards of directors of our subsidiaries. Although these guidelines stress diversification and capital preservation, our investments are subject to a variety of risks discussed as follows.

Credit Risk – The value of our investment in marketable securities is subject to credit losses as a result of deterioration in the creditworthiness of the issuer. Such impairments could reduce our net investment income and result in realized investment losses. The vast majority of our investments (98.9 percent of core fixed income portfolio at December 31, 2022) are made in investment-grade securities. Although we try to manage this risk by diversifying our portfolio and emphasizing credit quality, our investments are subject to losses as a result of a general downturn in the economy.

Interest Rate Risk – A significant portion of our investment portfolio (84.1 percent at December 31, 2022) consists of fixed income securities, primarily corporate and municipal bonds (68.6 percent at December 31, 2022). These securities are sensitive to changes in interest rates. An increase in interest rates typically reduces the fair value of fixed income securities, while a decline in interest rates reduces the investment income earned from future investments in fixed income securities. We generally hold our fixed income securities to maturity, so our interest rate exposure does not usually result in realized losses. However, rising interest rates could result in a significant reduction of the book value of our fixed maturity investments. Low interest rates, and low investable yields, could adversely impact our net earnings as reinvested funds produce lower investment income. Interest rates are highly sensitive to many factors beyond our control including general macroeconomic conditions, changes in governmental regulations and monetary policy, and national and international political conditions.

Liquidity Risk – We seek to match the maturities of our investment portfolio with the estimated payment date of our loss and loss adjustment expense reserves to ensure strong liquidity and avoid having to liquidate securities to fund claims. Risk such as inadequate loss and loss adjustment reserves, a large natural catastrophe, or unfavorable trends in litigation could potentially result in the need to sell investments to fund these liabilities. This could result in significant realized losses depending on the conditions of the general market, interest rates and credit profile of individual securities. Further, our investment portfolio is subject to increased valuation uncertainties when investment markets are illiquid. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of the portion of the investment portfolio that is carried at fair value in our financial statements is not reflective of prices at which actual transactions could occur.

Market Risk – Our investments are subject to risks inherent in the global financial system and capital markets. The value and risks of our investments may be adversely affected if the functioning of those markets is disrupted or otherwise affected by local, national or international events, such as: changes in regulation or tax policy; changes in legislation relating to bankruptcy or other proceedings; infrastructure failures; wars or terrorist attacks; public health emergencies and pandemics; the overall health of global economies; a significant change in inflation expectations; a significant devaluation of government or private sector credit and/or currency values; and other factors or events not specifically attributable to changes in interest rates, credit losses, and liquidity needs.

We exercise prudence and significant judgment in analyzing and validating fair values, which are primarily provided by third parties, for securities in our investment portfolio, including those that are not regularly traded in active markets. We also exercise prudence and significant judgment in determining whether the impairment of particular investments is temporary or other-than-temporary. Due to the inherent uncertainties involved in these judgments, we may incur unrealized losses and subsequently conclude that other-than-temporary write downs of our investments are required.

Our geographic concentration ties our performance to the business, economic and regulatory conditions of certain states.

The following states provided 47.5 percent of the direct statutory premiums written for the property and casualty insurance businesses in 2022: Texas (16.6 percent), California (12.4 percent), Iowa (7.8 percent), Missouri (6.1 percent) and New Jersey (4.6 percent).

Our revenues and profitability are subject to the prevailing regulatory, legal, economic, political, competitive, weather, and other conditions in the principal states in which we do business. With respect to regulatory conditions, the NAIC and state legislators continually reexamine existing laws and regulations, specifically focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws and regulations. In a time of financial uncertainty or a prolonged economic downturn, regulators may choose to adopt more restrictive insurance laws and regulations. Changes in regulatory or any other of these conditions could make it less attractive for us to do business in such states. In addition, our exposure to severe losses from localized natural perils, such as tornadoes, wildfires or hailstorms, is increased in those areas where we have written a significant amount of property insurance policies.

We insure property that is exposed to various natural perils that can give rise to significant claims costs.

Our property and casualty insurance operations expose us to claims arising from catastrophic events affecting multiple policyholders. Such catastrophic events consist of various natural disasters, some of which may increase in severity and frequency due to climate change, including, but not limited to, hurricanes, tornadoes, hailstorms, wildfires, earthquakes, severe winter weather, volcanic eruptions, and man-made disasters such as terrorist acts (including biological, chemical or radiological events), explosions, infrastructure failures and results from political instability. We have exposure to hurricanes along the Gulf Coast, Eastern and Southeastern coasts of the United States. We have exposure to tornadoes, windstorms, and hailstorms throughout the United States. We have exposure to earthquakes along the West Coast and the New Madrid Fault area. Our automobile and inland marine business also exposes us to losses arising from floods and other perils.

Property damage resulting from catastrophes is perhaps the largest short-term underwriting loss we face in the ordinary course of our business. Catastrophes may reduce our net income, cause substantial volatility in our financial results for any fiscal quarter or year or otherwise adversely affect our financial condition, liquidity or results of operations. Catastrophes may also negatively affect our ability to write new business.

We have exposure to catastrophe losses under our commercial insurance policies as well as through our assumed reinsurance and managing general agency contracts. Losses from catastrophic events are a function of our exposure profile and the level of reinsurance purchased to mitigate these losses. For example, the losses experienced from a tornado will vary on whether the location of the tornado was in a highly populated or unpopulated area, the concentration of insureds in that area and the severity of the tornado. Increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from a catastrophic event.

In addition, as with catastrophe losses generally, it can require time for us to determine our ultimate losses associated with a particular catastrophic event. The inability to access portions of the impacted area, the complexity of the losses, legal and regulatory uncertainty, and the nature of the information available for certain catastrophic events may affect our ability to estimate the claims and claim adjustment expense reserves. Such complex factors include, but are not limited to: determining the cause of the damage, evaluating general liability exposures, estimating additional living expenses, the impact of demand surge, infrastructure disruption, fraud, business interruption costs and reinsurance collectability.

The timing of a catastrophic occurrence at the end or near the end of a reporting period may also affect the information available to us when estimating claims and claim adjustment expense reserves for the reporting period. As our claims experience for a particular catastrophe develops, we may be required to adjust our reserves to reflect our revised estimates of the total cost of claims. However, because the occurrence and severity of catastrophes are inherently unpredictable and may vary significantly from year to year and region to region, historical results of operations may not be indicative of future results of operations.

Following catastrophes there are also sometimes legislative, administrative, and judicial decisions that seek to expand insurance coverage for claims beyond the original intent of the policies or seek to 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.

Changing weather patterns and climate change add to the unpredictability, frequency and severity of catastrophe losses and may adversely affect our results of operations, liquidity and financial condition.

Long-term weather trends may be changing, a phenomenon that has been associated with extreme weather events linked to rising temperatures, including effects on global weather patterns, sea, land and air temperature, sea levels, rain, snow, and drought. Such changes in climate conditions could cause our underlying modeling data to be less accurate, limiting our ability to evaluate and manage our risk. Climate change also adds to the unpredictability of natural disasters and creates uncertainty as to future trends and exposures.

Climate change presents risks in three categories to UFG:

- a. Physical Risk: The cost of natural perils may change. This is a concern for our property insurance underwriting strategy and to a lesser extent our real estate costs.
- b. Transition Risk: Financial risks arising from a global transition to a lower-carbon economy could impact long-term return on certain invested assets.
- c. Liability Risk: New areas of law enabling litigation alleging damage from climate change may present legal risk to UFG.

We maintain catastrophe exposure modeling and management in house and incorporate our view of natural peril risk into forward-looking projections that reflect our view on climate. Our property catastrophe reinsurance program is designed to meet the needs of a changing risk profile. A key area of current focus is our exposure to severe convective storms. We endeavor to reduce greenhouse gas emissions from operations via energy saving construction features/devices and leasing of fuel-efficient fleet vehicles. Our business continuity plan is tested annually, including failover of all systems to our DR data center. Additional capabilities and plans are being developed that support continuance of operations after a regional weather event. UFG offers a green replacement option for equipment breakdown coverage to encourage installation of more energy efficient heating and cooling systems. Underwriting requires wind and hail deductibles in coastal and severe convective storm areas to minimize our exposure and encourage policyholders to adopt stronger building codes. UFG endeavors to comply with a growing number of federal and state regulations pertaining to climate disclosures and questionnaires.

A downgrade or a potential downgrade in our financial strength or issuer credit ratings could result in a loss of business and could have a material adverse effect on our financial condition and results of operations.

Ratings are an important factor in establishing the competitive position of insurance companies. Third-party rating agencies assess and rate the claims-paying ability, capital strength and creditworthiness of insurers and reinsurers based on criteria established by the agencies. A.M. Best rates our property and casualty insurance companies on a group basis. Since 2012, A.M. Best has also given an issuer credit rating to our parent holding company. The table below shows the current ratings assigned to our companies by A.M. Best.

	Financial Strength Rating	Issuer Credit Rating	Rating Held Since
Pooled Property and Casualty Companies	A	a	1994
United Fire Group, Inc.	N/A	bbb	2012

Financial strength and issuer credit ratings are used by policyholders, insurers, reinsurers and insurance and reinsurance intermediaries as an important means of assessing the financial strength, creditworthiness and quality of insurers and reinsurers. These ratings are not evaluations directed to potential purchasers of our common stock, and are not recommendations to buy, sell or hold our common stock. These ratings are subject to change at any time and could be revised downward or revoked at the sole discretion of the rating agency. Downgrades in our financial strength ratings could adversely affect our ability to access the capital markets or could lead to increased borrowing costs in the future. Perceptions of the Company by investors, producers, other businesses and consumers could also be significantly impaired.

The ratings assigned by A.M. Best are also an important factor in marketing our products. Our ability to retain our existing business, and to attract new business in our insurance operations depends on our ratings by this agency. Our failure to maintain our ratings, or any other adverse development with respect to our ratings, could cause our current and future independent agents and policyholders to choose to transact their business with more highly rated

competitors. If A.M. Best downgrades our ratings or publicly indicates that our ratings are under review, it is likely that we will not be able to compete as effectively with our competitors and our ability to sell insurance policies could decline, leading to a decrease in our premium revenue and earnings. For example, many of our agencies and policyholders have guidelines that require us to have an A.M. Best financial strength rating of "A-" or higher. A reduction of our A.M. Best ratings below "A-" would prevent us from issuing policies to a portion of our current policyholders or other potential policyholders with ratings requirements.

The failure of our insurance company subsidiaries to maintain their current ratings could dissuade a lender or reinsurance company from conducting business with us. A ratings downgrade could also cause some of our existing liabilities to be subject to acceleration, additional collateral support, changes in terms, or creation of additional financial obligations.

We may be unable to attract, retain or effectively manage the succession of key personnel.

Our success depends on our ability to attract and retain key personnel, including members of our executive and senior management team. Any unplanned turnover or our failure to develop an adequate succession plan for one or more of our executive officers or other key positions could compromise our institutional knowledge base and erode our competitive advantage. The loss or limited availability of the services of one or more of our executive officers or other key personnel, or our inability to recruit and retain qualified executive officers or other key personnel in the future, could, at least temporarily, have a material adverse effect on our operating results and financial condition.

In 2022 there were four new appointments to key executive positions, three of which were filled externally. In April 2022, Eric Martin was appointed Senior Vice President and Chief Financial Officer, replacing Dawn Jaffray, who left the company in October 2021. Sarah Madsen became our Vice President, Chief Legal Officer and Corporate Secretary in April 2022, replacing the retiring long-time General Counsel, Neal Scharmer. In August 2022, Kevin Leidwinger was appointed President and Chief Executive Officer, replacing the retiring long-time CEO, Randy Ramlo. In September 2022, long-time COO Michael Wilkins retired. In January 2023, Julie Stephenson was appointed Executive Vice President and Chief Operating Officer. These changes and any future significant leadership changes or senior management transitions involve inherent risk and can be disruptive to our operations. Any failure to find a timely and suitable replacement for key personnel and ensure an effective transition, including the effective onboarding, could hinder our strategic planning, business execution and future performance.

We may be unable to predict the rising cost of insurance claims resulting from changing societal expectations that lead to increasing litigation, broader definitions of liability, broader contract interpretations, more plaintiff-friendly legal decisions and larger compensatory jury awards.

We refer to these phenomena collectively as "social inflation" and they present a significant challenge in accurately pricing risk and managing the liabilities that arise on insurance policies. As a commercial casualty insurance company, we have always been sensitive to the effects of emerging claims and coverage issues, including class action lawsuits. But more recent trends such as litigation financing have led to an unprecedented number of large liability losses for us as well as our competitors.

These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number and/or size of claims, resulting in further increases in our reserves. The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict. Further examples of these issues include: (1) judicial expansion of policy coverage and the impact of new theories of liability; (2) an increase in plaintiffs targeting property and casualty insurers, including us, in purported class action litigation regarding claims handling and other practices; (3) medical developments that link health issues to particular causes, resulting in liability or workers' compensation (for example, cumulative trauma); (4) claims relating to unanticipated consequences of current or new technologies; (5) an increase in the variety, number and size of claims relating to liability losses, which often present complex coverage and damage valuation questions; (6) claims relating to potentially changing climate conditions, including higher frequency and severity of weather-related events; and (7) adverse changes in loss cost trends, including inflationary pressure in medical cost and auto repair costs.

Many of the policies we issue include exclusions and other conditions that define and limit coverage, which exclusions and conditions are designed to manage our exposure to certain types of risks and expanding theories of legal liability. In addition, many of our policies limit the period during which a policyholder may bring a claim under the policy, which period in many cases is shorter than the statutory period under which these claims can be brought by our policyholders. While these exclusions and limitations help us assess and control our loss exposure, it is possible that a court or regulatory authority could nullify or void an exclusion or limitation, or legislation could be enacted which modifies or bars the use of these exclusions and limitations. This could result in higher than anticipated losses by extending coverage beyond the intent of our underwriting. In some instances, these changes may not become apparent until sometime after we have issued the insurance policies that are affected by these changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a policy is issued.

We maintain an internal education plan on the risk of social inflation. We endeavor to find ways to keep claims out of litigation and manage downward the length of time that certain claims are open. We also steer our portfolio away from business that is most exposed to these trends, and we target business in our assumed reinsurance operations and other alternative distribution channels that offer more short tail risks.

Unauthorized data access, cyber-attacks and other security breaches could have an adverse impact on our business and reputation.

We rely on computer systems to conduct our business for our customer service, marketing and sales activities, customer relationship management and producing financial statements. Our business and operations rely on secure and efficient processing, storage and transmission of customer and Company data, including personally identifiable information. Our ability to effectively operate our business depends upon our ability, and the ability of certain third-party vendors and business partners, to access our computer systems to perform necessary business functions, such as providing quotes and product pricing, billing and processing premiums, administering claims, and reporting our financial results.

We retain confidential information on our computer systems, including customer information and proprietary business information belonging to us and our policyholders. Our business and operations depend upon our ability to safeguard this personally identifiable information. Our systems may be vulnerable to unauthorized access and hackers, computer viruses, and other scenarios in which our data may be compromised.

Cyber-attacks involving these systems, or those of our third-party vendors, could be carried out remotely and from multiple sources and could interrupt, damage, or otherwise adversely affect the operations of these critical systems. Cyber-attacks could result in the modification or theft of data, the distribution of false information, or the denial of service to users. Threats to data security can emerge from a variety of sources and change rapidly, resulting in the ongoing need to expend resources to secure our data in accordance with customer expectations and statutory and regulatory requirements.

Any compromise of the security of our data could expose us to liability and harm our reputation, which could affect our business and results of operations. We continually enhance our operating procedures and internal controls to effectively support our business and comply with our regulatory and financial reporting requirements, but there can be no assurances that we will be able to implement security measures adequate to prevent every security breach.

Although we have not experienced any material cyber-attacks in the last three years based on our knowledge to date, the occurrence, scope and effect of any cyber-attack may remain undetected for a period of time. We maintain cyber liability insurance coverage that provides both third-party liability and first-party insurance coverages; however, our insurance may be insufficient to cover all losses and expenses related to a cyber-attack.

Federal and state policymakers have and will likely continue to propose increased regulation of the protection of personally identifiable information and appropriate protocols after a related cybersecurity breach. The New York Department of Financial Services recently adopted a cyber protection and reporting regulation for financial services companies with which we are complying. The NAIC has created the Data Security Model Law ("DSML") based upon the New York regulation. Compliance with these regulations and efforts to address continually developing

cybersecurity risks may result in a material adverse effect on our results of operations, liquidity, financial condition, and financial strength.

Our reserves for property and casualty insurance losses and loss settlement expenses are based on estimates and may be inadequate, adversely impacting our financial results.

We maintain insurance reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjustment process, for reported and unreported claims and for future policy benefits. Our reserves may prove to be inadequate, which may result in future charges to earnings and/or a downgrade of our financial strength rating or the financial strength ratings of our insurance company subsidiaries.

Insurance reserves represent our best estimate at a given point in time. They are not an exact calculation of liability but instead are complex estimates, which are a product of actuarial expertise and projection techniques based on assumptions and expectations about future events, many of which are highly uncertain.

The process of estimating claims and claims adjustment expense reserves involves a high degree of judgment. These estimates are based on historical data and the impact of various factors such as: (1) actuarial and statistical projections of the cost of settlement and administration of claims reflecting facts and circumstances then known; (2) historical claims information and loss emergence patterns; (3) assessments of currently available data; (4) estimates of future trends in claims severity and frequency; (5) judicial theories of liability; (6) economic factors such as inflation; (7) estimates and assumptions regarding social, judicial and legislative trends, and actions such as class action lawsuits and judicial interpretation of coverages or policy exclusions; and (8) the level of insurance fraud.

Many of these factors are not quantifiable. The inherent uncertainties of estimating reserves are greater for certain types of liabilities, particularly those in which the various considerations affecting the type of claim are subject to change and in which long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are continually refined in a regular and ongoing process as experience develops and further claims are reported and settled.

Actual loss and loss settlement expenses paid might exceed our reserves. If our loss reserves are insufficient, or if we believe our loss reserves are insufficient to cover our actual loss and loss settlement expenses, we will have to increase our loss reserves and incur charges to our earnings, which could indicate that premium levels were insufficient. As such, deviations from one or more of these assumptions could result in a material adverse impact on our Consolidated Financial Statements and our financial strength rating or the financial strength ratings of our insurance company subsidiaries could be downgraded.

For a detailed discussion of our reserving process and the factors we consider in estimating reserves, refer to the "Critical Accounting Policies" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our core insurance business is dependent on strong and beneficial relationships with a large network of independent insurance agents.

Our direct insurance products are marketed exclusively through independent insurance agencies, all of which represent more than one company. We face competition within each agency and competition to retain qualified independent agents. Our competitors include companies that market their products via independent agents, exclusive agents and companies that sell insurance directly to their customers.

Our distribution model is subject to the risks of possible loss of independent agencies for various reasons and the discretion agencies have to reduce their business with us.

We are subject to comprehensive laws and regulations, changes to which may have an adverse effect on our financial condition and results of operations.

Insurance is a highly regulated industry. We are subject to extensive supervision and regulation by the states in which we operate. As a public company, we are also subject to increased regulation at the federal level. Our ability

to comply with these laws and regulations and obtain necessary and timely regulatory action is, and will continue to be, critical to our success and ability to earn profits. Examples of regulations that pose particular risks to our ability to earn profits are discussed as follows.

Required licensing. Our insurance company subsidiaries operate under licenses issued by various state insurance departments. If a regulatory authority were to revoke an existing license or deny or delay granting a new license, our ability to continue to sell insurance or to enter or offer new insurance products in that market would be substantially impaired.

Regulation of insurance rates, fees and approval of policy forms. The insurance laws of most states in which we operate require insurance companies to file insurance premium rate schedules and policy forms for review and approval. State regulatory authorities may resist or delay our efforts to raise premium rates at their discretion due to general market, economic, or political factors or factors specific to UFG. If increases to premium rates we deem necessary are not approved, we may not be able to respond to market developments and increased costs in that state. State regulatory authorities may even impose premium rate rollbacks or require us to pay premium refunds to policyholders, affecting our profitability. If insurance policy forms we seek to use are not approved by state insurance departments, our ability to offer new products and grow our business in that state could be substantially impaired.

Restrictions on cancellation, nonrenewal or withdrawal. Many states have laws and regulations restricting an insurance company's ability to cease or significantly reduce its sales of certain types of insurance in that state, except pursuant to a plan that is approved by the state insurance departments. These laws and regulations could limit our ability to exit or reduce our business in unprofitable markets or discontinue unprofitable products. Additionally, our ability to adjust terms or increase pricing requires approval of regulatory authorities in certain states.

Risk-based capital and capital adequacy requirements. Our insurance company subsidiaries and affiliates are subject to risk-based capital requirements that require us to report our results of risk-based capital calculations to state insurance departments and the NAIC. These standards apply specified risk factors to various asset, premium and reserve components of statutory capital and surplus reported in our statutory basis of accounting financial statements. Any failure to meet applicable risk-based capital requirements or minimum statutory capital requirements could subject us or our subsidiaries and affiliates to further examination or corrective action by state regulators, including limitations on our writing of additional business, state supervision or liquidation.

Transactions between insurance companies and their affiliates. Transactions between us, our insurance company subsidiaries and our affiliates generally must be disclosed to, and in some cases approved by, state insurance departments. State insurance departments may refuse to approve or delay their approval of a transaction, which may impact our ability to innovate or operate efficiently.

Required participation in guaranty funds and assigned risk pools. Certain states have enacted laws that require a property and casualty insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations where participating insurers are required to provide coverage for assigned risks. The number of risks assigned to us by these plans is based on our share of total premiums written in the voluntary insurance market for that state. Pricing is controlled by the plan, often restricting our ability to charge the premium rate we might otherwise charge. Wherever possible, we utilize a designated servicing carrier to fulfill our obligations under these plans. Designated servicing carriers charge us fees to issue policies, adjust and settle claims and handle administrative reporting on our behalf. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired premium rates, possibly leading to an unacceptable return on equity. While these facilities are generally designed so that the ultimate cost is borne by policyholders, the exposure to assessments and our ability to recoup these assessments through adequate premium rate increases may not offset each other in our financial statements. Moreover, even if they do offset each other, they may not offset each other in our financial statements for the same fiscal period, due to the ultimate timing of the assessments and recoupments or premium rate increases. Additionally, certain states require insurers to participate in guaranty funds to bear a portion of the unfunded obligations of impaired or insolvent insurance companies. These state funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

Restrictions on the amount, type, nature, quality and concentration of investments. The various states in which we are domiciled have certain restrictions on the amount, type, nature, quality and concentration of our investments. Generally speaking, these regulations require us to be conservative in the nature and quality of our investments and restrict our ability to invest in riskier, but often higher yield investments. These restrictions may make it more difficult for us to obtain our desired investment results.

We benefit from certain tax items, including but not limited to, tax-exempt bond interest, dividends-received deductions, tax credits (such as foreign tax credits) and insurance reserve deductions. From time to time, the U.S. Congress, as well as foreign, state and local governments, considers legislation that could reduce or eliminate the benefits associated with these tax items.

Terrorism Risk Insurance. The Terrorism Risk Insurance Program Reauthorization Act of 2019 ("TRIPRA") was signed into law. TRIPRA, which extended the Terrorism Risk Insurance Program until December 31, 2027, gradually increased the coverage trigger for shared terrorism losses between the federal government and the insurance industry to \$200 million per year, and gradually increased the industry-wide retention to \$37.5 billion per year. For further information about TRIPRA and its effect on our operations, refer to the information in the "Results of Operations for the Years Ended December 31, 2022, 2021 and 2020" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Accounting standards. We prepare our consolidated financial statements in conformity with GAAP, which is periodically revised and/or expanded by recognized authoritative bodies, including the Financial Accounting Standards Board ("FASB"). These principles are subject to interpretation by the SEC and various other bodies formed to interpret and create appropriate accounting principles and guidance. Changes in GAAP and financial reporting requirements, or the interpretation of GAAP or those requirements, may have an impact on the content and presentation of our financial results and could have adverse consequences on our financial results, including lower reported results of operations and shareholders' equity and increased volatility and decreased comparability of our reported results with our historic results and with the results of other insurers. In addition, the required adoption of new accounting standards may result in significant incremental costs associated with initial implementation of and ongoing compliance with those standards. Additional information regarding recently proposed and adopted accounting standards and their potential impact on us is set forth in Note 1 "Summary of Significant Accounting Policies" to Part II, Item 8, "Financial Statements and Supplementary Data."

Corporate Governance and Public Disclosure Regulation. Changing laws, regulations and standards relating to corporate governance and public disclosure, including Dodd-Frank, the Sarbanes-Oxley Act of 2002 and related SEC regulations, as well as the listing standards of the Nasdaq stock market, have created and are continuing to create uncertainty for public companies. The Federal Insurance Office, established within the U.S. Department of the Treasury by Dodd-Frank in 2010, has limited regulatory authority and is empowered to gather data and information regarding the insurance industry and insurers, monitor aspects of the insurance industry, identify issues with regulation of insurers that could contribute to a systemic crisis in the insurance industry or the overall financial system, coordinate federal policy on international insurance matters and preempt state insurance measures under certain circumstances. Dodd-Frank and other federal regulation adopted in the future may impose burdens on us, including impacting the ways we conduct our business, increasing compliance costs and duplicating state regulation. Additional regulation under these laws in the area of compensation disclosure, particularly regarding internal pay equity, officer and director hedging activities and compensation clawback policies is still expected.

Information Privacy Regulation. We are required to safeguard the personal information of our customers and applicants and are subject to an increasing number of laws and regulations regarding privacy and data security, as well as in our contractual commitments with service providers. We could be subject to governmental enforcement actions and fines, penalties, litigation, or public statements against us by consumer advocacy groups if personal information is not appropriately controlled. Strategic service providers may refuse to continue to do business with us if we do not meet particular standards.

Compliance with these laws and regulations requires us to incur administrative costs that decrease our profits. These laws and regulations may also prevent or limit our ability to underwrite and price risks accurately, obtain timely premium rate increases necessary to cover increased costs, discontinue unprofitable relationships or exit unprofitable markets and otherwise continue to operate our business profitably. In addition, our failure to comply with these laws

and regulations could result in actions by state or federal regulators, including the imposition of fines and penalties or, in an extreme case, revocation of our ability to do business in one or more states. Finally, we could face individual, group and class action lawsuits by our policyholders and others for alleged violations of certain state laws and regulations. Each of these regulatory risks could have a negative effect on our profitability.

We will be at a competitive disadvantage if, over time, our competitors are more effective than us in their utilization of technology and evolving data analytics.

We use various actuarial techniques and data analytics to understand our risk exposures such as frequency and severity of different types of insurance claims. The data we rely on for these analytics includes experience data from our own business (policies written, characteristics, coverages, and details of associated losses) and data attained from third parties, including industry results. We use outputs of predictive models and other analytics to assist in decision making related to underwriting, pricing, claims management (including reserving), and catastrophe risk exposure management. Emerging technology offers opportunities to underwrite and price business more efficiently and accurately, lowering costs. If we are not able to use technology and data analytics as effectively as our competitors, our competitiveness and ability to write and retain business within our risk appetite will be impacted. This may reduce the profitability of the business we do write and retain and negatively affect our ability to meet our business objectives.

We may be unable to secure reinsurance capacity that provides necessary risk protection at a reasonable cost.

Our reinsurance strategy seeks to protect the company from extremely adverse underwriting outcomes as well as unnecessary volatility in underwriting results. We purchase conservative levels of reinsurance as measured by our property catastrophe models, our economic capital model, and benchmarking with our peers.

We retain multiple reinsurance intermediaries to plan, create, and facilitate our ceded reinsurance placements. These intermediaries work closely with our risk, corporate underwriting, and finance departments to design reinsurance transactions that align with corporate strategy and risk appetite. Reinsurance transactions are supported by a large and diverse array of reinsurance providers to ensure that the capacity is reliable in each underwriting year. However, in hard reinsurance market conditions, reinsurance capacity can become constrained as reinsurers are pressed with concerns about capital or profitability. In these conditions, we may be unable to secure our desired reinsurance protection at a reasonable cost.

Lost reinsurance capacity could expose the company to larger retained losses per loss occurrence, per risk, or per year in total. To mitigate this risk, we maintain a large panel of reinsurers and prefer to trade with partners that participate in each of our ceded programs. We transact with multiple intermediary companies to ensure full access to the entire reinsurance market. We monitor the credit quality of our reinsurance providers. We have a clear view of the criticality of various components of our reinsurance program. Finally, we maintain active dialogue with intermediaries and underwriters throughout the year.

Risks Relating to Our Common Stock

Certain provisions of our organizational documents, as well as applicable insurance laws, could impede an attempt to replace or remove our management or members of our Board of Directors, prevent the sale of the Company or prevent or frustrate any attempt by shareholders to change the direction of the Company, each of which could diminish the value of our common stock.

Our articles of incorporation and bylaws, as well as applicable laws governing corporations and insurance companies, contain provisions that could impede an attempt to replace or remove our management or prevent the sale of the Company that, in either case, shareholders might not consider being in their best interests.

Our Board of Directors is divided into three classes. At any annual meeting of our shareholders, our shareholders have the right to appoint approximately one-third of the directors on our Board of Directors. Consequently, it will take at least two annual shareholder meetings to effect a change in control of our Board of Directors.

Our articles of incorporation limit the rights of shareholders to call special shareholder meetings.

Our articles of incorporation set the minimum number of directors constituting the entire Board of Directors at nine and the maximum at 15, and they require approval of holders of 60.0 percent of all outstanding shares to amend these provisions. Within the range, the Board of Directors may increase by one each year the number of directors serving on the Board of Directors.

Our articles of incorporation require the affirmative vote of 60.0 percent of all outstanding shares to approve any plan of merger, consolidation, or sale or exchange of all, or substantially all, of our assets.

Our Board of Directors may fill vacancies on the Board of Directors.

Our Board of Directors has the authority, without further approval of our shareholders, to issue shares of preferred stock having such rights, preferences and privileges as the Board of Directors may determine.

Section 490.1110 of the Iowa Business Corporation Act imposes restrictions on mergers and other business combinations between us and any holder of 10.0 percent or more of our common stock.

Section 490.624A of the Iowa Business Corporation Act authorizes the terms and conditions of stock rights or options issued by us to include restrictions or conditions that preclude or limit the exercise, transfer, or receipt of such rights or options by a person, or group of persons, owning or offering to acquire a specified number or percentage of the outstanding common shares or other securities of the corporation.

Further, the insurance laws of Iowa, and the states in which our insurance company subsidiaries are domiciled, prohibit any person from acquiring direct or indirect control of us or our insurance company subsidiaries, generally defined as owning or having the power to vote 10.0 percent or more of our outstanding voting stock, without the prior written approval of state regulators.

These provisions of our articles of incorporation and bylaws, and these state laws governing corporations and insurance companies, may discourage potential acquisition proposals. These provisions and state laws may also delay, deter or prevent a change of control of the Company, in particular through unsolicited transactions that some or all of our shareholders might consider to be desirable. As a result, efforts by our shareholders to change the direction or the Company's management may be unsuccessful, and the existence of such provisions may adversely affect market prices for our common stock if they are viewed as discouraging takeover attempts.

The ability of our subsidiaries to pay dividends may affect our liquidity and ability to meet our obligations.

As a holding company, we have no significant independent operations of our own. Our principal sources of funds are dividends and other payments received from our subsidiaries. We rely on those dividends for our liquidity, and to meet our obligations to pay dividends to shareholders and make share repurchases. Dividends from those subsidiaries depend on their statutory surplus, earnings and regulatory restrictions.

State insurance laws limit the ability of insurance subsidiaries to pay dividends and require our insurance subsidiaries to maintain specified minimum levels of statutory capital and surplus. The actual ability to pay dividends may further be constrained by business and regulatory considerations, such as the impact of dividends on surplus, by our competitive position and by the amount of premiums that we can write. Ordinary dividend payments, or dividends that do not require prior approval by the insurance subsidiaries' domiciliary state insurance regulator are generally limited to amounts determined by a formula which varies by jurisdiction. Extraordinary dividends, on the other hand, require prior regulatory approval by the insurance subsidiaries' domiciliary state insurance regulator before they can be made.

In addition, competitive pressures generally require insurance companies to maintain insurance financial strength ratings. These restrictions and other regulatory requirements affect the ability of our insurance subsidiaries to make dividend payments to us. At times we may not be able to pay dividends on our common stock, or we may be required to seek prior approval from the applicable regulatory authority before we can pay any such dividends. In addition, the payment of dividends by us is within the discretion of our Board of Directors and will depend on numerous factors, including our financial condition, our capital requirements and other factors that our Board of Directors considers relevant.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in Cedar Rapids, Iowa, where we own approximately 263,000 square feet of office and building space. In addition, we own and lease office and building space, including underwriting and claims offices, throughout the U.S. We believe our existing facilities, both owned and leased, are in good condition and suitable for the conduct of our business.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of its business, the Company is a party to a variety of legal proceedings. While the final outcome of these legal proceedings cannot be predicted with certainty, management believes all of the proceedings pending as of December 31, 2022 to be ordinary and routine and does not expect these legal proceedings to have a material adverse effect on the Company's financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Shareholders

United Fire Group, Inc.'s common stock is traded on the Nasdaq stock market under the symbol "UFCS." On February 23, 2023, there were 676 holders of record of United Fire Group, Inc. common stock. The number of record holders does not reflect shareholders who beneficially own common stock in nominee or street name but does include participants in our employee stock purchase plan.

Dividends

Our practice has been to pay quarterly cash dividends, which we have paid every quarter since March 1968.

As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at December 31, 2022, our insurance company subsidiary, United Fire & Casualty, is able to make a maximum of \$70.4 million in dividend payments without prior regulatory approval.

Payments of any future dividends and the amounts of such dividends will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors out of legally available funds and there can be no assurance that we will continue to pay such dividends or the amount of such dividends.

Additional information about these restrictions is incorporated by reference from Note 6 "Statutory Reporting, Capital Requirements and Dividends and Retained Earnings Restrictions" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

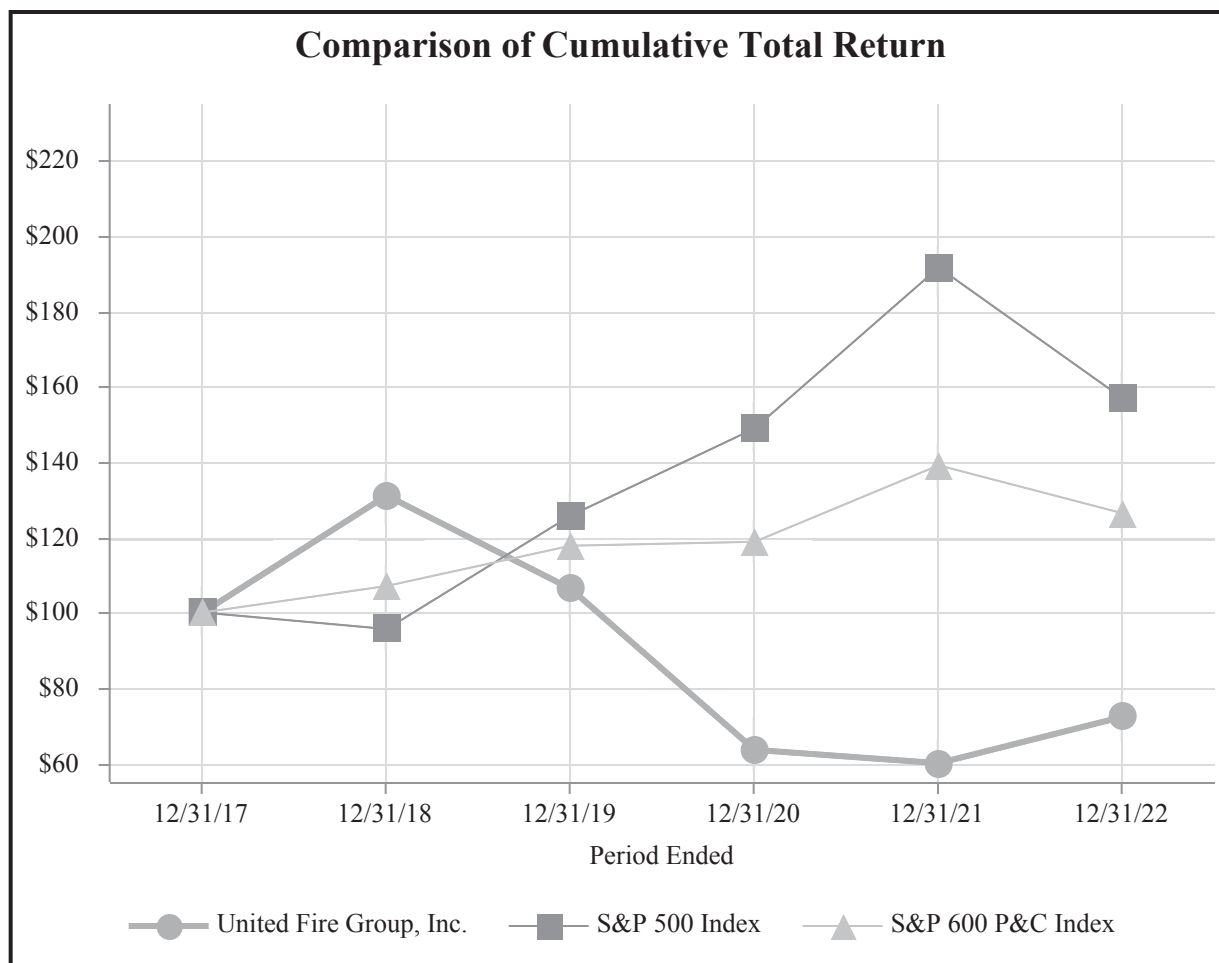
Issuer Purchases of Equity Securities

Under our share repurchase program, we may purchase our common stock from time to time on the open market or through privately negotiated transactions. The amount and timing of any purchases will be at our discretion and will depend upon a number of factors, including the share price, general economic and market conditions, and corporate and regulatory requirements. Our share repurchase program may be modified or discontinued at any time. There were no repurchases during the year ended December 31, 2022. Our share repurchase program was most recently renewed in November 2022 through August 2024. As of December 31, 2022, we remained authorized to repurchase 1,719,326 shares of common stock.

United Fire Group, Inc. Common Stock Performance Graph

The following graph compares the performance of an investment in United Fire Group Inc.'s common stock from December 31, 2017 through December 31, 2022, with the Standard & Poor's 500 Index ("S&P 500 Index"), and the Standard & Poor's 600 Property and Casualty Index ("S&P 600 P&C Index"). The graph assumes \$100 was invested on December 31, 2017 in our common stock and in each of the below listed indices and that all dividends were reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to

the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.



The following table shows the data used in the total return performance graph above.

Index	Period Ended					
	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
United Fire Group, Inc.	\$ 100.00	\$ 131.05	\$ 106.31	\$ 63.53	\$ 60.00	\$ 72.30
S&P 500 Index	100.00	95.62	125.73	148.87	191.60	156.87
S&P 600 P&C Index	100.00	107.04	117.73	118.78	139.08	126.34

The foregoing performance graph is being furnished as part of this Annual Report on Form 10-K solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our shareholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act or Exchange Act.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operation should be read in conjunction with Part II, Item 8, "Financial Statements and Supplementary Data." Amounts (except per share amounts) are presented in thousands, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

It is important to note that our actual results could differ materially from those projected in any forward-looking statements in this Annual Report on Form 10-K. Please refer to "Forward-Looking Information" and Part I, Item 1A, "Risk Factors" of this report for information concerning factors that could cause actual results to differ materially from the forward-looking statements contained in this Annual Report on Form 10-K.

BUSINESS OVERVIEW

Originally founded in 1946 as United Fire & Casualty Company, United Fire Group, Inc. and its consolidated insurance company subsidiaries provide insurance protection for individuals and businesses through several regional companies. Our property and casualty insurance company subsidiaries are licensed in 50 states plus the District of Columbia and are represented by approximately 1,000 independent agencies.

Reportable Segments

Our property and casualty insurance business operates and reports as one business segment. For more information, refer to Part I, Item 1 "Business" under "General Description."

Pooling Arrangement

All of our property and casualty insurance subsidiaries are members of an intercompany reinsurance pooling arrangement. The Company's pooling arrangement permits the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant's own surplus level.

Geographic Concentration

Property and Casualty Insurance Business

For 2022, approximately 47.5 percent of our property and casualty premiums were written in Texas, California, Iowa, Missouri, and New Jersey.

In 2022, 2021 and 2020 the direct statutory premiums written by our property and casualty insurance operations were distributed as follows:

(In Thousands)	Years Ended December 31,			% of Total		
	2022	2021	2020	2022	2021	2020
Texas	\$ 148,207	\$ 158,676	\$ 192,841	16.6 %	17.4 %	18.1 %
California	111,037	119,171	127,168	12.4	13.1	11.9
Iowa	70,128	73,097	91,176	7.8	8.0	8.6
Missouri	54,090	55,693	72,527	6.1	6.1	6.8
New Jersey	41,030	49,468	53,406	4.6	5.4	5.0
Louisiana	37,124	39,280	45,168	4.2	4.3	4.2
Colorado	34,480	38,761	46,394	3.9	4.3	4.4
Minnesota	32,659	35,697	39,501	3.7	3.9	3.7
South Dakota	31,609	30,429	35,166	3.5	3.3	3.3
Illinois	28,538	29,755	39,562	3.2	3.3	3.7
All Other States	304,839	281,485	322,409	34.1	30.9	30.3
Direct Statutory Premiums Written	\$ 893,741	\$ 911,512	\$ 1,065,318	100.0 %	100.0 %	100.0 %

Sources of Revenue and Expense

We evaluate profit or loss based upon operating and investment results. Profit or loss described in the following sections of this Management's Discussion and Analysis is reported on a pre-tax basis. Our primary sources of revenue are premiums and investment income. Major categories of expenses include losses and loss settlement expenses, underwriting and other operating expenses.

Profit Factors

Our profitability is influenced by many factors, including price, competition, economic conditions, investment returns, interest rates, catastrophic events and other natural disasters, man-made disasters, state regulations, court decisions, and changes in the law. To manage these risks and uncertainties, we seek to achieve consistent profitability through strong agency relationships, exceptional customer service, fair and prompt claims handling, disciplined underwriting, superior loss control services, prudent management of our investments, appropriate matching of assets and liabilities, effective use of ceded reinsurance and effective and efficient use of technology.

We believe our current liquidity position is sufficient to maintain our current operations and we have the ability to draw on our credit facility if needed. See Part II, Item 8, Note 13 "Debt" for more information. Our share repurchase program was suspended in mid-March 2020 and restarted in the first quarter of 2021. Also, the Company maintained the payment of quarterly cash dividends during 2021 and 2022, with the dividends paid in November 2022 marking the 219th consecutive quarter of paying dividends since March 1968.

Stockholders' equity decreased to \$740.1 million at December 31, 2022, from \$879.1 million at December 31, 2021. The decrease is primarily attributable to the \$138.1 million decrease in the net unrealized value from our fixed maturity securities, net of tax, shareholder dividends of \$15.9 million, and offset by net income of \$15.0 million.

We evaluate goodwill and other intangible assets for impairment at least on an annual basis or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount of goodwill and other intangible assets may exceed their implied fair value. The Company impaired all goodwill in 2020. The latest evaluation of other intangible assets was completed as of December 31, 2022 and no impairments were deemed necessary.

As of December 31, 2022, we intend to keep all assets currently leased and honor the terms of the contracts. Also, we have five lease contracts where we are the lessor which we evaluated for impairment. As of December 31, 2022, all payments on these contracts had been received and we fully expect to receive all future payments on time.

The decline in certain sectors of the equity and bond markets in 2022 due to economic conditions did have a material impact on the fair value of our investments. The Company's investment philosophy, objectives, approach and program have not changed. During 2022 we had a decrease in the fair value of equity securities of \$12.8 million and a decrease in value of our investments in limited liability partnerships of \$7.9 million from the values reported at December 31, 2021.

The Company has a highly rated fixed maturity portfolio, with low credit risk. The Company recognized an increase in unrealized losses of \$138.1 million, net of tax, at December 31, 2022 on its available-for-sale fixed maturity portfolio due to an increase in interest rates. In addition, we adopted new accounting guidance on January 1, 2020, which changes the measurement of credit losses for our investment in available-for-sale fixed maturities and our mortgage loans, and this also impacts our reinsurance receivables. The adoption of this new guidance resulted in an immaterial allowance for credit losses to be recorded for each of these assets on our balance sheet as of December 31, 2022. For more information on credit losses, please refer to Part II, Item 8, Note 1 "Summary of Significant Accounting Policies" and Note 2 "Summary of Investments" of this Annual Report on Form 10-K.

MEASUREMENT OF RESULTS

Our consolidated financial statements are prepared on the basis of GAAP. We also prepare financial statements for each of our insurance company subsidiaries based on statutory accounting principles and file them with insurance regulatory authorities in the states where they do business.

Management evaluates our operations by monitoring key measures of growth and profitability. The following provides further explanation of the key measures management uses to evaluate our results:

Catastrophe losses is an operational measure which utilizes the designations of the Insurance Services Office ("ISO") and are reported with losses and loss settlement expense amounts net of reinsurance recoverables, unless specified otherwise. According to the ISO, a catastrophe loss is defined as a single unpredictable incident or series of closely related incidents that result in \$25.0 million or more in U.S. industry-wide direct insured losses to property and that affect a significant number of insureds and insurers ("ISO catastrophe"). In addition to ISO catastrophes, we also include as catastrophes those events ("non-ISO catastrophes"), which may include U.S. or international losses, that we believe are, or will be, material to our operations, either in amount or in number of claims made. Management, at times, may determine for comparison purposes of our financial results that it is more meaningful to exclude extraordinary catastrophe losses and resulting litigation. The frequency and severity of catastrophic losses we experience in any year affect our results of operations and financial position. In analyzing the underwriting performance of our property and casualty insurance business, we evaluate performance both including and excluding catastrophe losses. Portions of our catastrophe losses may be recoverable under our catastrophe reinsurance agreements. We include a discussion of the impact of catastrophes because we believe it is meaningful for investors to understand the variability in our periodic earnings.

<i>(In Thousands)</i>	Years Ended December 31,		
	2022	2021	2020
ISO catastrophes	\$ 73,342	\$ 83,386	\$ 141,425
Non-ISO catastrophes ⁽¹⁾	124	15,230	579
Total catastrophes	\$ 73,466	\$ 98,616	\$ 142,004

(1) Includes international assumed losses.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

FINANCIAL HIGHLIGHTS

<i>(In Thousands)</i>	Years Ended December 31,			% Change	
	2022	2021	2020	2022 vs. 2021	2021 vs. 2020
Revenues					
Net premiums earned	\$ 951,541	\$ 962,823	\$1,055,082	(1.2)%	(8.7)%
Investment income, net of investment expenses	44,932	55,778	39,670	(19.4)	40.6
Net investment gains (losses)	(15,892)	47,383	(32,395)	(133.5)	(246.3)
Other income	(295)	207	6,270	(242.5)	(96.7)
Total revenues	\$ 980,286	\$1,066,191	\$1,068,627	(8.1)%	(0.2)%
Benefits, losses and expenses					
Losses and loss settlement expenses	\$ 637,301	\$ 652,155	\$ 869,467	(2.3)%	(25.0)%
Amortization of deferred policy acquisition costs	213,075	203,432	210,252	4.7	(3.2)
Other underwriting expenses	114,645	110,574	143,332	3.7	(22.9)
Goodwill impairment	—	—	15,091	NM	(100.0)
Interest expense	3,188	3,187	—	—	—
Total benefits, losses and expenses	\$ 968,209	\$ 969,348	\$1,238,142	(0.1)%	(21.7)%
Income (loss) before income taxes	\$ 12,077	\$ 96,843	\$(169,515)	(87.5)	(157.1)%
Federal income tax expense (benefit)	(2,954)	16,249	(56,809)	(118.2)	(128.6)%
Net income (loss)	\$ 15,031	\$ 80,594	\$(112,706)	(81.3)	(171.5)%
GAAP Ratios:					
Net underlying loss ratio ⁽¹⁾	59.2 %	64.4 %	71.2 %	(8.1)%	(9.6)%
Catastrophes - effect on net loss ratio ⁽¹⁾	7.7 %	10.2 %	13.5 %	(24.5)%	(24.4)%
Reserve development-effect on net loss ratio ⁽¹⁾	0.1 %	(6.9)%	(2.2)%	(101.4)%	213.6 %
Net loss ratio ⁽²⁾	67.0 %	67.7 %	82.4 %	(1.0)%	(17.8)%
Expense ratio ⁽³⁾	34.4 %	32.6 %	33.5 %	5.5 %	(2.7)%
Combined ratio ⁽⁴⁾	101.4 %	100.3 %	115.9 %	1.1 %	(13.5)%

NM = not meaningful

(1) Net underlying loss ratio is defined as the net loss ratio less impacts of catastrophes and non-catastrophe prior year reserve development.

(2) Net loss ratio is calculated by dividing the sum of losses and loss settlement expenses by net premiums earned. We use the net loss ratio as a measure of the overall underwriting profitability of the insurance business we write and to assess the adequacy of our pricing. Our net loss ratio is meaningful in evaluating our financial results as reported in our Consolidated Financial Statements.

(3) Expense ratio is calculated by dividing non-deferred underwriting expenses and amortization of deferred policy acquisition costs by net premiums earned. The expense ratio measures a company's operational efficiency in producing, underwriting and administering its insurance business.

(4) Combined ratio is a commonly used financial measure of property and casualty underwriting performance. A combined ratio below 100.0 percent generally indicates a profitable book of business. The combined ratio is the sum of the net loss ratio and the underwriting expense ratio.

In 2022, the decrease in net income compared to 2021 was primarily due to lower premiums earned, lower net investment income from a decrease in value of other long-term assets, and net investment losses from a decrease in the fair value of equity securities, as compared to net investment gains for the same period in 2021.

Net income reported in 2021 as compared to a net loss in 2020 was primarily due to a decrease in losses and loss settlement expenses, a decrease in other underwriting expenses, an increase in investment income and net investment

gains from an increase in the fair value of equity securities, as compared to net investment losses for the same period in 2020. These were partially offset by a decrease in net premiums earned.

Premiums

The following table shows our premiums written and earned for 2022, 2021 and 2020:

<i>(In Thousands)</i>				% Change	
				2022 vs. 2021	2021 vs. 2020
Years ended December 31,	2022	2021	2020		
Direct premiums written	\$ 893,741	\$ 911,514	\$ 1,065,318	(1.9)%	(14.4)%
Assumed premiums written	190,215	130,375	34,371	45.9	279.3
Ceded premiums written	(99,732)	(100,541)	(88,339)	(0.8)	13.8
Net premiums written ⁽¹⁾	\$ 984,224	\$ 941,348	\$ 1,011,350	4.6 %	(6.9)%
Less: change in unearned premiums	(34,655)	25,112	40,317	(238.0)	(37.7)
Less: change in prepaid reinsurance premiums	1,972	(3,637)	3,415	154.2	(206.5)
Net premiums earned	\$ 951,541	\$ 962,823	\$ 1,055,082	(1.2)%	(8.7)%

NM = not meaningful

(1) **Net premiums written:** Net premiums written is frequently used by industry analysts and other recognized reporting sources to facilitate comparisons of the performance of insurance companies. Net premiums written are the amount charged for insurance policy contracts issued and recognized on an annualized basis at the effective date of the policy. Management believes net premiums written are a meaningful measure for evaluating insurance company sales performance and geographical expansion efforts. Net premiums written for an insurance company consists of direct premiums written and reinsurance assumed, less reinsurance ceded. Net premiums earned is calculated on a pro rata basis over the terms of the respective policies. Unearned premium reserves are established for the portion of premiums written applicable to the unexpired term of insurance policy in force. The difference between net premiums earned and net premiums written is the change in unearned premiums and change in prepaid reinsurance premiums.

Net Premiums Written

Net premiums written comprise direct and assumed premiums written, less ceded premiums written. Direct premiums written are the total policy premiums, net of cancellations, associated with policies issued and underwritten by our property and casualty insurance business. Assumed premiums written are the total premiums associated with the insurance risk transferred to us by other insurance and reinsurance companies pursuant to reinsurance contracts. Ceded premiums written is the portion of direct premiums written that we cede to our reinsurers under our reinsurance contracts. Net premiums earned are recognized ratably over the life of a policy and differ from net premiums written, which are recognized on the effective date of the policy.

Direct Premiums Written

Direct premiums written decreased \$17.8 million in 2022 as compared to 2021 primarily due to our continued focus on improving profitability through non-renewal of under-performing accounts in our commercial auto line of business. Direct premiums written decreased \$153.8 million in 2021 as compared to 2020 primarily due to our focus on improving profitability through non-renewal of under-performing accounts in our commercial auto line of business and our exit from the personal lines business which began in September 2020.

Assumed Premiums Written

Assumed premiums written increased \$59.8 million in 2022 as compared to 2021 due to growth of our assumed book by the addition of new programs and cedant premium growth.

Assumed premiums written increased \$96.0 million in 2021 as compared to 2020 due to growth of our assumed book by the addition of new programs and cedant premium growth.

Ceded Premiums Written

Direct premiums written are reduced by the ceded premiums that we pay to reinsurers. For 2022, the ratio of ceded premiums to direct written premiums is nearly the same as it was in 2021, and thus ceded premiums written are only down as a reflection of decreased direct premiums written. For 2021, we ceded 13.8 percent more premiums to reinsurers related to the Fund's at Lloyd's agreement offset by a decrease in written premium for ICAT (International Catastrophe), decrease in reinstatement premium paid for catastrophe events, and decreased placement of facultative reinsurance.

Losses and Loss Settlement Expenses

Climate Change and Catastrophe Exposures

Catastrophe losses are inherent risks of the property and casualty insurance business. Catastrophic events include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds, winter storms and other natural disasters, along with man-made exposures to losses resulting from, without limitation, acts of war, acts of terrorism and political instability. Such events result in insured losses that can be, and may continue to be, a material factor in our results of operations and financial position, as the extent of losses from a catastrophe is a function of both the total amount of insured exposure in an area affected by the event and the severity of the event. Because the level of insured losses that may occur in any one year cannot be accurately predicted, these losses contribute to fluctuations in our year-to-year results of operations and financial position. Some types of catastrophes are more likely to occur at certain times within the year than others, which adds an element of seasonality to our property and casualty insurance claims. Our property and casualty insurance business experiences some seasonality with regard to premiums written, which are generally highest in January and July and lowest during the fourth quarter. Losses and loss settlement expenses incurred tend to remain consistent throughout the year, with the exception of catastrophe losses, which generally are highest in the second and third quarters. The frequency and severity of catastrophic events are difficult to accurately predict in any year. However, some geographic locations are more susceptible to these events than others.

We control 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 and consider the impacts of climate change and the unpredictability of future trends in adjusting our geographic concentrations in the United States. 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. We use catastrophe modeling and a risk concentration management tool to monitor and control our accumulations of potential losses in natural catastrophe exposed areas of the United States, such as the Gulf Coast and East Coast, as well as in areas of exposure in other countries where we are exposed to a portion of an insurer's underwriting risk under our assumed reinsurance contracts.

Overall, the models indicate increased risk estimates for our exposure to hurricanes in the U.S., but the impact of the models on our book of business varies significantly among the regions that we model for hurricanes. Based on our analysis, we have implemented more targeted underwriting and rate initiatives in some regions. We intend to continue to take underwriting actions and/or purchase additional reinsurance as necessary to reduce our exposure.

Catastrophe modeling generally relies on multiple inputs based on experience, science, engineering and history, and the selection of those inputs requires a significant amount of judgment. The modeling results may also fail to account for risks that are outside the range of normal probability or are otherwise unforeseen. Because of this, actual results may differ materially from those derived from our modeling assumptions.

Despite our efforts to manage our catastrophe exposure, the occurrence of one or more severe natural catastrophic events in heavily populated areas could have a material effect on our results of operations, financial condition or liquidity.

The process of estimating and establishing reserves for losses incurred from catastrophic events is inherently uncertain and the actual ultimate cost of a claim, net of reinsurance recoveries, may vary materially from the

estimated amount reserved. Although we reinsure a portion of our exposure, reinsurance may prove to be inadequate if a major catastrophic event exceeds our reinsurance limits or if we experience a number of small catastrophic events that individually fall below our reinsurance retention level.

Catastrophe Losses

In 2022, our pre-tax catastrophe losses were \$73.5 million, a decrease of \$25.1 million compared to \$98.6 million in 2021 and a decrease of \$68.5 million as compared to \$142.0 million in 2020. In 2022, our catastrophe losses included 45 events. Catastrophe losses in 2022 added 7.7 percentage points to the combined ratio, which is above our historical 10-year average of 7.0 percentage points.

In 2021, our pre-tax catastrophe losses were \$98.6 million, a decrease of \$43.4 million compared to \$142.0 million in 2020 and an increase of \$34.2 million as compared to \$64.4 million in 2019. In 2021, our catastrophe losses included 58 events. Catastrophe losses in 2021 added 10.2 percentage points to the combined ratio, which was above our historical 10-year average of 7.3 percentage points.

Catastrophe Reinsurance

In 2022, the company entered into a pillared loss occurrence program in addition to the Excess of Loss ("XOL") ceded reinsurance program. Our catastrophe reinsurance retention level was \$15.0 million for the XOL ceded reinsurance treaty and \$5.0 million for the pillared loss occurrence program. We did not experience any property catastrophe events that produced a reported loss to either program. IBNR on certain catastrophe losses in 2022 have considered these insurance programs.

In 2021 we exceeded our catastrophe reinsurance retention level of \$20.0 million with winter storm Uri which caused widespread freezing damages across multiple states in February. Uri was a full retention loss, with losses in excess of our stated reinsurance retention of \$20.0 million. Total losses from this storm, including assumed reinsurance, were \$28.5 million with \$7 million of reinsurance recoveries. In 2021, we also exceeded our catastrophe reinsurance retention level of \$20.0 million from further loss development from the April 2020 Midwest hail storm. A majority of the losses occurred in 2020, with the reinsurance retention level reached in 2021.

The majority of the Company's catastrophe reinsurance programs renewed on January 1, 2023, including the XOL treaty, earthquake quota share and pillared occurrence program. During the renewal period in 2022, reinsurance markets hardened and the industry experienced increasing reinsurance pricing and lower reinsurer capacity. The Company was able to renew previous programs and we expect to have an increase in reinsurance costs of one to two percent of the combined ratio, which we anticipate to offset with increases in direct premiums written.

We use many reinsurers, both domestic and foreign, which helps us to avoid concentrations of credit risk associated with our reinsurance. All reinsurers we do business with must meet the following minimum criteria: capital and surplus of at least \$300.0 million and an A.M. Best rating or an S&P rating of at least "A-." If a reinsurer is rated by both rating agencies, then both ratings must be at least an "A-."

The following table represents the primary reinsurers we utilize and their financial strength ratings as of December 31, 2022:

Name of Reinsurer	A.M. Best	S&P Rating
Everest Reinsurance Company ⁽²⁾	A+	A+
General Reinsurance Corporation ⁽²⁾	A++	AA+
Hannover Rueckversicherung AG ⁽¹⁾⁽²⁾	A+	AA-
Lloyd's	A	A+
Munich Re ⁽²⁾	A+	AA-
Odyssey Re ⁽²⁾	A	A
Partner Re ⁽¹⁾⁽²⁾	A+	A+
QBE Reinsurance Corporation ⁽¹⁾	A	A+
R&V Versicherung AG ⁽²⁾	N/A	A+
Renaissance Re	A+	A+
SCOR Reinsurance Company ⁽¹⁾⁽²⁾	A+	A+
Toa Re ⁽¹⁾	A	A
Tokio Marine Kiln	A++	A+
Transatlantic Re ⁽¹⁾	A+	AA+

(1) Primary reinsurers participating in the property and casualty excess of loss programs.

(2) Primary reinsurers participating in the surety excess of loss program.

Refer to Part II, Item 8, Note 4 "Reinsurance" for further discussion of our reinsurance programs.

Terrorism Coverage

The Terrorism Risk Insurance Program Reauthorization Act of 2019 (TRIPRA) is the fourth reauthorization of the law, which was previously reauthorized in 2005, 2007, and 2015. TRIPRA coverage is effective through December 31, 2027 and preserves the current industry loss trigger of \$200 million per year, and gradually increased the industry-wide retention to \$37.5 billion per year. TRIPRA coverage includes most direct commercial lines of business, including coverage for losses from nuclear, biological and chemical exposures if coverage was afforded by an insurer, with exclusions for commercial automobile insurance, burglary and theft insurance, surety, professional liability insurance and farm owners' multiple peril insurance. Under TRIPRA, each insurer has a deductible amount, which is 20.0 percent of the prior year's direct commercial lines earned premiums for the applicable lines of business, and retention of 15.0 percent above the deductible. No insurer that has met its deductible shall be liable for the payment of any portion of that amount that exceeds the annual aggregate loss cap specified in TRIPRA. TRIPRA provides marketplace stability. As a result, coverage for terrorist events in both the insurance and reinsurance markets is often available. The amount of aggregate losses necessary for an act of terrorism to be certified by the U.S. Secretary of the Treasury, the Secretary of State and the Attorney General was \$200.0 million for 2022 and remains the same for 2023. Our TRIPRA deductible was \$132.6 million for 2022 and our TRIPRA deductible is expected to be \$124.8 million for 2023. Our catastrophe and non-catastrophe reinsurance programs provide limited coverage for terrorism exposure excluding nuclear, biological and chemical-related claims.

2022 Results

In 2022, our losses and loss settlement expenses were 2.3 percent lower than 2021 and our net loss ratio decreased 0.7 points. The primary driver for the decline is a reduction of loss and loss settlement expenses of \$27.0 million in personal lines related to our exit of that business. This was offset by an increase in reinsurance assumed related to our growth in that business from the prior year. Our commercial lines were down slightly and will be discussed in more detail in *Net Loss Ratios by Line*. In 2022, catastrophe losses were \$73.5 million in both our direct business and assumed reinsurance business as compared to \$98.6 million in 2021.

2021 Results

In 2021, our losses and loss settlement expenses were 25.0 percent lower than 2020 and our net loss ratio decreased 14.7 points. The decrease in losses and loss settlement expenses was primarily due to a decrease in frequency and severity of commercial auto liability losses and comparatively lower catastrophe losses. In 2021, catastrophe losses were \$98.6 million in both our direct business and assumed reinsurance business as compared to \$142.0 million in 2020.

Reserve Development

For many liability claims, significant periods of time, ranging up to several years, and for certain construction defect claims, more than a decade, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement or other disposition of the claim. As a result, loss experience in the more recent accident years for the long-tail liability coverages has limited statistical credibility in our reserving process because a relatively small proportion of losses in these accident years are reported claims and an even smaller proportion are paid losses. In addition, long-tail liability claims are more susceptible to litigation and can be significantly affected by changing contract interpretations and the legal environment. Consequently, the estimation of loss reserves for long-tail coverages is more complex and subject to a higher degree of variability. Reserves for these long-tail coverages represent a significant portion of our overall carried reserves.

When establishing reserves and monitoring reserve adequacy, we analyze historical data and consider the potential impact of various loss development factors and trends including historical loss experience, legislative enactments, judicial decisions, legal developments in imposition of damages, experience with alternative dispute resolution, results of our medical bill review process and changes and trends in general economic conditions, including the effects of inflation. All of these factors influence our estimates of required reserves and for long-tail lines these factors can change over the course of the settlement of the claim. However, there is no precise method for evaluating the specific dollar impact of any individual factor on the development of reserves.

Our reserving philosophy is to reserve claims to their ultimate expected loss amount as soon as practicable after information about a claim becomes available. This approach tends to produce, on average, conservative case reserves, which we expect to result in some level of favorable development over the course of settlement.

2022 Development

The property and casualty insurance business experienced \$12.9 million of unfavorable development in our net reserves for prior accident years for the twelve-month period ended December 31, 2022. The two lines that contributed to the majority of the unfavorable development were commercial other liability with \$47.8 million and commercial fire and allied with \$24.8 million unfavorable development. This was offset partially by favorable development on commercial automobile which contributed \$56.7 million. The unfavorable development in commercial other liability and commercial fire and allied was due to paid loss and loss adjustment expense (“LAE”) which was greater than reductions in reserves for unpaid loss and LAE. The favorable development for commercial automobile was from both loss and LAE where reductions of reserves for unpaid liabilities were more than sufficient to offset actual paid loss and paid LAE. Reductions in reserves for IBNR claims also contributed favorable development.

2021 Development

The property and casualty insurance business experienced \$48.9 million of favorable development in our net reserves for prior accident years for the twelve-month period ended December 31, 2021. Two lines contributed the majority of favorable development with the largest contribution coming from commercial automobile which had \$43.3 million favorable development, followed by workers' compensation which had \$10.9 million favorable development. All other individual lines, with the exception of commercial other liability, experienced favorable development. Commercial other liability experienced \$20.7 million of unfavorable development. The favorable

development for commercial automobile was from both loss and LAE where reductions of reserves for unpaid liabilities were more than sufficient to offset actual paid loss and paid LAE. The favorable development for workers' compensation was from both loss and LAE and for loss the reductions in reserves for reported claims were more than sufficient to offset paid loss; reductions in reserves for IBNR claims also contributed favorable development in addition to LAE where reductions in reserves were more than sufficient to offset payments. Commercial other liability experienced unfavorable development due to paid loss which was greater than reductions in reserves for unpaid loss; LAE developed favorably and partially offset the unfavorable loss development.

2020 Development

The property and casualty insurance business experienced \$17.7 million of favorable development in our net reserves for prior accident years for the twelve-month period ended December 31, 2020. Four lines contributed the majority of favorable development with the largest contribution coming from workers' compensation which had \$25.4 million favorable development followed by commercial fire and allied lines which had \$10.7 million favorable development. The two other lines which experienced favorable development were fidelity and surety with \$2.1 million favorable development and personal automobile with \$1.9 million favorable development. The favorable development for workers' compensation was primarily from reductions in reserves for reported claims which were more than sufficient to offset paid loss. Reductions in reserves for IBNR claims also contributed favorable development in addition to LAE where reductions in reserves were more than sufficient to offset payments. Commercial fire and allied lines developed favorably because reductions in reserves for reported claims combined with reductions in reserves for IBNR claims were more than sufficient to offset paid loss; LAE also contributed favorable development with reductions in reserves more than sufficient to offset payments. Fidelity and surety loss developed favorably because a reduction in reserves for IBNR claims was more than sufficient to offset both paid loss and increases in reserves for reported claims. The personal automobile line of business developed favorably because reductions of reserves for reported claims combined with reductions of reserves for IBNR claims were more than sufficient to offset paid loss; LAE also contributed favorable development with reductions in reserves more than sufficient to offset payments. Much of the favorable development was offset by unfavorable development from three lines with the largest contribution coming from commercial liability which experienced \$12.8 million unfavorable development. The two other lines which experienced unfavorable development were reinsurance assumed with \$6.4 million unfavorable development and commercial automobile with \$4.0 million unfavorable development. The commercial liability line of business experienced unfavorable development due to paid loss which was greater than reductions in reserves for unpaid loss; LAE developed favorably and partially offset the unfavorable loss development. The unfavorable development for the reinsurance assumed line of business was due to paid loss which was greater than reductions in reserves for unpaid loss. The commercial automobile line of business experienced unfavorable development because paid loss was greater than reductions in reserves for unpaid loss, but a portion of the unfavorable loss development was offset by favorable development from LAE where payments were more than offset by reductions of reserves for unpaid loss adjustment expense. On an all lines combined basis, favorable development is attributable to LAE which continues to benefit from additional litigation management efforts. The lines of business not mentioned individually above contributed an additional combined total of \$0.8 million of favorable development.

Reserve development amounts can vary significantly from year-to-year depending on a number of factors, including the number of claims settled and the settlement terms, and are subject to reallocation between accident years and lines of business.

Net Loss Ratios by Line

The following table depicts our net loss ratios for 2022, 2021 and 2020:

Years ended December 31,	2022			2021			2020		
	Net Premiums Earned	Net Losses and Loss Settlement Expenses Incurred	Net Loss Ratio	Net Premiums Earned	Net Losses and Loss Settlement Expenses Incurred	Net Loss Ratio	Net Premiums Earned	Net Losses and Loss Settlement Expenses Incurred	Net Loss Ratio
<i>(In Thousands)</i>									
Commercial lines									
Other liability	\$ 302,446	\$ 231,587	76.6 %	\$ 299,961	\$ 184,794	61.6 %	\$ 316,098	\$ 200,280	63.4 %
Fire and allied lines	232,156	204,278	88.0	238,881	177,136	74.2	245,454	228,305	93.0
Automobile	208,398	114,296	54.8	248,135	181,119	73.0	296,444	290,891	98.1
Workers' compensation	56,015	27,545	49.2	61,690	43,790	71.0	75,953	29,463	38.8
Fidelity and surety	37,975	6,790	17.9	30,989	2,913	9.4	28,001	707	2.5
Other	1,081	821	75.9	1,313	251	19.1	1,530	261	17.1
Total commercial lines	\$ 838,071	\$ 585,317	69.8 %	\$ 880,969	\$ 590,003	67.0 %	\$ 963,480	\$ 749,907	77.8 %
Personal lines									
Fire and allied lines	\$ 4,957	\$ 2,959	59.7 %	\$ 14,604	\$ 20,215	138.4 %	\$ 32,061	\$ 66,815	208.4 %
Automobile	1	(3,123)	NM	7,144	5,784	81.0	27,976	21,535	77.0
Other	50	(1,009)	NM	361	(216)	NM	1,148	3,741	325.9
Total personal lines	\$ 5,008	\$ (1,173)	(23.4)%	\$ 22,109	\$ 25,783	116.6 %	\$ 61,185	\$ 92,091	150.5 %
Reinsurance assumed	\$ 108,462	\$ 53,157	49.0 %	\$ 59,745	\$ 36,369	60.9 %	\$ 30,417	\$ 27,469	90.3 %
Total	\$ 951,541	\$ 637,301	67.0 %	\$ 962,823	\$ 652,155	67.7 %	\$ 1,055,082	\$ 869,467	82.4 %

Commercial Lines

The net loss ratio in our commercial lines of business, excluding assumed reinsurance, was 69.8 percent in 2022 compared to 67.0 percent in 2021 and 77.8 percent in 2020. The net loss dollars for 2022 compared to 2021 are lower by 0.8 percent but the loss ratio increased due to the contraction of premiums in 2022. The net loss ratio in 2021 decreased compared to 2020 primarily due to comparatively lower catastrophe losses and a decrease in frequency and severity of commercial auto liability losses.

Other Liability

Other liability is business insurance covering bodily injury and property damage arising from general business operations, accidents on the insured's premises and products manufactured or sold. Because of the long-tail nature of liability claims, significant periods of time, ranging up to several years, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement of the claim.

The net loss ratio deteriorated 15.0 percentage points in 2022 compared to 2021. The increase in the loss ratio is related to an increase in severity. During 2022, a combination of deeper analytical insights and emerging claim experience has increased our view of potential exposure within this line which has led to reserve strengthening.

Construction Defect Losses

At December 31, 2022, we had \$103.8 million in construction defect loss and loss settlement expense reserves (excluding IBNR reserves which are calculated at the overall other liability commercial line), which consisted of 5,338 claims. In comparison, at December 31, 2021, we had reserves of \$86.8 million, excluding IBNR reserves, consisting of 4,496 claims. Our West Coast region continues to be the origin of the majority of the construction defect claim activity.

Construction defect claims generally relate to allegedly defective work performed in the construction of structures such as apartments, condominiums, single family dwellings or other housing, as well as the sale of defective building materials. Such claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. The reporting of such claims can be quite delayed due to an extended statute of limitations, sometimes up to ten years. Court decisions have expanded insurers' exposure to construction defect claims as well. Defense costs are also a part of the insured expenses covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims.

We have exposure to construction defect liabilities in Texas, Colorado and surrounding states. We have historically insured small- to medium-sized contractors in this geographic area. In an effort to limit the number of future claims from multi-unit buildings, we implemented policy exclusions in 2009, later revised in 2010, that exclude liability coverage for contractors performing "residential structural" operations on any building project with more than 12 units or on single family homes in any subdivision where the contractor is working on more than 15 homes. The exclusions do not apply to remodeling or repair of an existing structure. We also changed our underwriting guidelines to add a professional liability exclusion when contractors prepare their own design work or blueprints and implemented the multi-family exclusion and tract home building limitation form for the state of Colorado and our other western states as a means to reduce our exposure in future years. When offering commercial umbrella coverage for structural residential contractors, limits of liability are typically limited to a maximum of \$2.0 million per occurrence. Requests to provide additional insured status for "developers" are declined.

As a result of our acquisition of Mercer Insurance Group, Inc. in 2011, we added construction defect exposure in the states of California, Nevada and Arizona. Mercer Insurance Group, Inc. has been writing in these states for more than 20 years. In order to minimize our exposure to construction defect claims in this region, we continually review the coverage we offer and our pricing models. In an effort to limit our exposure from residential multi-unit buildings, we started including condominium and townhouse construction policy exclusions in 2012 for our contracting policies in this region. For the majority of our residential contractors we limit the size of any tracts the contractor is working on to 25 homes or less and do not include a continuous trigger with our designated work exclusion. In a majority of the policies in our small service, repair and remodel contractors program, we have a

favorable new residential construction exclusion. We also apply strict guidelines when additional insured forms are required and changed our underwriting guidelines to limit our exposure to large, multi-party construction defect claims.

Commercial Fire and Allied Lines

Commercial fire and allied lines include fire, allied lines, commercial multiple peril and inland marine. The insurance covers losses to an insured's property, including its contents, from weather, fire, theft or other causes. We provide this coverage through a variety of business policies.

The net loss ratio deteriorated 13.8 percentage points in 2022 compared to 2021. The deterioration in 2022 is related to an increase in severity of non-catastrophe claims.

Commercial Automobile

Our commercial automobile insurance covers physical damage to an insured's vehicle, as well as liabilities to third parties. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft, flood or other causes. Automobile liability insurance covers bodily injury, damage to property resulting from automobile accidents caused by the insured, uninsured or under-insured motorists and the legal costs of defending the insured against lawsuits.

The net loss ratio improved 18.2 percentage points in 2022 compared to 2021. The improvement is attributable to a decrease in frequency and severity of commercial auto losses, which is the direct result of our continued focus to increase the quality of our commercial auto book of business through non renewing underperforming accounts and rate increases.

Workers' Compensation

We consider our workers' compensation business to be a companion product; we rarely write stand-alone workers' compensation policies. Our workers' compensation insurance covers primarily small- to mid-size accounts. The net loss ratio improved 21.8 percentage points in 2022 compared to 2021. This line experienced improvement with lower frequency of losses, a decline in severity and favorable prior accident year reserve development.

Fidelity and Surety

Our surety products guarantee performance and payment by our bonded principals. Our contract bonds protect owners from failure to perform on the part of our principals. In addition, our surety bonds protect material suppliers and subcontractors from nonpayment by our contractors. When surety losses occur, our loss is determined by estimating the cost to complete the remaining work and to pay the contractor's unpaid bills, offset by contract funds due to the contractor, reinsurance, and the value of any collateral to which we may have access.

The net loss ratio deteriorated 8.5 percentage points in 2022 compared to 2021. This line continues to perform well with a low loss ratio of 17.9 percent as we expand this book of business. The deterioration is due to an increase in severity of losses in 2022 as compared to 2021.

Personal Lines

Our personal lines consist primarily of fire and allied lines (including homeowners) and automobile lines. The negative loss ratio is due to reserves developing favorably after our independent insurance agents transferred their personal lines policies to Nationwide Mutual Insurance Company.

Assumed Reinsurance

Our assumed reinsurance portfolio is comprised of contracts that provide reinsurance protection to insurance companies. We only reinsure companies with attractive expected profitability, relevant materiality, and strong reputation. Our reinsurance business focuses on long-term relationships.

Net earned premium grew to \$108.5 million in 2022 compared to \$59.7 million in 2021. The net loss ratio improved 11.9 percentage points in 2022 compared to 2021. Results benefited from hardened reinsurance rates, as well as our disciplined approach to underwriting.

Underwriting Expense Ratio

Our underwriting expense ratio, which is a percentage of amortization of deferred policy acquisition costs and other underwriting expenses over net premiums earned, was 34.4 percent, 32.6 percent and 33.5 percent for 2022, 2021, and 2020, respectively. The increase in expense ratio in 2022 as compared to 2021 was primarily driven by the non-recurring benefit in 2021 resulting from the change in design of our employee post-retirement benefit plans. The decrease in the expense ratio in 2021 as compared to 2020 was primarily due to the change in the design of our employee post-retirement benefit plans and a decrease in the acceleration of the amortization of our deferred acquisition costs due to improved profitability in our commercial auto line of business.

Federal Income Taxes

We reported a federal income tax benefit on a consolidated basis of \$3.0 million or (24.5) percent of pre-tax income in 2022. For 2022, the effective tax rate varied from the statutory federal income tax expense rate at 21.0 percent, due primarily to our portfolio of tax-exempt securities and general business tax credits. In 2021, federal income tax expense on a consolidated basis was \$16.2 million or 16.8 percent of pre-tax income and federal income tax benefit on a consolidated basis was \$56.8 million or 33.5 percent of pre-tax loss in 2020.

Deferred tax assets are reduced by a valuation allowance when management believes it is more likely than not that some, or all, of the deferred taxes will not be realized. After considering all positive and negative evidence of taxable income in the carryback and carryforward periods and our tax planning strategy of holding debt securities with unrealized losses to maturity or recovery, we believe it is more likely than not that all the deferred assets will be realized. As a result, we have no valuation allowance at December 31, 2022 and 2021.

As of December 31, 2022, we had no alternative minimum tax credit carryforwards.

INVESTMENTS

Investment Environment

Following a very successful 2021, most investors experienced a difficult year in 2022. Stock prices plummeted and U.S. bonds suffered their worst selloff ever, the combination of which had a chilling effect on capital markets more broadly. The IPO market endured a year of record low issuance, mergers and acquisition activity was relatively subdued, and most saw the value of their 401(k) account drop significantly.

The S&P 500 fell 19.4% for the year, while the Dow Jones Industrial Average dropped 8.8%. The Nasdaq Composite Index plunged 33.1% as Technology shares felt the adverse effects of higher interest rates and prospects of a slowing economy. All three U.S. indices logged their worst annual performance since 2008. The closing yield on 10-year U.S. Treasuries climbed from 1.512% at the end of 2021 to as high as 4.244% in October before settling at 3.877% at year-end. Most major bond indices were down 15-20% for the year.

There were many factors contributing to the narrative, but at the heart of 2022's performance was consumer and producer price inflation not seen in over forty years. What was originally believed to be "transitory" pricing pressures turned into a significant challenge for policy makers, which required extraordinary measures in response. Making matters more difficult was Russia's invasion of Ukraine, which sent energy prices soaring in the first quarter and disrupted food and energy supply chains globally. However, even as oil and gas prices moderated and supply chains came into line, inflation remained stubbornly high. In response, the Federal Reserve initiated its most aggressive interest rate increases since the 1980s. By the end of 2022, policymakers had lifted the Fed Funds rate from 0% to 4.50%, with four consecutive 75 basis point increases from June to November.

Tighter financial conditions led portfolio managers to flee the most popular investments from prior years. In a period of zero interest rates, which was the decade or so following the financial crisis of 2008, it cost very little to invest in growth stocks regardless of whether those companies were profitable. With short-term bonds and other cash-like investments now delivering yields not seen in several years, portfolio managers chose to rotate away from risky investments with uncertain prospects. Commodities were the big winner in 2022, with the Energy Sector of the S&P 500 returning 65.8%. Utilities placed a distant second, delivering 1.41% total return for the year.

Fed officials have been steadfast in saying their work is far from over, but markets are positioning for a more dovish future state. Although wages have been increasing, they are not currently keeping pace with the overall level of inflation. Therefore, the consumer's true purchasing power is deteriorating, and this is one of the primary issues monetary policy is attempting to cure. Signs the economy is cooling began to appear in the fourth quarter. As we closed-out the year, yields on short- and long-term Treasuries seemed to be pricing for a less restrictive Fed, and not a central bank intent on keeping monetary policy tight for the foreseeable future. The economy and financial markets are set-up for a pivotal year in 2023, with a meaningful lack of clarity on the future path forward for investors. That said, there are reasonable scenarios to consider in the year ahead to both downside risk and upside opportunity.

Investment Philosophy

The Company's assets are invested to preserve capital and maximize after-tax returns while maintaining an appropriate balance of risk. The return on our portfolio is an important component of overall financial results, but quality and safety of principal is the highest priority of our investment program. Our general investment philosophy is to purchase financial instruments with the expectation that we will hold them to their maturity. However, active management of our portfolio is considered necessary to appropriately manage risk, achieve portfolio objectives and maximize investment income as market conditions change.

Each of our insurance company subsidiaries develops an appropriate investment strategy that aligns with its business needs and supports United Fire's strategic plan and risk appetite. The portfolio is structured to be in compliance with state insurance laws that prescribe the quality, concentration and type of investments that may be made by insurance companies.

Investment Portfolio

Our invested assets at December 31, 2022 totaled \$1,844.9 million, compared to \$2,064.7 million at December 31, 2021, a decrease of \$219.8 million. At December 31, 2022, fixed maturity securities and equity securities comprised 84.1 percent and 9.2 percent of our investment portfolio, respectively. Because the primary purpose of the investment portfolio is to fund future claims payments, we utilize a conservative investment philosophy, investing in a diversified portfolio of high-quality, intermediate-term taxable corporate bonds, taxable U.S. government and government agency bonds and tax-exempt U.S. municipal bonds. Our overall investment strategy is to stay fully invested (i.e., minimize cash balances). If additional cash is needed, we have the ability to borrow funds available under our revolving credit facility.

Composition

We develop our investment strategies based on a number of factors, including estimated duration of reserve liabilities, short- and long-term liquidity needs, projected tax status, general economic conditions, expected rates of inflation and regulatory requirements. We administer our investment portfolio based on investment guidelines approved by management and the investment committee of our Board of Directors that comply with applicable statutory regulations.

The composition of our investment portfolio at December 31, 2022 is presented at carrying value in the following table:

<i>(In Thousands)</i>		Percent of Total
Fixed maturities:		
Available-for-sale	\$ 1,551,336	84.0 %
Trading securities		—
Equity securities	169,106	9.2
Mortgage loans	37,898	2.1
Other long-term investments	86,276	4.7
Short-term investments	275	—
Total	\$ 1,844,891	100.0 %

At December 31, 2022 and December 31, 2021, our fixed maturities portfolio is classified as available-for-sale. Available-for-sale fixed maturity securities are carried at fair value, with changes in fair value recognized as a component of accumulated other comprehensive income in stockholders' equity. We record convertible redeemable preferred debt securities and equity securities at fair value, with any changes in fair value recognized in earnings.

As of December 31, 2022 and 2021, we did not have direct exposure to investments in subprime mortgages or other credit enhancement vehicles.

Credit Quality

The following table shows the composition of fixed maturity securities held in our available-for-sale security portfolios by credit rating at December 31, 2022 and 2021. Information contained in the table is generally based upon the issue credit ratings provided by Moody's, unless the rating is unavailable, in which case we obtain it from Standard & Poor's.

<i>(In Thousands)</i>	December 31, 2022		December 31, 2021	
Rating	Carrying Value	% of Total	Carrying Value	% of Total
AAA	\$ 540,485	34.8 %	\$ 670,222	39.0 %
AA	482,369	31.1	586,426	34.1
A	232,668	15.0	209,076	12.2
Baa/BBB	278,247	17.9	241,547	14.0
Other/Not Rated	17,567	1.1	12,519	0.7
	\$ 1,551,336	100.0 %	\$ 1,719,790	100.0 %

Duration

Our investment portfolio is invested primarily in fixed maturity securities whose fair value is susceptible to market risk, specifically interest rate changes. Duration is a measurement used to quantify our inherent interest rate risk and analyze our ability to match our invested assets to our reserve liabilities. If our invested assets and reserve liabilities have similar durations, then any change in interest rates will have an equal effect on these accounts. The primary purpose for matching invested assets and reserve liabilities is liquidity. With appropriate matching, our investments will mature when cash is needed, preventing the need to liquidate other assets prematurely. Mismatches in the duration of assets and liabilities can cause significant fluctuations in our results of operations.

The weighted average effective duration of our portfolio of fixed maturity securities was 4.3 years at December 31, 2022 compared to 3.9 years at December 31, 2021.

The amortized cost and fair value of available-for-sale and trading fixed maturity securities at December 31, 2022, 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.

<i>(In Thousands)</i>	Available-For-Sale	
	Amortized Cost	Fair Value
December 31, 2022		
Due in one year or less	\$ 35,745	\$ 35,549
Due after one year through five years	461,716	448,758
Due after five years through 10 years	539,189	501,171
Due after 10 years	361,171	335,136
Asset-backed securities	3,932	4,254
Mortgage-backed securities	20,450	17,700
Collateralized mortgage obligations	240,477	208,771
	\$ 1,662,680	\$ 1,551,339

Investment Results

We invest the premiums received from our policyholders in order to generate investment income, which is an important component of our revenues and profitability. The amount of investment income that we are able to generate is affected by many factors, some of which are beyond our control. Some of these factors are volatility in the financial markets, economic growth, inflation, changes in interest rates, world political conditions, terrorist attacks or threats of terrorism, adverse events affecting other companies in our industry or the industries in which we invest and other unpredictable national or world events. Net investment income decreased 19.4 percent in 2022, compared with the same period of 2021 and was primarily due to the change in the fair value of our investments in limited liability partnerships. The valuation of our investments in limited liability partnerships varies from period to period due to current equity market conditions. We expect to maintain our investment philosophy of purchasing quality investments rated investment grade or better.

An allowance for credit losses is recorded based on a number of factors including the current economic conditions, management's expectations of future economic conditions and performance indicators, such as market value versus amortized cost, investment spreads widening or contracting, rating actions, payment and default history. The following table contains a rollforward of the allowance for credit losses for available-for-sale fixed maturity securities at December 31, 2022:

Rollforward of allowance for credit losses for available-for-sale fixed maturity securities:	
	As of December 31, 2022
Beginning balance, January 1, 2022	\$ —
Additions to the allowance for credit losses for which credit losses were not previously recorded	3
Ending balance, December 31, 2022	\$ 3

Changes in unrealized gains and losses on available-for-sale fixed maturity securities do not affect net income and earnings per share but do impact comprehensive income, stockholders' equity and book value per share. We believe that any unrealized losses on our available-for-sale fixed maturity securities at December 31, 2022 are temporary based upon our current analysis of the issuers of the securities that we hold and current market conditions. We invest in high quality assets to provide protection from future credit quality issues. Non-credit related unrealized gains and losses are recognized as a component of other comprehensive income and represent other market movements that are not credit related, for example interest rate changes. We have no intent to sell, and it is more likely than not that we will not be required to sell, these securities until the fair value recovers to at least equal our cost basis or the securities mature.

Net Investment Income

In 2022, our investment income, net of investment expenses, decreased \$10.8 million to \$44.9 million as compared to 2021, primarily due to the change in the fair value of our investments in limited liability partnerships.

In 2021, our investment income, net of investment expenses, increased \$16.1 million to \$55.8 million as compared to 2020, primarily due to the change in the fair value of our investments in limited liability partnerships.

The following table summarizes the components of net investment income:

<i>(In Thousands)</i> Years Ended December 31,	2022	2021	2020
Investment income from operations:			
Interest on fixed maturities	\$ 48,702	\$ 43,224	\$ 46,478
Dividends on equity securities	5,163	5,031	6,368
Income on other long-term investments	—	0	0
Interest	4,742	4,481	1,890
Change in value ⁽¹⁾	(7,930)	9,699	(9,633)
Interest on mortgage loans	1,897	1,995	1,949
Interest on short-term investments	354	18	107
Interest on cash and cash equivalents	740	252	763
Other	780	152	205
Total investment income from operations	\$ 54,448	\$ 64,852	\$ 48,127
Less investment expenses	9,516	9,074	8,457
Net investment income	\$ 44,932	\$ 55,778	\$ 39,670

(1) Represents the change in value of our interests in limited liability partnerships that are recorded on the equity method of accounting.

In 2022, 89.4 percent of our gross investment income originated from interest on fixed maturities, compared to 66.7 percent and 96.6 percent in 2021 and 2020, respectively.

The following table details our annualized yield on average invested assets for 2022, 2021, and 2020, which is based on our invested assets (including money market accounts) at the beginning and end of the year divided by net investment income:

<i>(In Thousands)</i> Years ended December 31,	Average Invested Assets	Investment Income, Net	Annualized Yield on Average Invested Assets
2022	\$ 1,992,108	\$ 44,932	2.3 %
2021	2,141,022	55,778	2.6 %
2020	2,169,220	39,670	1.8 %

Net Investment Gains and Losses

The following table summarizes the components of our net investment gains or losses:

<i>(In Thousands)</i> Years Ended December 31,	2022	2021	2020
Net investment gains (losses):			
Net gains (losses):			
Fixed maturities:			
Available-for-sale	\$ (1,397)	\$ (277)	\$ 1,787
Allowance for credit losses	(3)	5	(5)
Trading securities			
Change in fair value	—	—	(3,314)
Sales	—	—	2,950
Equity securities			
Available-for-sale			
Trading securities			
Change in fair value	(12,802)	30,682	(6,875)
Sales	(1,767)	14,444	(26,906)
Mortgage loans	109	5	(4)
Other long-term investments	(267)	2,780	—
Short-term investments	—	—	—
Other-than-temporary-impairment charges:			
Fixed maturities	—	—	—
Equity securities	—	—	—
Cash equivalents	—	—	—
Real Estate	235	(256)	\$ (28)
Total net investment gains (losses)	\$ (15,892)	\$ 47,383	\$ (32,395)

Net Unrealized Investment Gains and Losses

As of December 31, 2022, net unrealized investment losses, after tax, totaled \$88.4 million compared to unrealized gains of \$49.8 million and unrealized gains of \$83.1 million as of December 31, 2021 and 2020, respectively. The net unrealized investment losses in 2022 was primarily the result of a change in the value of the fixed maturity portfolio due to higher interest rates during 2022.

The decrease in net unrealized investment gains in 2021 was primarily the result of a decrease in fixed maturity securities held and a change in the value of the fixed maturity portfolio due to higher interest rates during 2021. The increase in net unrealized investment gains in 2020 was primarily the result of an increase in the value of the fixed maturity portfolio due to lower interest rates during 2020.

The following table summarizes the change in our net unrealized investment gains (losses):

<i>(In Thousands)</i> Years Ended December 31,	2022	2021	2020
Changes in net unrealized investment gains (losses):			
Available-for-sale fixed maturity securities	\$ (174,858)	\$ (42,159)	\$ 45,305
Income tax effect	36,720	8,858	(9,514)
Total change in net unrealized investment gains (losses), net of tax	\$ (138,138)	\$ (33,301)	\$ 35,791

MARKET RISK

Our Consolidated Balance Sheets include financial instruments whose fair values are subject to market risk. The active management of market risk is integral to our operations. Market risk is the potential for loss due to a decrease in the fair value of securities resulting from uncontrollable fluctuations, such as: interest rate risk, equity price risk, foreign exchange risk, credit risk, inflation, or geopolitical conditions. Our primary market risk exposures are: changes in interest rates, deterioration of credit quality in specific issuers, sectors or the economy as a whole, and an unforeseen decrease in the liquidity of securities we hold.

Interest Rate Risk

Interest rate risk is the price sensitivity of a fixed income maturity security or portfolio of securities to changes in level of interest rates. Generally, there is an inverse relationship between changes in interest rates and changes in the price of a fixed income/maturity security. Plainly stated, if interest rates go up (down), bond prices go down (up). A vast majority of our holdings are fixed income maturity and other interest rate sensitive securities that will decrease (increase) in value as interest rates increase (decrease). While it is generally our intent to hold our investments in fixed maturity securities to maturity or recovery, we have classified a majority of our fixed maturity portfolio as available-for-sale. Available-for-sale fixed income maturity securities are carried at fair value on the Consolidated Balance Sheets with unrealized gains or losses reported net of tax in Accumulated Other Comprehensive Income. A change in the prevailing interest rates generally translates into a change in the fair value of our fixed income/maturity securities, and by extension, our overall book value.

Market Risk and Duration

We analyze potential changes in the value of our investment portfolio due to the market risk factors noted above within the overall context of asset and liability management. A technique we use in the management of our investment portfolio is the calculation of duration. Our actuaries estimate the payout pattern of our reserve liabilities to determine their duration, which is the present value of the weighted average payments expressed in years. We then establish a target duration for our investment portfolio so that at any given time the estimated cash generated by the investment portfolio will closely match the estimated cash required for the payment of the related reserves. We structure the investment portfolio to meet the target duration to achieve the required cash flow, based on liquidity and market risk factors.

Impact of Interest Rate Changes

The amounts set forth in the following table detail the impact of hypothetical interest rate changes on the fair value of fixed maturity securities held at December 31, 2022. The sensitivity analysis measures the change in fair values arising from immediate changes in selected interest rate scenarios. We employed hypothetical parallel shifts in the yield curve of plus or minus 100 and 200 basis points in the simulations. Additionally, based upon the yield curve shifts, we employ estimates of prepayment speeds for mortgage-related products and the likelihood of call or put options being exercised within the simulations.

The selection of a 100-basis-point and 200-basis-point increase or decrease in interest rates should not be construed as a prediction by our management of future market events, but rather as an illustration of the potential impact of an event.

December 31, 2022 (In Thousands)	-200 Basis Points	-100 Basis Points	Base	+100 Basis Points	+ 200 Basis Points
AVAILABLE-FOR-SALE					
Fixed maturities					
Bonds					
U.S. Treasury	\$ 15,419	\$ 15,041	\$ 14,675	\$ 14,320	\$ 13,976
U.S. government agency	92,883	89,103	84,406	79,261	74,123
States, municipalities and political subdivisions					
General obligations:					
Midwest	62,705	61,957	61,113	59,630	57,536
Northeast	15,891	15,685	15,463	15,130	14,637
South	67,346	65,756	63,981	61,618	58,810
West	90,435	88,570	86,545	83,887	80,424
Special revenue:					
Midwest	108,418	105,531	102,266	97,596	91,568
Northeast	57,837	56,113	54,220	51,762	48,699
South	193,546	187,618	180,857	171,973	161,370
West	119,774	116,267	112,212	106,680	100,007
Foreign bonds	35,317	33,418	31,649	30,003	28,473
Public utilities	139,541	132,238	125,411	119,036	113,092
Corporate bonds					
Energy	36,141	34,640	33,209	31,845	30,551
Industrials	59,018	55,792	52,842	50,141	47,667
Consumer goods and services	101,099	95,282	89,941	85,031	80,515
Health care	32,286	29,812	27,592	25,597	23,802
Technology, media and telecommunications	66,701	63,160	59,940	56,998	54,301
Financial services	134,083	129,141	124,292	119,588	115,087
Mortgage backed securities	19,212	18,516	17,700	16,853	16,056
Collateralized mortgage obligations					
Government national mortgage association	93,704	89,286	84,548	79,822	75,352
Federal home loan mortgage corporation	86,861	83,050	78,838	74,554	70,501
Federal national mortgage association	48,775	47,231	45,386	43,451	41,550
Asset-backed securities	5,283	4,690	4,253	3,927	3,677
Total Available-For-Sale Fixed Maturities	\$ 1,682,275	\$ 1,617,897	\$ 1,551,339	\$ 1,478,703	\$ 1,401,774

To the extent actual results differ from the assumptions utilized, our duration and interest rate measures could be significantly affected. As a result, these calculations may not fully capture the impact of nonparallel changes in the relationship between short-term and long-term interest rates.

Equity Price Risk

Equity price risk is the potential loss arising from changes in the fair value (i.e., market price) of equity securities held in our portfolio. Changes in the price of an equity security may be due to a change in the future earnings capacity or strategic outlook of the security issuer, and what investors are willing to pay for those future earnings and related strategy. The carrying values of our equity securities are based on quoted market prices, from an independent source, as of the balance sheet date. Market prices of equity securities, in general, are subject to fluctuations that could cause the amount to be realized upon the future sale of the securities to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the security issuer, the relative price of alternative investments, general market conditions, and supply/demand factors related to a particular security.

Impact of Price Change

The following table details the effect on the fair value of our investments in equity securities for a positive and negative 10 percent price change at December 31, 2022:

<i>(In Thousands)</i>	-10%	Base	+10%
Estimated fair value of equity securities	\$ 186,017	\$ 169,106	\$ 152,195

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk arises from the possibility that changes in foreign exchange rates will impact our financial results. Foreign currency exchange rate risk can occur as a result of investment holdings in foreign currency, settlement of amounts due to or from foreign reinsurers or our participation in FAL. We consider this risk to be immaterial to our operations.

Credit Risk

Credit risk is the willingness and ability of a borrower to repay on time and in full any principal and interest due to the lender. Losses related to credit risk are realized through the income statement and have a direct impact on the earnings of UFG. Given the vast majority of our holdings are fixed income maturity securities, we view credit risk as our primary investment risk. Our internal Investment Department has developed and maintains a rigorous underwriting process to analyze and measure the expected frequency and severity of loss (i.e., credit quality) for government, agency, municipal, structured security, and corporate bond issuers. The objective is to maintain the appropriate balance of risk in our portfolio, consistent with our Investment Policy Statement and conservative investment style, and ensure the portfolio is compensated appropriately for the credit risk it holds. We do have within our municipal bond holdings a small number of securities whose ratings were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default. Of the insured municipal securities in our investment portfolio, 98.7 percent and 99.6 percent were rated "A" or above, and 95.2 percent and 96.0 percent were rated "AA" or above at December 31, 2022 and 2021, respectively, without the benefit of insurance. Due to the underlying financial strength of the issuers of the securities, we believe that the loss of insurance would not have a material impact on our operations, financial position, or liquidity.

We have no direct exposure in any of the guarantors of our investments. Our largest indirect exposure with a single guarantor totaled \$7.7 million or 29.1 percent of our insured municipal securities at December 31, 2022, as compared to \$9.4 million or 29.8 percent at December 31, 2021. Our five largest indirect exposures to financial guarantors accounted for \$28.7 million and \$35.6 million of our municipal securities at December 31, 2022 and 2021, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures our ability to generate sufficient cash flows to meet our short- and long-term cash obligations. Our cash inflows are primarily a result of the receipt of premiums, reinsurance recoveries, sales or maturities of investments, and investment income. Cash provided from these sources is used to fund the payment of losses and loss settlement expenses, the purchase of investments, operating expenses, dividends, pension plan contributions, and in recent years, common stock repurchases.

We monitor our capital adequacy to support our business on a regular basis. The future capital requirements of our business will depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Our ability to underwrite is largely dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. In particular, we require (1) sufficient capital to maintain our financial strength ratings, as issued by various rating agencies, at a level considered necessary by management to enable our insurance company subsidiaries to compete and (2) sufficient capital to enable our insurance company subsidiaries to meet the capital adequacy tests performed by regulatory agencies in the United States.

Cash outflows may be variable because of the uncertainty regarding settlement dates for losses. In addition, the timing and amount of individual catastrophe losses are inherently unpredictable and could increase our liquidity requirements. The timing and amount of reinsurance recoveries may be affected by reinsurer solvency and reinsurance coverage disputes.

Historically, we have generated substantial cash inflows from operations. It is our policy to invest the cash generated from operations in securities with maturities that, in the aggregate, correlate to the anticipated timing of payments for losses and loss settlement expenses. The majority of our assets are invested in available-for-sale fixed maturity securities.

The following table displays a summary of cash sources and uses in 2022, 2021 and 2020:

Cash Flow Summary (In Thousands)	Years Ended December 31,		
	2022	2021	2020
Cash provided by (used in)			
Operating activities	\$ (1,251)	\$ 29,917	\$ 41,435
Investing activities	(19,171)	31,731	(92,871)
Financing activities	(15,032)	(17,492)	18,662
Net increase (decrease) in cash and cash equivalents	\$ (35,454)	\$ 44,156	\$ (32,774)

Our cash flows were sufficient to meet our current liquidity needs for the full-year periods ended December 31, 2022, 2021 and 2020 and we anticipate they will be sufficient to meet our future liquidity needs. We also have the ability to draw on our credit facility if needed. See Part II, Item 8, Note 13 "Debt" for more information.

Operating Activities

Net cash flows used in operating activities totaled \$1.3 million in 2022, and provided by operating activities totaled \$29.9 million and \$41.4 million in 2021 and 2020, respectively. Our cash flows from operating activities were sufficient to meet our liquidity needs for 2022, 2021 and 2020.

Investing Activities

Cash in excess of operating requirements is generally invested in fixed maturity securities and equity securities. Fixed maturity securities provide regular interest payments and allow us to match the duration of our liabilities. Equity securities provide dividend income, potential dividend income growth and potential appreciation. For further discussion of our investments, including our philosophy and portfolio, see the "Investment Portfolio" section contained in this Item.

In addition to investment income, possible sales of investments and proceeds from calls or maturities of fixed maturity securities also can provide liquidity. During the next five years, \$0.5 billion, or 32.16% of our fixed maturity portfolio will mature.

We invest funds required for short-term cash needs primarily in money market accounts, which are classified as cash equivalents. At December 31, 2022, our cash and cash equivalents included \$31.3 million related to these money market accounts, compared to \$43.4 million at December 31, 2021.

Net cash flows used in investing activities totaled \$19.2 million in 2022 and net cash flows provided by investing activities totaled \$31.7 million in 2021. Net cash flows used in investing activities totaled \$92.9 million in 2020. In 2022, we had cash inflows from scheduled and unscheduled investment maturities, redemptions, prepayments, and sales of investments that totaled \$280.4 million compared to \$451.1 million and \$376.2 million for the same period in 2021 and 2020, respectively.

Our cash outflows for investment purchases totaled \$297.5 million in 2022, compared to \$405.4 million and \$450.2 million for the same period in 2021 and 2020, respectively.

Financing Activities

Net cash flows used in financing activities totaled \$15.0 million in 2022 and \$17.5 million in 2021. Net cash flow provided by financing activities totaled \$18.7 million in 2020. The net cash flows used in financing activities in 2022 is primarily the payment of cash dividends of \$15.0 million. The net cash flows used in financing activities in 2021 is primarily the payment of cash dividends of \$15.1 million and share repurchases of \$2.0 million. The net cash flows provided by financing activities in 2020 is primarily from borrowings of long term debt of \$50.0 million offset by the payment of cash dividends of \$28.5 million.

Contractual Obligations and Commitments

The following table shows our contractual obligations and commitments, including our estimated payments due by period at December 31, 2022. Time periods of less than one year are considered short-term cash obligations and time periods greater than one year are considered long-term cash obligations.

<i>(In Thousands)</i>	Payments Due By Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Contractual Obligations					
Loss and loss settlement expense reserves	\$ 1,497,274	\$ 515,326	\$ 544,605	\$ 199,556	\$ 237,787
Long term debt	107,378	3,188	6,376	6,376	91,438
Operating leases	28,353	8,452	13,445	6,456	—
Profit-sharing commissions	13,701	13,701	—	—	—
Total	\$ 1,646,706	\$ 540,667	\$ 564,426	\$ 212,388	\$ 329,225

Loss and Loss Settlement Expense Reserves

The amounts presented are estimates of the dollar amounts and time periods in which we expect to pay out our gross loss and loss settlement expense reserves. Because the timing of future payments may vary from the stated contractual obligation, these amounts are estimates based upon historical payment patterns and may not represent actual future payments. Refer to "Critical Accounting Policies — Losses and Loss Settlement Expenses" in this section for further discussion.

Long term debt

The Company executed a private placement debt transaction on December 15, 2020 between United Fire & Casualty Company, Federated Mutual Insurance Company, a mutual insurance company domiciled in Minnesota ("Federated Mutual"), and Federated Life Insurance Company, an insurance company domiciled in Minnesota ("Federated Life and together with Federated Mutual, the "Note Purchasers").

UFG sold an aggregate \$50.0 million of notes due 2040 to the Note Purchasers. One note with a principal amount of \$35.0 million was issued to Federated Mutual and one note with a principal amount of \$15.0 million was issued to Federated Life.

Interest payments will be paid quarterly on March 15, June 15, September 15 and December 15 of each year (each such date, an "Interest Payment Date"). The interest rate will equal the rate that corresponds to the A.M. Best Co. (or its successor's) financial strength rating for members of the United Fire & Casualty Pooled Group as of the applicable Interest Payment Date. Interest expense totaled \$3,188 for the year ended December 31, 2022. Payment of interest is subject to approval by the Iowa Insurance Division.

Operating Leases

Our operating lease obligations are for the rental of office space, vehicles, computer equipment and office equipment. For further discussion of our operating leases, refer to Part II, Item 8, Note 12 "Lease Commitments."

Profit-Sharing Commissions

We offer our agents a profit-sharing plan as an incentive for them to place high-quality property and casualty insurance business with us. Based on business produced by the agencies in 2022, property and casualty agencies expect to receive profit-sharing payments of \$13.7 million in 2023.

Commitments for Capital Expenditures

Dividends

Dividends paid to shareholders totaled \$15.9 million, \$15.1 million and \$28.5 million in 2022, 2021 and 2020, respectively. Our practice has been to pay quarterly cash dividends, which we have paid every quarter since March 1968.

Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors out of legally available funds.

As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at December 31, 2022, our insurance company subsidiary, United Fire & Casualty, is able to make a maximum of \$70.4 million in dividend payments without prior regulatory approval. These restrictions are not expected to have a material impact in meeting our cash obligations.

Share Repurchases

Under our share repurchase program, first announced in August 2007, we may purchase our common stock from time to time on the open market or through privately negotiated transactions. The amount and timing of any purchases will be at our discretion and will depend upon a number of factors, including the share price, economic and general market conditions, and corporate and regulatory requirements. Our share repurchase program may be modified or discontinued at any time.

During 2022, 2021 and 2020, pursuant to authorization by our Board of Directors, we repurchased 0, 67,651, and 70,467 shares of our common stock, respectively, which used cash totaling \$0.0 million in 2022, \$2.0 million in 2021 and \$2.7 million in 2020. The Board of Directors reauthorized the share repurchase program in November 2022 through August 2024. At December 31, 2022, we were authorized to purchase an additional 1,719,326 shares of our common stock.

Credit Facilities

Information specific to our credit facilities is incorporated by reference from Note 13 "Debt" contained in Part II, Item 8. As of December 31, 2022, we were in compliance with all financial covenants of the Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent (the "Administrative Agent"), issuing lender, swing-line lender and lender, and the other lenders from time to time party thereto (collectively with Wells Fargo, the "Lenders").

Stockholders' Equity

Stockholders' equity decreased 15.8 percent to \$740.1 million at December 31, 2022, from \$879.1 million at December 31, 2021. The decrease is primarily attributed to a decrease in net unrealized value from our fixed maturity securities, net of tax, of \$138.1 million, stockholder dividends of \$15.9 million, and offset by net income of \$15.0 million. As of December 31, 2022, the book value per share of our common stock was \$29.36, compared to \$35.05 at December 31, 2021.

Risk-Based Capital

The NAIC adopted risk-based capital requirements, which requires us to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These "risk-based capital" results are used by state insurance regulators to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2022, all of our insurance companies had capital well in excess of required levels.

Funding Commitments

We hold investments in limited liability partnerships as part of our investment strategy. Pursuant to agreements with our limited liability partnership investments, we are contractually committed through July 10, 2030 to make capital contributions upon request of the partnerships. Our remaining potential contractual obligation was \$40.1 million at December 31, 2022.

In addition, the Company invested \$25,000 in December 2019 in a limited liability partnership investment fund which is subject to a 3-year lockup with a 60-day minimum notice, with four possible repurchase dates per year, after the 3-year lockup period is met. The fair value of the investment at December 31, 2022 was \$25,187 and there are no remaining capital contributions with this investment.

These partnerships are included in our other long term investments on the Consolidated Balance Sheets with a current fair value of \$86.3 million, or 4.7 percent of our total invested assets, at December 31, 2022.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are representative of significant judgments and uncertainties and that may potentially result in materially different results under different assumptions and conditions. We base our discussion and analysis of our results of operations and financial condition on the amounts reported in our Consolidated Financial Statements, which we have prepared in accordance with GAAP. As we prepare these Consolidated Financial Statements, we must make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the reporting period. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on other assumptions we believe to be reasonable under the circumstances. Actual results could differ from those estimates. We believe our most critical accounting policies are as follows.

Investment Valuation

Upon acquisition, we classify investments in marketable securities as held-to-maturity, available-for-sale, or trading. We record investments in available-for-sale and trading fixed maturity securities and equity securities at fair value. Other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting. We record mortgage loans at their amortized cost less any valuation allowance.

In general, investment securities are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility risk. Therefore, it is reasonably possible that changes in the fair value of our investment securities that are reported at fair value will occur in the near term and such changes could materially affect the amounts reported in the Consolidated Financial Statements. Also, it is reasonably possible that changes in the value of our

investments in trading securities and limited liability partnerships could occur in the future and such changes could materially affect our results of operations as reported in our Consolidated Financial Statements.

Fair Value Measurement

Information specific to the fair value measurement of our financial instruments and disclosures is incorporated by reference from Note 3 "Fair Value of Financial Instruments" contained in Part II, Item 8.

Deferred Policy Acquisition Costs ("DAC")

We record an asset for certain costs of underwriting new business, primarily commissions, premium taxes and variable underwriting and policy issue expenses that have been deferred. The amount of underwriting compensation expense eligible for deferral is based on time studies and a ratio of success in policy placement. At December 31, 2022 and 2021, our DAC asset was \$104.2 million and \$91.4 million, respectively.

The DAC asset is amortized over the life of the policies written, generally one year. We assess the recoverability of DAC on a quarterly basis by line of business. This assessment is performed by comparing recorded unearned premium to the sum of unamortized DAC and estimates of expected losses and loss settlement expenses. If the sum of these costs exceeds the amount of recorded unearned premium (i.e., the line of business is expected to generate an operating loss), the excess is recognized in current period other underwriting expenses as an offset against the established DAC asset. We refer to this offset as a premium deficiency charge.

To calculate the premium deficiency charge by line of business, we estimate an expected loss and loss settlement expense ratio which is based on our best estimate of future losses for each line of business. This calculation is performed on a quarterly basis and developed in conjunction with our quarterly reserving process. The expected loss and loss settlement expense ratios are the only assumptions we utilize in our premium deficiency calculation. Changes in these assumptions can have a significant impact on the amount of premium deficiency charge recognized for a line of business. The premium deficiency calculation is aggregated by line of business in a manner consistent with how the policies are currently being marketed and managed.

The following table illustrates the hypothetical impact on the premium deficiency charge recorded for the quarter ended December 31, 2022, of reasonably likely changes in the assumed loss and loss settlement expense ratios utilized for purposes of this calculation. The entire impact of these changes would be recognized through income as other underwriting expenses. The following table illustrates the impact of potential changes in the expected loss and loss settlement expense ratios for all lines of business on the premium deficiency charge. The base amount indicated below is the actual premium deficiency charge recorded as an offset against the DAC asset established as of the quarter ended December 31, 2022:

Sensitivity Analysis — Impact of Changes in Projected Loss and Loss Settlement Expense Ratios					
<i>(In Thousands)</i>	-10%	-5%	Base	+5%	+10%
Premium deficiency charge estimated	\$ —	\$ —	\$ 889	\$ 5,699	\$ 13,801

Actual future results could differ materially from our assumptions used to calculate the recorded DAC asset. Changes in our assumed loss and loss settlement expense ratios in the future would impact the amount of deferred costs in the period such changes in assumptions are made. The premium deficiency charge calculated for the quarter ended December 31, 2022 was \$0.9 million compared to the premium deficiency charge of \$2.9 million calculated for the same period of 2021.

Losses and Loss Settlement Expenses

Reserves for losses and loss settlement expenses are reported using our best estimate of ultimate liability for claims that occurred prior to the end of any given reporting period but have not yet been paid. Before credit for reinsurance recoverables, these reserves were \$1,497.3 million and \$1,514.3 million at December 31, 2022 and 2021, respectively. We purchase reinsurance to mitigate the impact of large losses and catastrophic events. Loss and loss

settlement expense reserves ceded to reinsurers were \$146.9 million for 2022 and \$112.9 million for 2021. Our reserves, before credit for reinsurance recoverables, by line of business as of December 31, 2022, were as follows:

<i>(In Thousands)</i>	Case Basis	IBNR	Loss Settlement Expense	Total Reserves
Commercial lines				
Fire and allied lines	\$ 91,386	\$ 44,211	\$ 20,773	\$ 156,370
Other liability	363,143	221,303	173,082	757,528
Automobile	245,140	35,021	32,233	312,394
Workers' compensation	113,652	8,765	16,497	138,914
Fidelity and surety	10,036	853	392	11,281
Miscellaneous	1,225	540	210	1,975
Total commercial lines	\$ 824,582	\$ 310,693	\$ 243,187	\$ 1,378,462
Personal lines				
Automobile	\$ 4,104	\$ 22	\$ 415	\$ 4,541
Fire and allied lines	4,699	1,488	604	6,791
Miscellaneous	76	415	96	587
Total personal lines	\$ 8,879	\$ 1,925	\$ 1,115	\$ 11,919
Reinsurance assumed	45,518	60,787	588	106,893
Total	\$ 878,979	\$ 373,405	\$ 244,890	\$ 1,497,274

Case-Basis Reserves

For each of our lines of business, with respect to reported claims, we establish reserves on a case-by-case basis. Our experienced claims personnel estimate these case-basis reserves using adjusting guidelines established by management. Our goal is to set the case-basis reserves at the ultimate expected loss amount as soon as possible after information about the claim becomes available.

Establishing the case reserve for an individual claim is subjective and complex, requiring us to estimate future payments and values that will be sufficient to settle an individual claim. Setting a reserve for an individual claim is an inherently uncertain process. When we establish and adjust individual claim reserves, we do so based on our knowledge of the circumstances and facts of the claim. Upon notice of a claim, we establish a preliminary (average claim cost) reserve based on the limited claim information initially reported. Subsequently, we conduct an investigation of each reported claim, which allows us to more fully understand the factors contributing to the loss and our potential exposure. This investigation may extend over a long period of time. As our claim investigation progresses, and as our claims personnel identify trends in claims activity, we may refine and adjust our estimates of case reserves. To evaluate and refine our overall reserving process, we track and monitor all claims until they are settled and paid in full, with all salvage and subrogation claims being resolved.

Most of our insurance policies are written on an occurrence basis that provides coverage if a loss occurs during the policy period, even if the insured reports the loss many years later. For example, some liability claims for construction defect coverage are reported 10 years or more after the policy period, and the workers' compensation coverage provided by our policies pays unlimited medical benefits for the duration of the claimant's injury up to the lifetime of the claimant. In addition, final settlement of certain claims can be delayed for years due to litigation or other reasons. Reserves for these claims require us to estimate future costs, including the effect of judicial actions, litigation trends and medical cost inflation, among others. Reserve development can occur over time as conditions and circumstances change many years after the policy was issued and/or the loss occurred.

Our loss reserves include amounts related to both short-tail and long-tail lines of business. "Tail" refers to the time period between the occurrence of a loss and the ultimate settlement of the claim. A short-tail insurance product is one where ultimate losses are known and settled comparatively quickly. Ultimate losses under a long-tail insurance

product are sometimes not known and settled for many years. The longer the time span between the incidence of a loss and the settlement of the claim, the more the ultimate settlement amount can vary from the reserves initially established. Accordingly, long-tail insurance products can have significant implications on the reserving process.

Our short-tail lines of business include fire and allied lines, homeowners, commercial property, auto physical damage and inland marine. The amounts of the case-based reserves that we establish for claims in these lines depend upon various factors, such as individual claim facts (including type of coverage and severity of loss), our historical loss experience and trends in general economic conditions (including changes in replacement costs, medical costs and inflation).

For short-tail lines of business, the estimation of case-basis loss reserves is less complex than for long-tail lines because the claims relate to tangible property. Because of the relatively short time from claim occurrence to settlement, actual losses typically do not vary significantly from reserve estimates.

Our long-tail lines of business include workers' compensation and other liability. In addition, certain product lines such as commercial auto, commercial multi-peril and surety include both long-tail coverages and short-tail coverages. For many long-tail liability claims, significant periods of time, ranging up to several years, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement of the claim. As a result, loss experience in the more recent accident years for the long-tail liability coverages has limited statistical credibility in our reserving process because a relatively small proportion of losses in these accident years are reported claims and an even smaller proportion are paid losses. In addition, long-tail liability claims are more susceptible to litigation and can be significantly affected by changing contract interpretations and the legal environment. Consequently, the estimation of loss reserves for long-tail coverages is more complex and subject to a higher degree of variability than for short-tail coverages.

The amounts of the case-basis loss reserves that we establish for claims in long-tail lines of business depends upon various factors, including individual claim facts (including type of coverage, severity of loss and underlying policy limits), company historical loss experience, changes in underwriting practice, legislative enactments, judicial decisions, legal developments in the awarding of damages, changes in political attitudes and trends in general economic conditions, including inflation. As with our short-tail lines of business, we review and make changes to long-tail case-based reserves based on our review of continually evolving facts as they become available to us during the claims settlement process. Our adjustments to case-based reserves are reported in the financial statements in the period that new information arises about the claim. Examples of facts that become known that could cause us to change our case-based reserves include, but are not limited to: evidence that loss severity is different than previously assessed; new claimants who have presented claims; and the assessment that no coverage exists.

Incurred But Not Reported Reserves

On a quarterly basis, the Company's actuarial staff and consultants perform a detailed analysis of IBNR reserves. This analysis uses various loss projection methods to provide several estimates of ultimate loss (or LAE) for each individual year and line of business. The loss projection methods include paid loss development; reported loss development; expected loss emergence based on paid losses; and expected loss emergence based on reported losses. The two methods utilized by our actuarial team to project loss settlement expenses are paid expenses development and development of the ratio of paid expense versus paid loss. Results of the projection methods are compared and a point estimate of ultimate loss (or LAE) is established for each individual year and line of business. The specific projection methods used to establish point estimates vary depending on what is deemed most appropriate for a particular line of business and year. Results of these methods are usually averaged together to provide a final point estimate. Given that there are several inputs depending on the line of business, the methods may be averaged and modified based on changes known to management or trends in the market. IBNR estimates are derived by subtracting reported loss from the final point estimate loss.

Senior management meets with our actuarial team and controller quarterly to review the adequacy of carried IBNR reserves based on results from this actuarial analysis and makes adjustments for changes in business and other factors not completely captured by the data within the actuarial analysis. There are two fundamental types or sources of IBNR reserves. We record IBNR for "normal" types of claims and also specific IBNR reserves related to unique

circumstances or events. A major hurricane is an example of an event that might necessitate specific IBNR reserves because an analysis of existing historical data would not provide an appropriate estimate. This method of establishing our IBNR reserves has consistently resulted in aggregate reserve levels that management believes are reasonable in comparison to the reserve estimates indicated by the actuarial analysis.

For our short-tail lines of business, IBNR reserves constitute a small portion of the overall reserves. These claims are generally reported and settled shortly after the loss occurs. In our long-tail lines of business, IBNR reserves constitute a relatively higher proportion of total reserves, because, for many liability claims, significant periods of time may elapse between the initial occurrence of the loss, the reporting of the loss to us, and the ultimate settlement of the claim.

Loss Settlement Expense Reserves

Loss settlement expense reserves include amounts ultimately allocable to individual claims, as well as amounts required for the general overhead of the claims handling operation that are not specifically allocable to individual claims. We do not establish loss settlement expense reserves on a claim-by-claim basis. Instead, on a quarterly basis, our internal actuary performs a detailed statistical analysis (using historical data) to estimate the required reserve for unpaid loss settlement expenses. On a monthly basis, the required reserve estimate is adjusted to reflect additional earned exposure and expense payments that have occurred subsequent to completion of the quarterly analysis.

LAE is composed of two distinct kinds of expenses which are allocated LAE ("ALAE") and unallocated LAE ("ULAE"). These two expense types have different purposes and characteristics which necessitates different estimation methods in order to provide a valid quarterly estimate of the required reserve for unpaid expense which is generally referred to as an LAE IBNR reserve.

Reserves for unpaid ALAE are estimated quarterly by line of business for each individual accident year using three methods: (1) Paid development, (2) Expected emergence of ALAE, and (3) Development of the ratio of paid ALAE to paid loss. Each of the three methods produces an estimate of the ultimate ALAE cost for an individual accident year and the final estimate is generally a weighted average of the various methods. Inception to date paid ALAE is subtracted from the final ultimate ALAE estimate to provide the estimated ALAE IBNR reserve for each individual accident year.

Reserves for unpaid ULAE are estimated quarterly by line of business for each individual accident year using a single method. This method consists of applying a percentage factor to unpaid loss reserves. The percentage factor used differs by line of business and is evaluated and established on an annual basis using year-end data. The percentage factor is evaluated and selected after reviewing the ratio of paid ULAE to paid loss using calendar year data for the most recent five years.

Generally, the loss settlement expense reserves for long-tail lines of business are a greater portion of the overall reserves, as there are often substantial legal fees and other costs associated with the complex liability claims that are associated with long-tail coverages. Because short-tail lines of business settle much more quickly and the costs are easier to determine, loss settlement expense reserves for such claims constitute a smaller portion of the total reserves.

Reinsurance Reserves

The estimation of assumed and ceded reinsurance loss and loss settlement expense reserves is subject to the same factors as the estimation of loss and loss settlement expense reserves. In addition to those factors, which give rise to inherent uncertainties in establishing loss and loss settlement expense reserves, there exists a delay in our receipt of reported claims for assumed business due to the procedure of having claims first reported through one or more intermediary insurers or reinsurers.

Reserves for assumed reinsurance are established using methods and techniques identical to those used for direct lines of business. The additional delay inherent in assumed reinsurance reporting is considered in our reserving

process and payment is not problematic. Assumed reinsurance, like every independent line of business, has unique reporting and payment patterns that are reviewed as part of the reserve estimation process.

There are three distinct types of reserves ceded to reinsurers: (1) reported claim reserves, (2) loss IBNR, and (3) LAE IBNR. Ceded reserves for reported claims are calculated by subtracting the primary retention from the claim value established by our claim adjuster. Ceded loss IBNR originates from our boiler and machinery business which is 100 percent reinsured. For this business ceded loss IBNR is equal to direct loss IBNR. Boiler and machinery business is included in our commercial fire and allied line of business. We will cede some LAE expenses when we cede loss. Our ceded LAE IBNR is estimated based on our ceded unpaid loss reserves and the general relation, by line of business, between LAE and loss. Our primary retention was \$2.0 million for 2012 through 2015, increased to \$2.5 million from 2016 through 2021, and increased again to \$3.0 million beginning in 2022.

Key Assumptions

Our internal and external actuaries and management use a number of key assumptions in establishing an estimate of loss and loss settlement expense reserves, including the following assumptions: future loss settlement expenses can be estimated based on the Company's historical ratios of loss settlement expenses paid to losses; the Company's case-basis reserves reflect the most up-to-date information available about the unique circumstances of each individual claim; no new judicial decisions or regulatory actions will increase our case-basis obligations; historical aggregate claim reporting and payment patterns will continue into the future consistent with the observable past; significant unique and unusual claim events have been identified and appropriate adjustments have been made; and, to the best of our knowledge, there are no new latent trends that would impact our case-basis reserves.

Our key assumptions are subject to change as actual claims occur and as we gain additional information about the variables that underlie our assumptions. Accordingly, management reviews and updates these assumptions periodically to ensure that the assumptions continue to be valid. If necessary, management makes changes not only in the estimates derived from the use of these assumptions, but also in the assumptions themselves. Due to the inherent uncertainty in the loss reserving process, management believes that there is a reasonable chance that modification to key assumptions could individually, or in aggregate, result in reserve levels that are either significantly above or below the actual amount for which the related claims will eventually settle.

As an example, if our loss and loss settlement expense reserves of \$1,497.3 million as of December 31, 2022, is 10.0 percent inadequate, we would experience a reduction in future pre-tax earnings of up to \$149.7 million. This reduction could be recorded in one year or multiple years, depending on when we identify the deficiency. The deficiency would also affect our financial position in that our equity would be reduced by an amount equivalent to the reduction in net income. Any deficiency that would be recognized in our loss and loss settlement expense reserves usually does not have a material effect on our liquidity because the claims have not been paid. Conversely, if our estimates of ultimate unpaid loss and loss settlement expense reserves prove to be redundant, our future earnings and financial position would be improved. We believe our reserving philosophy, coupled with what we believe to be aggressive and successful claims management and loss settlement practices, has resulted in year-to-year redundancies in reserves. We believe our approach produces recorded reserves that are reasonable as to their relative position within a range of reasonable reserves from year-to-year.

We are unable to reasonably quantify the impact of changes in our key assumptions utilized to establish individual case-basis reserves on our total reported reserves because the impact of these changes would be unique to each specific case-basis reserve established. However, based on historical experience, we believe that aggregate case-basis reserve volatility levels of 5.0 percent and 10.0 percent can be attributed to the ultimate development of our net case-basis reserves. The impact to pre-tax earnings would be a decrease if the reserves were to be adjusted upwards and an increase if the reserves were to be adjusted downwards. The table below details the impact of this development volatility on our reported net case-basis reserves at December 31, 2022:

(In Thousands)

Change in level of net case-basis reserve development	5%	10%
Impact on reported net case-basis reserves	\$ 39,399	\$ 78,797

Due to the formula-based nature of our IBNR and loss settlement expense reserve calculations, changes in the key assumptions utilized to generate these reserves can impact our reported results. It is not possible to isolate and measure the potential impact of just one of these factors, and future loss trends could be partially impacted by all factors concurrently. Nevertheless, it is meaningful to view the sensitivity of the reserves to potential changes in these variables such as claim frequency and severity. To demonstrate the sensitivity of reserves to changes in significant assumptions, the following example is presented. The amounts reflect the pre-tax impact on earnings from a hypothetical percentage change in the calculation of IBNR and loss settlement expense reserves at December 31, 2022. The impact to pre-tax earnings would be a decrease if the reserves were to be adjusted upwards and an increase if the reserves were to be adjusted downwards. We believe that the changes presented are reasonably likely based upon an analysis of our historical IBNR and loss settlement expense reserve experience.

(In Thousands)

Change in claim frequency and claim severity assumptions	5%	10%
Impact due to change in IBNR reserving assumptions	\$ 16,299	\$ 32,598

(In Thousands)

Change in LAE paid to losses paid ratio	1%	2%
Impact due to change in LAE reserving assumptions	\$ 2,364	\$ 4,729

In 2022, we did not change the key method through which we develop our assumptions on which we based our reserving calculations. In estimating our 2022 loss and loss settlement expense reserves, we did not anticipate future events or conditions that were inconsistent with past development patterns.

Certain of our lines of business are subject to the potential for greater loss and loss settlement expense development than others, which are discussed below:

Other Liability Reserves

Other liability is considered a long-tail line of business, as it can take a relatively long period of time to settle claims from prior accident years. This is partly due to the lag time between the date a loss or event occurs that triggers coverage and the date when the claim is actually reported. Defense costs are also a part of the insured expenses covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims. For the majority of our products, defense costs are outside of the policy limit, meaning that the amounts paid for defense costs are not subtracted from the available policy limit.

Factors that can cause reserve uncertainty in estimating reserves in this line include: reporting time lags; the number of parties involved in the underlying tort action; whether the "event" triggering coverage is confined to only one time period or is spread over multiple time periods; the potential dollars involved in the individual claim actions; whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written (i.e., coverage disputes); and the potential for mass claim actions.

Claims with longer reporting time lags may result in greater inherent risk. This is especially true for alleged claims with a latency feature, particularly where courts have ruled that coverage is spread over multiple policy years, hence involving multiple defendants (and their insurers and reinsurers) and multiple policies (thereby increasing the potential dollars involved and the underlying settlement complexity). Claims with long latencies also increase the potential time lag between writing a policy in a certain market and the recognition that such policy has potential mass tort and/or latent claim exposure.

Our reserve for other liability claims at December 31, 2022 was \$757.5 million and consisted of 4,860 claims, compared with \$671.0 million, consisting of 5,113 claims at December 31, 2021. Of the \$757.5 million total reserve for other liability claims, \$117.0 million is identified as defense costs and \$56.1 million is identified as general overhead required in the settlement of claims.

Included in the other liability line of business are gross reserves for construction defect losses and loss settlement expenses. Construction defect is a liability allegation relating to defective work performed in the construction of structures such as commercial buildings, apartments, condominiums, single family dwellings or other housing, as well as the sale of defective building materials. These claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. The reporting of such claims can be delayed, as the statute of limitations can be up to 10 years. Court decisions in recent years have expanded insurers' exposure to construction defect claims. As a result, claims may be reported more than 10 years after a project has been completed, as litigation can proceed for several years before an insurance company is identified as a potential contributor. Claims have also emerged from parties claiming additional insured status on policies issued to other parties, such as contractors seeking coverage from a subcontractor's policy.

In addition to these issues, other variables also contribute to a high degree of uncertainty in establishing reserves for construction defect claims. These variables include: whether coverage exists; when losses occur; the size of each loss; expectations for future interpretive rulings concerning contract provisions; and the extent to which the assertion of these claims will expand geographically. In recent years, we have implemented various underwriting measures that we anticipate will mitigate the amount of construction defect losses experienced. These initiatives include increased care regarding additional insured endorsements; stricter underwriting guidelines on the writing of residential contractors; and an increased utilization of loss control.

Asbestos and Environmental Reserves

Included in the other liability and assumed reinsurance lines of business are reserves for asbestos and other environmental losses and loss settlement expenses. At December 31, 2022 and 2021, we had \$1.9 million and \$2.5 million, respectively, in direct and assumed asbestos and environmental loss reserves. The estimation of loss reserves for environmental claims and claims related to long-term exposure to asbestos and other substances is one of the most difficult aspects of establishing reserves, especially given the inherent uncertainties surrounding such claims. Although we record our best estimate of loss and loss settlement expense reserves, the ultimate amounts paid upon settlement of such claims may be more or less than the amount of the reserves, because of the significant uncertainties involved and the likelihood that these uncertainties will not be resolved for many years.

Commercial Auto Reserves

Commercial auto claim reserves are established at exposure based on information either known and provided or obtained through the investigation, with some pessimism built in. Incorporated are the perspective and experience the claims staff has acquired, which may include assumptions as to how the claim will develop over time, and with a slightly pessimistic view. Exposures are identified and reserves established within 30 to 60 days depending on the complexity of the case.

Workers' Compensation Reserves

Like the other liability line of business, workers' compensation losses and loss settlement expense reserves are based upon variables that create imprecision in estimating the ultimate reserve. Estimates for workers' compensation are particularly sensitive to assumptions about medical cost inflation, which has been steadily increasing over the past few years. Other variables that we consider and that contribute to the uncertainty in establishing reserves for workers' compensation claims include: state legislative and regulatory environments; trends in jury awards; and mortality rates. Because of these variables, the process of reserving for the ultimate loss and loss settlement expense to be incurred requires the use of informed judgment and is inherently uncertain. Consequently, actual loss and loss settlement expense reserves may deviate from our estimates. Such deviations may be significant. Our reserve for workers' compensation claims at December 31, 2022 was \$138.9 million and consisted of 1,414 claims, compared with \$167.1 million, consisting of 2,028 claims, at December 31, 2021.

Reserve Development

The following reserve development section should be read in conjunction with the "Results of Operations for the Years Ended December 31, 2022, 2021 and 2020" section of this Item 7.

In 2022, we recognized an unfavorable development in our net reserves for prior accident years totaling \$12.9 million and favorable \$48.9 million and \$17.7 million in 2021 and 2020, respectively.

Unfavorable development in 2022 was driven by leveraging deeper data insights and emerging claim experience on longer tailed lines where the most uncertainty in the reserving process exists. Our actions were focused on other liability lines, including excess umbrella business and construction defect, where increased loss exposure in these longer tailed businesses are also subject to social and economic inflation. This was offset by continued favorable development in commercial auto which has seen consistent releases over the past two years.

Other factors contributing to our development include: establishing reserves at their ultimate expected loss amount as soon as practicable after information becomes available, which produces, on average, conservative case reserves; using claims negotiation to control the size of settlements; assuming that we have liability for all claims, even though the issue of liability may, in some cases, be resolved in our favor; promoting claims management services to encourage return-to-work programs; case management by nurses for serious injuries and management of medical provider services and billings; and using programs and services to help prevent fraud and to assist in favorably resolving cases.

Based upon our comparison of carried reserves to actual claims experience over the last several years, we believe that using our Company's historical premium and claims data to establish reserves for losses and loss settlement expenses results in adequate and reasonable reserves. Reserve development is discussed in more detail under the heading "Reserve Development" in the "Results of Operations for the Years Ended December 31, 2022, 2021 and 2020" section in this Item 7.

The following table details the pre-tax impact on our property and casualty insurance business' financial results and financial condition of reasonably likely reserve development. Our lines of business that have historically been most susceptible to significant volatility in reserve development have been shown separately and utilize hypothetical levels of volatility of 5.0 percent and 10.0 percent. Our other, less volatile, lines of business have been aggregated and utilize hypothetical levels of volatility of 3.0 percent and 5.0 percent.

<i>(In Thousands)</i>				
Hypothetical Reserve Development Volatility Levels	-10%	-5%	+5%	+10%
Impact on loss and loss settlement expenses				
Other liability	\$ (75,753)	\$ (37,876)	\$ 37,876	\$ 75,753
Workers' compensation	(13,891)	(6,946)	6,946	13,891
Automobile	(31,694)	(15,847)	15,847	31,694
Hypothetical Reserve Development Volatility Levels				
	-5%	-3%	+3%	+5%
Impact on loss and loss settlement expenses				
All other lines	\$ (14,195)	\$ (8,517)	\$ 8,517	\$ 14,195

Independent Actuary

We engage an independent actuarial firm to render an opinion as to the reasonableness of the statutory reserves that are established by management. During 2022 and 2021, we engaged the services of Regnier as our independent actuarial firm for the property and casualty insurance business. We anticipate that this engagement will continue in 2023.

It is management's policy to utilize staff adjusters to develop our estimate of case-basis loss reserves. IBNR and loss settlement expense reserves are established through various formulae that utilize pertinent, recent Company historical data. The calculations are supplemented with knowledge of current trends and events that could result in adjustments to the level of IBNR and loss settlement expense reserves. On a quarterly basis, we compare our estimate of total reserves to the estimates prepared by Regnier by line of business to ensure that our estimates are within the actuary's acceptable range. Regnier performs a review of loss and loss settlement expense reserves at each year end using generally accepted actuarial guidelines to ensure that the recorded reserves appear reasonable. Our reserves for losses and loss settlement expenses, net of reinsurance recoverables, as of December 31, 2022 and 2021 were \$1,350.4 million and \$1,401.4 million, respectively. In 2022 and 2021, after considering the independent actuary's range of reasonable estimates, management believes that carried reserves were reasonable and therefore did not adjust the recorded amount.

Regnier uses four projection methods in its actuarial analysis of our loss reserves and uses two projection methods in its actuarial analysis of our loss settlement expense reserves. Based on the results of the projection methods, the actuaries select an actuarial point estimate of the reserves, which is compared to our carried reserves to evaluate the reasonableness of the carried reserves. The four methods utilized by Regnier to project losses are: paid loss development; reported loss development; expected loss emergence based on paid losses; and expected loss emergence based on reported losses. The two methods utilized by Regnier to project loss expenses are: paid expenses-to-paid loss and paid expense-to-ultimate loss.

Pension and Post-Retirement Benefit Obligations

The process of estimating our pension and post-retirement benefit obligations and related benefit expense is inherently uncertain, and the actual cost of benefits may vary materially from the estimates recorded. These liabilities are particularly volatile due to their long-term nature and are based on several assumptions. The main assumptions used in the valuation of our benefit obligations are: estimated mortality of the employees and retirees eligible for benefits; estimated expected long-term rates of return on investments; estimated compensation increases; estimated employee turnover; estimated medical expense trend rate; and estimated rate used to discount the ultimate estimated liability to a present value. We engage a consulting actuary from Principal Financial Group, an independent firm, to assist in evaluating and establishing assumptions used in the valuation of our benefit obligations.

A change in any one or more of these assumptions is likely to result in an ultimate liability different from the original actuarial estimate. Such changes in estimates may be material. For example, a 100 basis point decrease in our estimated discount rate would increase the benefit obligation at December 31, 2022 by \$28.2 million while a 100 basis point increase in the rate would decrease the benefit obligation \$22.9 million.

A 100 basis point decrease in our estimated long-term rate of return on pension plan assets would increase the benefit expense for the year ended December 31, 2022 by \$2.2 million, while a 100 basis point increase in the rate would decrease benefit expense by \$2.2 million, for the same period.

The post-retirement benefit obligation is \$0 at December 31, 2022 due to the plan closure at the end of 2022.

Recently Issued Accounting Standards

Information specific to accounting standards that we adopted in 2022 or pending accounting standards that we expect to adopt in the future is incorporated by reference from Note 1 "Summary of Significant Accounting Policies" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item 7A is incorporated by reference from Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings "Investments" and "Market Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

United Fire Group, Inc.
Consolidated Balance Sheets

<i>(In Thousands, Except Share Data)</i>	December 31,	
	2022	2021
Assets		
Investments		
Fixed maturities		
Available-for-sale, at fair value (amortized cost \$1,662,680 in 2022 and \$1,656,797 in 2021; allowance for credit losses \$3 in 2022 and \$0 in 2021)	\$ 1,551,336	\$ 1,719,790
Equity securities, at fair value (cost \$75,292 in 2022 and \$84,605 in 2021)	169,106	213,401
Mortgage loans	37,947	47,201
Less: allowance for mortgage loan losses	49	71
Mortgage loans, net	37,898	47,130
Other long-term investments	86,276	84,090
Short-term investments	275	275
	1,844,891	2,064,686
Cash and cash equivalents	96,650	132,104
Accrued investment income	14,480	13,396
Premiums receivable (net of allowance for doubtful accounts of \$1,575 in 2022 and \$781 in 2021)	365,729	316,771
Deferred policy acquisition costs	104,225	91,446
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$59,566 in 2022 and \$60,142 in 2021)	133,113	137,702
Reinsurance receivables and recoverables (net of allowance for credit losses of \$82 in 2022 and \$102 in 2021)	170,953	127,815
Prepaid reinsurance premiums	11,300	9,328
Goodwill and net intangible assets	5,324	6,034
Deferred Tax Asset, net	15,531	—
Income taxes receivable	31,418	32,378
Other assets	88,672	81,061
Total assets	\$ 2,882,286	\$ 3,012,721
Liabilities and stockholders' equity		
Liabilities		
Losses and loss settlement expenses	\$ 1,497,274	\$ 1,514,265
Unearned premiums	474,388	439,733
Accrued expenses and other liabilities	120,510	102,849
Deferred tax liability, net	—	26,753
Long term debt	50,000	50,000
Total liabilities	\$ 2,142,172	\$ 2,133,600
Stockholders' equity		
Common stock, \$0.001 par value; authorized 75,000,000 shares; 25,210,541 and 25,082,104 shares issued and outstanding in 2022 and 2021, respectively	\$ 25	\$ 25
Additional paid-in capital	207,030	203,375
Retained earnings	620,555	621,384
Accumulated other comprehensive income (loss), net of tax	(87,496)	54,337
Total stockholders' equity	\$ 740,114	\$ 879,121
Total liabilities and stockholders' equity	\$ 2,882,286	\$ 3,012,721

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

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

<i>(In Thousands, Except Share Data)</i>	For the Years Ended December 31,		
	2022	2021	2020
Revenues			
Net premiums earned	\$ 951,541	\$ 962,823	\$ 1,055,082
Investment income, net of investment expenses	44,932	55,778	39,670
Net investment gains (losses) (includes reclassifications for net unrealized gains (losses) on available-for-sale securities of \$(1,323) in 2022; \$2,256 in 2021; and \$1,750 in 2020 previously included in accumulated other comprehensive income)	(15,892)	47,383	(32,395)
Other income (loss)	(295)	207	6,270
Total revenues	\$ 980,286	\$ 1,066,191	\$ 1,068,627
Benefits, losses and expenses			
Losses and loss settlement expenses	\$ 637,301	\$ 652,155	\$ 869,467
Amortization of deferred policy acquisition costs	213,075	203,432	210,252
Other underwriting expenses (includes reclassifications for employee benefit costs of \$(3,601) in 2022; \$(6,603) in 2021; and \$(4,289) in 2020 previously included in accumulated other comprehensive income)	114,645	110,574	143,332
Goodwill impairment	—	—	15,091
Interest Expense	3,188	3,187	—
Total benefits, losses and expenses	\$ 968,209	\$ 969,348	\$ 1,238,142
Income (loss) before income taxes	\$ 12,077	\$ 96,843	\$ (169,515)
Federal income tax expense (benefit) (includes reclassifications of \$1,034 in 2022; \$913 in 2021 and \$534 in 2020 previously included in accumulated other comprehensive income)	(2,954)	16,249	(56,809)
Net income (loss)	\$ 15,031	\$ 80,594	\$ (112,706)
Other comprehensive income (loss)			
Change in net unrealized appreciation on investments	\$ (176,181)	\$ (39,901)	\$ 47,054
Change in liability for underfunded employee benefit plans	(8,278)	19,633	18,456
Other comprehensive income (loss), before tax and reclassification adjustments	(184,459)	(20,268)	65,510
Income tax effect	38,736	4,260	(13,757)
Other comprehensive income (loss), after tax, before reclassification adjustments	(145,723)	(16,008)	51,753
Reclassification adjustment for net (gains) losses included in income	1,323	(2,256)	(1,750)
Reclassification adjustment for employee benefit costs included in expense	3,601	6,603	4,289
Total reclassification adjustments, before tax	4,924	4,347	2,539
Income tax effect	(1,034)	(913)	(534)
Total reclassification adjustments, after tax	3,890	3,434	2,005
Comprehensive income (loss)	\$ (126,802)	\$ 68,020	\$ (58,948)
Earnings (loss) per common share:			
Basic	\$ 0.60	\$ 3.21	\$ (4.50)
Diluted	0.59	3.16	(4.50)

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

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

<i>(In Thousands, Except Share Data)</i>	Common Stock			Retaining earnings	Accumulated other comprehensive income (loss)	Total
	Shares outstanding	Common stock	Additional paid-in capital			
Balance, January 1, 2020	25,015,963	\$ 25	\$ 200,179	\$ 697,116	\$ 13,152	\$ 910,472
Net loss	—	—	—	(112,706)	—	(112,706)
Shares repurchased	(70,467)	—	(2,741)	—	—	(2,741)
Stock based compensation	109,983	—	(71)	—	—	(71)
Dividends on common stock (\$1.14 per share)	—	—	—	(28,526)	—	(28,526)
Change in net unrealized investment appreciation ⁽¹⁾	—	—	—	—	35,791	35,791
Change in liability for underfunded employee benefit plans ⁽²⁾	—	—	—	—	17,968	17,968
Cumulative effect of change in accounting principle	—	—	—	(30)	—	(30)
Compensation expense and related tax benefit for stock-based award grants	—	—	4,992	—	—	4,992
Balance, January 1, 2021	25,055,479	\$ 25	\$ 202,359	\$ 555,854	\$ 66,911	\$ 825,149
Net income	—	\$ —	\$ —	\$ 80,594	\$ —	\$ 80,594
Shares repurchased	(67,651)	—	(2,007)	—	—	(2,007)
Stock based compensation	94,276	—	3,023	—	—	3,023
Dividends on common stock (\$0.60 per share)	—	—	0	(15,064)	—	(15,064)
Change in net unrealized investment appreciation ⁽¹⁾	—	—	—	—	(33,301)	(33,301)
Change in liability for underfunded employee benefit plans ⁽²⁾	—	—	—	—	20,727	20,727
Balance, January 1, 2022	25,082,104	\$ 25	\$ 203,375	\$ 621,384	\$ 54,337	\$ 879,121
Net income	—	\$ —	\$ —	\$ 15,031	\$ —	\$ 15,031
Stock based compensation	128,437	—	3,655	—	—	3,655
Dividends on common stock (\$0.63 per share)	—	—	—	(15,860)	—	(15,860)
Change in net unrealized investment appreciation ⁽¹⁾	—	—	—	—	(138,138)	(138,138)
Change in liability for underfunded employee benefit plans ⁽²⁾	—	—	—	—	(3,695)	(3,695)
Balance, December 31, 2022	25,210,541	\$ 25	\$ 207,030	\$ 620,555	\$ (87,496)	\$ 740,114

(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 Consolidated Financial Statements are an integral part of these statements.

United Fire Group, Inc.
Consolidated Statements of Cash Flows

<i>(In Thousands)</i>	For the Years Ended December 31,		
	2022	2021	2020
Cash Flows From Operating Activities			
Net income (loss)	\$ 15,031	\$ 80,594	\$ (112,706)
Adjustments to reconcile net income to net cash provided by operating activities			
Net accretion of bond premium	9,000	13,597	10,444
Depreciation and amortization	7,670	6,570	6,656
Goodwill impairment	—	—	15,091
Stock-based compensation expense	2,826	3,444	4,992
Net investment (gains) losses	15,622	(47,383)	32,395
Net cash flows from trading investments	29,725	38,411	72,753
Deferred income tax benefit	(3,930)	5,632	(17,468)
Changes in:			
Accrued investment income	(1,084)	1,219	567
Premiums receivable	(48,958)	521	40,340
Deferred policy acquisition costs	(12,779)	(4,352)	7,198
Reinsurance receivables	(43,138)	32,725	(88,171)
Prepaid reinsurance premiums	(1,972)	3,637	(3,415)
Income taxes receivable	960	33,816	(47,004)
Other assets	(8,136)	(43,865)	(7,291)
Losses, claims and loss settlement expenses	(16,991)	(63,866)	156,377
Unearned premiums	34,655	(25,112)	(40,317)
Accrued expenses and other liabilities	12,972	2,430	(6,129)
Deferred income taxes	(652)	(464)	7,521
Other, net	7,928	(7,637)	9,602
Cash from operating activities	(16,282)	(50,677)	154,141
Net cash provided by (used in) operating activities	\$ (1,251)	\$ 29,917	\$ 41,435
Cash Flows From Investing Activities			
Proceeds from sale of available-for-sale investments	\$ 83,559	\$ 180,514	\$ 50,744
Proceeds from call and maturity of available-for-sale investments	184,210	264,237	318,981
Proceeds from short-term and other investments	12,648	6,387	6,494
Purchase of available-for-sale investments	(284,054)	(395,787)	(438,035)
Purchase of mortgage loans	(103)	—	(5,564)
Purchase of short-term and other investments	(13,294)	(9,644)	(6,629)
Net purchases and sales of property and equipment	(2,137)	(13,976)	(18,862)
Net cash provided by (used in) investing activities	\$ (19,171)	\$ 31,731	\$ (92,871)
Cash Flows From Financing Activities			
Borrowings of long-term debt	\$ —	\$ —	\$ 50,000
Payment of cash dividends	(15,860)	(15,064)	(28,526)
Repurchase of common stock	—	(2,007)	(2,741)
Issuance of common stock	828	(421)	(71)
Net cash provided by (used in) financing activities	\$ (15,032)	\$ (17,492)	\$ 18,662
Net Change in Cash and Cash Equivalents	\$ (35,454)	\$ 44,156	\$ (32,774)
Cash and Cash Equivalents at Beginning of Year	132,104	87,948	120,722
Cash and Cash Equivalents at End of Year	\$ 96,650	\$ 132,104	\$ 87,948
Supplemental Disclosures of Cash Flow Information			
Income taxes paid	\$ 21,548	\$ 5,360	\$ 138
Interest paid	\$ 3,188	\$ 3,187	\$ —

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United Fire Group, Inc. ("UFG", "United Fire", the "Registrant", the "Company", "we", "us", or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance through a network of independent agencies. Our insurance company subsidiaries are licensed as a property and casualty insurer in 50 states, plus the District of Columbia.

Principles of Consolidation

The accompanying Consolidated Financial Statements include United Fire and its wholly owned subsidiaries: United Fire & Casualty Company, United Real Estate Holdings, LLC, Addison Insurance Company, Lafayette Insurance Company, United Fire & Indemnity Company, United Fire Lloyds, UFG Specialty Insurance Company, Financial Pacific Insurance Company, Franklin Insurance Company, Mercer Insurance Company, Mercer Insurance Company of New Jersey, Inc, McIntyre Cedar UK Limited, Mercer Insurance Company and McIntyre Cedar Corporate Member LLP.

United Fire Lloyds, an affiliate of United Fire & Indemnity Company, is organized as a Texas Lloyds plan, which is an aggregation of underwriters who, under a common name, engage in the business of insurance through a corporate attorney-in-fact. United Fire Lloyds is financially and operationally controlled by United Fire & Indemnity Company, its corporate attorney-in-fact, pursuant to three types of agreements: trust agreements between United Fire & Indemnity Company and certain individuals who agree to serve as trustees; articles of agreement among the trustees who agree to act as underwriters to establish how the Lloyds plan will be operated; and powers of attorney from each of the underwriters appointing a corporate attorney-in-fact, who is authorized to operate the Lloyds plan. Because United Fire & Indemnity Company can name the trustees, the Lloyds plan is perpetual, subject only to United Fire & Indemnity Company's desire to terminate it.

United Fire & Indemnity Company provides all of the statutory capital necessary for the formation of the Lloyds plan by contributing capital to each of the trustees. The trust agreements require the trustees to become underwriters of the Lloyds plan, to contribute the capital to the Lloyds plan, to sign the articles of agreement and to appoint the attorney-in-fact. The trust agreements also require the trustees to pay to United Fire & Indemnity Company all of the profits and benefits received by the trustees as underwriters of the Lloyds plan, which means that United Fire & Indemnity Company has the right to receive 100 percent of the gains and profits from the Lloyds plan. The trustees serve at the pleasure of United Fire & Indemnity Company, which may remove a trustee and replace that trustee at any time. Termination of a trustee must be accompanied by the resignation of the trustee as an underwriter, so that the trustee can obtain the capital contribution from the Lloyds plan to reimburse United Fire & Indemnity Company. By retaining the ability to terminate trustees, United Fire & Indemnity Company possesses the ability to name and remove the underwriters.

United Real Estate Holdings, LLC, formed in 2013, is a wholly owned subsidiary of United Fire & Casualty Company and is organized as an Iowa limited liability corporation, an unincorporated association formed for the purpose of holding United Fire & Casualty Company's ownership in commercial real estate.

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared on the basis of U.S. generally accepted accounting principles ("GAAP"), which differ in some respects from those followed in preparing our statutory reports to insurance regulatory authorities. Our stand-alone and consolidated subsidiary financial statements submitted to insurance regulatory authorities are presented on the basis of accounting practices prescribed or permitted by the insurance departments of the states in which we are domiciled ("statutory accounting principles").

Use of Estimates

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; goodwill impairment; losses and loss settlement expenses; and pension and post-retirement benefit obligations.

Property and Casualty Insurance Business

Premiums written are deferred and recorded as earned premium on a daily pro rata basis over the terms of the respective policies. Unearned premium reserves are established for the portion of premiums written applicable to the unexpired term of insurance policies in force. Premiums receivable are presented net of an estimated allowance for doubtful accounts, which is based on a periodic evaluation of the aging and collectability of amounts due from agents and policyholders.

To establish loss and loss settlement expense reserves, we make estimates and assumptions about the future development of claims. Actual results could differ materially from those estimates, which are subjective, complex and inherently uncertain. When we establish and adjust reserves, we do so given our knowledge at the time of the circumstances and facts of known claims. To the extent that we have overestimated or underestimated our loss and loss settlement expense reserves, we adjust the reserves in the period in which such adjustment is determined.

We record our best estimate of reserves for claim litigation that arises in the ordinary course of business. We consider all of our pending litigation as of December 31, 2022 to be ordinary, routine and incidental to our business.

Segment Information

Our property and casualty insurance business is reported as one business segment. The property and casualty insurance business profit or loss is consistent with consolidated reporting as disclosed on the Consolidated Statements of Income and Comprehensive Income. We analyze the property and casualty insurance business results based on profitability (i.e., loss ratios), expenses and return on equity. The Company's property and casualty insurance business was determined using a management approach to make decisions on operating matters, including allocating resources, assessing performance, determining which products to market and sell, determining distribution networks with insurance agents and monitoring the regulatory environment. The property and casualty insurance business products have similar economic characteristics and use a similar marketing and distribution strategy with our independent agents. We continually evaluate our operations on the basis of both statutory accounting principles prescribed or permitted by our states of domicile and GAAP.

Lloyd's Syndicates

On January 1, 2021, the Company became a member of Lloyd's of London ("Lloyd's") through McIntyre Cedar Corporate Member LLP. As a member of Lloyd's, the Company is required to maintain capital at Lloyd's, referred to as Funds at Lloyd's ("FAL"), to support underwriting of property and casualty and reinsurance business by Syndicate 1492, Syndicate 1729, Syndicate 1969, Syndicate 1971, Syndicate 4747, Syndicate 2988 and Syndicate 1699. At December 31, 2022, the Company's FAL investments were comprised of cash of \$23,661 on deposit with Lloyd's in order to satisfy these FAL requirements.

Reinsurance

Net premiums earned and losses and loss settlement expenses are reported net of reinsurance ceded. Ceded insurance business is accounted for on a basis consistent with the original policies issued and the terms of the reinsurance contracts. Refer to Note 4 "Reinsurance" for a discussion of our reinsurance activities.

Investments

Investments in fixed maturities include bonds and redeemable preferred stocks. Our investments in available-for-sale fixed maturities and trading securities are recorded at fair value. Changes in unrealized appreciation and depreciation, with respect to available-for-sale fixed maturities are reported as a component of accumulated other comprehensive income, net of applicable deferred income taxes, in stockholders' equity. Changes in unrealized appreciation and depreciation, with respect to trading securities, are reported as a component of income.

Investments in equity securities, which include common and non-redeemable preferred stocks are recorded at fair value with changes in value recorded as a component of income.

Other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting.

Included in investments at December 31, 2022 and 2021, are securities on deposit with, or available to, various regulatory authorities as required by law, with fair values of \$92,932 and \$26,196 respectively.

We review all of our investment holdings for appropriate valuation on an ongoing basis. Refer to Note 2 "Summary of Investments" for a discussion of our accounting policy for impairment recognition.

Cash and Cash Equivalents

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

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 that are reported in the accompanying Consolidated Financial Statements.

Property and Casualty Insurance	2022	2021	2020
Recorded asset at beginning of year	\$ 91,446	\$ 87,094	\$ 94,292
Underwriting costs deferred	225,854	207,784	203,054
Amortization of deferred policy acquisition costs	(213,075)	(203,432)	(210,252)
Recorded asset at end of year	\$ 104,225	\$ 91,446	\$ 87,094

Our property and casualty insurance DAC is amortized as premium revenue is recognized. The method followed 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 expected to be incurred and certain other costs expected to be incurred as the premium is earned. This calculation is performed by line of business in a manner consistent with how the policies are currently being marketed and managed.

Property, Equipment and Depreciation

Property and equipment is presented at cost less accumulated depreciation. The following table is a summary of the components of the property and equipment that are reported in the accompanying Consolidated Financial Statements.

	2022	2021
Real estate:		
Land	\$ 80,346	\$ 87,886
Buildings	1,202	2,974
Furniture and fixtures	4,818	6,096
Internally developed software	44,303	37,704
Other computer equipment and software	2,444	3,042
Total property and equipment	\$ 133,113	\$ 137,702

Expenditures for maintenance and repairs on property and equipment are generally expensed as incurred. We periodically review these assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the underlying asset may not be recoverable. A loss would be recognized if the estimated fair value of the asset were less than its carrying value.

Depreciation is computed primarily by the straight-line method over the following estimated useful lives:

	Useful Life
Computer equipment and software	Three years
Furniture and fixtures	Seven years
Internally developed software	Ten years
Leasehold improvements	Shorter of the lease term or useful life of the asset
Real estate	Seven years to thirty-nine years

Depreciation expense totaled \$6,961, \$5,861 and \$5,947 for 2022, 2021 and 2020, respectively.

Goodwill and Other Intangible Assets

Goodwill assets arise as a result of business combinations and consist of the excess of the fair value of consideration paid over the tangible and intangible assets acquired and liabilities assumed. All of our goodwill assets are related to the acquisition of Mercer Insurance Group, Inc. on March 28, 2011. During the third quarter of 2020, we completed our annual quantitative analysis of goodwill. As a result of the quantitative analysis, we impaired the remaining balance of our goodwill of \$15,091 as of September 30, 2020, based on the following factors: (i) disruptions in the equity markets, specifically for property and casualty insurance companies, as a result of the COVID-19 pandemic and due to recent weather-related catastrophes; (ii) recent elevated commercial auto loss ratios and (iii) the fair value of our stock trading significantly below book value. The Company used a weighting of the income and market approaches to determine the fair value of the reporting unit.

Our other intangible assets, which consist primarily of agency relationships, trade names, state insurance licenses, and software, are being amortized by the straight-line method over periods ranging from 2 years to 15 years, with the exception of state insurance licenses, which are indefinite-lived and not amortized. In 2022, 2021 and 2020 we performed a qualitative impairment assessment of our indefinite lived intangible assets. As a result of these assessments, we did not recognize an impairment charge on our intangible assets in 2022, 2021 and 2020. Amortization expense totaled \$709, \$709 and \$709 in 2022, 2021 and 2020, respectively.

Long term debt

The Company executed a private placement debt transaction on December 15, 2020 between United Fire & Casualty Company ("UF&C"), and Federated Mutual Insurance Company, a mutual insurance company domiciled in Minnesota ("Federated Mutual"), and Federated Life Insurance Company, an insurance company domiciled in Minnesota ("Federated Life" and, together with Federated Mutual, the "Note Purchasers").

UFG sold an aggregate \$50,000 of notes due 2040 to the Note Purchasers. One note with a principal amount of \$35,000 was issued to Federated Mutual and one note with a principal amount of \$15,000 was issued to Federated Life subject to the terms of their respective notes. The notes are presented as a Long term debt liability in the Consolidated Balance Sheets and as a financing activity in the Consolidated Statement of Cash Flows. The Company incurred \$24 in debt issuance costs associated with this debt transaction in 2020 which are included in other underwriting expenses in the Consolidated Statements of Income and Comprehensive Income.

Interest payments under the long term debt will be paid quarterly on March 15, June 15, September 15 and December 15 of each year (each such date, an "Interest Payment Date"). The interest rate will equal the rate that corresponds to the A.M. Best Co. (or its successor's) financial strength rating for members of the United Fire & Casualty Pooled Group as of the applicable Interest Payment Date. As of December 31, 2022, interest totaled \$3,188 and is included in accrued expenses and other liabilities in the Consolidated Balance Sheets and as interest expense in the Consolidated Statements of Income and Comprehensive Income. Payment of interest is subject to approval by the Iowa Insurance Division.

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.

The Company performs a quarterly review of its tax positions and makes a determination whether it is more likely than not that the tax position will be sustained upon examination. If, based on this review, it appears not more likely than not that the position will be sustained, the Company will calculate any unrecognized tax benefits and calculate any interest and penalties. At December 31, 2022, 2021, and 2020 the Company did not recognize any liability for unrecognized tax benefits. 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.

Deferred tax assets are reduced by a valuation allowance when management believes it is more likely than not that some, or all, of the deferred taxes will not be realized. After considering all positive and negative evidence of taxable income in the carryback and carryforward periods and our tax planning strategy of holding debt securities with unrealized losses to maturity or recovery, we believe it is more likely than not that all the deferred assets will be realized. As a result, we have no valuation allowance at December 31, 2022 and 2021.

In 2022, 2021, and 2020, we made cash payments for income taxes of \$21,548, \$5,360 and \$138, respectively. In 2022 and 2021, we received federal tax refunds of \$20,789 and \$28,083, respectively, which resulted from the utilization of our net operating losses and net capital loss carryforwards and carrybacks. In 2020, we did not receive a federal tax refund. We made no interest payments in 2022, 2021 and 2020.

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 2018.

Leases

The Company determines if a contract contains a lease at inception of the contract. The Company's inventory of leases consists of operating leases which are recorded as a lease obligation liability disclosed in the "Accrued expenses and other liabilities" line on the Consolidated Balance Sheets and as a lease right-of-use asset disclosed in the "Other assets" line on the Consolidated Balance Sheets. The Company's operating leases consist of office space, vehicles, computer equipment and office equipment. The lease right-of-use asset represents the Company's right to use each underlying asset for the lease term and the lease obligation liability represents the Company's obligation over the lease term. The Company's lease obligation is recorded at the present value of the lease payments based on the term of the applied lease. Short-term leases of 12 months or less are recorded on the Consolidated Balance Sheets and lease payments are recognized on the Consolidated Statements of Income and Comprehensive Income. For more information on leases refer to Note 12 "Lease Commitments."

Variable Interest Entities

The Company and certain related parties are equity investors in one investment in which the Company determined is a variable interest entity ("VIE") as a result of participation in the risks and rewards of the VIE based on the objectives and strategies of the VIE. The VIE is a limited liability company that primarily invests in commercial real estate. The Company and certain related parties are not the primary beneficiary largely due to their inability to influence management or direct the activities that most significantly impact the VIE's economic performance. Based on these facts and circumstances, the Company has a variable interest in the VIE, but has not consolidated the VIE's financial results as it is not the primary beneficiary. The Company's investment is reported in other long-term investments in the Consolidated Balance Sheets and accounted for under the equity method of accounting. The fair value of the VIE at December 31, 2022 was \$2.2 million and there are no future funding commitments.

Stock-Based Compensation

We currently have two equity compensation plans. One plan allows us to grant restricted and unrestricted stock, stock appreciation rights, incentive stock options, and non-qualified stock options to employees. The other plan allows us to grant restricted and non-qualified stock options to non-employee directors.

We utilize the Black-Scholes option pricing method to establish the fair value of non-qualified stock options granted under our equity compensation plans. Our determination of the fair value of stock options on the date of grant using this option-pricing model is affected by our stock price, as well as assumptions regarding a number of complex and subjective variables, which include the expected volatility in our stock price, the expected term of the award, the expected dividends to be paid over the term of the award and the expected risk-free interest rate. Any changes in these assumptions may materially affect the estimated fair value of the award. For our restricted and unrestricted stock awards, we utilize the fair value of our common stock on the date of grant to establish the fair value of the award. Refer to Note 9 "Stock-Based Compensation" for further discussion.

Credit Losses

The Company recognizes credit losses for our available-for-sale fixed-maturity portfolio, reinsurance receivables, mortgage loans and premium receivables by setting up allowances which are remeasured each reporting period and recorded in the Consolidated Statements of Income and Comprehensive Income.

For our available-for-sale fixed-maturity portfolio an allowance for credit losses is recorded net of available-for-sale fixed maturities in the Consolidated Balance Sheets and a corresponding credit loss recognized as a recognized loss or gain in the Consolidated Statements of Income and Comprehensive Income. The Company determines if an allowance for credit losses is recorded based on a number of factors including the current economic conditions, management's expectations of future economic conditions and performance indicators, such as market value versus amortized cost, investment spreads widening or contracting, rating actions, payment and default history. For more information on credit losses and the allowance for credit losses for available-for-sale fixed-maturity portfolio, see Note 2 "Summary of Investments."

An allowance for mortgage loan losses is established based on historical loss information of the collective pool of the Company's commercial mortgage loan investments which have similar risk characteristics. To calculate the allowance for mortgage loan losses, the Company starts with historical loan experience to predict the future expected losses and then layers on a market-linked adjustment. On a quarterly basis, quantitative credit risk metrics, including for example, cash-flows, rent rolls and financial statements are reviewed for each loan to determine if it is performing in line with its expectations. This allowance is presented as a separate line in the Consolidated Balance Sheets beneath the asset value as well as presented net and recorded through "Net investment gains (losses)" in the Consolidated Statements of Income and Comprehensive Income. For more information on credit losses and the allowance for credit losses for our investment in mortgage loans see Note 3 "Fair Value of Financial Instruments."

For reinsurance receivables, the Company's model estimates expected credit loss by multiplying the exposure at default by both the probability of default and loss given default ("LGD"). The LGD is estimated by the rating of the reinsurer, historical relationship with UFG, existence of letters of credit and known regulation the Company may be held accountable for. The ultimate LGD percentage is estimated after considering Moody's experience with unsecured year 1 bond recovery rates from 1983-2017. The allowance calculated as of December 31, 2022 is recorded through the line "Reinsurance receivables and recoverables" in the Consolidated Balance Sheets and through the line "Other underwriting expenses" in the Consolidated Statements of Income and Other Comprehensive Income. As of December 31, 2022, the Company had a credit loss allowance for reinsurance receivables of \$82.

Rollforward of Credit Loss Allowance for Reinsurance Receivable	
	As of December 31, 2022
Beginning balance, January 1, 2022	\$ 102
Recoveries of amounts previously written off, if any	(20)
Ending balance of the allowance for reinsurance receivable, December 31, 2022	\$ 82

With respect to premiums receivable, the Company utilizes an aging method to estimate credit losses. An allowance for doubtful accounts is based on a periodic evaluation of the aging and collectability of amounts due from agents and policyholders. "Premiums receivable" are presented in the Consolidated Balance Sheets net of an estimated allowance for doubtful accounts and recorded through "Other underwriting expenses" in the Consolidated Statements of Income and Comprehensive Income.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period except those resulting from investments by and dividends to stockholders.

Subsequent Events

In the preparation of the accompanying financial statements, the Company has 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 in the Company's financial statements.

Recently Issued Accounting Standards

Accounting Standards Adopted in 2021

Defined Benefit Plans - Disclosures

In August 2018, the FASB issued new guidance which modifies the disclosure requirements for employers that sponsor defined benefit pension and postretirement plans. The new guidance removes the requirement for disclosing the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic

benefit costs in the next year and the sensitivity of postretirement health plans to one-percentage-point changes in medical trend rates. The new guidance is effective for annual periods beginning after December 15, 2020. The Company adopted the new guidance as of January 1, 2021. The new guidance modified disclosures but did not have an impact on the Company's financial position and results of operations.

Income Taxes

In December 2019 the FASB issued new guidance which simplifies the accounting for income taxes by removing certain exceptions to income tax accounting. The amendments also improve consistent application of and simplify GAAP for other areas of income tax accounting. The new guidance clarifies and amends existing guidance, including removing certain requirements that an entity evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction, and requiring an entity to reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The new guidance is effective for annual periods beginning after December 15, 2020. The Company adopted the new guidance as of January 1, 2021. The new guidance did not have an impact on the Company's financial position and results of operations.

Accounting Standards Adopted in 2022

Inflation Reduction Act

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act ("IRA") which, among other changes, created a new corporate alternative minimum tax ("CAMT") based on adjusted financial statement income and imposes a 1% excise tax on corporate stock repurchases. The effective date of these provisions is January 1, 2023. The Company does not expect to be subject to CAMT in 2023 and does not expect the IRA to have an impact on the Company's financial position and results of operations.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

The table that follows is a reconciliation of the amortized cost (cost for equity securities) to fair value of investments in available-for-sale fixed maturity securities, presented on a consolidated basis as of December 31, 2022 and 2021.

December 31, 2022

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	Allowance for Credit Losses	Carrying Value
AVAILABLE-FOR-SALE						
Fixed maturities:						
Bonds						
U.S. Treasury	\$ 15,684	\$ —	\$ 1,009	\$ 14,675	\$ —	\$ 14,675
U.S. government agency	94,092	35	9,721	84,406	—	84,406
States, municipalities and political subdivisions						
General obligations:						
Midwest	61,191	185	263	61,113	—	61,113
Northeast	15,518	18	73	15,463	—	15,463
South	64,851	57	927	63,981	—	63,981
West	87,094	163	712	86,545	—	86,545
Special revenue:						
Midwest	103,107	224	1,065	102,266	—	102,266
Northeast	55,292	76	1,148	54,220	—	54,220
South	184,108	278	3,529	180,857	—	180,857
West	113,594	275	1,657	112,212	—	112,212
Foreign bonds	36,129	—	4,480	31,649	—	31,649
Public utilities	138,752	65	13,406	125,411	—	125,411
Corporate bonds						
Energy	36,507	—	3,298	33,209	—	33,209
Industrials	58,334	62	5,554	52,842	—	52,842
Consumer goods and services	100,539	—	10,598	89,941	—	89,941
Health care	32,987	24	5,419	27,592	—	27,592
Technology, media and telecommunications	67,193	—	7,253	59,940	—	59,940
Financial services	132,849	851	9,408	124,292	3	124,289
Mortgage-backed securities	20,450	—	2,750	17,700	—	17,700
Collateralized mortgage obligations						
Government national mortgage association	97,839	—	13,291	84,548	—	84,548
Federal home loan mortgage corporation	92,366	—	13,528	78,838	—	78,838
Federal national mortgage association	50,272	5	4,891	45,386	—	45,386
Asset-backed securities	3,932	466	145	4,253	—	4,253
Redeemable preferred stocks	—	—	—	—	—	—
Total Available-for-Sale Fixed Maturities	\$1,662,680	\$ 2,784	\$ 114,125	\$ 1,551,339	\$ 3	\$ 1,551,336

December 31, 2021

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value	Allowance for Credit Losses	Carrying Value
AVAILABLE-FOR-SALE						
Fixed maturities:						
Bonds						
U.S. Treasury	\$ 42,425	\$ 216	\$ 718	\$ 41,923	\$ —	\$ 41,923
U.S. government agency subdivisions	60,074	2,155	562	61,667	—	61,667
General obligations:						
Midwest	71,863	2,483	—	74,346	—	74,346
Northeast	22,061	701	—	22,762	—	22,762
South	90,171	3,873	—	94,044	—	94,044
West	93,968	5,110	—	99,078	—	99,078
Special revenue:						
Midwest	114,997	7,292	—	122,289	—	122,289
Northeast	55,811	3,921	—	59,732	—	59,732
South	201,383	14,365	78	215,670	—	215,670
West	126,521	8,128	—	134,649	—	134,649
Foreign bonds	30,314	789	197	30,906	—	30,906
Public utilities	104,008	3,966	481	107,493	—	107,493
Corporate bonds						
Energy	31,011	1,751	81	32,681	—	32,681
Industrials	55,014	2,319	162	57,171	—	57,171
services	71,543	1,912	611	72,844	—	72,844
Health care	27,351	539	461	27,429	—	27,429
Technology, media and telecommunications	55,405	2,958	866	57,497	—	57,497
Financial services	98,352	4,394	131	102,615	—	102,615
Mortgage-backed securities	25,075	167	229	25,013	—	25,013
Collateralized mortgage obligations						
Government national mortgage association	109,968	2,322	1,772	110,518	—	110,518
Federal home loan mortgage corporation	120,911	736	1,658	119,989	—	119,989
Federal national mortgage association	48,246	945	642	48,549	—	48,549
Asset-backed securities	325	600	—	925	—	925
Redeemable preferred stocks	—	—	—	—	—	—
Total Available-for-Sale Fixed Maturities	\$ 1,656,797	\$ 71,642	\$ 8,649	\$1,719,790	\$ —	\$ 1,719,790

Maturities

The amortized cost and fair value of available-for-sale fixed maturity securities at December 31, 2022, 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.

Maturities

December 31, 2022	Available-For-Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 35,745	\$ 35,549
Due after one year through five years	461,716	448,758
Due after five years through 10 years	539,189	501,171
Due after 10 years	361,171	335,136
Asset-backed securities	3,932	4,254
Mortgage-backed securities	20,450	17,700
Collateralized mortgage obligations	240,477	208,771
	\$ 1,662,680	\$ 1,551,339

Net Investment Gains and Losses

Net 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 net investment gains (losses) for 2022, 2021 and 2020, is as follows:

	2022	2021	2020
Net investment gains (losses)			
Fixed maturities:			
Available-for-sale	\$ (1,397)	\$ (277)	\$ 1,787
Allowance for Credit Losses	(3)	5	(5)
Trading securities			
Change in fair value	—	—	(3,314)
Sales	—	—	2,950
Equity securities:			
Change in fair value	(12,802)	30,682	(6,875)
Sales	(1,767)	14,444	(26,906)
Mortgage loans	109	5	(4)
Other long-term assets	(267)	2,780	—
Real Estate	235	(256)	(28)
Total net investment gains (losses)	\$ (15,892)	\$ 47,383	\$ (32,395)

The proceeds and gross realized gains (losses) on the sale of available-for-sale fixed maturity securities for 2022, 2021 and 2020, are as follows:

	2022	2021	2020
Proceeds from sales	\$ 83,559	\$ 180,514	\$ 50,744
Gross realized gains	459	843	1,400
Gross realized losses	1,857	1,120	495

Net investment income for the years ended December 31, 2022, 2021 and 2020, is comprised of the following:

Years Ended December 31,	2022	2021	2020
Investment income:			
Interest on fixed maturities	\$ 48,702	\$ 43,224	\$ 46,478
Dividends on equity securities	5,163	5,031	6,368
Income on other long-term investments			
Investment income	4,742	4,481	1,890
Change in value ⁽¹⁾	(7,930)	9,699	(9,633)
Interest on mortgage loans	1,897	1,995	1,949
Interest on short-term investments	354	18	107
Interest on cash and cash equivalents	740	252	763
Other	780	152	205
Total investment income	\$ 54,448	\$ 64,852	\$ 48,127
Less investment expenses	9,516	9,074	8,457
Net investment income	\$ 44,932	\$ 55,778	\$ 39,670

(1) Represents the change in value of our interests in limited liability partnerships that are recorded on the equity method of accounting.

Funding Commitment

Pursuant to agreements with our limited liability partnership investments, we are contractually committed through July 10, 2030 to make capital contributions upon request of the partnerships. Our remaining potential contractual obligation was \$40,148 at December 31, 2022.

In addition, the Company invested \$25,000 in December 2019 in a limited liability partnership investment fund which is subject to a 3-year lockup with a 60-day minimum notice, with four possible repurchase dates per year, after the 3-year lockup period is met. The fair value of the investment at December 31, 2022 was \$25,187 and there are no remaining capital contributions with this investment.

Credit Risk

An allowance for credit losses is recorded based on a number of factors including the current economic conditions, management's expectations of future economic conditions and performance indicators, such as market value versus amortized cost, investment spreads widening or contracting, rating actions, payment and default history. The following table contains a rollforward of the allowance for credit losses for available-for-sale fixed maturity securities at December 31, 2022:

Rollforward of allowance for credit losses for available-for-sale fixed maturity securities:	
	As of December 31, 2022
Beginning balance, January 1, 2022	\$ —
Additions to the allowance for credit losses for which credit losses were not previously recorded	3
Reductions for securities sold during the period (realized)	—
Writeoffs charged against the allowance	—
Recoveries of amounts previously written off	—
Ending balance, December 31, 2022	\$ 3

Unrealized Appreciation and Depreciation

A summary of changes in net unrealized investment appreciation for 2022, 2021 and 2020, is as follows:

	2022	2021	2020
Change in net unrealized investment appreciation (depreciation)			
Available-for-sale fixed maturities	\$ (174,858)	\$ (42,159)	\$ 45,305
Income tax effect	36,720	8,858	(9,514)
Total change in net unrealized investment appreciation (depreciation), net of tax	\$ (138,138)	\$ (33,301)	\$ 35,791

The following tables summarize our fixed maturity securities that were in an unrealized loss position reported on a consolidated basis at December 31, 2022 and 2021. The securities are presented by the length of time they have been continuously in an unrealized loss position. Non-credit related unrealized losses are recognized as a component of other comprehensive income and represent other market movements that are not credit related, for example, interest rate changes. We have no intent to sell, and it is more likely than not that we will not be required to sell, these securities until the fair value recovers to at least equal our cost basis or the securities mature.

December 31, 2022	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
AVAILABLE-FOR-SALE								
Fixed maturities:								
Bonds								
U.S. Treasury	4	\$ 6,656	\$ 212	4	\$ 8,019	\$ 797	\$ 14,675	\$ 1,009
U.S. government agency	24	70,158	5,606	3	11,242	4,115	81,400	9,721
States, municipalities and political subdivisions								
General obligations:								
Midwest	16	29,089	263	—	—	—	29,089	263
Northeast	4	8,576	73	—	—	—	8,576	73
South	24	48,235	927	—	—	—	48,235	927
West	27	62,652	711	—	—	—	62,652	711
Special revenue:								
Midwest	35	67,101	1,065	—	—	—	67,101	1,065
Northeast	14	37,484	1,148	—	—	—	37,484	1,148
South	58	126,388	3,124	1	866	405	127,254	3,529
West	39	83,622	1,658	—	—	—	83,622	1,658
Foreign bonds	9	21,377	1,861	5	10,272	2,619	31,649	4,480
Public utilities	45	101,867	8,737	9	19,979	4,669	121,846	13,406
Corporate bonds								
Energy	15	28,612	1,930	1	4,597	1,368	33,209	3,298
Industrials	21	43,639	3,542	4	7,049	2,012	50,688	5,554
Consumer goods and services	28	69,320	4,440	7	20,620	6,157	89,940	10,597
Health care	5	9,829	487	6	15,928	4,933	25,757	5,420
Technology, media and telecommunications	23	49,970	3,279	5	9,970	3,974	59,940	7,253
Financial services	40	101,411	6,997	5	11,236	2,208	112,647	9,205
Mortgage-backed securities	38	7,909	1,056	12	9,791	1,693	17,700	2,749
Collateralized mortgage obligations								
Government National Mortgage Association	29	48,898	4,500	12	35,650	8,791	84,548	13,291
Federal Home Loan Mortgage Corporation	21	35,456	5,629	19	43,383	7,900	78,839	13,529
Federal National Mortgage Association	14	24,146	1,281	7	16,674	3,611	40,820	4,892
Asset-backed securities	1	3,452	145	—	—	—	3,452	145
Total Available-for-Sale Fixed Maturities	534	\$1,085,847	\$ 58,671	100	\$225,276	\$ 55,252	\$1,311,123	\$ 113,923

The unrealized losses on our investments in available-for-sale fixed maturities were the result of interest rate movements. We have no intent to sell, and it is more likely than not that we will not be required to sell, these securities until the fair value recovers to at least equal our cost basis or the securities mature.

December 31, 2021	Less than 12 months			12 months or longer			Total		
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	
AVAILABLE-FOR-SALE									
Fixed maturities									
Bonds									
U.S. Treasury	6	\$ 32,166	\$ 630	1	\$ 2,837	\$ 88	\$ 35,003	\$ 718	
U.S. government agency	3	15,023	562	—	—	—	15,023	562	
States, municipalities and political subdivisions									
South	1	1,195	78	—	—	—	1,195	78	
Foreign bonds	4	10,731	147	1	1,952	50	12,683	197	
Public utilities	9	24,238	481	—	—	—	24,238	481	
Corporate bonds									
Energy	1	5,881	81	—	—	—	5,881	81	
Industrials	4	8,902	162	—	—	—	8,902	162	
Consumer goods and services	10	26,367	611	—	—	—	26,367	611	
Health care	3	20,550	461	—	—	—	20,550	461	
Technology, media and telecommunications	4	11,204	739	1	1,906	127	13,110	866	
Financial services	5	13,320	131	—	—	—	13,320	131	
Mortgage-backed securities	12	13,740	229	—	—	—	13,740	229	
Collateralized mortgage obligations									
Government National Mortgage Association	11	48,256	1,752	1	1,032	20	49,288	1,772	
Federal Home Loan Mortgage Corporation	18	50,701	698	7	30,847	960	81,548	1,658	
Federal National Mortgage Association	6	21,806	521	4	5,297	121	27,103	642	
Total Available-for-Sale Fixed Maturities	97	\$ 304,080	\$ 7,283	15	\$ 43,871	\$ 1,366	\$ 347,951	\$ 8,649	

NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Current accounting guidance on fair value measurements includes the application of a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Our financial instruments that are recorded at fair value are categorized into a three-level hierarchy, which is based upon the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (i.e., Level 1) and the lowest priority to unobservable inputs (i.e., Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the financial instrument.

Financial instruments recorded at fair value are categorized in the fair value hierarchy as follows:

- *Level 1:* Valuations are based on unadjusted quoted prices in active markets for identical financial instruments that we have the ability to access.
- *Level 2:* Valuations are based on quoted prices for similar financial instruments, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.

- *Level 3:* Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

We review our fair value hierarchy categorizations on a quarterly basis at which time the classification of certain financial instruments may change if the input observations have changed. Transfers between levels, if any, are recorded as of the beginning of the reporting period.

To determine the fair value of the majority of our investments, we utilize prices obtained from independent, nationally recognized pricing services. We obtain one price for each security. When the pricing services cannot provide a determination of fair value for a specific security, we obtain non-binding price quotes from broker-dealers with whom we have had several years of experience and who have demonstrated knowledge of the subject security. We request and utilize one broker quote per security.

In order to determine the proper classification in the fair value hierarchy for each security where the price is obtained from an independent pricing service, we obtain and evaluate the vendors' pricing procedures and inputs used to price the security, which include unadjusted quoted market prices for identical securities, such as a New York Stock Exchange closing price, and quoted prices for identical securities in markets that are not active. For fixed maturity securities, an evaluation of interest rates and yield curves observable at commonly quoted intervals, volatility, prepayment speeds, credit risks and default rates may also be performed. We have determined that these processes and inputs result in fair values and classifications consistent with the applicable accounting guidance on fair value measurements.

When possible, we use quoted market prices to determine the fair value of fixed maturities, equity securities, trading securities and short-term investments. When quoted market prices do not exist, we base estimates of fair value on market information obtained from independent pricing services and brokers or on valuation techniques that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument. Our valuation techniques are discussed in more detail throughout this section.

The mortgage loan portfolio consists entirely of commercial mortgage loans. The fair value of our mortgage loans is determined by modeling performed by our third party fund manager based on the stated principal and coupon payments provided for in the loan agreements. These cash flows are then discounted using an appropriate risk-adjusted discount rate to determine the security's fair value.

Our other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting. The fair value of the partnerships is obtained from the fund managers, which is based on the fair value of the underlying investments held in the partnerships. In management's opinion, these values represent a reasonable estimate of fair value. We have not adjusted the net asset value provided by the fund managers.

For cash and cash equivalents and accrued investment income, carrying value is a reasonable estimate of fair value due to the short-term nature of these financial instruments.

The Company formed a rabbi trust in 2014 to fund obligations under the United Fire & Casualty Company Non-qualified Deferred Compensation Plan and United Fire Group Supplemental Executive Retirement and Deferral Plan (collectively the "Executive Retirement Plans"). Within the rabbi trust, corporate-owned life insurance ("COLI") policies are utilized as an investment vehicle and source of funding for the Company's Executive Retirement Plans. The COLI policies invest in mutual funds, which are priced daily by independent sources. As of December 31, 2022, the cash surrender value of the COLI policies was \$10,588, which is equal to the fair value measured using Level 2 inputs, based on the underlying assets of the COLI policies, and is included in other assets in the Consolidated Balance Sheets.

A summary of the carrying value and estimated fair value of our financial instruments from at December 31, 2022 and 2021 is as follows:

	December 31, 2022		December 31, 2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets				
Investments				
Fixed maturities:				
Available-for-sale securities	\$ 1,551,339	\$ 1,551,336	\$ 1,719,790	\$ 1,719,785
Equity securities	169,106	169,106	213,401	213,401
Mortgage loans	35,302	37,898	48,815	47,130
Other long-term investments	86,276	86,276	84,090	84,090
Short-term investments	275	275	275	275
Cash and cash equivalents	96,650	96,650	132,104	132,104
Corporate-owned life insurance	10,588	10,588	10,755	10,755
Liabilities				
Long term debt	36,168	50,000	46,047	50,000

The following tables present the categorization for our financial instruments measured at fair value on a recurring basis. The tables include financial instruments at December 31, 2022 and 2021:

Description	December 31, 2022	Fair Value Measurements		
		Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	\$ 14,675	\$ —	\$ 14,675	\$ —
U.S. government agency	84,406	—	84,406	—
States, municipalities and political subdivisions				
General obligations				
Midwest	61,113	—	61,113	—
Northeast	15,463	—	15,463	—
South	63,981	—	63,981	—
West	86,545	—	86,545	—
Special revenue				
Midwest	102,266	—	102,266	—
Northeast	54,220	—	54,220	—
South	180,857	—	180,857	—
West	112,212	—	112,212	—
Foreign bonds	31,649	—	31,649	—
Public utilities	125,411	—	125,411	—
Corporate bonds				
Energy	33,209	—	33,209	—
Industrials	52,842	—	52,842	—
Consumer goods and services	89,941	—	89,941	—
Health care	27,592	—	27,592	—
Technology, media and telecommunications	59,940	—	59,940	—
Financial services	124,292	—	118,617	5,675
Mortgage-backed securities	17,700	—	17,700	—
Collateralized mortgage obligations				
Government national mortgage association	84,548	—	84,548	—
Federal home loan mortgage corporation	78,838	—	78,838	—
Federal national mortgage association	45,386	—	45,386	—
Asset-backed securities	4,253	—	3,452	801
Redeemable preferred stocks	—	—	—	—
Total Available-for-Sale Fixed Maturities	\$ 1,551,339	\$ —	\$ 1,544,863	\$ 6,476
EQUITY SECURITIES				
Public utilities	14,846	14,846	—	—
Energy	19,743	19,743	—	—
Industrials	27,163	27,163	—	—
Consumer goods and services	43,139	43,139	—	—
Health care	7,981	7,981	—	—
Technology, media and telecommunications	28,213	28,213	—	—

Financial services		28,021		28,021		—		—
Nonredeemable preferred stocks		—		—		—		—
Total Equity Securities	\$	169,106	\$	169,106	\$	—	\$	—
Short-Term Investments	\$	275	\$	275	\$	—	\$	—
Money Market Accounts	\$	31,289	\$	31,289	\$	—	\$	—
COLI	\$	10,588	\$	—	\$	10,588	\$	—
Total Assets Measured at Fair Value	\$	1,762,597	\$	200,670	\$	1,555,451	\$	6,476

Description	Fair Value Measurements			
	December 31, 2021	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	\$ 41,923	\$ —	\$ 41,923	\$ —
U.S. government agency	61,667	—	61,667	—
States, municipalities and political subdivisions				
General obligations				
Midwest	74,346	—	74,346	—
Northeast	22,762	—	22,762	—
South	94,044	—	94,044	—
West	99,078	—	99,078	—
Special revenue				
Midwest	122,289	—	122,289	—
Northeast	59,732	—	59,732	—
South	215,670	—	215,670	—
West	134,649	—	134,649	—
Foreign bonds	30,906	—	30,906	—
Public utilities	107,493	—	107,493	—
Corporate bonds				
Energy	32,681	—	32,681	—
Industrials	57,171	—	57,171	—
Consumer goods and services	72,844	—	72,844	—
Health care	27,429	—	27,429	—
Technology, media and telecommunications	57,497	—	57,497	—
Financial services	102,615	—	102,465	150
Mortgage-backed securities	25,013	—	25,013	—
Collateralized mortgage obligations				
Government national mortgage association	110,518	—	110,518	—
Federal home loan mortgage corporation	119,989	—	119,989	—
Federal national mortgage association	48,549	—	48,549	—
Asset-backed securities	925	—	—	925
Total Available-for-Sale Fixed Maturities	\$ 1,719,790	\$ —	\$ 1,718,715	\$ 1,075
Equity securities				
Public utilities	\$ 17,940	\$ 17,940	\$ —	\$ —
Energy	13,593	13,593	—	—
Industrials	31,400	31,400	—	—
Consumer goods and services	56,233	56,233	—	—
Health care	13,845	13,845	—	—
Financial Services	33,973	33,973	—	—
Technology, media and telecommunications	45,822	45,822	—	—
Nonredeemable preferred stocks	595	—	—	595
Total Equity Securities	\$ 213,401	\$ 212,806	\$ —	\$ 595

Short-Term Investments	\$	275	\$	275	\$	—	\$	—
Money Market Accounts	\$	43,351	\$	43,351	\$	—	\$	—
Corporate-Owned Life Insurance	\$	10,755	\$	—	\$	10,755	\$	—
Total Assets Measured at Fair Value	\$	1,987,572	\$	256,432	\$	1,729,470	\$	1,670

The fair value of securities that are categorized as Level 1 is based on quoted market prices that are readily and regularly available.

We use a market-based approach for valuing all of our Level 2 securities and submit them primarily to a third-party valuation service provider. Any of these securities not valued by this service provider are submitted to another third-party valuation service provider. Both service providers use a market approach to find pricing of similar financial instruments. The market inputs our service providers normally seek to value our securities include the following, listed in approximate order of priority: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. The method and inputs for these securities classified as Level 2 are the same regardless of industry category, credit quality, duration, geographical concentration or economic characteristics. For our mortgage-backed securities, collateralized mortgage obligations and asset-backed securities, our service providers use additional market inputs to value these securities, including the following: new issue data, periodic payment information, monthly payment information, collateral performance and real estate analysis from third parties. Our service providers prioritize inputs based on market conditions, and not all inputs listed are available for use in the valuation process for each security on any given day.

At least annually, we review the methodologies and assumptions used by our valuation service providers and verify that they are reasonable and representative of the fair value of the underlying securities held in the investment portfolio. We validate the prices obtained from independent pricing services and brokers prior to their use for reporting purposes by evaluating their reasonableness on a monthly basis. In addition, on a quarterly basis, we also test all securities in the portfolio and independently corroborate the valuations obtained from our third-party valuation service providers. Quarterly, we also perform deep dive analysis of the pricing method used by our third-party valuation service provider by selecting a random sample of securities by asset class and reviewing methodologies. In our opinion, the pricing obtained at December 31, 2022 and 2021 was reasonable.

Securities categorized as Level 3 include holdings in certain private placement fixed maturity and equity securities for which an active market does not currently exist. The fair value of our Level 3 private placement securities is determined by management relying on pricing received from our independent pricing services and brokers consistent with the process to estimate fair value for Level 2 securities. However, securities are categorized as Level 3 if these quotes cannot be corroborated by other market observable data due to the unobservable nature of the brokers' valuation processes. The following table provides a quantitative information about our Level 3 securities at December 31, 2022.

Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at December 31, 2022	Valuation Technique(s)	Unobservable inputs	Range of weighted average significant unobservable inputs
Fixed Maturities corporate	\$ 5,675	Discounted cash flow	Discount Rates	3.5% - 7.5%
Fixed Maturities asset-backed securities	801	Discounted cash flow	Probability of default	4% - 6%

During the twelve month period ended December 31, 2022 and 2021, there was one security transferred in or out of Level 3.

The following table provides a summary of the changes in fair value of our Level 3 securities for 2022:

	Corporate bonds	Asset-backed securities	Equities	Total
Beginning Balance - 01/01/2022	\$ 150	\$ 925	\$ 595	\$ 1,670
Realized gains (loss) ⁽¹⁾	—	—	(595)	(595)
Unrealized gains (losses) ⁽¹⁾	—	(124)	—	(124)
Purchases	—	—	—	—
Disposals	(150)	—	—	(150)
Amortization	—	—	—	—
Transfers in	5,675	—	—	5,675
Transfers out	—	—	—	—
Ending Balance - 12/31/2022	\$ 5,675	\$ 801	\$ —	\$ 6,476

(1) Unrealized gains (losses) are recorded as a component of comprehensive income.

The following table provides a summary of the changes in fair value of our Level 3 securities for 2021:

	Corporate bonds	Asset-backed securities	Equities	Total
Beginning Balance - 01/01/2021	\$ 250	\$ 926	\$ 595	\$ 1,771
Unrealized gains (losses) ⁽¹⁾	—	(1)	—	(1)
Transfers out	(100)	—	—	(100)
Ending Balance - 12/31/2021	\$ 150	\$ 925	\$ 595	\$ 1,670

(1) Unrealized gains (losses) are recorded as a component of comprehensive income.

The fixed maturities reported as disposals relate to the receipt of principal on calls or sinking fund bonds, in accordance with the indentures.

Commercial Mortgage Loans

The following tables present the carrying value of our commercial mortgage loans and additional information at December 31, 2022 and 2021:

Commercial Mortgage Loans		
Loan-to-value	December 31, 2022	December 31, 2021
Less than 65%	\$ 29,231	29,924
65%-75%	8,716	17,277
Total amortized cost	\$ 37,947	\$ 47,201
Valuation allowance	(49)	(71)
Total mortgage loans	\$ 37,898	\$ 47,130

Mortgage Loans by Region				
	December 31, 2022		December 31, 2021	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
East North Central	\$ 3,245	8.6 %	\$ 3,245	6.9 %
Southern Atlantic	9,397	24.7	9,578	20.3
East South Central	7,783	20.5	8,028	17.0
New England	6,588	17.4	6,588	14.0
Middle Atlantic	6,139	16.2	14,789	31.3
Mountain	1,992	5.2	2,227	4.7
West North Central	2,803	7.4	2,746	5.8
Total mortgage loans at amortized cost	\$ 37,947	100.0 %	\$ 47,201	100.0 %

Mortgage Loans by Property Type				
	December 31, 2022		December 31, 2021	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Commercial				
Multifamily	\$ 8,493	22.4 %	\$ 16,986	36.0 %
Office	11,267	29.7	11,571	24.5
Industrial	10,056	26.5	10,124	21.5
Retail	1,992	5.2	2,227	4.7
Mixed use/Other	6,139	16.2	6,293	13.3
Total mortgage loans at amortized cost	\$ 37,947	100.0 %	\$ 47,201	100.0 %

Amortized Cost Basis by Year of Origination and Credit Quality Indicator					
	2022	2020	2019	2018	Total
Commercial mortgage loans:					
Risk Rating:					
1-2 internal grade	\$ 102	\$ 5,378	\$ 7,989	\$ 17,890	\$ 31,359
3-4 internal grade	—	—	—	6,588	6,588
5 internal grade	—	—	—	—	—
6 internal grade	—	—	—	—	—
7 internal grade	—	—	—	—	—
Total commercial mortgage loans	\$ 102	\$ 5,378	\$ 7,989	\$ 24,478	\$ 37,947
Current-period write-offs	—	—	—	—	—
Current-period recoveries	—	—	—	—	—
Current-period net write-offs	\$ —	\$ —	\$ —	\$ —	\$ —

Commercial mortgage loans carrying value excludes accrued interest of \$133. As of December 31, 2022, all loan receivables were current, with no delinquencies. The commercial mortgage loans originate with an initial loan-to-value ratio to provide sufficient collateral to absorb losses should a loan be required to foreclose. Mortgage loans are evaluated on a quarterly basis for impairment on an individual basis through a monitoring process and review of key credit indicators, such as economic trends, delinquency rates, property valuations, occupancy and rental rates and loan-to-value ratios. A loan is considered impaired when the Company believes it will not collect the contractual principal and interest set forth in the contractual terms of the loan. An internal grade is assigned to each mortgage loan, with a grade of 1 being the highest and least likely for an impairment and the lowest rating of 7 being the most

likely for an impairment. An allowance for mortgage loan losses is established on each loan recognizing a loss for amounts which we believe will not be collected according to the contractual terms of the respective loan agreement. As of December 31, 2022, the Company had an allowance for mortgage loan losses of \$49, summarized in the following rollforward:

Rollforward of allowance for mortgage loan losses:	
	As of December 31, 2022
Beginning balance, January 1, 2022	\$ 71
Recoveries of amounts previously written off, if any	(22)
Ending balance of the allowance for mortgage loan losses, December 31, 2022	\$ 49

NOTE 4. REINSURANCE

Property and Casualty Insurance Business

Ceded and Assumed Reinsurance

Reinsurance is a contract by which one insurer, called the reinsurer, agrees to cover, under certain defined circumstances, a portion of the losses incurred by a primary insurer if a claim is made under a policy issued by the primary insurer. Our property and casualty insurance companies follow the industry practice of reinsuring a portion of their exposure by ceding to reinsurers a portion of the premium received and a portion of the risk under the policies written. We purchase reinsurance to reduce the net liability on individual risks to predetermined limits and to protect us against catastrophic losses, such as a hurricane or tornado. We do not engage in any reinsurance transactions classified as finite risk reinsurance.

We account for premiums, written and earned, and losses and loss settlement expenses incurred net of reinsurance ceded. The ceding of insurance does not legally discharge us from primary liability under our policies, and we must pay the loss if the reinsurer fails to meet its obligation. We periodically monitor the financial condition of our reinsurers to confirm that they are financially stable. We believe that all of our reinsurers are in an acceptable financial condition and there were no reinsurance balances at December 31, 2022 for which collection is at risk that would result in a material impact on our Consolidated Financial Statements. The amount of reinsurance recoverable on paid losses totaled \$24,160 and \$15,016 at December 31, 2022 and 2021, respectively.

We also assume both property and casualty insurance from other insurance or reinsurance companies.

Premiums and losses and loss settlement expenses related to our ceded and assumed business are as follows:

Years Ended December 31	2022	2021	2020
Ceded Business			
Ceded premiums written	\$ 99,732	\$ 100,541	\$ 88,339
Ceded premiums earned	101,740	92,650	84,924
Loss and loss settlement expenses ceded	89,102	51,878	185,653
Assumed Business			
Assumed premiums written	\$ 190,215	\$ 130,375	\$ 34,371
Assumed premiums earned	163,980	77,283	33,679
Loss and loss settlement expenses assumed	104,096	45,543	29,141

In 2022, we continued to grow our assumed programs by renewing the programs added in 2021 and continuing to diversify our risks in retro treaty, managing general agent, reinsurance intermediary, and financial lines. This increased our assumed written premiums by 45.9 percent and earned premiums by 112.2 percent over the prior year. Losses and loss settlement expenses ceded increased in 2022 due to two lines of business, other liability and fire and allied lines. Other liability is seeing more recoveries due to inflationary pressures and fire and allied lines has seen an increase in severity, with both of these issues driving increasing ceded recovery.

In 2021, we renewed our participation in all of our 2020 assumed programs. We also grew our assumed book significantly by signing on to new programs in various channels; including retro treaty, managing general agent, reinsurance intermediary, and financial lines. Losses and loss settlement expenses ceded decreased in 2021 as compared to 2020, primarily due to the Midwest derecho in August 2020, the recovery of the all lines aggregate program in 2020, and a decrease in severity of commercial property and workers' compensation losses.

In 2020, we renewed our participation in all of our assumed programs. Losses and loss settlement expenses ceded increased in 2020 as compared to 2019, primarily due to the August Midwest derecho, the recovery of the all lines

aggregate program and increase in severity of commercial property and workers' compensation losses.

Refer to Note 5 "Reserves for Losses and Loss Settlement Expenses" for an analysis of changes in our overall property and casualty insurance reserves.

Reinsurance Programs and Retentions

We have several programs that provide reinsurance coverage. This reinsurance coverage limits the risk of loss that we retain by reinsuring direct risks in excess of our retention limits. The following table provides a summary of our primary reinsurance programs. Retention amounts reflect the accumulated retentions and co-participation of all layers within a program. For 2022 we decided not to renew the all lines aggregate excess loss program. In its place we added the pillared occurrence program in the table below. Another new program for 2022 was the addition of the earthquake quota share program. For 2021, there was an all lines annual aggregate excess of loss program with variable retention of 7.02 percent of gross net earned premium with a minimum retention of \$58.5 million and a maximum of \$71.5 million. Our all lines aggregate recovery is also limited to \$30.0 million and 65.0 percent of the program was placed. For 2020, there was an all lines annual aggregate excess of loss program with variable retention of 6.37 percent of gross net earned premium with a minimum retention of \$58.5 million and a maximum of \$71.5 million. Our all lines aggregate recovery is also limited to \$30.0 million and 75.0 percent of the program was placed. For 2020, the Company recovered the maximum of \$22.5 million from the all lines annual aggregate excess of loss program.

Type of Reinsurance	2022 Reinsurance Programs					
	Stated Retention		Limits		Coverage	
Casualty excess of loss	\$	3,000	\$	60,000	100 %	of \$ 57,000
Property excess of loss		3,000		25,000	100 %	of \$ 22,000
Surety excess of loss		1,500		45,000	100 %	of \$ 43,500
Property catastrophe, excess		15,000		180,000	100 %	of \$ 165,000
Boiler and machinery		N/A		50,000	100 %	of \$ 50,000
Pillared Occurrence Program		5,000		15,000	100 %	of \$ 10,000
Earthquake Quota Share Program		N/A		180,000	100 %	of \$ 180,000

Type of Reinsurance	2021 Reinsurance Programs					
	Stated Retention		Limits		Coverage	
Casualty excess of loss	\$	2,500	\$	60,000	100 %	of \$ 57,500
Property excess of loss		2,500		25,000	100 %	of \$ 22,500
Surety excess of loss		1,500		45,000	100 %	of \$ 43,500
Property catastrophe, excess		20,000		250,000	100 %	of \$ 230,000
Boiler and machinery		N/A		50,000	100 %	of \$ 50,000

Type of Reinsurance	2020 Reinsurance Programs					
	Stated Retention		Limits		Coverage	
Casualty excess of loss	\$	2,500	\$	60,000	100 %	of \$ 57,500
Property excess of loss		2,500		25,000	100 %	of \$ 22,500
Surety excess of loss		1,500		45,000	100 %	of \$ 43,500
Property catastrophe, excess		20,000		250,000	100 %	of \$ 230,000
Boiler and machinery		N/A		50,000	100 %	of \$ 50,000

If we incur catastrophe losses and loss settlement expenses that exceed the coverage limits of our reinsurance program, our property catastrophe program provides one guaranteed reinstatement. In such an instance, we are

required to pay the reinsurers a reinstatement premium equal to the full amount of the original premium, which will reinstate the full amount of reinsurance available under the property catastrophe program.

NOTE 5. RESERVES FOR LOSSES AND LOSS SETTLEMENT EXPENSES

Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property or the loss of its income-producing abilities. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases, casualty insurance also obligates the insurance company to provide a defense for the insured in litigation, arising out of events covered by the policy.

Liabilities for losses and loss settlement expenses reflect management's best estimates at a given point in time of what we expect to pay for claims that have been reported and those that have been incurred but not reported ("IBNR"), based on known facts, circumstances, and historical trends. Because property and casualty insurance reserves are estimates of the unpaid portions of incurred losses that have been reported to us, as well as losses that have been incurred but not reported, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses and related loss settlement expenses may vary materially from recorded amounts. We regularly update our reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported as a component of losses and loss settlement expenses incurred in the period such changes are determined.

The determination of reserves (particularly those relating to liability lines of insurance that have relatively longer lag in claim reporting) requires significant work to reasonably project expected future claim reporting and payment patterns. If, during the course of our regular monitoring of reserves, we determine that coverages previously written are incurring higher than expected losses, we will evaluate an appropriate response that may include, among other things, increasing the related reserves. Any adjustments we make to reserves are reflected in operating results in the year in which we make those adjustments. We engage an independent actuary, Regnier Consulting Group, Inc. ("Regnier"), to render an opinion as to the reasonableness of our statutory reserves annually. The actuarial opinion is filed in those states where we are licensed.

On a quarterly basis, United Fire's team of actuaries performs a detailed actuarial review of IBNR reserves. This review includes a comparison of results from the most recent analysis of reserves completed by both our internal and external actuaries. Senior management meets with our actuarial team to review, on a regular and quarterly basis, the adequacy of carried reserves based on results from this actuarial analysis. There are two fundamental types or sources of IBNR reserves. We record IBNR reserves for "normal" types of claims and also specific IBNR reserves related to unique circumstances or events. A major hurricane is an example of an event that might necessitate establishing specific IBNR reserves because an analysis of existing historical data would not provide an appropriate estimate.

Our IBNR methodologies and assumptions are reviewed periodically, but changes are infrequent. In response to an increase in severity of losses and an increase in distracted driving claims, we revised our commercial automobile assumptions, resulting in an increase to our carried loss IBNR. We also reviewed our methodology and assumptions in our product liability line, associated with our construction defects business, and assumptions due to improvement in development patterns related to the statute of limitations on accident years that have matured 13 to 15 years which haven't developed to the extent we initially expected. Besides the changes to our assumptions used for our commercial automobile line and product liability line, we continually review and revise items affecting our projections of required reserves for unpaid loss and LAE. Items reviewed and revised include development factors for paid and reported loss, paid development factors for allocated LAE, and the ratios of paid unallocated LAE to paid loss.

We do not discount loss reserves based on the time value of money.

The following table provides an analysis of changes in our property and casualty losses and loss settlement expense reserves for 2022, 2021 and 2020 (net of reinsurance amounts):

Years Ended December 31,	2022	2021	2020
Gross liability for losses and loss settlement expenses at beginning of year	\$ 1,514,265	\$ 1,578,131	\$ 1,421,754
Ceded losses and loss settlement expenses	(112,900)	(131,843)	(68,536)
Net liability for losses and loss settlement expenses at beginning of year	\$ 1,401,365	\$ 1,446,288	\$ 1,353,218
Losses and loss settlement expenses incurred for claims occurring during			
Current year	\$ 624,411	\$ 701,064	\$ 887,119
Prior years	12,890	(48,909)	(17,652)
Total incurred	\$ 637,301	\$ 652,155	\$ 869,467
Losses and loss settlement expense payments for claims occurring during			
Current year	\$ 215,891	\$ 277,115	\$ 354,635
Prior years	472,377	419,963	421,762
Total paid	\$ 688,268	\$ 697,078	\$ 776,397
Net liability for losses and loss settlement expenses at end of year	\$ 1,350,399	\$ 1,401,365	\$ 1,446,288
Ceded losses and loss settlement expenses(1)	146,875	112,900	131,843
Gross liability for losses and loss settlement expenses at end of year	\$ 1,497,274	\$ 1,514,265	\$ 1,578,131

There are a multitude of factors that can impact loss reserve development. Those factors include, but are not limited to: historical data, the potential impact of various loss reserve development factors and trends including historical loss experience, legislative enactments, judicial decisions, legal developments in imposition of damages, experience with alternative dispute resolution, results of our medical bill review process, the potential impact of salvage and subrogation and changes and trends in general economic conditions, including the effects of inflation. All of these factors influence our estimates of required reserves and for long tail lines these factors can change over the course of the settlement of the claim. However, there is no precise method for evaluating the specific monetary impact of any individual factor on the development of reserves.

Generally, we base reserves for each claim on the estimated ultimate exposure for that claim. We believe that it is appropriate and reasonable to establish a best estimate for reserves within a range of reasonable estimates, especially when we are reserving for claims for bodily injury, disabilities and similar claims, for which settlements and verdicts can vary widely. Our reserving philosophy may result in favorable reserve development in future years that may decrease losses and loss settlement expenses for prior year claims in the year of adjustment. We realize that this philosophy, coupled with what we believe to be aggressive and successful claims management and loss settlement practices, has resulted in year-to-year redundancies in reserves. We believe our approach produces recorded reserves that are reasonably consistent as to their relative position within a range of reasonable reserves from year-to-year. However, conditions and trends that have affected the reserve development for a given year do change. Therefore, such development cannot be used to project future reserve redundancies or deficiencies.

We are not aware of any significant contingent liabilities related to environmental issues. Because of the type of property coverage we write, we have potential exposure to environmental pollution, mold and asbestos claims. Our underwriters are aware of these exposures and use riders or endorsements to limit exposure.

Reserve Development

The significant drivers of the unfavorable reserve development in 2022 were commercial other liability and commercial fire and allied lines. This was offset partially by favorable development in commercial automobile, workers compensation and fidelity and surety. The unfavorable development in commercial other liability was due to paid loss and LAE which was greater than reductions in reserves for unpaid loss and LAE. Emerging claim experience and deeper data insights during 2022 pointed to an increase in loss exposure on these longer tailed businesses driven in part by social and economic inflation. Commercial fire and allied developed unfavorably due to paid loss and LAE which was greater than reductions in reserves for unpaid loss and LAE driven by catastrophe losses and increased severity on non-catastrophe claims. The favorable development for commercial automobile was from both loss and LAE where reductions of reserves for unpaid liabilities were more than sufficient to offset actual paid loss and paid LAE reductions in reserves for IBNR claims also contributed favorable development in addition to LAE where reductions in reserves were more than sufficient to offset payments.

The significant drivers of the favorable reserve development in 2021 were commercial automobile along with a favorable contribution from workers' compensation. This favorable development was partially offset by unfavorable development from commercial other liability. Favorable development for both commercial automobile and workers' compensation was from both loss and LAE. Reserve reductions for unpaid loss and LAE were more than sufficient to offset payments. Commercial other liability was adversely affected by reserve strengthening for reported claims and reserve strengthening for incurred but unreported claims. Commercial other liability reserve strengthening resulted in unfavorable development because paid loss exceeded the reduction in unpaid claim reserves but favorable development for LAE partially offset the unfavorable loss development.

The significant drivers of the favorable reserve development in 2020 were workers' compensation, commercial fire and allied lines, fidelity and surety and personal automobile. The favorable development for workers' compensation was primarily from reductions in reserves for reported claims which were more than sufficient to offset paid loss. Reductions in reserves for IBNR claims also contributed favorable development in addition to LAE where reductions in reserves were more than sufficient to offset payments. Commercial fire and allied lines developed favorably because reductions in reserves for reported claims combined with reductions in reserves for IBNR claims were more than sufficient to offset paid loss. LAE also contributed favorable development with reductions in reserves more than sufficient to offset payments. Fidelity and surety loss developed favorably because a reduction in reserves for IBNR claims was more than sufficient to offset both paid loss and increases in reserves for reported claims. The personal automobile line of business developed favorably because reductions of reserves for reported claims combined with reductions of reserves for IBNR claims were more than sufficient to offset paid loss. LAE also contributed favorable development with reductions in reserves more than sufficient to offset payments. Much of the favorable development was offset by unfavorable development from three lines: commercial liability, reinsurance assumed and commercial automobile. The commercial liability line of business experienced unfavorable development due to paid loss which was greater than reductions in reserves for unpaid loss. LAE developed favorably and partially offset the unfavorable loss development. The unfavorable development for reinsurance assumed was due to paid loss which was greater than reductions in reserves for unpaid loss. The commercial automobile line of business experienced unfavorable development because paid loss was greater than reductions in reserves for unpaid loss, but a portion of the unfavorable loss development was offset by favorable development from LAE where payments were more than offset by reductions of reserves for unpaid LAE. On an all lines combined basis, favorable development is attributable to LAE which continues to benefit from additional litigation management efforts.

The following tables provide information about incurred and paid losses and loss settlement expense development as of December 31, 2022, net of reinsurance, as well as cumulative development, cumulative claim frequency and IBNR liabilities. Claim data for Mercer Insurance Group, Inc., which was acquired on March 28, 2011, is presented retrospectively.

The cumulative number of reported claims, for calendar year 2022, 2021 and 2020, are counted for all lines of business on a per claimant per coverage basis and a single event may result in multiple claims due to the involvement of multiple individual claimants and/or multiple independent coverages. Claim counts for calendar years 2016 and prior are counted on a per claim and per coverage basis. Claim counts include open claims, claims that have been paid and closed, and reported claims that have been closed without the need for any payment.

Line of business: Commercial other liability	As of December 31, 2022												
	For the years ended December 31,										Total of incurred but not reported liabilities plus expected development claims	Cumulative reported number of claims	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022			
	<i>(Unaudited)</i>												
	Incurred losses and allocated loss settlement expenses, net of reinsurance												
2013	\$ 104,982	\$ 91,460	\$ 90,502	\$ 86,119	\$ 85,399	\$ 88,816	\$ 86,082	\$ 85,999	\$ 94,808	\$ 92,809	\$ 1,677	(12,173)	6,556
2014		118,928	117,958	106,486	97,809	102,487	105,507	107,417	111,517	111,558	3,675	(7,370)	6,772
2015			137,386	125,307	120,005	127,091	129,945	131,325	132,694	136,161	7,358	(1,225)	7,922
2016				139,144	130,041	136,275	142,397	140,784	148,324	153,491	11,394	14,347	9,332
2017					139,602	139,032	152,547	156,369	159,653	173,092	20,797	33,490	9,203
2018						163,059	172,894	176,496	187,841	197,696	22,305	34,637	9,054
2019							149,173	169,344	183,918	179,667	33,160	30,494	8,375
2020								171,013	158,022	162,471	43,607	(8,542)	6,090
2021									145,822	162,359	63,217	16,537	3,106
2022										161,826	91,135		2,100
									Total	\$ 1,531,130			

Cumulative paid losses and allocated loss settlement expenses, net of reinsurance										
For the years ended December 31,										
Line of business: Commercial other liability	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	\$	9,835	25,228	39,953	54,559	65,773	72,115	75,961	78,448	83,491
		\$	10,207	29,679	50,211	70,363	83,109	93,060	96,509	102,042
			11,185	27,182	53,901	74,292	96,339	104,472	109,540	117,734
			13,782	38,184	63,526	88,885	102,757	115,107	126,561	130,075
			17,716	43,172	70,500	91,984	111,085	128,430	130,943	128,430
			16,200	44,772	79,168	105,515	130,943	102,510	72,179	102,510
			18,221	46,986	17,011	43,596	60,114	33,642	12,434	33,642
			10,468	10,468	10,468	10,468	10,468	10,468	10,468	10,468
		Total	\$	901,216	16,140	646,054	646,054	646,054	646,054	646,054
			All outstanding liabilities for unpaid losses and loss settlement expenses before 2013, net of reinsurance	16,140	16,140	16,140	16,140	16,140	16,140	16,140
			Liabilities for unpaid losses and loss settlement expenses, net of reinsurance	646,054	646,054	646,054	646,054	646,054	646,054	646,054

Line of business: Commercial fire and allied		Incurred losses and allocated loss settlement expenses, net of reinsurance										As of December 31, 2022			
		For the years ended December 31,										Total of incurred but not reported liabilities plus expected development on reported claims			Cumulative development
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2021	2022			
	<i>(Unaudited)</i>														
2013	\$ 91,521	\$ 88,550	\$ 91,498	\$ 92,212	\$ 93,826	\$ 93,858	\$ 92,988	\$ 92,855	\$ 93,498	\$ 93,246	\$ 93,498	\$ 93,246	\$ 47	1,725	6,679
2014		126,216	131,198	128,762	128,185	128,503	126,811	127,068	128,180	128,491	128,180	128,491	167	2,275	7,952
2015			103,177	108,293	110,633	108,235	105,218	104,646	105,043	104,978	105,043	104,978	107	1,801	7,596
2016				147,473	144,208	143,721	143,724	143,108	144,109	145,351	144,109	145,351	331	(2,122)	9,874
2017					155,139	160,240	160,946	161,693	161,232	161,456	161,232	161,456	627	6,317	13,502
2018						143,280	146,951	146,378	146,010	147,356	146,010	147,356	624	4,076	10,776
2019							164,030	155,482	158,475	157,667	158,475	157,667	837	(6,363)	11,185
2020								207,207	201,391	202,930	201,391	202,930	2,033	(4,277)	14,583
2021									156,794	169,669	156,794	169,669	10,090	12,875	5,253
2022										161,776		161,776	35,947		3,797
									Total	\$ 1,472,920		\$ 1,472,920			

Line of business: Commercial fire and allied																								
Cumulative paid losses and allocated loss settlement expenses, net of reinsurance																								
For the years ended December 31,																								
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022														
	\$	59,331	\$	78,226	\$	82,853	\$	86,115	\$	89,200	\$	91,493	\$	92,012	\$	92,472	\$	93,200	\$	93,068				
				84,456		113,663		116,750		122,370		123,697		125,745		126,307		127,883		128,033				
						67,217		90,454		95,515		101,367		104,115		103,975		104,127		104,339				
								92,895		125,962		132,429		137,909		139,353		141,104		142,248				
										99,484		137,058		145,900		152,219		157,512		159,286				
												92,770		123,559		133,703		137,794		141,841				
														100,980		136,084		142,342		150,196				
																128,704		173,055		192,903				
																		97,451		140,406				
																				96,160				
																					Total			
																					\$	1,348,480		
																						All outstanding liabilities for unpaid losses and loss settlement expenses before 2013, net of reinsurance	1,991	
																						Liabilities for unpaid losses and loss settlement expenses, net of reinsurance	\$	126,432

Line of business: Commercial automobile													
Incurred losses and allocated loss settlement expenses, net of reinsurance										As of December 31, 2022			
Accident Year	For the years ended December 31,									Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative development	Cumulative number of reported claims	
	2013	2014	2015	2016	2017	2018	2019	2020	2021				2022
	<i>(Unaudited)</i>												
2013	\$ 104,356	\$ 98,037	\$ 102,943	\$ 103,726	\$ 104,980	\$ 105,248	\$ 104,886	\$ 106,140	\$ 106,288	\$ 105,130	\$ 146	774	15,530
2014		107,723	106,076	113,720	118,869	120,385	121,077	120,599	119,214	121,311	219	13,588	17,327
2015			125,506	129,816	132,206	138,987	137,395	137,335	136,826	137,240	133	11,734	20,088
2016				174,018	175,357	174,337	175,657	173,823	174,588	175,016	1,138	998	27,306
2017					227,919	224,553	235,110	233,159	233,007	233,535	1,573	5,616	32,895
2018						236,629	245,173	253,045	255,017	255,409	4,010	18,780	34,477
2019							279,229	291,139	289,929	282,154	5,498	2,925	34,725
2020								243,360	216,951	196,412	4,363	(46,948)	24,107
2021									179,880	172,599	10,183	(7,281)	12,212
2022										157,165	29,029	9,226	
									Total	\$ 1,835,971			

Line of business: Commercial automobile																							
Cumulative paid losses and allocated loss settlement expenses, net of reinsurance																							
For the years ended December 31,																							
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022													
	\$	43,592	\$	67,630	\$	79,663	\$	90,780	\$	96,375	\$	100,058	\$	101,580	\$	103,037	\$	103,368	\$	103,773			
				45,704		68,033		87,590		99,922		109,682		113,751		116,843		117,770		118,985			
						50,782		78,225		99,201		118,395		129,317		134,100		135,462		137,075			
								66,013		103,528		128,157		148,224		164,341		168,950		171,380			
										81,311		126,644		166,170		197,893		212,947		223,076			
												81,572		138,092		187,405		211,123		235,519			
														91,919		153,244		205,614		246,800			
																67,660		109,686		138,158			
																		64,381		99,116			
																				62,477			
																				Total	\$	1,536,359	
																					All outstanding liabilities for unpaid losses and loss settlement expenses before 2013, net of reinsurance	56	
																					Liabilities for unpaid losses and loss settlement expenses, net of reinsurance	\$	299,668

Line of business: Workers' compensation		Incurred losses and allocated loss settlement expenses, net of reinsurance										As of December 31, 2022		
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative development	Cumulative number of reported claims
Accident Year	For the years ended December 31,													
	<i>(Unaudited)</i>													
2013	\$ 64,048	\$ 62,579	\$ 56,369	\$ 54,584	\$ 52,761	\$ 51,753	\$ 50,984	\$ 50,349	\$ 49,801	\$ 49,913	\$ 49,913	\$ 248	(14,135)	4,263
2014		64,051	60,729	58,284	56,630	54,636	53,023	52,889	52,388	51,861	51,861	252	(12,190)	4,812
2015			53,788	55,578	51,003	46,682	46,019	44,706	43,751	43,209	43,209	516	(10,579)	5,680
2016				70,419	66,575	61,648	55,168	53,964	52,870	53,090	53,090	709	(17,329)	7,973
2017					76,184	69,528	55,982	51,874	49,362	47,801	47,801	629	(28,383)	8,208
2018						71,972	67,883	59,192	56,109	53,812	53,812	157	(18,160)	8,045
2019							52,136	49,189	49,336	48,945	48,945	(899)	(3,191)	7,384
2020								45,365	46,612	43,724	43,724	(948)	(1,641)	4,524
2021									45,177	42,283	42,283	957	(2,894)	1,808
2022											29,597	7,920		1,151
									Total	\$ 464,235				

Line of business: Workers' compensation																					
Cumulative paid losses and allocated loss settlement expenses, net of reinsurance																					
For the years ended December 31,																					
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022											
	\$	14,136	\$	30,209	\$	38,023	\$	42,941	\$	45,078	\$	47,071	\$	47,572	\$	48,093	\$	48,327	\$	48,424	
				13,965		30,289		38,441		42,964		45,193		45,825		46,299		46,664		47,192	
						12,063		27,304		35,229		38,424		39,305		40,034		41,006		41,211	
								14,413		32,345		40,680		45,743		47,082		48,277		50,127	
										14,647		31,309		38,083		41,672		43,833		45,508	
												16,949		35,369		43,189		47,173		48,807	
														13,582		29,668		38,382		43,044	
																17,603		29,605		35,542	
																		17,949		29,453	
																				9,434	
											Total		\$	398,742							
												All outstanding liabilities for unpaid losses and loss settlement expenses before 2013, net of reinsurance					\$	18,525			
												Liabilities for unpaid losses and loss settlement expenses, net of reinsurance					\$	84,019			

Line of business: Personal	Incurred losses and allocated loss settlement expenses, net of reinsurance										As of December 31, 2022		
	For the years ended December 31,										Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative development	Cumulative number of reported claims
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022			
	\$ 39,232	\$ 38,525	\$ 37,262	\$ 37,086	\$ 36,729	\$ 36,661	\$ 36,486	\$ 36,467	\$ 36,466	\$ 36,466	\$ —	(2,766)	9,253
		53,910	52,661	52,944	52,782	52,615	52,702	52,810	52,854	52,910	16	(1,000)	10,966
			42,848	41,088	40,336	40,368	40,220	40,194	40,189	40,190	12	(2,658)	9,553
				48,072	45,840	45,379	45,961	45,113	45,297	45,199	40	(2,873)	11,905
					60,330	59,342	58,695	58,544	59,023	58,790	81	(1,540)	14,714
						51,639	51,721	52,715	52,062	51,457	108	(182)	13,683
							59,547	58,378	58,745	57,929	250	(1,618)	13,596
								81,206	73,761	73,204	763	(8,002)	17,057
									28,537	26,489	326	(2,048)	2,565
										1,493	656		57
									Total	\$ 444,127			

Cumulative paid losses and allocated loss settlement expenses, net of reinsurance																						
For the years ended December 31,																						
Line of business: Personal	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022												
	\$	25,505	\$	32,788	\$	34,297	\$	35,306	\$	36,155	\$	36,323	\$	36,397	\$	36,466	\$	36,466	\$	36,466	\$	36,466
				37,055		47,912		49,710		51,837		52,018		52,543		52,519		52,526		52,565		52,565
						29,551		37,431		39,027		39,428		39,865		40,029		40,053		40,053		40,053
								32,999		40,910		42,660		44,046		44,618		44,737		44,828		44,828
										42,135		53,111		55,982		57,169		57,824		58,206		58,206
												37,410		47,433		49,464		50,185		50,661		50,661
														40,544		52,390		54,935		56,657		56,657
																54,181		68,124		70,542		70,542
																		20,298		23,829		23,829
																				551		551
																				Total	\$	434,358
																				All outstanding liabilities for unpaid losses and loss settlement expenses before 2013, net of reinsurance		570
																				Liabilities for unpaid losses and loss settlement expenses, net of reinsurance	\$	10,339

The reconciliation of the net incurred and loss development tables to the liability for unpaid losses and loss settlement expenses in the consolidated statement of financial position is as follows.

	December 31, 2022
Net outstanding liabilities for unpaid losses and allocated loss settlement expenses:	
Commercial other liability	\$ 646,054
Commercial fire and allied	126,432
Commercial automobile	299,668
Commercial workers' compensation	84,019
Personal	10,339
All other lines	95,075
Net outstanding liabilities for unpaid losses and allocated loss settlement expenses	1,261,587
Net outstanding liabilities for unpaid unallocated loss settlement expenses	88,252
Fair value adjustment (purchase accounting adjustment for Mercer acquisition)	560
Liabilities for unpaid losses and loss settlement expenses, net of reinsurance	1,350,399
Reinsurance recoverable on unpaid losses and allocated loss settlement expenses:	
Commercial other liability	55,381
Commercial fire and allied	19,423
Commercial automobile	2,607
Commercial workers' compensation	44,588
Personal	918
All other lines	24,494
Reinsurance recoverable on unpaid losses and allocated loss settlement expenses	147,411
Reinsurance fair value amortization (purchase accounting adjustment for Mercer acquisition)	(536)
Total reinsurance recoverable on unpaid losses and loss settlement expenses	146,875
Total gross liability for unpaid losses and loss settlement expenses	\$ 1,497,274

The following is supplementary information about average historical claims duration as of December 31, 2022.

Average annual percentage payout of incurred claims by age, net of reinsurance										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	<i>(Unaudited)</i>									
Commercial other liability	9.0 %	15.1 %	16.0 %	15.4 %	12.1 %	8.0 %	4.6 %	4.6 %	3.2 %	4.6 %
Commercial fire and allied	62.6 %	22.4 %	5.3 %	4.1 %	2.3 %	1.2 %	0.5 %	0.6 %	0.4 %	(0.1)%
Commercial automobile	36.5 %	20.8 %	15.8 %	12.0 %	7.8 %	3.5 %	1.6 %	1.1 %	0.7 %	0.4 %
Commercial workers' compensation	31.5 %	32.1 %	15.7 %	8.6 %	3.4 %	2.5 %	1.9 %	0.7 %	0.7 %	0.2 %
Personal	68.8 %	18.7 %	4.0 %	2.5 %	1.2 %	0.6 %	0.1 %	0.1 %	— %	— %

NOTE 6. STATUTORY REPORTING, CAPITAL REQUIREMENTS AND DIVIDENDS AND RETAINED EARNINGS RESTRICTIONS

Statutory capital and surplus in regards to policyholders at December 31, 2022, 2021 and 2020 and statutory net income (loss) for the years then ended are as follows:

	Statutory Capital and Surplus	Statutory Net Income (Loss)
2022		
Property and casualty business	\$ 717,709	\$ 43,111
2021		
Property and casualty business	\$ 754,411	\$ 110,827
2020		
Property and casualty business	\$ 671,599	\$ (17,705)

State insurance holding company laws and regulations generally require approval from the insurer's domicile state insurance Commissioner for any material transaction or extraordinary dividend. For property and casualty insurers, a material transaction is defined as any sale, loan, exchange, transfer or guarantee with an affiliate where the aggregate value of the transaction exceeds 25 percent of the insurer's policyholders' surplus or three percent of its admitted assets (measured at December 31 of the preceding year), whichever is less.

The Company executed a \$50,000 surplus note private placement transaction on December 15, 2020 among UF&C and Federated Mutual and Federated Life. See additional details in Note 13 "Debt."

State laws and regulations generally limit the amount of funds that an insurance company may distribute to a parent as a dividend without Commissioner approval. As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at December 31, 2022, our insurance company subsidiary, United Fire & Casualty, is able to make a minimum of \$70.4 million in dividend payments without prior regulatory approval. At December 31, 2022, we were in compliance with applicable state laws and regulations.

We paid dividends to our common shareholders of \$15,860, \$15,064 and \$28,526 in 2022, 2021 and 2020, respectively. Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors, out of funds legally available, and subject to any other restrictions that may be applicable to us.

In 2022, 2021 and 2020, United Fire & Casualty Company received dividends from its wholly owned subsidiaries of \$0, \$0, and \$62,400, respectively. In 2022, 2021 and 2020, United Fire & Casualty Company paid dividends to United Fire Group, Inc. totaling \$12,000, \$10,000 and \$4,000, respectively. These intercompany dividend payments are eliminated for reporting in our Consolidated Financial Statements.

Our property and casualty subsidiaries are required to prepare and file statutory-basis financial statements in conformity with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director. The accounting principles used to prepare these statutory-basis financial statements follow prescribed or

permitted accounting practices that differ from GAAP. Prescribed statutory accounting principles include state laws, regulations and general administrative rules issued by the state of domicile, as well as a variety of publications and manuals of the NAIC. Permitted accounting practices encompass all accounting practices not prescribed, but allowed by the state of domicile. No material permitted accounting practices were used to prepare our statutory-basis financial statements during 2022, 2021 and 2020. Statutory accounting principles primarily differ from GAAP in that policy acquisition and certain sales inducement costs are charged to expense as incurred, goodwill is amortized, life insurance reserves are established based on different actuarial assumptions and the values reported for investments, pension obligations and deferred taxes are established on a different basis.

We are directed by the state insurance departments' solvency regulations to calculate a required minimum level of statutory capital and surplus based on insurance risk factors. The risk-based capital results are used by the NAIC and state insurance departments to identify companies that merit regulatory attention or the initiation of regulatory action. United Fire & Casualty Company and its property and casualty insurance subsidiaries and affiliates had statutory capital and surplus in regards to policyholders well in excess of their required levels at December 31, 2022.

NOTE 7. FEDERAL INCOME TAX

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100 percent of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company has considered the implications of the CARES Act on its tax provision and has included an income tax benefit of \$18,562 as the result of this Act in 2020.

Federal income tax expense (benefit) is composed of the following:

Years Ended December 31,	2022	2021	2020
Current	\$ 1,627	\$ 11,081	\$ (46,861)
Deferred	(4,581)	5,168	(9,948)
Total	\$ (2,954)	\$ 16,249	\$ (56,809)

A reconciliation of income tax expense (benefit) computed at the applicable federal tax rate of 21.0 percent in 2022, 2021 and 2020 to the amount recorded in the accompanying Consolidated Statements of Income and Comprehensive Income is as follows:

Years Ended December 31,	2022	2021	2020
Computed expected income tax expense (benefit)	\$ 2,536	\$ 20,337	\$ (35,598)
The CARES Act	—	—	(18,562)
Tax-exempt municipal bond interest income	(3,115)	(3,412)	(3,669)
Nontaxable dividend income	(378)	(361)	(517)
Goodwill impairment	—	—	3,169
Compensation	582	770	695
Research & development credit	(1,591)	(1,545)	(2,045)
Other, net	(988)	460	(282)
Consolidated federal income tax expense (benefit)	\$ (2,954)	\$ 16,249	\$ (56,809)

We measure certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is 21.0 percent. The significant components of our net deferred tax liability at December 31, 2022 and 2021 are as follows:

December 31,	2022	2021
Deferred tax liabilities		
Net unrealized appreciation on investment securities:		
Equity securities	\$ 19,701	\$ 27,047
All other securities	—	13,229
Deferred policy acquisition costs	21,887	19,204
Investments in partnerships	1,303	3,229
Over funded pension benefit	232	1,214
Prepaid pension cost	5,653	3,725
Net bond discount accretion	238	323
Depreciation	3,996	4,097
Revaluation of investment basis (1)	119	—
Identifiable intangible assets (1)	1,093	1,242
Capitalized Software	3,607	6,351
Other	1,550	2,183
Gross deferred tax liability	59,379	\$ 81,844
Deferred tax assets		
Financial statement reserves in excess of income tax reserves	\$ 22,522	\$ 22,879
Unearned premium adjustment	18,513	17,296
Employee profit sharing	1,624	2,515
Post-retirement benefits other than pensions		2,650
Other-than-temporary impairment of investments	1,109	1,529
Compensation expense related to stock options	1,822	1,989
Nonqualified deferred compensation	2,399	2,574
Net Unrealized Appreciation - all other securities	23,382	
Other	3,539	3,659
Gross deferred tax asset	\$ 74,910	\$ 55,091
Valuation allowance	—	—
Deferred tax asset	\$ 74,910	\$ 55,091
Net deferred tax liability (asset)	\$ (15,531)	\$ 26,753

(1) Related to our acquisition of Mercer Insurance Group, Inc.

Deferred tax assets are reduced by a valuation allowance when management believes it is more likely than not that some, or all, of the deferred taxes will not be realized. After considering all positive and negative evidence of taxable income in the carryback and carryforward periods and our tax planning strategy of holding debt securities with unrealized losses to maturity or recovery, we believe it is more likely than not that all the deferred assets will be realized. As a result, we have no valuation allowance at December 31, 2022 and 2021.

NOTE 8. EMPLOYEE BENEFITS

We offer various benefits to our employees including a non-contributory cash balance pension plan and an employee health and dental benefit plan.

Pension and Post-Retirement Benefit Plans

We offer a non-contributory cash balance pension plan in which all of our employees are eligible to participate after they have completed one year of service, attained 21 years of age and have met the hourly service requirements. Retirement benefits under our cash balance pension plan are based on the number of years of service and level of compensation. Our policy to fund the pension plan on a current basis to not less than the minimum amounts required by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as

amended, is designed to ensure that plan assets will be adequate to provide retirement benefits. We are not required to make a contribution to the pension plan in 2023.

In December 2020, the Company made the decision to amend the non-contributory defined benefit pension plan and put in place a non-contributory cash balance pension plan effective July 1, 2021. All benefits under the former non-contributory defined benefit pension plan stopped accruing on June 30, 2021.

We also offer health and dental benefit plans to all of our eligible employees that is self-funded. We previously offered a fully-funded (post-65) retiree health and dental plan (the "post-retirement benefit plan"). In January 2021, the Company changed the post-retirement benefit plan to a voluntary plan funded exclusively by participants, commencing at the start of 2023. The impact of this decision is reflected in the tables in this note, with a one-time adjustment presented in the line "Special event plan closure" and an additional adjustment in the line "Amortization of prior service credit." The amortization of prior service credits continued through the end of 2022 related to these plan changes. As of December 31, 2022, the post-retirement benefit obligation was \$0.

Investment Policies and Strategies

Our investment policy and objective for the pension plan is to generate long-term capital growth and income by way of a diversified investment portfolio along with appropriate employer contributions, which is intended to allow us to provide for the pension plan's benefit obligation.

The investments held by the pension plan at December 31, 2022 include the following asset categories:

- Fixed income securities, which may include bonds, and convertible securities;
- Equity securities, which may include various types of stock, such as large-cap, mid-cap, small-cap, and international stocks;
- Pooled separate accounts, which includes two separate funds, a core plus bond separate account and a real estate separate account;
- An arbitrage fund, which is a fund that takes advantage of price discrepancies, primarily equity securities, for the same asset in different markets;
- A group annuity contract that is administered by United Life, a former subsidiary of United Fire; and
- Cash and cash equivalents, which include money market funds.

We have an internal investment/retirement committee, which includes our Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, and Chief Operating Officer, all of whom receive monthly information on the value of the pension plan assets and their performance. Quarterly, the committee meets to review and discuss the performance of the pension plan assets as well as the allocation of investments within the pension plan.

As of December 31, 2022, we had six external investment managers that are allowed to exercise investment discretion, subject to limitations, if any, established by the investment/retirement committee. We utilize multiple investment managers in order to maximize the pension plan's investment return while mitigating risk. None of our investment managers uses leverage in managing the pension plan. Annually, the investment/retirement committee meets with each investment manager to review the investment manager's goals, objectives and the performance of the assets they manage. The decision to establish or terminate a relationship with an investment manager is at the discretion of our investment/retirement committee.

We consider historical experience for comparable investments and the target allocations we have established for the various asset categories of the pension plan to determine the expected long-term rate of return, which is an assumption as to the average rate of earnings expected on the pension plan funds invested, or to be invested, by the pension plan, to provide for the settlement of benefits included in the projected pension benefit obligation. Investment securities, in general, are exposed to various risks, such as fluctuating interest rates, credit standing of

the issuer of the security and overall market volatility. Annually, we perform an analysis of expected long-term rates of return based on the composition and allocation of our pension plan assets and recent economic conditions.

The following is a summary of the pension plan's actual and target asset allocations at December 31, 2022 and 2021 by asset category:

Pension Plan Assets	2022	% of Total	2021	% of Total	Target Allocation
Fixed maturity securities - corporate bonds	\$ 18,102	7.9 %	\$ 21,683	7.6 %	0 % - 15 %
Redeemable preferred stock	2,946	1.3	4,633	1.6	0 % - 10 %
Equity securities	134,663	58.6	178,766	63.1	50 % - 70 %
Pooled separate accounts					
Core plus bond separate account fund	16,768	7.3	23,916	8.4	0 % - 40 %
U.S. property separate account fund	28,468	12.4	27,328	9.6	0 % - 25 %
Arbitrage fund	10,831	4.7	10,588	3.7	0 % - 10 %
United Life annuity	12,567	5.5	11,968	4.2	0 % - 10 %
Cash and cash equivalents	5,356	2.3	5,058	1.8	0 % - 10 %
Total plan assets	\$ 229,701	100.0 %	\$ 283,940	100.0 %	

The investment return expectations for the pension plan are used to develop the asset allocation based on the specific needs of the pension plan. Accordingly, equity securities comprise the largest portion of our pension plan assets, as they yield the highest rate of return. The United Life annuity, which is the fifth-largest asset category and was originally written by our former life insurance subsidiary in 1976, provides a guaranteed rate of return. The interest rate on the group annuity contract is determined annually.

The availability of assets held in cash and cash equivalents enables the pension plan to mitigate market risk that is associated with other types of investments and allows the pension plan to maintain liquidity both for the purpose of making future benefit payments to participants and their beneficiaries and for future investment opportunities.

Valuation of Investments

Fixed Maturity and Equity Securities

Investments in equity securities are stated at fair value based upon quoted market prices reported on recognized securities exchanges on the last business day of the year. Purchases and sales of securities are recorded as of the trade date.

The fair value of fixed maturity securities categorized as Level 2 is determined by management based on fair value information reported in the custodial statements received from Plan's investment managers, which is derived from recent trading activity of the underlying security in the financial markets. These securities represent various taxable bonds held by the pension plan. These securities categorized as Level 2 are valued in the same manner as described in Note 3 "Fair Value of Financial Instruments" and have the same controls in place.

Pooled Separate Accounts

The pension plan invests in two pooled separate account funds, a core plus bond separate account fund and a U.S. property separate account fund. Investments in the core plus bond separate account fund are stated at fair value as provided by the administrator of the fund based on the fair value of the underlying assets owned by the fund. The fair value measurement is classified within Level 2 of the fair value hierarchy. The fair value of the investments in the U.S. property separate account fund is provided by the administrator of the fund based on the net asset value of the fund. The net asset value is based on the fair value of the underlying properties included in the fund. The fair value of the underlying properties are based on property appraisals conducted by an independent third party. The fair

value measurement is classified within Level 3 of the fair value hierarchy. We have not adjusted the net asset value provided by the custodian for either fund.

Arbitrage Fund

The fair value of the arbitrage fund is determined based on its net asset value, which is obtained from the custodian and determined monthly with issuances and redemptions of units of the fund made, based on the net asset value per unit as determined on the valuation date. We have not adjusted the net asset value provided by the custodian.

United Life Annuity

The United Life group annuity contract, which is a deposit administration contract, is stated at contract value as determined by United Life. Under the group annuity contract, the plan's investment account is credited with compound interest on the average account balance for the year. The interest rate is equivalent to the ratio of net investment income to mean assets of United Life, net of investment expenses.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of insured cash and money market funds held with various financial institutions. Interest is earned on a daily basis. The fair value of these funds approximates their cost basis due to their short-term nature.

Fair Value Measurement

The following tables present the categorization of the pension plan's assets measured at fair value on a recurring basis at December 31, 2022 and 2021:

Description	December 31, 2022	Fair Value Measurements		
		Level 1	Level 2	Level 3
Fixed maturity securities - corporate bonds	\$ 18,102	\$ —	\$ 18,102	\$ —
Redeemable preferred stock	2,946	2,946	—	—
Equity securities	134,663	134,663	—	—
Pooled separate accounts				
Core plus bond separate account fund	16,768	—	16,768	—
U.S. property separate account fund	28,468	—	—	28,468
Arbitrage fund	10,831	—	10,831	—
Money market funds	5,348	5,348	—	—
Total assets measured at fair value	\$ 217,126	\$ 142,957	\$ 45,701	\$ 28,468

Description	December 31, 2021	Fair Value Measurements		
		Level 1	Level 2	Level 3
Fixed maturity securities - corporate bonds	\$ 21,683	\$ —	\$ 21,683	\$ —
Redeemable preferred stock	4,633	4,633	—	—
Equity securities	178,766	178,766	—	—
Pooled separate accounts				
Core plus bond separate account fund	23,916	—	23,916	—
U.S. property separate account fund	27,328	—	—	27,328
Arbitrage fund	10,588	—	10,588	—
Money market funds	5,053	5,053	—	—
Total assets measured at fair value	\$ 271,967	\$ 188,452	\$ 56,187	\$ 27,328

The fair value of investments categorized as Level 1 is based on quoted market prices that are readily and regularly available.

The fair value of fixed maturity securities categorized as Level 2 is determined by management based on fair value information reported in the custodial statements, which is derived from recent trading activity of the underlying security in the financial markets. These securities represent various taxable bonds held by the pension plan. These securities categorized as Level 2 are valued in the same manner as described in Part II, Item 8, Note 3 "Fair Value of Financial Instruments" and have the same controls in place.

The fair value of the arbitrage fund and bond and mortgage pooled separate account fund are categorized as Level 2 since there are no restrictions as to the pension plan's ability to redeem its investment at the net asset value of the fund as of the reporting date.

The following tables provide a summary of the changes in fair value of the pension plan's Level 3 securities:

	U.S. property separate account fund
Balance at January 1, 2022	\$ 27,328
Unrealized gains	1,140
Balance at December 31, 2022	\$ 28,468

	U.S. property separate account fund
Balance at January 1, 2021	\$ 22,269
Unrealized gains	5,059
Balance at December 31, 2021	\$ 27,328

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires us to make various estimates and assumptions that affect the reporting of net periodic benefit cost, plan assets and plan obligations for each plan at the date of the financial statements. Actual results could differ from these estimates. One significant estimate relates to the calculation of the benefit obligation for each plan. The discount rate assumption uses the Principal© Pension Discount Rate Curve ("Principal© Curve") and reflects the expected future benefit discounted cash flows to determine the present value of the plan benefit obligations as of December 31. The Principal Curve uses pricing and yield information for high quality corporate bonds. We have reviewed the updated curve and materials provided by our external actuaries with regard to the assumptions used in the curve. We will continue to monitor this curve and intend to make changes as appropriate.

The Society of Actuaries ("SOA") is an actuarial organization that periodically reviews mortality data and publishes mortality tables and improvement scales. In October 2019, the SOA released the Pri-2012 mortality tables for private sector retirement plans in the United States. The mortality assumptions are based on the Pri-2012 white collar base rate mortality projected generationally using the Principal Mortality Improvement Scale ("Principal 2022 MI"). The Principal 2022 MI scale is based on latest mortality improvement release, the MIM-2021-v3 application tool issued by SOA in October 2022 with a few user-selected assumptions: 2028 as the ultimate year for age/cohort transition and long-term rate assumptions using sex-distinct and age based rates developed from the latest Social Security Trustee Reports. We have reviewed these updated tables and have updated the mortality assumptions based on this information and also based on research provided by our external actuaries. We will continue to monitor mortality assumptions and intend to make changes as appropriate to reflect additional research and our resulting best estimate of future mortality rates.

Assumptions Used to Determine Benefit Obligations

The following actuarial assumptions were used to determine the reported plan benefit obligations at December 31:

Weighted-average assumptions as of December 31,	Pension Benefits		Post-retirement Benefits	
	2022	2021	2022	2021
Discount rate	5.15 %	2.84 %	N/A	0.48 %
Rate of compensation increase	3.00	3.00	N/A	N/A

Rising interest rates resulted in an increase in the discount rates we use to value our respective plan's benefit obligations at December 31, 2022 compared to December 31, 2021.

Assumptions Used to Determine Net Periodic Benefit Cost

The following actuarial assumptions were used at January 1 to determine our reported net periodic benefit costs for the year ended December 31:

Weighted-average assumptions as of January 1,	Pension Benefits			Post-retirement Benefits		
	2022	2021	2020	2022	2021	2020
Discount rate	2.84 %	2.58 %	3.32 %	0.48 %	2.58 %	3.32 %
Expected long-term rate of return on plan assets	6.70	6.70	6.70	N/A	N/A	N/A
Rate of compensation increase	3.00	2.75	3.00	N/A	N/A	N/A

Assumed Health Care Cost Trend Rates

Years Ended December 31,	Health Care Benefits		Dental Claims	
	2022	2021	2022	2021
Health care cost trend rates assumed for next year	N/A	N/A	N/A	3.00 %
Rate to which the health care trend rate is assumed to decline (ultimate trend rate)	N/A	N/A	N/A	N/A
Year that the rate reaches the ultimate trend rate	N/A	N/A	N/A	N/A

Benefit Obligation and Funded Status

The following table provides a reconciliation of benefit obligations, plan assets and funded status of our plans:

Years Ended December 31,	Pension Benefits		Post-retirement Benefits	
	2022	2021	2022	2021
<i>Reconciliation of benefit obligation</i>				
Benefit obligation at beginning of year	\$ 276,587	\$ 271,744	\$ 960	\$ 31,666
Service cost	4,481	12,082	—	148
Interest cost	7,730	6,911	2	72
Actuarial loss (gain)	(79,303)	(6,593)	(122)	(1,101)
Adjustment for plan amendment	—	(408)	—	—
Special event plan closure	—	—	—	(28,889)
Benefit payments	(7,819)	(7,149)	(840)	(936)
Benefit obligation at end of year ⁽¹⁾	\$ 201,676	\$ 276,587	\$ —	\$ 960
<i>Reconciliation of fair value of plan assets</i>				
Fair value of plan assets at beginning of year	\$ 283,940	\$ 248,735	\$ —	\$ —
Actual return on plan assets	(50,420)	37,354	—	—
Employer contributions	4,000	5,000	840	936
Benefit payments	(7,819)	(7,149)	(840)	(936)
Fair value of plan assets at end of year	\$ 229,701	\$ 283,940	\$ —	\$ —
Funded status at end of year	\$ 28,025	\$ 7,353	\$ —	\$ (960)

(1) For the pension plan, the benefit obligation is the projected benefit obligation. For the post-retirement benefit plan, the benefit obligation is the accumulated post-retirement benefit obligation.

Our accumulated pension benefit obligation was \$201,669 and \$276,518 at December 31, 2022 and 2021, respectively.

The following table displays the effect that the unrecognized prior service cost and unrecognized actuarial loss of our plans had on accumulated other comprehensive income ("AOCI"), as reported in the accompanying Consolidated Balance Sheets:

Years Ended December 31	Pension Benefits		Post-retirement Benefits	
	2022	2021	2022	2021
<i>Amounts recognized in AOCI</i>				
Unrecognized prior service cost	\$ (26,066)	\$ (29,346)	\$ —	\$ (15,085)
Unrecognized actuarial (gain) loss	24,961	35,730	—	2,920
Total amounts recognized in AOCI	\$ (1,105)	\$ 6,384	\$ —	\$ (12,165)

We anticipate amortization of the net actuarial losses for our pension plan in 2023 to be \$207.

Net Periodic Benefit Cost

The components of the net periodic benefit cost for our pension and post-retirement benefit plans are as follows:

Years Ended December 31,	2022	Pension Plan		Post-retirement Benefit Plan		
		2021	2020	2022	2021	2020
Net periodic benefit cost						
Service cost	\$ 4,481	\$ 12,082	\$ 10,829	\$ —	\$ 148	\$ 1,728
Interest cost	7,730	6,911	8,266	2	72	1,014
Expected return on plan assets	(18,891)	(16,807)	(13,539)	—	—	—
Amortization of prior service cost	(3,280)	(3,237)	—	(15,085)	(14,490)	(8,084)
Special event plan closure	—	—	—	(26)	(20,177)	—
Amortization of net loss	777	3,995	3,914	2,824	2,607	375
Net periodic benefit cost	\$ (9,183)	\$ 2,944	\$ 9,470	\$ (12,285)	\$ (31,840)	\$ (4,967)

A portion of the service cost component of net periodic pension and postretirement benefit costs are capitalized and amortized as part of deferred acquisition costs and is included in the income statement line titled "amortization of deferred policy acquisition costs." The portion not related to the compensation and the other components of net periodic pension and postretirement benefit costs are included in the income statement line titled "other underwriting expenses."

Projected Benefit Payments

The following table summarizes the expected benefits to be paid from our plans over the next 10 years:

	2023	2024	2025	2026	2027	2028 - 2032
Pension benefits	\$ 10,880	\$ 10,410	\$ 11,270	\$ 11,940	\$ 12,780	\$ 74,080

NOTE 9. STOCK-BASED COMPENSATION

Non-Qualified Employee Stock Award Plan

The United Fire Group, Inc. 2008 Stock Plan (the "2008 Stock Plan") authorized the issuance of restricted and unrestricted stock awards, stock appreciation rights, incentive stock options, and non-qualified stock options for up to 1,900,000 shares of United Fire common stock to employees. In May 2014, the Registrant's shareholders approved an additional 1,500,000 shares of UFG common stock issuable at any time and from time to time pursuant to the 2008 Stock Plan, among other amendments, and renamed such plan as the United Fire Group, Inc. Stock Plan. In May 2021, the Registrant's shareholders approved an additional 650,000 shares of UFG common stock issuable at any time and from time to time pursuant to the Stock Plan, and among other amendments, renamed such plan as the United Fire Group, Inc. 2021 Stock and Incentive Plan (as amended, the "Stock Plan"). At December 31, 2022, there were 1,342,119 authorized shares remaining available for future issuance. The Stock Plan is administered by the Board of Directors, which determines those employees who will receive awards, when awards will be granted, and the terms and conditions of the awards. The Board of Directors may also take any action it deems necessary and appropriate for the administration of the Stock Plan. Pursuant to the Stock Plan, the Board of Directors may, at its sole discretion, grant awards to our employees who are in positions of substantial responsibility with United Fire.

Options granted pursuant to the Stock Plan are granted to buy shares of United Fire's common stock at the market value of the stock on the date of grant. Options granted prior to March 2017 vest and are exercisable in installments of 20.0 percent of the number of shares covered by the option award each year from the grant date, unless the Board of Directors authorizes the acceleration of vesting. Options granted after March 2017 vest and are exercisable in installments of 33.3 percent of the number of shares covered by the option award each year from the grant date, unless the Board of Directors authorizes the acceleration of vesting. To the extent not exercised, vested option awards accumulate and are exercisable by the awardee, in whole or in part, in any subsequent year included in the option period, but not later than 10 years from the grant date. Restricted and unrestricted stock awards granted pursuant to the Stock Plan are granted at the market value of our common stock on the date of the grant. Restricted stock awards fully vest after three years or five years from the date of issuance, unless accelerated upon the approval of the Board of Directors, at which time United Fire common stock will be issued to the awardee. All awards are generally granted free of charge to the eligible employees of United Fire as designated by the Board of Directors.

The activity in the Stock Plan is displayed in the following table:

	Year Ended	From Inception to
	December 31, 2022	December 31, 2022
Authorized Shares Available for Future Award Grants		
Beginning balance	1,317,819	1,900,000
Additional shares authorized	—	2,150,000
Number of awards granted	(171,385)	(3,622,141)
Number of awards forfeited or expired	195,685	914,260
Ending balance	1,342,119	1,342,119
Number of option awards exercised	51,363	1,533,336
Number of unrestricted stock awards granted	—	10,090
Number of restricted stock awards vested	49,984	267,845

Non-Qualified Non-Employee Director Stock Option and Restricted Stock Plan

The United Fire Group, Inc. Non-Employee Director Stock Plan (formerly known as the 2005 Non-Qualified Non-Employee Director Stock Option and Restricted Stock Plan) (the "Director Stock Plan") authorizes the issuance of restricted stock awards and non-qualified stock options to purchase shares of UFG's common stock to non-employee directors. On May 20, 2020, the Company's shareholders approved amendments to the Director Stock Plan, previously approved by the Company's Board of Directors, to (i) increase the number of shares available for future awards under the Director Stock Plan from 300,000 to 450,000, (ii) extend the expiration date of the Director Stock Plan from December 31, 2020 to December 31, 2029, (iii) allow for the grant of awards of restricted stock units, and

(iv) rename the Director Stock Plan as the "United Fire Group, Inc. Non-Employee Director Stock Plan." At December 31, 2022, the Company had 123,397 authorized shares available for future issuance.

The Board of Directors has the authority to determine which non-employee directors receive awards, when options and restricted stock shall be granted, the option price, the option expiration date, the date of grant, the vesting schedule of options or whether the options shall be immediately vested, the terms and conditions of options and restricted stock (other than those terms and conditions set forth in the plan) and the number of shares of common stock to be issued pursuant to an option agreement or restricted stock agreement (subject to limits set forth in the plan). The Board of Directors may also take any action it deems necessary and appropriate for the administration of the Director Stock Plan.

The activity in the Director Stock Plan is displayed in the following table:

Authorized Shares Available for Future Award Grants	Year Ended December 31, 2022	From Inception to December 31, 2022
Beginning balance	144,352	300,000
Additional authorization	—	150,000
Number of awards granted	(22,860)	(355,238)
Number of awards forfeited or expired	1,905	28,635
Ending balance	123,397	123,397
Number of option awards exercised	8,580	150,581
Number of restricted stock awards vested	18,510	117,001

Stock-Based Compensation Expense

In 2022, 2021 and 2020, we recognized stock-based compensation expense of \$2,827, \$3,441 and \$4,991, respectively. Stock-based compensation expense is recognized over the vesting period of the stock options.

As of December 31, 2022, we had \$3,090 in stock-based compensation expense that has yet to be recognized through our results of operations. We expect this compensation to be recognized in subsequent years according to the following table, except with respect to awards that are accelerated by the Board of Directors, in which case we will recognize any remaining compensation expense in the period in which the awards are accelerated.

2023	1,871
2024	1,031
2025	188
2026	—
Total	\$ 3,090

Analysis of Award Activity

The analysis below details the option award activity for 2022 and the awards outstanding at December 31, 2022, for both of our plans and ad hoc options, which were granted prior to the adoption of the other plans:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	862,688	\$ 36.71		
Granted	62,782	29.51		
Exercised	(59,943)	26.48		
Cancelled/Forfeited	(52,906)	39.22		
Expired	(36,283)	42.60		
Outstanding at December 31, 2022	776,338	\$ 36.47	3.06	\$ 104
Exercisable at December 31, 2022	695,341	\$ 37.02	2.41	\$ 103

Intrinsic value is the difference between our share price on the last day of trading (i.e., December 31, 2022) and the price of the options when granted and represents the value that would have been received by option holders had they exercised their options on that date. These values change based on the fair market value of our shares. The intrinsic value of options exercised totaled \$261, \$133 and \$299 in 2022, 2021 and 2020, respectively.

The analysis below details the award activity for the restricted stock and restricted stock unit awards outstanding at December 31, 2022:

Restricted stock awards	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2022	202,819	\$ 36.92
Granted	131,463	29.96
Vested	(108,401)	35.22
Forfeited	(68,494)	40.87
Non-vested at December 31, 2022	157,387	\$ 30.56

In 2022, 2021 and 2020 we recognized \$2,048, \$2,610 and \$3,734, respectively, in compensation expense related to the restricted stock and restricted stock unit awards. At December 31, 2022, we had \$2,572 in compensation expense that has yet to be recognized through our results of operations related to the restricted stock and restricted stock unit awards. The intrinsic value of the non-vested restricted stock and restricted stock unit awards outstanding totaled \$4,306 and \$4,703 at December 31, 2022 and 2021, respectively.

Assumptions

The weighted-average grant-date fair value of the options granted under our plans has been estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

December 31,	2022	2021	2020
Risk-free interest rate	2.18 %	0.98 %	1.4 %
Expected volatility	40.56 %	56.49 %	22.26 %
Expected option life (in years)	7	7	7
Expected dividends (in dollars)	\$ 0.61	\$ 0.60	\$ 1.32
Weighted-average grant-date fair value of options granted during the year (in dollars)	\$ 10.49	\$ 13.48	\$ 6.96

The following table summarizes information regarding the stock options outstanding and exercisable at December 31, 2022:

Range of Exercise Prices			Options Outstanding		Options Exercisable				
			Number Outstanding (in shares)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable (in shares)	Weighted-Average Exercise Price		
\$	23.96	29.28	190,485	1.88	\$	28.23	188,703	\$	28.25
	29.29	29.59	112,002	6.55		29.47	44,667		29.45
	29.60	40.61	187,133	1.88		35.41	187,133		35.41
	40.62	44.88	154,093	2.71		42.84	154,093		42.84
	44.89	54.26	132,625	3.89		48.28	120,745		48.61
\$	23.96	54.26	776,338	3.06	\$	36.47	695,341	\$	37.02

NOTE 10. SEGMENT INFORMATION

Our property and casualty insurance business is reported as one business segment. The property and casualty insurance business profit or loss is consistent with consolidated reporting as disclosed on the Consolidated Statements of Income and Comprehensive Income. We analyze the property and casualty insurance business results based on profitability (i.e., loss ratios), expenses and return on equity. The Company's property and casualty insurance business was determined using a management approach to make decisions on operating matters, including allocating resources, assessing performance, determining which products to market and sell, determining distribution networks with insurance agents and monitoring the regulatory environment. The property and casualty insurance business products have similar economic characteristics and use a similar marketing and distribution strategy with our independent agents. We continually evaluate our operations on the basis of both statutory accounting principles prescribed or permitted by our states of domicile and GAAP.

Our property and casualty insurance business is comprised of commercial lines insurance, including surety bonds, and assumed reinsurance. The company announced its intent to withdraw from personal lines insurance in 2020 and all remaining exposure is immaterial. All of our property and casualty insurance subsidiaries and our affiliate belong to an intercompany reinsurance pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant's own surplus level. Under such arrangements, the members share substantially all of the insurance business that is written and allocate the combined premiums, losses and expenses based on percentages defined in the arrangement.

The accounting policies of our businesses are the same as those described in Note 1 "Summary of Significant Accounting Policies" to our Consolidated Financial Statements.

Commercial Lines Business

Our primary commercial policies are tailored business packages that include the following coverages: fire and allied lines, other liability, automobile, workers' compensation and surety.

Personal Lines Business

Our personal lines consist primarily of automobile and fire and allied lines coverage, including homeowners.

In May 2020, the Company entered into a renewal rights agreement for our personal lines business, providing our independent insurance agents with the opportunity to transfer their personal lines policies to Nationwide Mutual Insurance Company beginning in the third quarter of 2020. The majority of this transfer was completed by December 31, 2021. There is an immaterial amount of personal lines business remaining primarily in the state of New Jersey as of December 31, 2022. The business remaining in New Jersey is scheduled to lapse by the end of 2025.

Pricing

Pricing levels for our property and casualty insurance products are influenced by many factors, including an estimation of expected losses, the expenses of producing, issuing and servicing business and managing claims, the time value of money associated with such loss and expense cash flows, and a reasonable allowance for profit. We have a disciplined approach to underwriting and risk management that emphasizes profitable growth rather than premium volume or market share. Our insurance company subsidiaries are subject to state laws and regulations regarding rate and policy form approvals. The applicable state laws and regulations establish standards in certain lines of business to ensure that rates are not excessive, inadequate, unfairly discriminatory, or used to engage in unfair price competition. Our ability to increase rates and the relative timing of the process are dependent upon each respective state's requirements, as well as the competitive market environment.

Seasonality

Our property and casualty insurance business experiences some seasonality with regard to premiums written, which are generally highest in January and July and lowest during the fourth quarter. Although we experience some seasonality in our premiums written, premiums are earned ratably over the period of coverage. Losses and loss settlement expenses incurred tend to remain consistent throughout the year, with the exception of catastrophe losses which generally are highest in the second and third quarters. Catastrophes inherently are unpredictable and can occur at any time during the year from man-made or natural disaster events that include, but are not limited to, hail, tornadoes, hurricanes and windstorms.

Premiums Earned

The following table sets forth our net premiums earned:

Years Ended December 31,	2022	2021	2020
Property and casualty insurance business			
Net premiums earned			
Other liability	\$ 302,446	\$ 299,961	\$ 316,098
Fire and allied lines	237,113	253,485	277,515
Automobile	208,399	255,279	324,420
Workers' compensation	56,015	61,690	75,953
Fidelity and surety	37,975	30,989	28,001
Reinsurance assumed	108,462	59,745	30,417
Other	1,131	1,674	2,678
Total net premiums earned	\$ 951,541	\$ 962,823	\$ 1,055,082

Total revenue includes sales to external customers and intercompany sales that are eliminated to arrive at the total revenues as reported in the accompanying Consolidated Statements of Income and Comprehensive Income. We account for intercompany sales on the same basis as sales to external customers.

NOTE 11. EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share gives effect to all dilutive common shares outstanding during the reporting period. The dilutive shares we consider in our diluted earnings per share calculation relate to our outstanding stock options and restricted stock awards.

We determine the dilutive effect of our outstanding stock options using the "treasury stock" method. Under this method, we assume the exercise of all of the outstanding stock options whose exercise price is less than the weighted-average market value of our common stock during the reporting period. This method also assumes that the proceeds from the hypothetical stock option exercises are used to repurchase shares of our common stock at the weighted-average market value of the stock during the reporting period. The net of the assumed stock options exercised and assumed common shares repurchased represents the number of dilutive common shares, which we add to the denominator of the earnings per share calculation.

The components of basic and diluted earnings per share were as follows:

	Years Ended December 31,					
	2022		2021		2020	
<i>(In Thousands Except Share and Per Share Data)</i>	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income (loss)	\$ 15,031	\$ 15,031	\$ 80,594	\$ 80,594	\$ (112,706)	\$ (112,706)
Weighted-average common shares outstanding	25,160,809	25,160,809	25,092,297	25,092,297	25,027,358	25,027,358
Add dilutive effect of restricted stock awards	—	157,387	—	202,809	—	—
Add dilutive effect of stock options	—	—	—	224,620	—	—
Weighted-average common shares	25,160,809	25,318,196	25,092,297	25,519,726	25,027,358	25,027,358
Earnings (loss) per common share	\$ 0.60	\$ 0.59	\$ 3.21	\$ 3.16	\$ (4.50)	\$ (4.50)
Awards excluded from diluted calculation ⁽¹⁾	—	585,853	—	800,903	—	618,379

(1) Outstanding awards that are not "in-the-money" are excluded from the diluted earnings per share calculation because the effect of including them would have been anti-dilutive.

NOTE 12. LEASE COMMITMENTS

The Company determines if a contract contains a lease at inception of the contract by reviewing the facts and circumstances of the contract to determine if a lease is present. The Company has operating leases relating to office space, vehicles, computer equipment, and office equipment, which are recorded as a lease obligation liability disclosed in the "Accrued expenses and other liabilities" line on the Consolidated Balance Sheets and as a lease right-of-use asset disclosed in the "Other assets" line on the Consolidated Balance Sheets. The lease right-of-use asset represents the Company's right to use each underlying asset for the lease term and the lease obligation liability represents the Company's obligation over the lease term. As an accounting policy election, we have elected the practical expedient on not separating lease components from non-lease components to each major asset class.

The Company's lease obligation is recorded at the present value of the lease payments based on the term of the applied lease. The Company has elected to categorize its leases into four categories based on length of lease terms and applies an incremental borrowing rate of interest as of the effective date of adoption or the lease effective date equivalent to a collateralized rate with similar terms. The four categories are as follows: less than three years, three to five years, five to ten years and greater than ten years. The collateralized discount rate used to calculate the present value of future minimum lease payments is based, where appropriate, on the Company's incremental borrowing rate of its credit facility, described in Note 13 "Debt". For leases that existed prior to the adoption of the new accounting guidance on January 1, 2019 or those with terms not similar to the credit facility, the Company has elected to use the remaining lease term based on the four categories noted above as of the date of initial application to measure its incremental borrowing rate. In this case, the incremental borrowing rate is a collateralized rate based on current industry borrowing rates for similar companies with similar ratings.

Lease terms and options vary in the Company's operating leases dependent upon the underlying leased asset. We exclude options to extend or terminate a lease from our recognition as part of our right-of-use assets and lease liabilities until those options are known and/or executed, as we typically do not exercise options to purchase the underlying leased asset. As of December 31, 2022, we have leases with remaining terms of one year to five years, some of which may include no options for renewal and others with options to extend the lease terms from six months to five years.

The components of our operating leases were as follows:

	As of December 31, 2022	As of December 31, 2021
Components of lease expense:		
Operating lease expense	\$ 8,763	7,350
Less sublease income	327	213
Net lease expense	8,436	7,137
Cash flows information related to leases:		
Operating cash outflow from operating leases	8,396	7,206

	As of December 31, 2022	As of December 31, 2021
Balance sheet information for operating leases:		
Operating lease right-of-use assets (Other assets on Consolidated Balance Sheets)	\$ 26,472	\$ 29,823
Operating lease liabilities (Accrued expenses and other liabilities on Consolidated Balance Sheets)	26,924	30,372
Right-of-use assets obtained in exchange for new operating lease liabilities	2,807	17,466
Weighted average remaining lease term	3.81 years	4.54 years
Weighted average discount rate	2.91 %	2.98 %

	As of December 31, 2022	As of December 31, 2021
Maturities of lease liabilities:		
2022	\$ —	\$ 8,299
2023	8,452	7,479
2024	7,007	5,747
2025	6,438	5,132
2026	5,141	4,408
2027	1,315	1,229
Thereafter	—	—
Total lease payments	28,353	32,294
Less imputed interest	(1,429)	(1,922)
Lease liability	\$ 26,924	\$ 30,372

NOTE 13. DEBT

Long Term Debt

The Company executed a private placement debt transaction on December 15, 2020 between UF&C, and Federated Mutual and Federated Life.

UFG sold an aggregate \$50,000 of notes due 2040 to the Note Purchasers. One note with a principal amount of \$35,000 was issued to Federated Mutual and one note with a principal amount of \$15,000 was issued to Federated Life subject to the terms of their respective notes. The Company incurred \$24 in debt issuance costs associated with this debt transaction in 2020.

Interest payments under the long term debt will be paid quarterly on March 15, June 15, September 15 and December 15 of each year (each such date, an "Interest Payment Date"). The interest rate will equal the rate that corresponds to the A.M. Best Co. (or its successor's) financial strength rating for members of the United Fire & Casualty Pooled Group as of the applicable Interest Payment Date, as set forth in the table below. As of December 31, 2022, interest expense totaled \$3,188. Payment of interest is subject to approval by the Iowa Insurance Division.

A.M. Best Co. Financial Strength Rating	Applicable Interest Rate
A+	5.875%
A	6.375%
A-	6.875%
B++ (or lower)	7.375%

Credit Facilities

On March 31, 2020, UF&C a wholly owned subsidiary of the Company, entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent (the "Administrative Agent"), issuing lender, swing-line lender and lender, and the other lenders from time to time party thereto (collectively with Wells Fargo, the "Lenders"), providing for a \$50,000 revolving credit facility, which includes a \$20,000 letter of credit sub-facility and a \$5,000 swing-line loan for working capital and other general corporate purposes. The Credit Agreement is provided by the Lenders on an unsecured basis, and the UF&C has the option to increase the Credit Agreement by \$100,000 if agreed to by the Lenders providing such incremental facility.

The Credit Agreement includes customary events of default, including default in payments of principals, default in payment of other indebtedness, change of control and voluntary and involuntary insolvency proceedings, the occurrence of which would allow the Lenders to accelerate payment of all amounts outstanding thereunder and terminate any further commitments to lend.

The entry into the Credit Agreement was completed as part of the Company's regular course of financial planning and was not initiated as a result of market conditions resulting from the COVID-19 pandemic.

Prior to February 2, 2020, the Company had a credit agreement (the "Previous Credit Agreement") which it entered into on February 2, 2016. The Company, as borrower, entered into the Previous Credit Agreement with the lenders from time to time party thereto and KeyBank National Association ("Key Bank"), as administrative agent, swingline lender and letter of credit issuer. The Previous Credit Agreement provided for a \$50,000 four-year unsecured revolving credit facility that included a \$20,000 letter of credit subfacility and a swingline subfacility in the amount up to \$5,000. The Previous Credit Agreement allowed the Company to increase the aggregate amount of the commitments thereunder by up to \$100,000.

There was no outstanding balance on either the Credit Agreement or the Previous Credit Agreement at December 31, 2022 or 2021, respectively. As of December 31, 2022, we were in compliance with all covenants under the Credit Agreement. We did not incur any interest expense related to the Credit Agreement in 2022 or under our Previous Credit Agreement in 2021 and 2020.

NOTE 14. INTANGIBLE ASSETS

The carrying value of our goodwill was zero at December 31, 2022 and at December 31, 2021, respectively. During the third quarter of 2020, we completed our annual quantitative analysis of goodwill. As a result of the quantitative analysis, we impaired the remaining balance of our goodwill of \$15,091 as of September 30, 2020 based on the following factors: (i) disruptions in the equity markets, specifically for property and casualty insurance companies, as a result of the COVID-19 pandemic and due to recent weather related catastrophes; (ii) recent elevated commercial auto loss ratios; and (iii) the fair value of our stock trading significantly below book value. The Company used a weighting of the income and market approaches to determine the fair value of the reporting unit.

Our major classes of intangible assets are presented in the following table:

	Year Ended December 31,	
	2022	2021
Agency relationships	\$ 10,338	\$ 10,338
Accumulated amortization - agency relationships	(8,462)	(7,884)
	\$ 1,876	\$ 2,454
Trade names	\$ 1,978	\$ 1,978
Accumulated amortization - trade names	(1,550)	(1,418)
	\$ 428	\$ 560
State insurance licenses ⁽¹⁾	\$ 3,020	\$ 3,020
Net intangible assets	\$ 5,324	\$ 6,034

(1) The intangible asset for licenses has an indefinite life and therefore is not amortized.

The estimated useful lives assigned to our major classes of amortizable intangible assets are as follows:

	Useful Life
Agency relationships	Fifteen years
Trade names	Fifteen years

Our estimated aggregate amortization expense for each of the next four years is as follows:

2023	\$	709
2024		709
2025		709
2026		178

NOTE 15. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table shows the changes in the components of our accumulated other comprehensive income (loss), net of tax, for the years ended December 31, 2022, 2021 and 2020:

	Net unrealized appreciation on investments	Liability for underfunded employee benefit costs	Total
Balance as of January 1, 2020	\$ 47,279	\$ (34,127)	\$ 13,152
Change in accumulated other comprehensive income before reclassifications	37,173	14,580	51,753
Reclassification adjustments from accumulated other comprehensive income	(1,382)	3,387	2,005
Balance as of December 31, 2020	\$ 83,070	\$ (16,159)	\$ 66,911
Change in accumulated other comprehensive income before reclassifications	(31,519)	15,511	(16,008)
Reclassification adjustments from accumulated other comprehensive income	(1,782)	5,216	3,434
Balance as of December 31, 2021	\$ 49,769	\$ 4,568	\$ 54,337
Change in accumulated other comprehensive income before reclassifications	(139,183)	(6,540)	(145,723)
Reclassification adjustments from accumulated other comprehensive income	1,045	2,845	3,890
Balance as of December 31, 2022	\$ (88,369)	\$ 873	\$ (87,496)

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of United Fire Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of United Fire Group, Inc. (the Company) as of December 31, 2022 and 2021, the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and financial statement schedules listed in the Index at Item 15(a)2 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 28, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Valuation of reserves for property and casualty loss and loss settlement expenses

*Description of
the Matter*

At December 31, 2022, the Company's reserves for losses and loss settlement expenses was \$1.5 billion, of which \$373.4 million related to Incurred But Not Reported (IBNR) reserves. As described in Note 5 to the consolidated financial statements, liability for losses and loss settlement expenses reflect management's best estimates at a given point in time of what is expected to be paid for claims that have been reported and those that have been incurred but not reported, based on known facts, circumstances, and historical trends. There is significant uncertainty and subjectivity inherent in determining management's best estimates of the ultimate cost of losses, which is used to determine IBNR reserves.

Auditing management's estimate of IBNR reserves was complex due to the highly judgmental nature of management's selection of methods and assumptions used to develop those estimates. In particular, the estimates are sensitive to assumptions and the weighting of methodologies that are used to project the ultimate cost of losses.

*How We
Addressed the
Matter in Our
Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the reserving process, including, among others, the review and approval processes that management has in place for the methods and assumptions used in estimating the reserves.

To test the estimated IBNR reserves we, including our actuarial specialists, performed audit procedures that included, among others, evaluating management's selection and weighting of actuarial methods and assumptions by comparing to those used in prior periods and those used in the industry. We compared management's best estimate of reserves to our independently calculated range of reasonable reserve estimates and assessed the development of prior year reserves. We also evaluated the results of the reserve analysis prepared by management's independent third-party actuary for comparison to management's best estimate.

/s/ Ernst & Young LLP

Ernst & Young LLP

We have served as the Company's auditor since 2002.

Des Moines, Iowa
February 28, 2023

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Co-Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Co-Chief Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this report, were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of United Fire Group, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. United Fire Group, Inc.'s internal control over financial reporting is a process designed under the supervision of its Chief Executive Officer and Co-Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its Consolidated Financial Statements for external purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2022, United Fire Group, Inc.'s management assessed the effectiveness of United Fire Group Inc.'s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, United Fire Group, Inc.'s management determined that effective internal control over financial reporting was maintained as of December 31, 2022, based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the Consolidated Financial Statements of United Fire Group, Inc. included in this Annual Report on Form 10-K, has audited the effectiveness of internal control over financial reporting as of December 31, 2022. Their attestation report, which expresses an unqualified opinion on the effectiveness of United Fire Group, Inc.'s internal control over financial reporting as of December 31, 2022, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
United Fire Group, Inc.

Opinion on Internal Control over Financial Reporting

We have audited United Fire Group, Inc.'s (the Company) internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of United Fire Group, Inc. as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2022 of the Company and our report dated February 28, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Annual Report. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Ernst & Young LLP

Des Moines, Iowa

February 28, 2023

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the fiscal year to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We believe our operational processes, internal controls over financial reporting and disclosures, and financial reporting systems are operating effectively in the present environment. Since 2020, our business teams have moved to a hybrid working environment and continue to support our customers, agents and claimants regardless of working location.

Based on our evaluation, there have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15 and 15d-15) that occurred during the fiscal quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 regarding the Company's executive officers is included in "Information About Our Executive Officers" under Part I, Item 1 "Business" of this report.

The information required by this Item regarding our directors and corporate governance matters is included under the captions "Board of Directors," subheading "Corporate Governance" and "Proposal One-Election of Directors," in our definitive proxy statement for our annual meeting of shareholders to be held on May 17, 2023 (the "2023 Proxy Statement") and is incorporated herein by reference.

The information regarding our Code of Ethics is included under the caption "Board of Directors," subheading "Corporate Governance," subpart "Code of Ethics" in our 2023 Proxy Statement and is incorporated herein by reference.

The information required by this Item regarding compliance with Section 16(a) of the Exchange Act is included under the caption "Delinquent Section 16(a) Reports" in our 2023 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this Item regarding our executive compensation and our Compensation Committee Report is included under the caption "Executive Compensation" in our 2023 Proxy Statement and is incorporated herein by reference. The information required by this Item regarding Compensation Committee interlocks and insider participation is included under the caption "Board of Directors," subheading "Committees of the Board," subheading "Compensation Committee," subpart "Compensation Committee Interlocks and Insider Participation" in our 2023 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this Item is included under the captions "Security Ownership of Certain Beneficial Owners," "Security Ownership of Management" and "Equity Compensation Plan Information" in our 2023 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required under this Item is included under the captions "Board of Directors" and "Transactions with Related Persons" in our 2023 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required under this Item is included under the caption "Proposal Two - Ratification of the Audit Committee's Appointment of Independent Registered Public Accounting Firm," subheading "Information About Our Independent Registered Public Accounting Firm" in our 2023 Proxy Statement and is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

We have filed the following documents as part of this Annual Report on Form 10-K:

	Page
<u>(a) 1. Financial Statements</u>	
<u>Consolidated Balance Sheets at December 31, 2022 and 2021</u>	<u>64</u>
<u>Consolidated Statements of Income and Comprehensive Income for the three years ended December 31, 2022</u>	<u>65</u>
<u>Consolidated Statement of Stockholders' Equity for the three years ended December 31, 2022</u>	<u>66</u>
<u>Consolidated Statements of Cash Flows for the three years ended December 31, 2022</u>	<u>67</u>
<u>Notes to Consolidated Financial Statements</u>	<u>69</u>
<u>(a) 2. Financial Statement Schedules required to be filed by Item 8 of this Form:</u>	
<u>Schedule I. Summary of Investments — Other than Investments in Related Parties</u>	<u>142</u>
<u>Schedule II. Condensed Financial Statements of Parent Company</u>	<u>143</u>
<u>Schedule III: Supplementary Insurance Information</u>	<u>146</u>
<u>Schedule IV: Reinsurance</u>	<u>147</u>
<u>Schedule V: Valuation and Qualifying Accounts</u>	<u>148</u>
<u>Schedule VI: Supplemental Information Concerning Property and Casualty Insurance Operations</u>	<u>149</u>
All other schedules have been omitted as not required, not applicable, not deemed material or because the information is included in the Consolidated Financial Statements.	

(a) 3. Exhibit Index:

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference			
			Form	Period ended	Exhibit	Filing date
2.1†	<u>Stock Purchase Agreement, dated as of September 18, 2017, between United Fire & Casualty Company and Kuvare US Holdings, Inc., including the exhibits attached thereto (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, Filed on September 19, 2017).</u>		8-K		2.1	9/19/2017
3.1	<u>Articles of Incorporation of United Fire Group, Inc.</u>		S-4		Annex II	5/25/2011
3.2	<u>Articles of Amendment to Articles of Incorporation of United Fire Group, Inc.</u>		8-K/A		3.1	5/26/2015
3.3	<u>Bylaws of United Fire Group, Inc.</u>		S-4		Annex III	5/25/2011
4.1	<u>Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934</u>		10-K	12/31/2019	4.1	2/28/2020
10.1 *	<u>United Fire & Casualty Company Employee Stock Purchase Plan, Amended and Restated as of November 16, 2007</u>		10-K	12/31/2007	10.2	2/27/2008
10.2 *	<u>United Fire & Casualty Company Non-Employee Director Stock Plan</u>		8-K		10.1	5/22/2020
10.3 *	<u>United Fire Group, Inc. Amended and Restated Annual Incentive Plan</u>		10-K	12/31/2011	10.4	3/15/2012
10.4 *	<u>United Fire & Casualty Company Non-qualified Deferred Compensation Plan</u>		10-Q	9/30/2007	10.3	10/25/2007
10.5 *	<u>United Fire Group, Inc. 2021 Stock and Incentive Plan (the "Stock Plan")</u>		8-K		10.1	5/21/2021
10.6 *	<u>Form of Non-qualified Stock Option Agreement pursuant to the United Fire & Casualty Company, Inc. Nonqualified Employee Stock Option Plan</u>		10-K	12/31/2007	10.7	2/27/2008
10.7 *	<u>Form of Stock Option Issued Pursuant to the 2005 Non-Qualified Non-Employee Director Stock Option and Restricted Stock Plan</u>		10-K	12/31/2007	10.8	2/27/2008
10.8 *	<u>Form of Stock Award Agreement Under the Stock Plan</u>		8-K		99.2	5/22/2008
10.9 *	<u>Form of Non-Qualified Stock Option Agreement for the Purchase of Stock under the Stock Plan</u>		8-K		99.3	5/22/2008
10.10 *	<u>Form of Incentive Stock Option Agreement for the Purchase of Stock under the Stock Plan</u>		8-K		99.4	5/22/2008
10.11 *	<u>Amendment to Non-qualified Stock Option Agreements for John A. Rife pursuant to the Stock Plan</u>		8-K/A		99.1	2/24/2009
10.12 *	<u>Form of United Fire Group, Inc. Restricted Stock Agreement Under the 2005 Non-Qualified Non-Employee Director Stock Option Plan</u>		10-K	12/31/2011	10.14	3/15/2012
10.13 *	<u>Form of United Fire Group, Inc. Restricted Stock Agreement Under the 2005 Non-Qualified Non-Employee Director Stock Option Plan</u>		10-Q	6/30/2016	10.1	8/3/2016
10.14 *	<u>United Fire Group, Inc. Plan for Allocation of Equity Compensation to Management Team</u>		10-K	12/31/2011	10.15	3/15/2012

(a) 3. Exhibit Index (continued):

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference			
			Form	Period ended	Exhibit	Filing date
10.15	* <u>Deferred Compensation Plan for United Fire Group, Inc. Non-Employee Directors</u>		8-K		10.1	11/19/2012
10.16	* <u>Executive Nonqualified Excess Plan</u>		8-K		10.1	5/22/2014
10.17	* <u>Executive Nonqualified "Excess Plan" Adoption Agreement</u>		8-K		10.2	5/22/2014
10.18	* <u>United Fire & Casualty Company Rabbi Directed Trust Agreement</u>		8-K		10.3	5/22/2014
10.19	* <u>Form of United Fire Group, Inc. Change in Control Severance Agreement</u>		8-K		10.4	5/22/2014
10.20	* <u>Amendment Number One to United Fire & Casualty Company Nonqualified Deferred Compensation Plan</u>		8-K		10.5	5/22/2014
10.21	* <u>Form of Non-Qualified Employee Stock Option Agreement for Purchase of Stock Under the United Fire Group, Inc. 2008 Stock Plan</u>		10-Q	6/30/14	10.7	8/5/2014
10.22	* <u>Form of Stock Award Agreement under the United Fire Group, Inc. Stock Plan</u>		10-Q	6/30/14	10.8	8/5/2014
10.23	* <u>Form of Stock Award Agreement (Restricted Stock Units-Performance Units) Under the Stock Plan</u>		10-Q	3/31/17	10.1	5/3/2017
10.24	<u>Credit Agreement dated as of March 31, 2020, by and among United Fire & Casualty Company, as borrower, the lenders referred to therein and Wells Fargo Bank National Association, as administrative agent and swingline lender and issuing lender and Wells Fargo Securities, LLC as sole lead arranger and sole bookrunner.</u>		8-K		10.1	4/2/2020
10.25	* <u>Form of Stock Award Agreement (Restricted Stock Units) under the United Fire, Group, Inc. Non-Employee Director Stock Plan</u>		10-Q	6/30/2020	10.2	8/5/2020
10.26	* <u>United Fire Group, Inc. 2021 Stock and Incentive Plan Performance-Based Restricted Stock Unit Award Notice</u>		10-Q	9/30/2021	10.1	11/4/2021
10.27	* <u>United Fire Group, Inc. 2021 Stock and Incentive Plan Option Award Notice</u>		10-Q	9/30/2021	10.2	11/4/2021
10.28	* <u>United Fire Group, Inc. 2021 Stock and Incentive Plan Restricted Stock Unit Award Notice</u>		10-Q	9/30/2021	10.3	11/4/2021
10.29	* <u>Executive Employment Offer Letter dated March 18, 2022 between the United Fire Group, Inc. and Eric J. Martin</u>		10-Q	3/31/2022	10.1	5/5/2022
10.30	* <u>Executive Employment Offer Letter, dated July 6, 2022, between the United Fire Group, Inc. and Kevin J. Leidwinger (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on July 7, 2022).</u>		8-K		99.2	7/7/2022
10.31	* <u>Retirement Agreement between United Fire Group, Inc. and Randy Ramlo dated July 6, 2022 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K/A filed on July 12, 2022).</u>		8-K		99.1	7/12/2022

(a) 3. Exhibit Index (continued):

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference			
			Form	Period ended	Exhibit	Filing date
21.0	<u>Subsidiaries of the Registrant</u>	X				
23.1	<u>Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm</u>	X				
23.2	<u>Consent of Regnier Consulting Group, Inc., Independent Actuary</u>	X				
31.1	<u>Certification of Kevin Leidwinger Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	X				
31.2	<u>Certification of Eric J. Martin Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	X				
32.1	<u>Certification of Kevin Leidwinger Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	X				
32.2	<u>Certification of Eric J. Martin Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	X				
101.1	<u>The following financial information from United Fire Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2022 formatted in Inline eXtensible Business Reporting Language (Inline XBRL): (i) Consolidated Balance Sheets at December 31, 2022 and 2021; (ii) Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2022, 2021 and 2020; (iii) Consolidated Statement of Stockholders' Equity for the years ended December 31, 2022, 2021 and 2020; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2022, 2021 and 2020; and (v) Notes to Consolidated Financial Statements.</u>	X				
104.1	<u>Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101.1)</u>					

*Indicates a management contract or compensatory plan or arrangement.

† The schedules to this Exhibit have been omitted in accordance with Regulation S-K Item 601(b)(2). The registrant agrees to furnish a copy of all omitted schedules to the SEC upon its request.

Certain instruments defining the rights of holders of long-term debt securities of the Company are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.

Schedule I. Summary of Investments — Other than Investments in Related Parties

December 31, 2022		<i>(In thousands)</i>		
Type of Investment	Cost or Amortized Cost	Fair Value	Amounts at Which Shown in Balance Sheet	
Fixed maturities				
Bonds				
United States Government and government agencies and authorities	\$ 109,776	\$ 99,081	\$	99,081
States, municipalities and political subdivisions	684,755	676,657		676,657
Foreign governments	36,129	31,649		31,649
Public utilities	138,752	125,411		125,411
All other bonds	693,268	618,541		618,538
Redeemable preferred stock	—	—		—
Total fixed maturities	\$ 1,662,680	\$ 1,551,339	\$	1,551,336
Equity securities				
Common stocks - key from Note 2-3 Cost Fair Value				
Public utilities	\$ 3,064	\$ 14,846	\$	14,846
Banks, trusts and insurance companies	6,844	28,021		28,021
Industrial, miscellaneous and all other	65,384	126,239		126,239
Redeemable preferred stocks	—	—		—
Nonredeemable preferred stocks	—	—		—
Total equity securities	\$ 75,292	\$ 169,106	\$	169,106
Mortgage loans on real estate	\$ 37,947	\$ 35,302	\$	37,898
Policy loans	—	—		—
Other long-term investments	86,276	86,276		86,276
Short-term investments	275	275		275
Total investments	\$ 1,862,470	\$ 1,842,298	\$	1,844,891

Schedule II. Condensed Financial Statements of Parent Company

United Fire Group, Inc. (parent company only)
Condensed Balance Sheets

	December 31,	
<i>(In thousands, except share data)</i>	2022	2021
Assets		
Fixed maturities		
Available-for-sale, at fair value (amortized cost \$0 in 2022 and \$150 in 2021)	\$ —	\$ 150
Investment in subsidiary	738,098	876,868
Cash and cash equivalents	2,038	2,158
Other assets	134	12
Total assets	\$ 740,270	\$ 879,188
Liabilities and stockholders' equity		
Liabilities	\$ 156	\$ 67
Stockholders' equity		
Common stock, \$0.001 par value, authorized 75,000,000 shares 25,210,541 and 25,082,104 issued and outstanding in 2022 and 2021, respectively	\$ 25	\$ 25
Additional paid-in capital	207,029	203,375
Retained earnings	620,556	621,384
Accumulated other comprehensive income, net of tax	(87,496)	54,337
Total stockholders' equity	\$ 740,114	\$ 879,121
Total liabilities and stockholders' equity	\$ 740,270	\$ 879,188

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8 of this Annual Report on Form 10-K.

Schedule II. Condensed Financial Statements of Parent Company (continued)

United Fire Group, Inc. (parent company only)
Condensed Statements of Income and Comprehensive Income

<i>(In thousands)</i>	For the Years Ended December 31,		
	2022	2021	2020
Revenues			
Investment income	\$ 85	\$ 23	\$ 141
Total revenues	85	23	141
Expenses			
Other operating expenses	—	3	10
Total expenses	—	3	10
Income before income taxes and equity in net income of subsidiary	85	20	131
Federal income tax expense (benefit)	18	5	68
Net income before equity in net income (loss) of subsidiary	\$ 67	\$ 15	\$ 63
Equity in net income (loss) of subsidiary	14,964	80,579	(112,769)
Net income (loss)	\$ 15,031	\$ 80,594	\$ (112,706)
Other comprehensive income (loss)			
Change in unrealized appreciation on investments held by subsidiary	\$ (176,183)	\$ (39,901)	\$ 47,054
Change in liability for underfunded employee benefit plans of subsidiary	(8,277)	19,633	18,456
Other comprehensive income (loss), before tax and reclassification adjustments	\$ (184,460)	\$ (20,268)	\$ 65,510
Income tax effect	38,736	4,260	(13,757)
Other comprehensive income (loss), after tax, before reclassification adjustments	\$ (145,724)	\$ (16,008)	\$ 51,753
Reclassification adjustment for net realized gains of the subsidiary included in income	1,323	(2,256)	(1,750)
Reclassification adjustment for employee benefit costs of the subsidiary included in expense	3,601	6,603	4,289
Total reclassification adjustments, before tax	\$ 4,924	\$ 4,347	\$ 2,539
Income tax effect	(1,034)	(913)	(534)
Total reclassification adjustments, after tax	\$ 3,890	\$ 3,434	\$ 2,005
Comprehensive income (loss)	\$ (126,803)	\$ 68,020	\$ (58,948)

United Fire Group, Inc. and its subsidiaries file a consolidated federal income tax return. The federal income tax provision represents an allocation under its tax allocation agreements.

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8 of this Annual Report on Form 10-K.

Schedule II. Condensed Financial Statements of Parent Company (continued)

United Fire Group, Inc. (parent company only)
Condensed Statements of Cash Flows

	For the Years Ended December 31,		
<i>(In thousands)</i>	2022	2021	2020
Cash flows from operating activities			
Net income (loss)	\$ 15,031	\$ 80,594	\$ (112,706)
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in net income of subsidiary	(14,964)	(80,579)	112,769
Dividends received from subsidiary	12,000	10,000	4,000
Other, net	2,845	3,131	3,907
Total adjustments	\$ (119)	\$ (67,448)	\$ 120,676
Net cash provided by operating activities	\$ 14,912	\$ 13,146	\$ 7,970
Cash flows from investing activities			
Net cash used in investing activities	\$ —	\$ —	\$ —
Cash flows from financing activities			
Payment of cash dividends	\$ (15,860)	\$ (15,064)	\$ (28,532)
Repurchase of common stock	—	(2,007)	(2,741)
Issuance of common stock	828	(421)	(71)
Net cash used in financing activities	\$ (15,032)	\$ (17,492)	\$ (31,344)
Net change in cash and cash equivalents	\$ (120)	\$ (4,346)	\$ (23,374)
Cash and cash equivalents at beginning of period	2,158	6,504	29,878
Cash and cash equivalents at end of year	\$ 2,038	\$ 2,158	\$ 6,504

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8 of this Annual Report on Form 10-K.

Schedule III. Supplementary Insurance Information

	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Expenses	Unearned Premiums	Earned Premium Revenue	Investment Income, Net	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Policy Acquisition Costs	Other Underwriting Expenses	Premiums Written
<i>(In thousands)</i>									
<u>Year Ended December 31, 2022</u>									
Property and Casualty	\$ 104,225	\$ 1,497,274	\$ 474,388	\$ 951,541	\$ 44,932	\$ 637,301	\$ 213,075	\$ 114,645	\$ 984,223
<u>Year Ended December 31, 2021</u>									
Property and Casualty	\$ 91,446	\$ 1,514,265	\$ 439,733	\$ 962,823	\$ 55,778	\$ 652,155	\$ 203,432	\$ 110,574	\$ 941,348
<u>Year Ended December 31, 2020</u>									
Property and Casualty	\$ 87,094	\$ 1,578,131	\$ 464,845	\$ 1,055,082	\$ 39,670	\$ 869,467	\$ 210,252	\$ 143,332	\$ 1,011,350

Schedule IV. Reinsurance

<i>(In thousands)</i>	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net Earned
Year Ended December 31, 2022					
Premiums earned					
Property and casualty insurance	\$ 889,301	\$ 101,740	\$ 163,980	\$ 951,541	17.23 %
Year Ended December 31, 2021					
Premiums earned					
Property and casualty insurance	\$ 978,190	\$ 92,650	\$ 77,283	\$ 962,823	8.03 %
Year Ended December 31, 2020					
Premiums earned					
Property and casualty insurance	\$ 1,106,327	\$ 84,924	\$ 33,679	\$ 1,055,082	3.19 %

Schedule V. Valuation And Qualifying Accounts

<i>(In thousands)</i>					
Description	Balance at beginning of period	Charged to costs and expenses	Deductions	Balance at end of period	
Allowance for bad debts					
Year Ended December 31, 2022	\$ 781	\$ 794	\$ —	\$ 1,575	
Year Ended December 31, 2021	687	94	—	781	
Year Ended December 31, 2020	1,239	—	552	687	
Deferred tax asset valuation allowance					
Year Ended December 31, 2022	\$ —	\$ —		\$ —	
Year Ended December 31, 2021	—	—	—	—	
Year Ended December 31, 2020	—	—	—	—	

Schedule VI. Supplemental Information Concerning Property and Casualty Insurance Operations

(In thousands)

	Affiliation with Registrant: United Fire & Casualty Company and consolidated property and casualty subsidiaries	Reserves for Unpaid Claims and Claim Adjustment Expenses		Unearned Premiums	Earned Premiums	Net Realized Investment Gains (Losses)	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related to:			Amortization of Deferred Policy Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
		Deferred Policy Acquisition Costs	Adjustment Expenses					Current Year	Prior Years				
2022		\$ 104,225	\$ 1,497,274	\$ 474,388	\$ 951,541	\$ (15,892)	\$ 44,932	\$ 624,411	\$ 12,890	\$ 213,075	\$ 688,268	\$ 984,223	
2021		\$ 91,446	\$ 1,514,265	\$ 439,733	\$ 962,823	\$ 47,383	\$ 55,778	\$ 691,933	\$ (39,778)	\$ 203,432	\$ 697,078	\$ 941,348	
2020		\$ 87,094	\$ 1,578,131	\$ 464,845	\$ 1,055,082	\$ (32,395)	\$ 39,670	\$ 887,119	\$ (17,652)	\$ 210,252	\$ 776,397	\$ 1,011,350	

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED FIRE GROUP, INC.

By: /s/ Kevin Leidwinger
Kevin Leidwinger, President, Chief Executive Officer, Director and
Principal Executive Officer

Date: 3/1/2023

