Risk Factors Comparison 2024-02-29 to 2023-02-28 Form: 10-K

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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~~ **4** percent of core fixed income portfolio at December 31, ~~2022~~ **2023**) are ~~made in~~ investment- grade securities. **Despite efforts** ~~Although we try~~ to ~~manage this risk by diversifying~~ --- **diversify** our portfolio and ~~emphasizing~~ **emphasize** 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~~ **89** . ~~1~~ **4** percent at December 31, ~~2022~~ **2023**) consists of fixed income securities, primarily **U. S. government agency,** corporate and municipal bonds (~~68~~ **70** . ~~6~~ **0** percent at December 31, ~~2022~~ **2023**). 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~~ **0** percent of the direct statutory premiums written for the property and casualty insurance businesses in ~~2022~~ **2023** : Texas (~~16~~ **17** . ~~6~~ **4** percent), California (12. 4 percent), Iowa (7. **1 percent), Missouri (5.** 8 percent) ~~, Missouri (6. 1 percent)~~ and **Louisiana** ~~New Jersey~~ (4. ~~6~~ **3** 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, **severe convective storms,** 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~~ **four** 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 **. Regulatory Risk: Certain regulatory bodies may impose laws that require UFG to report GHG emissions from our own operations and our strategies to mitigate emissions, resulting in compliance with such regulations requiring increased time and expense. c** . Transition Risk: Financial risks arising from a global transition to a lower- carbon economy could impact long- term return on certain invested assets. ~~c~~ **d** . 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 **GHG** ~~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~~ **disaster recovery** 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 **further** ~~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 ~~.~~ **and liquidity** 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~~ **provided** 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 RatingIssuer Credit RatingRating Held SincePooled Property and Casualty ~~CompaniesAa1994United~~ **CompaniesA- a- 2023United** Fire Group, Inc. N / ~~Abbb2012~~ **Abbb- 2023** 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. **On August 18, 2023, UFG and our property / casualty subsidiaries received a rating downgrade from A. M. Best. For our property / casualty subsidiaries, the Financial Strength Rating (FSR) was downgraded to A- (Excellent) from A (Excellent) and the Long- Term Issuer Credit Ratings (Long- Term ICR) was downgraded to" a-" (Excellent) from" a" (Excellent). Concurrently, for UFG, A. M. Best has downgraded the Long- Term ICR to" bbb-" (Good) from" bbb" (Good). The outlook of these ratings has been revised to stable from negative. The recent** ~~Downgrades~~ **downgrades and any further downgrades** in our financial strength ratings could adversely affect our ability to **transact our current business,** access the capital markets **,** or ~~could~~ lead to increased borrowing costs **(including through elevated interest rates). For more information, see Note [8]" Debt"** in the ~~future~~ **Notes to the Consolidated Financial Statements in this Annual Report on Form 10- K** . 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 **ratings from A. M. Best affect 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~~ **Failure** to maintain our ratings, or any other **further** adverse ~~development~~ **changes** with respect to our ratings, could **motivate** ~~cause our~~ current and future independent agents and policyholders to choose to transact their business with more highly rated competitors. If A. M. Best **further** downgrades our ratings or publicly indicates that our ratings are under review, it is ~~likely~~ **possible** 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~~ **could** 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 **further** 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. **We have experienced several transitions in** ~~In 2022 there were four new appointments to~~ key **roles in recent years, including the Chief** ~~executive~~ **Executive** ~~positions~~ **Officer** , ~~three of which were filled externally. In April 2022, Eric Martin was appointed Senior Vice President and~~ Chief Financial Officer, **Chief Operating Officer and** ~~replacing Dawn Jaffray, who left the company in October 2021. Sarah Madsen became our Vice President,~~ Chief Legal Officer **positions** ~~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 **difficult** ~~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~~ **automobile** 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 **, to date,** we have not ~~experienced~~ **identified** any **risks from cybersecurity threats, including as a result of any previous cybersecurity incidents that have, or are likely to,** ~~material~~ **materially** ~~cyber- attacks in the last three years based on~~ **affect us, our business strategy, results of operation** ~~our~~ - **or financial condition** ~~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 **and not maintaining these relationships could result in loss of sufficient business opportunities within our expertise and stated risk appetite** . 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 **. Other potential consequences of not maintaining strong and beneficial relationships include the loss of sufficient business opportunities within our specific risk appetite, impacting the quality of our underwriting and loss ratio. If the quality of the independent agencies with which we do business were to decline, policyholders might consider purchasing their insurance through different agencies or channels** . 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, **2023,** 2022 ~~,~~ **and** 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 **, including artificial intelligence,** offers opportunities to underwrite and price business more efficiently and accurately, **thus** 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~~ **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~~ **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 **Our stock price could become more volatile and your investment could lose value. The market price of our common stock historically has been, and we expect will continue to be, subject to fluctuations. These fluctuations may be due to our operating results or factors specific to our operations (including those discussed in our risk factors), changes in securities analysts' estimates of our future financial performance, ratings or recommendations, our results falling below our expectations and analysts' and investors' expectations, the failure of our capital return programs to meet analysts' and investors' expectations, significant catastrophe events, departure of key personnel, cyber- attacks, or factors largely outside of our control, including those affecting the property and casualty insurance industry. The stock market in general has experienced price and volume fluctuations that have often been unrelated or disproportionate to the actual operating performance of listed companies. In addition, our stock is followed by a small number of analysts and the average daily trading volume tends to be low. These factors could adversely affect the price of 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 **be** 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. **General Risk Factor Macroeconomic conditions could materially and adversely affect our business, results of operations, financial condition, and growth. Macroeconomic conditions such as growth, inflation, market stability, and geopolitics can impact our operations, opportunities, and risk profile. Important sectors we follow include goods, services, and housing. Markets exhibit stability when credit is available, there is liquidity in the system, and banks are stable. Geopolitical concerns can also disrupt the business environment. All of these factors can contribute to adverse financial consequences for UFG. These risks are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also have a material effect on our business, results of operations, financial condition and / or liquidity.**