UNITED FIRE GROUP 2001 ANNUAL REPORT

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Just 25 years ago, a computer terminal appeared for the first time on an underwriter's desk at United Fire. It cost about $4,000—and all it could do was send data to the big computer. The big computer was watched over by two Burroughs field engineers, who worked full-time to keep it running.

It was an uncertain entry into the information age.

We were convinced that the new technology would revolutionize the insurance industry. Over the next 25 years, United Fire took giant steps in using technology to achieve remarkable new efficiencies of operation.

Today, every facet of our operation is made more effective through technology: accounting, claims, loss control, marketing, underwriting. Technology helps us control our expenses at the same time it is helping us provide better service to our agents and their clients. Our e-business unit melds our needs with those of our agents and policyholders to build systems that serve all of us.

As proud as we are of these advances, however, we are even more pleased that we have accomplished this tremendous transition without losing the human touch. Person-to-person contact has always been an important part of our business culture. It continues to be one of our top priorities today. Customers may choose automated systems for answers to their questions, but they may also pick up the phone and talk to a "real person."

The computer terminal that appeared on that underwriter's desk 25 years ago quickly became obsolete. Most of our first steps into the world of high tech have been left behind for more advanced systems. We believe technology will continue to give us new and better tools and techniques, saving time and money for our customers as well as our company.

Nevertheless, it will not replace the personal relationships upon which our business has been built. We have made technology our servant, not our master. We will continue to give our customers the best we have to offer: our "real people."

ANNUAL MEETING

The 2001 annual stockholders' meeting will be held on May 15, 2002, at 10 a.m. in our home office building in Cedar Rapids, Iowa. The usual notices and proxy material will be mailed to stockholders in advance of the meeting. A copy of Form 10-K filed with the Securities and Exchange Commission is available to stockholders upon request to:

Corporate Secretary
United Fire & Casualty Company
118 Second Avenue SE
P.O. Box 73909
Cedar Rapids, Iowa 52407-3909

or

Registrar and Transfer Agent
Computershare Investor Services
2 North LaSalle Street
Chicago, Illinois 60602

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COMPARATIVE FINANCIAL HIGHLIGHTS

	(Dollars in Thousands Except Per Share Data)	
Years Ended December 31	2001	2000
Total Assets	$ 1,851,839	$ 1,674,109
Net Premiums Earned	372,019	333,365
Net Income	24,093	15,527
Earnings Per Common Share	2.40	1.55
Cash Dividends Declared Per Common Share	0.72	0.71

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SELECTED FINANCIAL DATA

Years Ended December 31	2001	2000	1999	1998	1997
		(Dollars in Thousands Except Per Share Data)			
Total assets	**$ 1,851,839**	$ 1,674,109	$ 1,467,716	$ 1,250,594	$ 1,157,922
Operating revenues earned					
Net premiums	**372,019**	333,365	273,051	245,727	244,939
Investment income, net	**98,909**	86,867	75,317	67,928	61,686
Realized investment gains (losses) and other income	**(84)**	(1,825)	2,936	22,796	2,676
Commission and policy fee income	**2,108**	2,172	1,912	1,815	1,829
Net income	**24,093**	15,527	15,384	23,677	28,732
Basic and diluted earnings per common share	**2.40**	1.55	1.53	2.28	2.68
Cash dividends declared per common share	**0.72**	0.71	0.68	0.67	0.63

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THE CHAIRMAN'S REPORT

Last year, I entitled my report to you "The Two Penny Opera" and tried to impress you with how hard we had worked to increase our earnings by a measly two cents per share. This year, we worked almost as hard and increased net income 55 percent.

Despite the events of September 11 and a bad storm season in the Midwest, particularly in Iowa, your company bounced back in the fourth quarter and finished the year with better results than we would have thought possible earlier in the year. Net income increased $8,566,000 to $24,093,000, or $2.40 per share. Premium income increased 12 percent to $372,019,000 and investment income increased 14 percent to $98,909,000. Total revenues increased by 12 percent to $472,952,000. Our return on equity improved to 9 percent. Stockholders' equity increased by over $21,000,000 to $27.80 per share.

For the property and casualty segment of our business, the statutory combined ratio declined by over 1 point to under 105 percent (this year our statutory combined ratio includes a 0.3 percent provision for policyholder dividends), while net premiums written increased 13 percent to $366,138,000. Your company is now one of the 100 largest property and casualty companies in the United States as measured by net written premiums. Earnings for our property and casualty business increased 59 percent to $15,559,000.

At 104.7 percent our combined ratio was more than 12 points better than the industry's, which A.M. Best estimated to have increased from 110 percent in 2000, to 117 percent in 2001. 2001 was not a pretty year for many property and casualty companies and, as a consequence, we anticipate that insurance premiums will continue to increase.

Our problem in 2001 was not lower Manhattan, but Iowa and the Midwest. As we have often said, as goes our experience in Iowa so goes our overall experience, and 2001 was not a good year for insurance companies in Iowa. Last spring and summer, the state, as much of the Midwest, was buffeted by a number of storms. Few were severe enough to merit media attention, and none involved our catastrophe cover. Yet, the cumulative impact of these storms, plus a number of severe fires and a series of bad workers' compensation losses, significantly contributed to a loss ratio for the state of 80 percent.

By comparison, in Texas, we had a loss ratio of 49 percent. With written premiums of over $52,000,000, Texas is now our largest state for property and casualty insurance. But then, of course, Texas is a lot bigger than Iowa. The longer we do business there, the better our purchase of the American Indemnity appears. Not only did we acquire a good base upon which to build, the business is well spread geographically.

However, Texas does have its problems. One is "mold." Our Claims Department estimates that approximately 25 percent of our homeowners' losses in Texas last year were a result of mold. That is one of the reasons we intend to further reduce our writings of personal lines. Last year, personal lines accounted for only approximately 18 percent of the direct property and casualty written premiums company-wide.

When we purchased the American Indemnity in 1999, we required them, as part of the transaction, to secure reinsurance covering their loss reserves. For that reinsurance, we incurred a charge of $1,950,000 in 1999. Now, nearly two and one-half years later, it appears that this reinsurance may not have been needed. Yet, it is difficult to get very upset when loss reserves turn out to be in better condition than expected.

As we had previously advised you during the year 2000, we decided to substantially reduce our writings of assumed reinsurance. Assumed premiums written declined 38 percent to $15,708,000 in 2001, and we anticipate a further decrease in 2002.

Actually, we kept only five assumed reinsurance accounts, all of which had historically been profitable. Of these, two accounts were involved in the World Trade Center loss. Your company's total loss (before tax) from these two accounts and one other, which was in run-off and covered American Airlines and United Airlines, we now estimate at $6,892,000. To put this in perspective, our total loss is approximately 27 percent of what we incurred as a result of the hailstorm that struck New Orleans on January 13, 2000, and our loss on the airlines was less than the exposure we assume on many of the automobiles we insure.

United Life's net income increased 49 percent to $8,534,000 and its statutory assets now exceed one billion dollars. Statutory premium and annuity deposits increased 2 percent to $197,616,000 as our fixed annuity products continue to fill a niche. The poor performance of the stock market and decline in interest rates has resulted in renewed interest in our type of products. Over 50 percent of our first-year life premiums and annuity deposits came from financial institutions.

Along with the destruction of the twin towers, 2001 also saw the collapse of a stodgy gas utility-cum-pipeline that had refashioned itself as a "New Age" energy trader. It became a darling of the stock market. We always had trouble buying the Enron story because it seemed too good to be true, and one of the first axioms we learned about investing was that if it seems too good to be true, it probably is!

Speaking of Enron, if you look at the Auditor's Report, you will see a signature that has been in the news. Arthur Andersen LLP has been our auditor for 14 years, and we have always found its audit staff competent and professional. However, like many of its clients, we are concerned and reviewing the situation. Unfortunately, changing auditors is not as easy as buying a new dress.

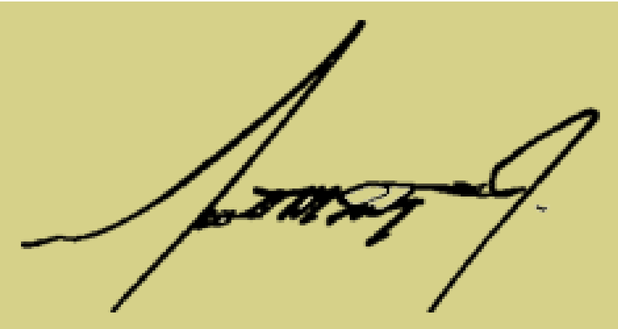
Unlike many of its clients, we do not employ Arthur Andersen LLP as consultants. While we use outside accounting firms for tax advice and as internal auditors, we do not use Arthur Andersen LLP for these functions. We have found the friction created by having three different firms involved to be healthy. They don't like it, but we do.

On February 19, 2002, we announced our intention to consolidate our office in Lincoln, Nebraska, with our home office later this year. We have maintained an office in Lincoln ever since we acquired the Protective Fire & Casualty Company in 1980. One of the principal reasons we continued to have an office there was the quality of the people. They made the Protective one of our better acquisitions. They are still good, but our experience with the moving of the Addison's operations to Cedar Rapids in 1998, convinces us that substantial savings can be realized by the consolidation without sacrificing the quality of our service. We have learned that with modern technology we don't need so many offices.

On June 1, 2001, White Mountain, an insurance holding company controlled by Jack Byrnes and partially financed by his good buddy, Warren Buffet, assumed control of CGU. As a result, they also became the proud owners of a little over 20 percent of our stock that, in their infinite wisdom, they immediately decided to sell. Warren isn't always right!

Speaking of ex-stockholders, during the year we paid various state guaranty funds a total of $366,000 as our share of the assessments for the insolvency of the Reliance Insurance Company. I like to think of these payments as a kind of special dividend for our old friend, Saul. Some days I wonder if we will ever be rid of him.

In order to support the continued growth of our operations, we are in the process of registering $50,000,000 of cumulative convertible, redeemable preferred stock. The underwriters will be McDonald & Co. and A.G. Edwards. This will be our third public offering. The first was in 1971 and the second in 1986. I would like to say this will be the last, but I know better.



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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are not historical facts and which involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate, management's beliefs, and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "continues," "seeks," "estimates," "predicts," "should," "could," "may," "will continue," "might" and variations of such words and similar expressions are intended to identify such 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. Among the factors that could cause our actual outcomes and results to differ are the following: uncertainties with respect to loss reserving; the occurrence of catastrophic events or other insured or reinsured events with a frequency or severity exceeding our estimates; the actual amount of new and renewal business and demand for our products and services; the competitive environment in which we operate, including price, product and service competition; developments in domestic and global financial markets that could affect our investment portfolio and financing plans; estimates of the financial statement impact of regulatory actions; uncertainties relating to government and regulatory policies; legal developments; changing rates of inflation, interest rates and other economic conditions; the impact of mergers and acquisitions, including the ability to successfully integrate acquired businesses and achieve cost savings; a continuation of the global economic slowdown or a broad downturn in the economy in general; our relationship with our agencies; the valuation of invested assets; the recovery of deferred acquisition costs; or our relationship with our reinsurers. 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 their dates. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission, 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.

Results of Operations for the Year Ended December 31, 2001, Compared to the Year Ended December 31, 2000

For the year ended December 31, 2001, our consolidated net operating income, which excludes net realized gains and losses on securities, was $24,214,000, or $2.41 per share, compared to $16,713,000, or $1.67 per share, for the year ended December 31, 2000. The most significant factors contributing to the increase were growth in net premiums earned, growth in net investment income and favorable development in our property and casualty loss reserves.

Net premiums earned increased by $38,654,000, or 12 percent, to $372,019,000, due primarily to premium rate increases in our property and casualty insurance segment. Net investment income increased by $12,042,000, or 14 percent, to $98,909,000, with more than $9,000,000 of the increase contributed by our life insurance segment. Annuity deposits increased our life insurance segment's investment portfolio, leading to higher investment earnings. During 2001, we experienced a decrease in estimated losses for property and casualty claims that occurred in prior years, as described in "Property and Casualty Insurance Segment," below.

Losses and settlement expenses increased by $33,522,000, or 14 percent, to $270,329,000, due primarily to an increase in severity in our fire and allied lines and workers' compensation lines of business. This increased severity more than offset the decrease in prior year estimated property and casualty claim losses. The combination of amortization of deferred policy acquisition costs and other underwriting expenses reflected a moderate increase of $2,772,000, or 2 percent, which primarily resulted from the continued increase in business written across our various property and casualty lines of business, both on a new and renewal basis. Interest on policyholders' accounts increased by $5,803,000, or 14 percent, to $48,213,000, due primarily to interest credited on existing annuity account balances; we decreased interest crediting rates for new annuity deposits received during 2001.

On a consolidated basis, net income, which is net operating income plus after-tax net realized gains and losses on securities, was $24,093,000, or $2.40 per share in 2001, compared to $15,527,000, or $1.55 per share, in 2000. We recorded net realized after-tax losses of $121,000 in 2001 and $1,186,000 in 2000. In both years, other-than-temporary impairments on a small number of fixed income securities contributed to realized losses.

During the third quarter of 2001, we began a review of our exposure to the events of September 11, 2001. Because we do not write direct premiums in the eastern United States, we knew that we did not have any material direct exposure as a result of these events. However, we did have assumed reinsurance claims related to the terrorist attacks, resulting in after-tax charges in 2001 of $4,479,000, or $0.45 per share.

We recorded reserves for the September 11 events based upon the "one event" theory. If the insurance industry or the judicial system determines that the events of September 11 were multiple events, our estimate, based upon information currently available to us, is that our reserves for the September 11 catastrophe would increase by approximately $3,000,000.

The rates we pay for reinsurance increased on our reinsurance contracts that renewed on January 1, 2002, and those contracts now limit or exclude coverage for terrorist activities. We will utilize terrorist exclusions on our direct policies, as such exclusions are approved by state regulators. We expect price increases to occur in the property and casualty insurance industry due to the anticipated industry-wide increase in reinsurance rates, and we have already begun our own price increases.

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DESCRIPTION OF BUSINESS

The terms "United Fire," "we," "us," or "our" refer to United Fire & Casualty Company or United Fire & Casualty Company and its consolidated subsidiaries and affiliate, as the context requires. We are engaged in the business of writing property and casualty insurance and life insurance. We are an Iowa corporation incorporated in January 1946. Our principal executive office is located at 118 Second Avenue SE, P.O. Box 73909, Cedar Rapids, Iowa 52407-3909. Telephone: 319-399-5700.

Our property and casualty segment includes the following companies:

- Addison Insurance Company, an Illinois property and casualty insurer; Lafayette Insurance Company, a Louisiana property and casualty insurer; and American Indemnity Financial Corporation, a Delaware holding company, all of which are wholly owned by United Fire & Casualty Company.
- American Indemnity Financial Corporation owns substantially all of American Indemnity Company, a Texas property and casualty insurer. American Indemnity Company has two wholly owned insurance subsidiaries, Texas General Indemnity Company, a Colorado property and casualty insurer, and United Fire & Indemnity Company, a Texas property and casualty insurer. United Fire Lloyds, a Texas property and casualty insurer, is an affiliate of and operationally and financially controlled by American Indemnity Company.
- Addison Insurance Company is the sole owner of Addison Insurance Agency, an Illinois general agency.
- Lafayette Insurance Company is the sole owner of Insurance Brokers & Managers, Inc., a Louisiana general agency.

Our life insurance segment consists of United Life Insurance Company, a wholly owned subsidiary of United Fire & Casualty Company. A table reflecting premiums, operating results and assets attributable to our segments is included in Note 11 of the Notes to Consolidated Financial Statements. As of December 31, 2001, we employed 719 full-time employees.

MARKETING

We market our products principally through our home office in Cedar Rapids, Iowa, and in four regional locations: Westminster, Colorado, a suburb of Denver; Lincoln, Nebraska; New Orleans, Louisiana; and Galveston, Texas. We are licensed as a property and casualty insurer in 40 states, primarily in the Midwest, West and South. Approximately 1,220 independent agencies represent United Fire and our property and casualty subsidiaries. Our life insurance subsidiary is licensed in 25 states, primarily in the Midwest and West, and is represented by approximately 1,470 independent agencies.

Our regional offices are staffed 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 the subsidiaries, regional offices and independent agencies. We use management reports to monitor subsidiary and regional offices for overall results and conformity to our policy.

We compete in the United States property and casualty insurance market with more than 3,400 other insurers. The industry is highly competitive, with insurers competing on the basis of service, price and coverage. Because we rely heavily on independent agencies, we utilize a profit-sharing plan as an incentive to place high-quality property and casualty business with us. In 2002, we estimate property and casualty agencies will receive profit-sharing commissions of $8,423,000 based on business the agencies did in 2001.

Our life insurance segment also operates in a highly competitive industry. We encounter significant competition in all lines of business from other life insurance companies and from other providers of financial services. The life segment utilizes competitive commission rates and other sales incentives to attract and maintain its relationship with independent agencies.

To enhance our ability to compete, we utilize technology in a variety of ways to assist our agents and improve the delivery of service to our policyholders. For example, on our public access Web site that provides general company and product information, we provide a section accessible exclusively to our agents where they can receive quotes, report claims online, make online applications and receive policy approval. Our agents can also use the agent-only portion of our Web site to access detailed information about our products, order sales literature, and download applications, questionnaires and other forms. Our life agents can view the status of clients' applications and access detailed information on our annuity, universal life, term life and whole life policies. We electronically scan and store our documents, allowing them to be easily retrieved and viewed by multiple users simultaneously. Additionally, for our policyholders, we provide secure online access to their account information. We believe our investment in technology allows us to provide enhanced service to our agents and policyholders.

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MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

United Fire's common stock is traded on the Nasdaq National Market System under the symbol UFCS. On February 1, 2002, there were 891 holders of record of United Fire common stock. The following table sets forth, for the calendar periods indicated, the high and low bid quotations for the common stock and cash dividends declared. These quotations reflect inter-dealer prices without retail markups, markdowns or commissions and may not necessarily represent actual transactions. Our policy has been to pay quarterly cash dividends, and we intend to continue that policy. The table set forth below shows the quarterly dividends paid in 2000 and 2001.

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 have paid dividends every quarter since March 1968. State law permits the payment of dividends only from statutory accumulated earned profits arising from business. Furthermore, under Iowa law, we may pay dividends only if after giving effect to the payment, either we are able to pay our debts as they become due in the usual course of business or our total assets would be equal to or more than the sum of our total liabilities. Our subsidiaries are also subject to state law restrictions on dividends. See Note 8 in the Notes to Consolidated Financial Statements for a description of these restrictions.

	Share Price		
	High	**Low**	**Cash Dividends Declared**
2001			
Quarter Ended			
March 31	$ 25.00	$ 19.25	$0.18
June 30	34.51	19.50	0.18
September 30	31.85	19.00	0.18
December 31	31.42	24.58	0.18
2000			
Quarter Ended			
March 31	$ 23.31	$ 17.38	$0.17
June 30	19.69	15.50	0.18
September 30	20.50	15.50	0.18
December 31	20.63	16.19	0.18

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of United Fire & Casualty Company:

We have audited the accompanying consolidated balance sheets of United Fire & Casualty Company (an Iowa corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Fire & Casualty Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the consolidated financial statements, effective January 1, 1999, the Company and its subsidiaries changed their method of accounting for derivative instruments and hedging activities.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Chicago, Illinois
February 8, 2002

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CONSOLIDATED

BALANCE SHEETS

December 31, 2001 and 2000

		2001		2000
		(Dollars in Thousands Except Per Share Data and Number of Shares)		
ASSETS				
Investments (Notes 2, 3 and 4)				
Fixed income				
Held-to-maturity, at amortized cost (market value $252,481 in 2001 and $292,857 in 2000)	$	241,616	$	283,431
Available-for-sale, at market (amortized cost $1,142,669 in 2001 and $952,949 in 2000)		1,142,614		928,947
Equity securities, at market (cost $35,151 in 2001 and $30,667 in 2000)		110,357		111,132
Policy loans		8,201		8,437
Other long-term investments, at market (cost $10,002 in 2001 and $12,326 in 2000)		10,166		12,864
Short-term investments		48,008		58,224
	$	1,560,962	$	1,403,035
Cash and Cash Equivalents	$	150	$	—
Accrued Investment Income (Note 4)		25,723		22,578
Accounts Receivable, (net of allowance for doubtful accounts of $615 in 2001 and $1,173 in 2000)		88,380		75,636
Deferred Policy Acquisition Costs		102,703		98,399
Property and Equipment, primarily land and buildings, at cost, less accumulated depreciation of $29,389 in 2001 and $27,172 in 2000		15,233		16,732
Reinsurance Receivables (Note 6)		45,656		41,487
Prepaid Reinsurance Premiums		4,050		2,846
Intangibles		3,177		6,459
Income Taxes Receivable (Note 9)		368		658
Other Assets		5,437		6,279
TOTAL ASSETS	$	1,851,839	$	1,674,109
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Future policy benefits and losses, claims and settlement expenses (Notes 6 and 7)				
Property and casualty insurance	$	366,519	$	358,032
Life insurance (Note 4)		956,797		822,158

Unearned premiums		187,787		165,212
Accrued expenses and other liabilities		35,139		45,918
Employee benefit obligations (Note 10)		13,950		13,115
Deferred income taxes (Note 9)		12,659		12,245
TOTAL LIABILITIES	$	1,572,851	$	1,416,680
STOCKHOLDERS' EQUITY				
Common stock, $3.33 1/3 par value; authorized 20,000,000 shares 10,035,819 shares issued and outstanding in 2001 and 2000 (Note 13)	$	33,453	$	33,453
Additional paid-in capital		6,912		6,912
Retained earnings (Note 8)		189,214		172,346
Accumulated other comprehensive income, net of tax		49,409		44,718
TOTAL STOCKHOLDERS' EQUITY	$	278,988	$	257,429
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	1,851,839	$	1,674,109

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

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CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
	(Dollars in Thousands Except Per Share Data and Number of Shares)		
Revenues			
Net premiums earned (Note 6)	$ 372,019	$ 333,365	$ 273,051
Investment income, net (Note 2)	98,909	86,867	75,317
Realized investment gains (losses) and other income (Note 2)	(84)	(1,825)	2,936
Commission and policy fee income	2,108	2,172	1,912
	$ 472,952	$ 420,579	$ 353,216
Benefits, Losses and Expenses			
Losses and settlement expenses	$ 270,329	$ 236,807	$ 197,291
Increase in liability for future policy benefits	5,236	6,241	5,157
Amortization of deferred policy acquisition costs	67,502	58,394	49,863
Other underwriting expenses	53,042	59,378	51,401
Interest on policyholders' accounts	48,213	42,410	32,286
	$ 444,322	$ 403,230	$ 335,998
Income before income taxes	$ 28,630	$ 17,349	$ 17,218
Federal income taxes (Note 9)	4,537	1,822	1,834
Net Income	$ 24,093	$ 15,527	$ 15,384
Earnings available to common shareholders (Note 13)	$ 24,093	$ 15,527	$ 15,384
Weighted average common shares outstanding (Note 13)	10,035,819	10,047,248	10,079,563
Basic and diluted earnings per common share (Note 13)	$ 2.40	$ 1.55	$ 1.53

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2001, 2000 and 1999

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Total
	(Dollars in Thousands Except Per Share Data and Number of Shares)				
Balances, December 31, 1998	$ 33,639	$ 7,927	$ 155,421	$ 59,295	$256,282
Transition adjustment for the effect of a change in accounting principle, net of tax (Note 1)	—	—	—	6,013	6,013
Net income	—	—	15,384	—	15,384
Change in net unrealized depreciation (1)	—	—	—	(32,254)	(32,254)
Total comprehensive loss (Note 14)					(10,857)
Cash dividend declared on common stock, $.68 per share	—	—	(6,852)	—	(6,852)
Purchase and retirement of 31,637 shares of common stock	(105)	(675)	—	—	(780)
Balances, December 31, 1999	$ 33,534	$ 7,252	$ 163,953	$ 33,054	$237,793
Net income	—	—	15,527	—	15,527
Change in net unrealized appreciation (1)	—	—	—	11,664	11,664
Total comprehensive income (Note 14)					27,191
Cash dividend declared on common stock, $.71 per share	—	—	(7,134)	—	(7,134)
Purchase and retirement of 24,265 shares of common stock	(81)	(340)	—	—	(421)
Balances, December 31, 2000	$ 33,453	$ 6,912	$ 172,346	$ 44,718	$257,429
Net income	—	—	24,093	—	24,093
Change in net unrealized appreciation (1)	—	—	—	5,048	5,048
Minimum pension liability adjustment (Note 10)				(357)	(357)

Total comprehensive income (Note 14)					28,784
Cash dividend declared on common stock, $.72 per share	—	—	(7,225)	—	(7,225)
Balances, December 31, 2001	$ 33,453	$ 6,912	$ 189,214	$ 49,409	$278,988

(1) The change in net unrealized appreciation (depreciation) is net of reclassification adjustments and income taxes (see Note 14).

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

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CONSOLIDATED
STATEMENTS OF CASH FLOWS

Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
	(Dollars in Thousands)		
Cash Flows From Operating Activities			
Net Income	$ 24,093	$ 15,527	$ 15,384
Adjustments to reconcile net income to net cash provided by operating activities			
Net bond discount accretion	(1,139)	(370)	88
Depreciation and amortization	4,053	4,452	3,078
Realized net investment losses (gains)	186	2,082	(2,303)
Changes in:			
Accrued investment income	(3,145)	(2,721)	(2,795)
Accounts receivable	(12,744)	(12,651)	6,338
Deferred policy acquisition costs	(4,304)	(8,325)	(18,092)
Reinsurance receivables	(4,169)	(11,772)	5,493
Prepaid reinsurance premiums	(1,204)	173	3,174
Income taxes receivable	290	511	2,588
Other assets	842	932	(1,372)
Future policy benefits and losses, claims and settlement expenses	19,994	25,969	19,300
Unearned premiums	22,575	16,740	3,275
Accrued expenses and other liabilities	(10,779)	12,260	(14,214)
Employee benefit obligations	286	730	2,572
Deferred income taxes	(2,408)	(1,465)	(1,293)
Other, net	(7,815)	471	13,231
Total adjustments	$ 519	$ 27,016	$ 19,068
Net cash provided by operating activities	$ 24,612	$ 42,543	$ 34,452
Cash Flows From Investing Activities			
Proceeds from sale of available-for-sale investments	$ 74,921	$ 68,963	$ 35,653
Proceeds from call and maturity of held-to-maturity investments	43,702	31,614	35,398
Proceeds from call and maturity of available-for-sale investments	87,116	68,038	95,762
Proceeds from sale of short-term and other investments	270,597	126,035	102,256
Purchase of held-to-maturity investments	(1,397)	(3,482)	(1,682)
Purchase of available-for-sale investments	(355,658)	(284,116)	(295,670)
Purchase of short-term and other investments	(257,941)	(163,036)	(86,856)
Proceeds from sale of property and equipment	—	104	1,469
Purchase of property and equipment	(1,709)	(3,485)	(1,429)

Acquisition of property and casualty company, net of cash acquired	—	—	(22,249)
Net cash used in investing activities	$(140,369)	$(159,365)	$(137,348)
Cash Flows From Financing Activities			
Policyholders' account balances			
Deposits to investment and universal life contracts	$ 225,771	$ 218,951	$ 189,715
Withdrawals from investment and universal life contracts	(102,639)	(104,323)	(69,432)
Purchase and retirement of common stock	—	(421)	(780)
Payment of cash dividends	(7,225)	(7,134)	(6,858)
Net cash provided by financing activities	$ 115,907	$ 107,073	$ 112,645
Net Increase (Decrease) in Cash and Cash Equivalents	$ 150	$ (9,749)	$ 9,749
Cash and Cash Equivalents at Beginning of Year	—	9,749	—
Cash and Cash Equivalents at End of Year	$ 150	$ —	$ 9,749

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

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of operations, principles of consolidation and basis of reporting
The Consolidated Financial Statements have been prepared on the basis of generally accepted accounting principles, which differ in some respects from those followed in preparing our statutory reports to insurance regulatory authorities. Our stand-alone statutory financial statements 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 practices"). Effective January 1, 2001, these states have adopted the National Association of Insurance Commissioners' codified statutory accounting practices. Refer to Note 8 for further discussion.

We are engaged in the business of writing property and casualty insurance and life insurance.

The accompanying Consolidated Financial Statements include: United Fire & Casualty Company, its wholly owned subsidiaries; United Life Insurance Company ("United Life"), Lafayette Insurance Company, Insurance Brokers & Managers, Inc., Addison Insurance Company, Addison Insurance Agency, UFC Premium Finance Company, American Indemnity Financial Corporation, American Indemnity Company, United Fire & Indemnity Company, Texas General Indemnity Company, American Computing Company and United Fire Lloyd's, an affiliate.

United Fire Lloyd's is organized as a Texas Lloyd's plan, which is an aggregation of underwriters who, under a common name, engage in the business of insurance through an attorney-in-fact. United Fire Lloyd's is financially and operationally controlled by American Indemnity Company pursuant to four types of agreements: trust agreements between American Indemnity and certain employees of American Indemnity; articles of agreement among the trustees that establish how the Lloyd's plan will be operated; powers of attorney from each of the underwriters appointing an attorney-in-fact, who is authorized to operate the Lloyd's plan; and a management services agreement between the Lloyd's plan and American Indemnity Company. The attorney-in-fact and the trustees are all employees or officers of American Indemnity Company. Because American Indemnity Company can name the trustees, underwriters and attorney-in-fact, the Lloyd's plan is perpetual, subject only to American Indemnity Company's desire to terminate it.

American Indemnity Company provided all of the statutory capital necessary for the formation of a Texas Lloyd's plan by contributing capital to each of the trustees. The trust agreements require the trustees to become underwriters of the Lloyd's plan, to contribute the capital to the Lloyd's plan, to sign the articles of agreement and to appoint the attorney-in-fact. The trust agreements also require the trustees to pay to American Indemnity all of the profits and benefits received by the trustees as underwriters of the Lloyd's plan, which means that American Indemnity Company has the right to receive 100% of the gains and profits from the Lloyd's plan. The trustees serve at the pleasure of American Indemnity Company, which may remove a trustee and replace the 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 Lloyd's plan to reimburse American Indemnity Company. By retaining the ability to terminate trustees, American Indemnity Company possesses the ability to name and remove the underwriters, which permits American Indemnity Company to control who is named by the underwriters as the attorney-in-fact.

The management services agreement requires American to provide all of the services necessary to conduct the day-to-day business of the Lloyd's plan. Accordingly, American Indemnity effectively controls the day-to-day business of the Lloyd's plan. Although this agreement can be terminated by either party on thirty days notice, the agreement is effectively perpetual because American Indemnity Company controls the trustees, the underwriters and the selection of the attorney-in-fact. Furthermore, because the trustees, underwriters and attorney-in-fact are all employees of American Indemnity Company, American Indemnity Company effectively controls the business of the Lloyd's plan.

The preparation of financial statements in conformity with generally accepted accounting principles 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 captions that are most dependent on management estimates and assumptions include investments, deferred policy acquisition costs and future policy benefits and losses, claims and settlement expenses.

Certain amounts included in the Consolidated Financial Statements for prior years have been reclassified to conform with the 2001 financial statement presentation.

Property and casualty segment
Premiums are reflected in income 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 policies in force.

Certain costs of underwriting new business, principally commissions, premium taxes and variable underwriting and policy issue expenses, have been deferred. Such costs are being amortized as premium revenue is being recognized. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value, which gives effect to the premium to be earned, losses and expenses incurred, and certain other costs expected to be incurred as the premium is earned.

To establish loss and loss adjustment expense reserves, we make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in our financial statements. Actual results could differ materially from those estimates. The estimate of these reserves is subjective and complex and requires us to make estimates about the future payout of claims, which is inherently uncertain. When we establish and adjust reserves, we do so given our knowledge of the circumstances and claim facts. Historically, we have over-estimated our reserves for losses on an aggregate basis. We attribute this over-estimation to our diligent approach to reserving and our rigorous claims adjusting and settlement processes. To the extent that we have over- or under-estimated our loss and loss adjustment expense reserves, we adjust the reserves in the period the over- or under-estimate is determined.

Life segment
On whole life and term insurance (traditional business), premiums are reported as earned when due, and benefits and expenses are associated with premium income so as to result in the recognition of profits over the lives of the related contracts. On universal life and annuity (nontraditional) business, income and expenses are reported as charged and credited to policyholder account balances through the use of the retrospective deposit method. This method results in the recognition of profits over the lives of the related contracts, which is accomplished by means of a provision for future policy benefits and the deferral and subsequent amortization of life policy acquisition costs. We do not write variable annuities.

The costs of acquiring new life business, principally commissions and certain variable underwriting, agency and policy issue expenses, have been deferred. These costs are being amortized to income over the premium paying period of the related traditional policies in proportion to the ratio of the expected annual premium revenue to the expected total premium revenue, and over the anticipated lives of nontraditional policies in proportion to the ratio of the expected annual gross margins to the expected total gross margins. The expected premium revenue and gross margins are based upon the same mortality and withdrawal assumptions used in determining future policy benefits. For nontraditional policies, changes in the amount or timing of expected gross margins will result in adjustment to the cumulative amortization of these costs.

The effect on the amortization of deferred policy acquisition costs for revisions to estimated gross profits is reflected in earnings in the period such estimated gross profits are revised. The effect on the deferred policy acquisition costs that would result from realization of unrealized gains (losses) is recognized with an offset to accumulated other comprehensive income in the Consolidated Statements of Stockholders’ Equity as of the balance sheet date. As of December 31, 2001, an adjustment to decrease deferred policy acquisition costs by $10,253,000 was made with a corresponding decrease to accumulated other comprehensive income. In 2000, the adjustment was to increase deferred policy acquisition costs by $336,000.

Liabilities for future policy benefits are computed by the net level premium method using interest assumptions ranging from 4.5 percent to 8.0 percent and withdrawal, mortality and morbidity assumptions appropriate at the time the policies were issued. Accident and health reserves are stated at amounts determined by estimates on individual cases and estimates of unreported claims based on past experience. Liabilities for universal life and investment contracts are stated at policyholder account values before surrender charges. Liabilities for traditional immediate annuities are based primarily upon future anticipated cash flows based upon statutory mortality and interest rates, which is not materially different from generally accepted accounting principles.

Policy claim liabilities are determined using actuarial estimates. These estimates are based on historical information, along with certain assumptions about future events. Changes in assumptions for such things as medical costs, environmental hazards and legal actions, as well as changes in actual experience, could cause these estimates to change in the near term.

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DIRECTORS OF THE COMPANY

Name (Age, as of 12/31/01)	Present Position, Name and Principal Business of Director
Scott McIntyre Jr. (68)	Chairman of the Board, United Fire & Casualty Company
Christopher R. Drahozal (40)	Professor of Law, University of Kansas School of Law, Lawrence, Kansas
Jack B. Evans (53)	President, Hall-Perrine Foundation and Vice Chairman of the Board, United Fire & Casualty Company
Casey D. Mahon (50)	Attorney at Law; Adjunct Professor of Law, University of Iowa, Iowa City, Iowa
Thomas K. Marshall (68)	Retired
George D. Milligan (45)	President, The Graham Group, Inc., Des Moines, Iowa
Mary K. Quass (51)	President and Chief Executive Officer, Quass Communications, LLC, Cedar Rapids, Iowa
John A. Rife (59)	President and Chief Executive Officer, United Fire & Casualty Company; President, United Life Insurance Company; President, American Indemnity Financial Corporation and subsidiaries
Byron G. Riley (71)	Attorney, Firm of Bradley & Riley, P.C., Cedar Rapids, Iowa
Kyle D. Skogman (51)	President, Skogman Construction Company of Iowa, Cedar Rapids, Iowa
Frank S. Wilkinson Jr. (62)	Retired

EXECUTIVE OFFICERS OF THE COMPANY

Name (Age, as of 12/31/01)	Office Held and Tenure
Scott McIntyre Jr. (68)	Chairman of the Board since 1980; Director since 1956

John A. Rife (59)	Chief Executive Officer, United Fire & Casualty Company, since May 2000; President of American Indemnity Financial Corporation and subsidiaries since August 1999; President of United Fire since May 1997; President of United Life Insurance Company since 1984; employed by United Fire since 1976
Richard B. Swain (44)	Senior Vice President since February 1999; Vice President, Underwriting, at Hastings Mutual Insurance Company, Hastings, Michigan, from May 1998 to February 1999; employed by United Fire as Vice President, Lincoln Regional Office, from October 1993 to May 1998
Kent G. Baker (58)	Vice President and Chief Financial Officer since 1984
John R. Cruise (60)	Vice President, Reinsurance, since 1986
E. Dean Fick (57)	Vice President, Claims, since 1991
Shona Frese (57)	Corporate Secretary since December 1996; employed by United Fire since 1966
David L. Hellen (49)	Resident Vice President, Denver Regional office, since 1987
Wilburn J. Hollis (61)	Vice President, Human Resources, since June 1996; Director of Human Resources at Norwest Financial in Des Moines, Iowa, from 1989 to 1996
E. Addison Hulit (62)	Vice President since May 1995; employed by United Fire since 1993
Robert B. Kenward (59)	Vice President, Information Services, since 1992
Kevin L. Kubik (47)	Vice President and Chief Investment Officer since June 1997; employed by Van Kampen American Capital Investment Advisory Inc. from 1989 to 1997
David A. Lange (44)	Corporate Secretary since February 1997; Fidelity and Surety Claim Manager since 1987
Dianne M. Lyons (38)	Controller since November 1999; employed by United Fire as Accounting Manager and Financial Accountant since 1983

James S. Mason (54)	Resident Vice President since February 2000, Lone Star Regional office; Branch Manager, Reliance Insurance Company, New Orleans, from January 1999 to January 2000; Regional President, Southern Region, from 1995 to 1998 and Vice President/General Manager from 1992 to 1994, St. Paul Insurance Company, Dallas, Texas
Randy A. Ramlo (40)	Vice President Fidelity & Surety since November 2001; Commercial Lines Underwriting Manager from 1996 to 2001; employed by United Fire since 1984
Neal R. Scharmer (45)	Vice President since May 2001; employed by United Fire as General Counsel since 1995; Senior Counsel, Grinnell Mutual Reinsurance Company from 1989 to 1995
Galen E. Underwood (61)	Treasurer since 1979
Stanley A. Wiebold (57)	Vice President, Underwriting, since 1986
Michael T. Wilkins (38)	Resident Vice President since 1998, Central Plains Regional office; employed by United Fire since 1985

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