United Fire Group, Inc.

Third Quarter Earnings Conference Call

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CORPORATE PARTICIPANTS

Anita Novak – *Assistant Vice President, Investor Relations*

Randy Ramlo – *President and Chief Executive Officer*

Mike Wilkins – *Executive Vice President and Chief Operating Officer*

Dawn Jaffray – *Senior Vice President and Chief Financial Officer*

PRESENTATION

Operator
Good morning. My name is Gary and I'll be your conference operator today. At this time I would like to welcome everyone to the United Fire Group 2015 Third Quarter Financial Results Conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the * key followed by 0. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press * then 1 on your telephone keypad. To withdraw your question, please press * then 2. Please note, this event is being recorded.

I will now turn the call over to Anita Novak, Assistant Vice President of Investor Relations. Please go ahead.

Anita Novak
Thank you, Gary. Good morning, everyone, and thank you for joining this call. Earlier today, we issued a news release on our results. To find a copy of this document, please visit our website at www.unitedfiregroup.com. Press releases and slides are located under the Investor Relations tab.

Our speakers today are Randy Ramlo, President and Chief Executive Officer; Michael Wilkins, Executive Vice President and Chief Operating Officer; and Dawn Jaffray, Senior Vice President, and Chief Financial Officer. Other members of our executive team are also available for the question-and-answer session that will follow our prepared remarks.

Please note that our presentation today may include forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. The company cautions investors that any forward-looking statements include risks and uncertainties and are not a guarantee of future performance. These forward-looking statements are based on management's current expectations, and we assume no obligation to update them. The actual results may differ materially due to a variety of factors, which are described in our press release and SEC filings.

Please also note that in our discussion today, we may use some non-GAAP financial measures. Reconciliations of these measures to the most comparable GAAP measures are also available in our press release and SEC filings.

At this time, I am pleased to present Mr. Randy Ramlo, President and Chief Executive Officer of United Fire Group.

Randy Ramlo
Thank you, Anita. Good morning, everyone and welcome to United Fire's 2015 Third Quarter Conference call. This morning, we reported another solid quarter. Our operating income was $0.75 per share, net income was $0.77 per share and our GAAP combined ratio was 94.1%. Year-to-date, operating income was $2.25 per share, net income was $2.31 per share and our GAAP combined ratio was 93.9%. Our return on equity as of September 30th was 9.3% and book value was $33.73 per share.

There really isn't much I can say that wouldn't be a repeat of discussions over the past four quarters or so, so I thought I would just focus on some of the highlights. On the positive side, we continued to achieve our growth objectives in targeted geographical locations. Currently, we are expanding into Ohio, Michigan and Kentucky. We have targeted additional expansion opportunities in certain states and lines of business during 2016.

We continue to see modest rate increases in both commercial lines and personal lines in some, but not all, of our regions. Rates are still adequate, but we will begin to see margins decline as we move into 2016. Overall, rates continue to meet or exceed loss cost trends. We continue to see acceptable success ratios on quoted accounts.

We continue to proactively manage underwriting initiatives including managing hazardous classes of business in our Workers' Compensation line of business. Improved pricing has also been a contributing factor. Large losses, which appeared to be trending upward one year ago due to an unusually high number of large fire losses, have improved and are within expectations.

Catastrophe losses have been slightly below expectations in both the quarter and year-to-date. We generally experience higher catastrophe losses in the second and third quarters of any given year, but that was not the case in 2015.

We continue to expand our Specialty Insurance division. We recently announced expansion into Colorado, New Mexico and Utah. We originally estimated written premium for the specialty division to be between $15 million and $17 million during 2015. We now expect to exceed that estimate.

We continue to optimize relationships with agents in areas where we feel we are under-represented. As part of that process, we continue to encourage our agency force to maximize their presence with us. Agency franchise value is important to us and we continue to sever relations with non-performing agencies when there is no longer mutual benefit.

On the less positive side, our commercial auto loss ratio deteriorated somewhat during the quarter due to an increase in severity of claims and an increase in case reserve strengthening for that line of business. This is a trend we are seeing throughout the industry right now so we are paying attention. The case reserve strengthening is the result of a reassessment of the judicial environment in our southern region of the United States. As a result, we increased IBNR reserves by approximately $3 million.

Our Life segment continues to present challenges due to the low interest rate environment. We continue to diligently make minor adjustments so that when the interest rate environment improves, we are structurally ready. For instance, as we have mentioned before, our qualified care product has been quite popular and our life product annuity mix of business is now equalized due to improvement in our traditional life sales. We continue to appropriately price our annuity products, which means we are not chasing production, but we are also not creating a long-term disadvantage when interest rates do improve.

I'll end this morning with one more thought— our value proposition is to offer a simple business solution to our customers' complex business insurance requirements. It's a proposition that we take very seriously and we believe we do it very well. Although it has not been the case in 2015, results from quarter to quarter tend to be more volatile, so we gauge our progress on an annual basis. We encourage our investors to do the same.

With that, I'll turn this morning's discussion over to Chief Operating Officer Mike Wilkins.

Mike Wilkins
Thanks, Randy, and good morning, everyone. The competitive market conditions during the quarter increased on renewals while persisting on new business. Commercial lines renewal pricing varied by region, with average percentage increases in the low-single digits on smaller accounts. Larger accounts were more competitive. Nonetheless, this is the 16th consecutive quarter of overall

commercial lines pricing increases. We will be monitoring fourth quarter closely to see if that trend continues.

Personal lines renewal pricing increased slightly during the third quarter with average percentage increases in the low-single digits. Premiums written from new business declined from the previous quarter but improved from the same quarter a year ago. Our success ratio on quoted accounts decreased slightly but remains at an acceptable level.

Current rate increases continued to meet or exceed loss cost trends depending on the line of business. We continue to believe loss cost trends will remain at low levels in 2015, but the margin between loss costs and rate increases will narrow. We currently believe that loss costs are approximately 3%. We base this belief on data from multiple resources.

Policy retention remains strong at 83%, increasing slightly from the prior quarter for the group and most regions. Premium retention was down from the previous quarter but remained strong at 85%, which is consistent with our expectations as the market trends toward softening. Policies in force were up 2.2% compared to third quarter 2014, mostly in general liability. New policies written were sufficient to offset policies lost or non-renewed.

The US economy continues to grow at a slow rate. Premium from endorsements and premium audit continued positive trends, up from the prior quarter and the same quarter a year ago.

During the third quarter direct premiums written increased 12.7%. Approximately 4.5% is attributed to rate and exposure changes; 4% is attributed to premium audits and endorsements, and 4.2% is attributed to new business. Year-to-date, direct premiums written increased 10.6%. Approximately 4% is attributed to rate and exposure changes; 3.3% is attributed to premium audits and endorsements, and 3.3% is attributed to new business.

I will note that we are now seeing more premiums due to exposure changes than rate increases which is a reversal from previous quarters. Our expectations for fourth quarter 2015 are that rates will likely remain competitive.

Pretax catastrophe losses for the quarter totaled $7 million or $0.18 per share after tax compared to $23.3 million, or $0.60 per share after tax. The impact on third quarter combined ratio was 3.2 percentage points. Year-to-date, pretax catastrophe losses totaled $27.2 million or $0.71 per share after tax, compared to $47.2 million or $1.20 per share after tax. The impact on the 9 month year-to-date combined ratio was 4.4 percentage points.

Our expectation for catastrophe losses in any given year is six percentage points of the combined ratio. In 2015, however, we have experienced a mild hurricane season and convective seasonal storms, which usually impact our second and third quarter earnings results, have not been a significant factor for us.

Large losses, which we define as losses greater than $500,000, totaled $19.3 million in the third quarter. This compares to $24.5 million in third quarter 2014. Third quarter 2015 large losses remain within our expectations, although when compared to third quarter 2014, they appear to be greatly improved since the third quarter 2014 was heavily laden with several unusually severe fire losses. Year-to-date, large losses totaled $61.8 million compared to $67.1 million in 2014. Though the current comparisons seem pretty consistent from period to period, this is not typical. Large losses vary from quarter-to-quarter and year-to-year.

Frequency for the quarter and year-to-date was down significantly as compared to the same periods in 2014; again, due to unusually high frequency and severity of large losses in 2014. In the third quarter 2015, lack of catastrophe storm losses was also a significant driver.

Severity for the quarter and year-to-date was up slightly but still within expectations. Year-to-date, commercial property lines have double-digit improvement in loss ratios due to a decline in the frequency of claims associated with the severe winter and spring storms during 2014 and a noticeable reduction in the number of large fire losses in 2015 as compared to 2014. As Randy mentioned earlier, we have also seen much improved loss ratios in our Workers' Compensation line of business due to the combined effects of a decrease in severity and frequency of claims, favorable reserve development and proactive underwriting initiatives.

Our personal lines have seen the most improvement in loss ratios in 2015 due to the improvement in frequency and severity of claims in 2015 as compared to 2014, improved pricing and the implementation of policy underwriting adjustments.

With that, I'll turn the financial discussion over to Dawn Jaffray.

Dawn Jaffray
Thanks, Mike, and good morning. Consolidated net income, including net realized investment gains and losses, was $19.5 million or $0.77 per share for the quarter compared to $0.3 million or $0.01 per share last year. Year-to-date, consolidated net income, including net realized investment gains and losses, was $58.2 million or $2.31 per share compared to $24.3 million or $0.95 per share.

Losses and loss settlement expenses decreased by $9.8 million, or 6.4%, during the third quarter compared to the third quarter of 2014. Year-to-date, losses and loss settlement expenses decreased $1.0 million or 0.2%.

For the third quarter of 2015, the loss ratio was 62.9% including 3.2 points of catastrophes as Mike just mentioned, compared to 76.3% with 11.9 points of catastrophes in the third quarter of 2014. The 2015 year-to-date loss ratio was 63.7% with 4.4 points of CATs compared with 71.6% and 8.4 points of CATS for the 2014 year-to-date comparative. The 2015 loss ratio including CATS, therefore, improved by 13.4% quarter-over-quarter and 7.9% year-to-date.

Favorable reserve development for the third quarter was $0.7 million or 0.3 percentage points for the loss ratio compared to $6.8 million or 3.5 percentage points on the loss ratio in the third quarter of 2014. The positive impact on net income for the quarter was $0.02 per share compared to $0.17 per share in 2014. Year-to-date, favorable reserve development was $24.1 million or 3.8 percentage points on the loss ratio, compared to $32.5 million or 5.8 percentage points on the loss ratio for 2014. The positive impact on 2015 net income year-to-date was $0.62 per share after tax compared to $0.83 per share after tax in 2014.

As we have stated on previous occasions, reserve development will vary from quarter-to-quarter and year-to-year due to the number of claims settled and the settlement terms. During the third quarter, the decrease in favorable reserve development is attributable to the timing of paid claims. The largest single impact on reserve development during the third quarter was a reserve strengthening of $6.2 million in our commercial auto line of business, as Randy had mentioned. That was applicable to accident years 2012 through 2014. At September 30, 2015 our total reserves remained within our actuarial estimates.

Consolidated net investment income was $24.1 million for the third quarter, which was an increase of

5.3% as compared $22.8 million in third quarter 2014. The increase was attributed to our investments in limited liability partnerships as compared to the same period in 2014. The valuation of these investments varies from period to period due to current market conditions.

Year-to-date, consolidated net investment income was $74.2 million compared to $77.2 [sic] million, which is a decrease of 3.9%. The decreases are due to the decline in investment assets in a life company and reinvestment interest rates from the continued low interest rate environment.

We continue to feel the impact of lower investment yields on the majority of our investment portfolio and we expect a continuation of low interest rates in 2015 and at least the first half of 2016. The weighted average effective duration of our fixed maturity securities portfolio at September 30, 2015 was five years. Our overall portfolio yield was 3.1%.

Consolidated net realized investment gains for the quarter were $1 million compared to net realized investment gains of $0.9 million in 2014. Year-to-date consolidated net realized investment gains were $2.6 million compared to $5.9 million.

Consolidated net unrealized investment gains, net of tax, totaled $130.2 million as of September 30, 2015, which represents a decrease of $19.4 million or 13% from December 31, 2014. The decrease in net unrealized gains is a result of a decrease in the fair value of the fixed maturity investment portfolio due to interest rate fluctuations in 2015 and a decrease in the value of the equity portfolio due to volatility in the markets.

The expense ratio for the third quarter was 31.2% compared to 31.1% for the same quarter of 2014. Year-to-date, the expense ratio is 30.2% compared to 31.4% in 2014. Though the expense ratio deteriorated somewhat during third quarter compared to second quarter due to an increase in contingent commissions and policyholder dividends, we view this as a positive side effect of organic growth. Year-to-date, the expense ratio shows modest improvement and we remain focused on maintaining expense discipline. We continue to see some improvement from reduced expenses associated with the completion of the Mercer Insurance integration along with investments in core development and technology over the last few years. I would like to caution our audience that we do expect the 2015 expense ratio to be somewhat impacted by increases in pension and postretirement benefit costs.

Moving on to the balance sheet, our stockholders’ equity increased 3.4% to $845.5 million at September 30, 2015 from $817.4 million at December 31, 2014. The increase was primarily attributable to net income of $58.2 million offset by a decrease in net unrealized investment gains of $19.4 million, net of tax, during the first nine months of 2015, along with shareholder dividends of $16 million. At September 30, 2015 the book value per share of our common stock was $33.73 compared to $32.67 at December 31, 2014.

During the third quarter, we declared and paid a $0.22 per share cash dividend to shareholders of record on September 1, 2015. Year-to-date, we have paid cash dividends of $0.64 per share. In addition, during the third quarter we repurchased 29,691 UFCS common shares at an average price of $32.99. Year-to-date, we have repurchased 79,396 shares at an average price of $30.51 per share.

As a reminder, under our current share repurchase program, we may purchase United Fire common stock on the open market or through privately negotiated transactions. The amount and timing of any purchases will be at management’s discretion and will depend upon a number of factors, including the share price, general economic and market conditions, and corporate and regulatory requirements. We are authorized by the Board of Directors to purchase an additional 1.5 million shares of common stock under the new program which does expire August 31, 2016.

With that, I'll open the lines for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press * then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press * and then 2. At this time, we will pause momentarily to assemble our roster. Again, if you have a question, please press * then 1.

As there are no questions, this concludes our question and answer session. I would like to turn the conference back over to Anita Novak for any closing remarks.

CONCLUSION

Anita Novak
Thank you, Gary. This now concludes this conference call. As a reminder, a transcript of this call will be available on the company website at www.unitedfiregroup.com. On behalf of the management of United Fire Group, I wish all of you a very pleasant day.

Operator
Thank you. Ladies and gentlemen, this concludes today's program. You may disconnect your lines at this time.