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STATE FARM[®] Year in Review
09



The first decade of the 21st Century had the unspeakable trauma of 9/11 near its start and economic turmoil that mirrored the Great Depression near its end. In between, political, cultural and financial changes forever altered our social landscape and are having a tremendous impact on consumers and our own competitive marketplace.

Rapid advances in technology fueled many of these changes. If the last decade of the 20th Century was about getting people connected to the Internet, the past 10 years have been about connecting people to each other. Today, through social networks, knowledge sharing and the power of "search," the world is literally at our fingertips.

In this decade of tumultuous and rapid change, State Farm® added 13.9 million policies and accounts to its industry-leading book of business while remaining financially strong.

As we open a door to a new decade, we recognize unique challenges and great opportunities.

Our markets have become more competitive. Just as technology is a significant enabler for consumers, it also allows State Farm to pursue new solutions to streamline costs and deliver on our promise of exceptional, industry-leading service. State Farm has expanded its growth efforts to include rapidly expanding and diverse markets and will leverage its financial stability and the strength of its brand to broaden State Farm's presence.

But industry growth has slowed as unemployment soared, disposable income declined and regulatory and political dynamics became more uncertain. It's all the more reason for State Farm to advocate a competitive marketplace and regulations that will help ensure financial stability.

For State Farm to remain strong and growing, we must stay true to the same pioneering spirit that helped launch this Enterprise nearly 88 years ago and then built it into an industry leader.

We must embrace changing consumer expectations in ways that demonstrate not only State Farm's value, but also its values. We will hold steadfast to our first and foremost priority of serving the needs of our customers, even as those needs change in this dramatically changing world.

These pages tell the story of the year just past—a year of growth in a challenging economy, of resilience, financial strength and stability in unstable times. And while we pursued our vision to be the customer's first and best choice, we kept our promise of delivering industry-leading service to millions of customers who benefit from a quality relationship with a company of integrity and financial strength.

My thanks to everyone at State Farm for what we accomplished in 2009, and to our policy and account holders for their continued loyalty and support.

A handwritten signature in black ink that reads "Edward B. Rust Jr." with a stylized flourish at the end.

Edward B. Rust Jr., Chairman and CEO,
State Farm Mutual Automobile Insurance Company

Charles Dickens opened his novel, *A Tale of Two Cities*, with, "It was the best of times, it was the worst of times." A century and a half later, Dickens' classic is new again.

For too many of our communities, 2009 was the worst of times. They suffered through the worst recessionary times since the Great Depression. For State Farm, while we were not immune to the decline in the financial markets, we remained financially strong amid the crisis and planned for better days yet to come.

Our strength in stormy days was found most often in our people. Their passion and commitment to our core values – quality service and relationships, mutual trust, integrity and financial strength – helped us remain the leading auto and homeowners insurer in the United States and an industry leader in Canada. Each day, our employees, agents and agent team members made a positive difference in the lives of our customers. In the best and worst of times, being there remains our most important mission.

Being there when you needed us

Fire and auto claims reached nearly 13 million in 2009, totaling more than the populations of New York City and Los Angeles combined. These accounted for more than \$32 billion paid to and on behalf of our policyholders – that's, on average, \$88 million every day. In handling these claims, we were there whenever and wherever needed to keep our commitment to our policyholders.

"I talk to people all the time who just need someone to listen. They need someone to talk to them and give them some guidance. I've been able to do that in this role. It's been just a great fit."

Valerie Wyatt, Claim Team Manager, Bloomington, IL

"We're going to be there for you just like we promised when you invested in that account or when you bought that policy. We're going to make those promises a reality."

Rob Rice, Agent, Tupelo, MS

PROMISES

35,000
average claims
processed daily

PEOPLE

200+
more agents than in 2008



"A lot of people are friends here, but sometimes building that extra connection with policyholders ... you know that you're creating a relationship that's going to last a long time."

Kim Snavelly, Agent, Minden, NE

Our customer service, whether providing an auto quote, settling a claim or opening a checking account, remained at an industry high. Consumer surveys confirmed State Farm customers are more satisfied than those of other auto insurers. Our homeowners/renters insurance and life insurance customers share the same story – our customer service continues to stand tall as an industry leader, taller than our major competitors.

The tradition of providing Good Neighbor service is as strong today as when we paid our first claim in 1922.

Being there at every turn

State Farm has always taken seriously our responsibility to serve our customers. In 2009, we celebrated new ways to be there with – and for – our customers.

State Farm highlighted our commitment to “being there” through two old favorites. The Jackson 5’s hit “I’ll Be There” originally debuted in 1970, but in 2009 it helped deliver our message of superior service and value to the

homes of television audiences. Our slogan, Like a Good Neighbor, State Farm is There®, debuted in 1971. In 2009, the slogan was selected by the public for addition to the Madison Avenue Advertising Walk of Fame, serving as a testament to our genuine commitment to policyholders, community and service.

Throughout 2009, our agents provided the daily, individual service our customers have come to expect, and our call centers offered quick, comprehensive results. Through statefarm.com®, consumers continued to connect with their agents, get quotes and access their State Farm Bank® accounts. But also in 2009, State Farm® Pocket Agent™ launched as a free application for the iPhone® and iPod Touch®. It allows customers to locate a Select Service® repair facility, find a State Farm agent, submit a claim or access their State Farm Bank and Mutual Fund balances. Users flocked in large numbers to our social media Internet sites. More people than ever saw what we were doing in their neighborhoods by visiting us on Facebook, Twitter and Flickr and our YouTube channel.

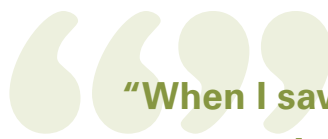
COMMUNITY

Graduated Driver Licensing (GDL) introduces teen driving privileges in phases, while reinforcing the importance of parental involvement. Research shows GDL laws reduce teen driver crashes by up to 40%.

40%

Reduction in teen driver crashes in states with strong GDL laws

In 2009, State Farm identified and provided support to 11 targeted states (AK, AR, IN, IA, KS, MD, NJ, OK, PA, TX and WV) to strengthen their GDL laws. These states were selected based on their GDL gaps and likelihood of legislative change. Of the eleven states, eight enacted stronger GDL laws. State Farm championed national and state-level recognition of legislators who were instrumental in enactments.



“When I saw our ‘I’ll be there’ commercial, it brought tears to my eyes! It does truly represent State Farm. I, myself, just went through a crisis and State Farm was there! It confirmed those words yet again to me but also to my family.”

Jessica Mwangi, Support Center Representative, Irving, TX

Being there in your communities

From our online communities to the cities and towns in which we live and work, State Farm, through its philanthropic efforts, is committed to building safer, stronger and better educated neighborhoods.

In 2009, we continued to focus our education work on relationships devoted to improving student achievement, closing the achievement gap and boosting graduation rates. We sponsored summits to reduce the number of high school dropouts across the country with America's Promise Alliance. We helped to launch the GradNation campaign, dedicated to cutting the nation's dropout rate in half by 2018. State Farm worked with the Alliance for Excellent Education to expand its Economic Indicator Model, which helped cities understand and address the economic and social gains of better high school graduation rates.

Our Youth Advisory Board (YAB) celebrated its fourth year by allocating nearly \$5 million in service-learning grants to prevent high school dropouts, increase academic achievement, boost civic engagement and promote Teen Driver Safety. The YAB is comprised of thirty 17-20 year olds who are chosen through a competitive process to lead and oversee a \$5 million-

per-year signature service-learning initiative. The group received the largest number of grant requests in its history, and environmental issues received the largest share of funding from the group. Multiple YAB alumni are now full-time State Farm employees.

Being there in challenging times

Our communities struggled for stability in 2009. The year began with stock market volatility but ended with promising glimmers for the future. Despite the worst year for auto sales in nearly three decades, State Farm still showed growth in auto policies. Despite the worst year for foreclosures on record and reductions in Florida policy counts, homeowners policies grew for the sixth consecutive year. Despite dips in consumer confidence and spending power, Life affiliates set a record for volume of life insurance applications in 2009.

After opening its doors at the start of a tumultuous decade, State Farm Bank celebrated its tenth anniversary and its one-millionth credit card account.

Our sound management philosophies kept us financially strong during troubling economic times. Additionally, our plans to grow policies and accounts and show profitable results in 2010 are already in

"State Farm employees have the biggest hearts. Just let a fellow employee have their house burn down, or lose a close family member or some other catastrophic event in their life happens, and they are immediately the recipient of so much love and emotional and financial support it is amazing. These are the same big-hearted people who serve our customers each and every day. I'm so proud to work with such wonderful and caring people!"

Karen Young, Claim Service Assistant, Tulsa, OK

PERFORMANCE

419,000

increase in policies
and accounts in 2009

186,000

growth in voluntary
auto policies in 2009

185,000

growth in homeowners
policies in 2009

motion, bringing further strength and stability in these turbulent times.

Being there to lead the way, and we'll be there again

2009 and the decade it concluded were years like no other – for some, the best of times, and for many, the worst. For State Farm, in the toughest year in decades for new car sales and housing starts, it was a good year. We grew our business while providing Good Neighbor service to our customers and our communities.

For the nation's leading auto and homeowners insurer, a good year is simply not good enough. As competition intensifies, our evolving marketplace demands that we continue to find new ways to serve our customers and policyholders faster and better. We intend to seize that opportunity and are positioning ourselves for greater, more sustained growth. Our continued mission: to be the **first** and **best** choice in the products and services we provide.

At the heart of our organization will always be people who make it a priority to put the customer first, following in the footsteps of our founder, G.J. Mecherle – this will never change.

From his days as our first agent to the family of more than 17,000 agents and more than 67,000 employees today, our commitment to being a valued part of the communities in which we live and work never wanes. Each one of our people is the daily face of State Farm, there whenever and wherever you need us.

We are the country's number one auto and homeowners insurance provider, yet we know even better days still lie ahead. Online and offline, through statefarm.com or one of more than 17,000 agent offices, in the best of times and the worst of times, State Farm is there.

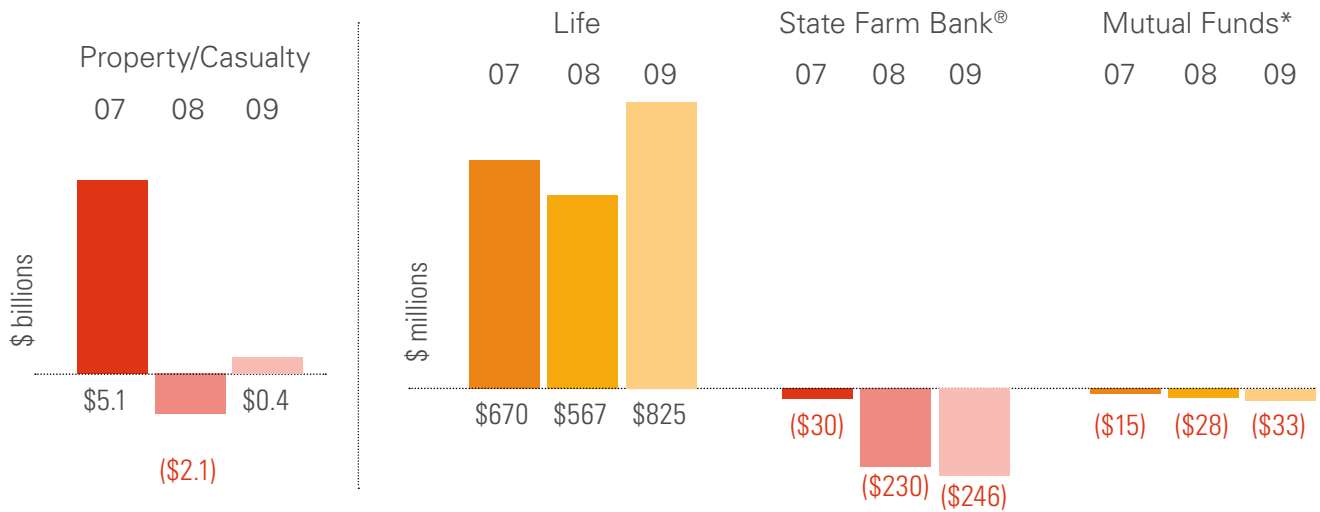
“In an age where Corporate America is increasingly characterized by scandal or careless greed, I am so profoundly grateful to work for State Farm. We represent that beacon of light for so many who face the storms of everyday life, work, risk and peril. My heart is entrenched here ... in Our State Farm. It's My Company – as a policyholder and as a 15-year employee.”

Shawna Bennett, Public Affairs Assistant Manager, Clayton, MO

“While young, I saw how my parents' State Farm agent helped our family several times. Our agent was somewhat an extension of our family; someone we could count on to be there when we needed help. When I was young, I didn't know I would be working for State Farm. I realize now that State Farm has been in my life, my blood, since the beginning.”

*Mike Gutowski, Auto Claim Representative,
Owings Mills, MD*

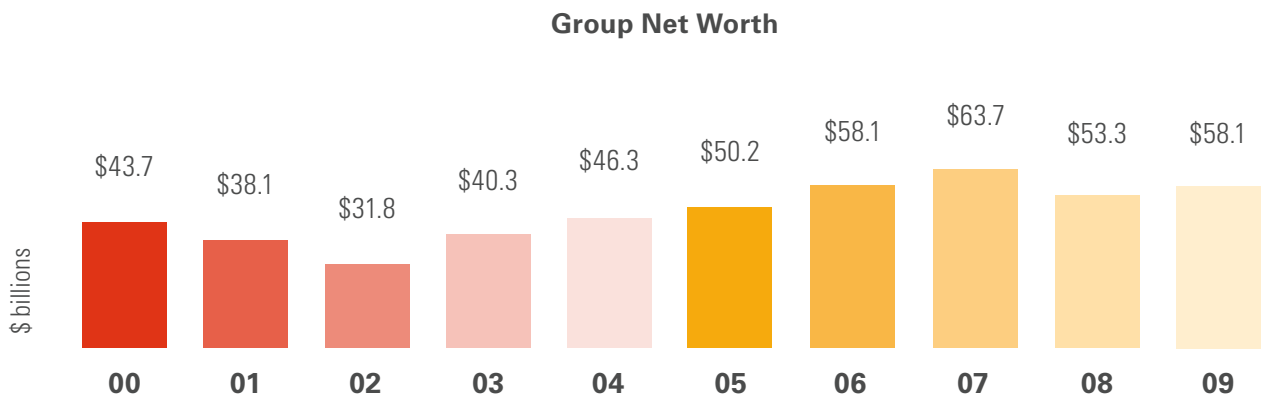
Pre-tax Operating Profit/(Loss)



*Includes the combined results of State Farm Investment Management Corp. and State Farm VP Management Corp.

Group Net Worth at a Glance

State Farm strives to maintain a level of financial strength that will ensure long-term sustainability. The combined net worth of the State Farm Group of Companies (Group Net Worth) increased \$4.8 billion during 2009, following a \$10.4 billion decrease in 2008. The primary factor driving both the improvement in 2009 and the decline in 2008 was the change in the value of unaffiliated equity investments. Despite the significant decline experienced in 2008, Group Net Worth increased by more than \$12 billion during the first decade of the 21st century.

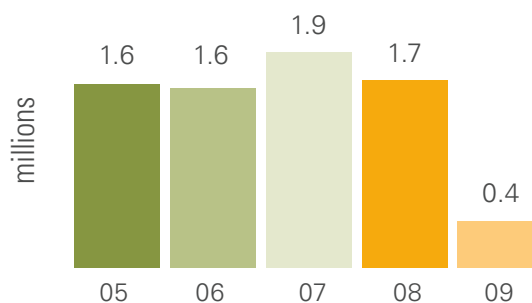


Performance

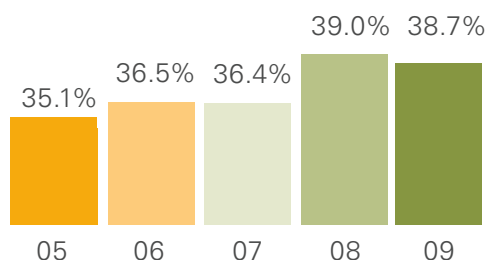
State Farm continued to grow amid declining new car sales and housing starts.

The Property/Casualty expense ratio improved in 2009, as the growth in earned premium outpaced growth in expenses.

Growth in Policies and Accounts



Property/Casualty Expenses As a percent of Earned Premium

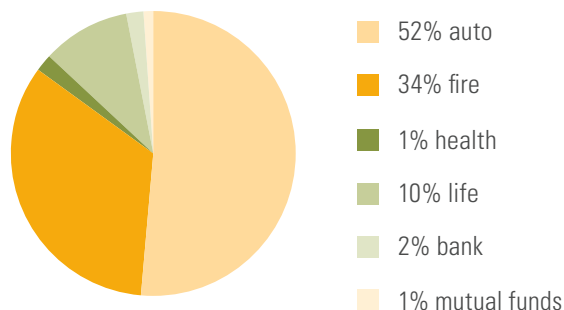


Products

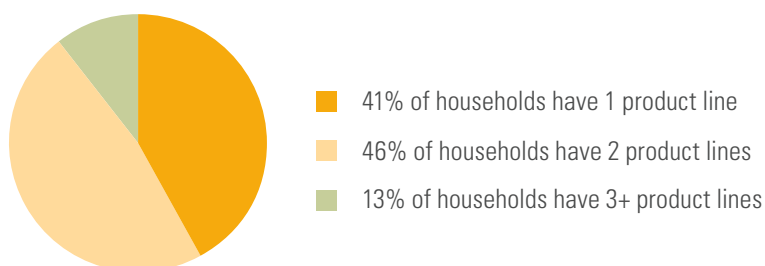
Although our primary line of business is auto insurance, State Farm focuses on exceeding customers' expectations within all lines of business – auto and fire lines, life and health insurance, and bank and mutual fund products. Each account and policyholder is offered innovative products, multi-line options, and exceptional customer service.

81 million+

policies and accounts at the end of '09



Multi-line Quick Facts*



*insurance lines only

People

With the economy and our business constantly changing, at State Farm there is one constant – the commitment of our people. Our diverse group of talented and caring employees, agents and agent team members make up a Good Neighbor team that keeps millions of promises to customers and policyholders every year.

17,700+
agents at the end of 2009

67,000+
employees at the end of 2009

Promises

In the midst of economic uncertainty, State Farm is still there when customers need us most. State Farm proves its trustworthy reputation by handling almost 35,000 claims on average each day, fulfilling our commitment to pay what is owed promptly, courteously and efficiently ... a promise we've kept for nearly 88 years.

Ranked No.

31

on the Fortune 500 list
'09 ranking based on '08 financials

12.8 million
total auto and fire claims in 2009

Community

The role State Farm plays as a good neighbor goes beyond insuring individuals' assets. Through the Good Neighbor Citizenship® program, State Farm and the State Farm Companies Foundation have made an impact in homes, classrooms and neighborhoods all across the United States and Canada.

\$60 million

in charitable giving to build safer, stronger, better-educated communities

over \$6.2 million

in associates' charitable contributions to colleges and universities (under the Matching Gift program) and to United Way organizations across the U.S. and Canada. In addition, associates logged over 275,000 charitable volunteer hours under the Good Neighbor Grant program.

State Farm Mutual Automobile Insurance Company 2009

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