STATE FARM GROUP

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AMB#: 00088

BEST'S RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Rating of A++ (Superior). The group's Financial Size Category is Class XV.

RATING UNIT MEMBERS

State Farm Group (AMB# 00088):

AMB#	COMPANY	RATING
02479	State Farm Mutual Auto Ins Co	A++ g
02476	State Farm Cty Mutual of TX	A++ r

RATING RATIONALE

Rating Rationale: The rating is based on the consolidation of State Farm's eight member property / casualty group and applies to the lead company, State Farm Mutual Automobile Insurance Company and a reinsured affiliate, State Farm County Mutual of Texas. The rating reflects the group's superior capitalization, solid operating performance, strength of brand and market presence as the largest property / casualty writer in the United States. Partially offsetting these positive rating factors are the group's unfavorable operating performance in the beginning of the previous five-year period and its above average investment leverage. The rating outlook is based on the group's strong capitalization, stabilization of earnings in recent years and dominant business profile.

The group maintains a significant capital base with a correspondingly modest underwriting leverage position, despite a substantial decline in surplus in the beginning of the previous five-year period. In response to generally unfavorable operating results, management implemented numerous strategic initiatives to improve results, including a renewed focus on underwriting profitability, managed growth objectives and improved rate adequacy. As a result of these initiatives and favorable market conditions, the group's operating performance has significantly improved in recent years. State Farm also benefits from its mutual ownership structure, which affords significantly less pressure in terms of operating returns compared to its publicly traded peers. The group's market presence is the result of its tremendous brand name recognition, cost-efficient exclusive agents, strong customer loyalty and diversified financial service capabilities. With the group's ability to provide quality claims handling, bundling of products and services, as well as cost-reducing incentives to long-term valued customers, State Farm has created a considerable competitive advantage. State Farm has dedicated property companies in California, Florida and Texas, three of its highest catastrophe-prone states, which has increased its flexibility to mitigate and manage its exposure to frequent and severe weather-related losses.

Partially offsetting these positive rating factors are the group's unfavorable operating performance at the beginning of the previous five-year period and its above average investment leverage due to its sizeable common stock portfolio. Prior-year unfavorable results were driven by exposure to ongoing weather-related events, rising loss costs in both the personal automobile and homeowner lines of business, as well as the group's previous top-line growth strategy. The underwriting experience and unfavorable equity market conditions contributed to surplus volatility. State Farm's non-affiliated common stock portfolio is well diversified and represents less than 40% of its overall invested assets. However, non-affiliated common stock holdings as a percentage of surplus are high at approximately 70%. While A.M. Best does not anticipate State Farm applying a market share-based pricing philosophy, it remains a modest risk factor, given the group's sizeable capital base and more competitive overall market conditions.

Best's Rating: A++ **Outlook: Stable**

FIVE YEAR RATING HISTORY

Date	Best's Rating
06/11/07	A++
06/15/06	A++
09/15/05	A++
06/15/05	A++
04/19/04	A++
06/13/03	A++
02/28/03	A++

KEY FINANCIAL INDICATORS

	Statutory Data ($000)		
Period Ending	Direct Premiums Written	Net Premiums Written	Pretax Operating Income
2002	43,403,995	42,747,364	-2,699,758
2003	47,226,012	46,581,240	3,067,354
2004	48,457,771	47,762,343	5,513,143
2005	48,762,122	47,924,426	3,522,480
2006	49,614,181	48,651,476	5,958,819
09/2006	37,642,209	36,892,488	5,283,938
09/2007	37,686,158	36,386,338	3,665,923

	Statutory Data ($000)		
Period Ending	Net Income	Total Admitted Assets	Policy-holders' Surplus
2002	-2,697,266	84,294,906	31,634,376
2003	2,518,948	97,517,909	40,229,742
2004	5,052,721	105,977,403	46,520,157
2005	3,049,496	112,894,647	50,229,046
2006	4,839,793	120,241,631	58,194,316
09/2006	3,893,942	117,580,391	57,023,654
09/2007	3,423,760	129,065,544	64,063,311

	Profitability			Leverage			Liquidity	
Period Ending	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev	Overall Liq (%)	Oper. Cash-flow (%)
2002	113.7	4.0	-6.6	92.4	1.4	3.0	160.1	104.8
2003	100.0	3.9	6.8	87.6	1.2	2.6	170.3	111.2
2004	95.6	3.8	11.7	78.6	1.0	2.3	178.2	112.8
2005	101.5	4.1	7.4	75.1	1.0	2.2	180.2	105.5
2006	96.4	3.9	12.4	74.4	0.8	1.9	193.8	116.9
5-Yr Avg	101.1	4.0	6.7	…	…	…	…	…
09/2006	93.4	XX	14.7	XX	0.8	1.9	194.2	116.4
09/2007	98.8	XX	10.1	XX	0.8	1.8	198.6	109.3

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings. Within several financial tables of this report, this group is compared against the Private Passenger Auto & Homeowners Composite.

CORPORATE OVERVIEW

The State Farm Group, led by State Farm Mutual Automobile Insurance Company, offers multiple lines of property / casualty and life / health insurance throughout the United States and Canada through an exclusive agency force. The group's property / casualty business is underwritten by State Farm Mutual Automobile Insurance Company; its five wholly-owned property / casualty subsidiaries, State Farm Fire and Casualty Company, State Farm General Insurance Company, State Farm Florida Insurance Company, State Farm Indemnity Company and State Farm Guaranty Insurance Company (wholly-owned by State Farm Indemnity); and its two property / casualty affiliates, State Farm County Mutual Insurance Company of Texas and State Farm Lloyds.

State Farm's principal property / casualty lines are private passenger automobile and homeowners insurance, where it has long offered low cost coverages to its policyholders. Life products are underwritten by two other wholly-owned subsidiaries of the parent, State Farm Life Insurance Company and State Farm Life and Accident Assurance Company. Accident and health products are also underwritten by the parent.

A.M. Best assigns seven distinct ratings to the State Farm property / casualty insurance companies. The first rating, State Farm Group, is based on the consolidation of the entire State Farm Group, led by State Farm Mutual Automobile Insurance Company. The members of this rating unit are State Farm Mutual Automobile Insurance Company and State Farm County Mutual Insurance Company of Texas, which substantially reinsures with State Farm Mutual. These companies generate approximately 65% of State Farm Group's net premiums written, with the overwhelming majority of the group's total business generated by State Farm Mutual. The companies principally underwrite personal automobile insurance and coverages for small to medium size commercial vehicles.

The second rating is State Farm Fire and Casualty Company, which writes property business throughout the United States and Canada, excluding homeowners and commercial multiple peril business in California, Florida and Texas that is written by separate subsidiaries of the parent. The company accounts for approximately 25% of the group's net written premium. The third rating is State Farm General Insurance Company, which writes virtually all of State Farm's non-automobile property / casualty business in California, excluding workers' compensation, fidelity and surety, and flood business. Business written includes primarily homeowners and to a lesser degree, commercial multiple peril policies. The company generates approximately 4% of State Farm Group's net premiums written.

The fourth rating is State Farm Lloyds, which writes virtually all of State Farm's non-automobile property / casualty business in Texas, excluding workers' compensation, fidelity and surety, and flood business. Business written includes primarily homeowners and to a lesser degree, commercial multiple peril coverages. The company generates approximately 3% of State Farm Group's net premiums written. The fifth rating is State Farm Florida Insurance Company, formed in December 1998, that primarily writes State Farm's Florida homeowners and commercial multiple peril business, originally written by State Farm Fire and State Farm General. It began writing business on February 1, 1999 and generates approximately 2% of State Farm Group's net premiums written.

The sixth rating unit is State Farm Indemnity Company, which is a stand-alone underwriter of personal automobile insurance in New Jersey, previously underwritten by its parent, State Farm Mutual Automobile Insurance Company, prior to its formation in 1991. The company generates approximately 1% of State Farm Group's net premiums written. The seventh rating is State Farm Guaranty Insurance Company, a wholly-owned and fully reinsured subsidiary of State Farm Indemnity Company, which was incorporated in 2004 and began issuing New Jersey private passenger automobile policies in January 2006. The company is currently classified "NR-2" (Not rated due to insufficient size and/or operating experience).

CORPORATE STRUCTURE

AMB#	COMPANY NAME	DOMICILE	%OWN
02479	State Farm Mutual Auto Ins Co	IL	
02476	State Farm Cty Mutual of TX	TX	
02477	State Farm Fire & Casualty Co	IL	100.00
12235	State Farm Florida Ins Co	FL	100.00
02478	State Farm General Ins Co	IL	100.00
11224	State Farm Indemnity Company	IL	100.00
13016	State Farm Guaranty Ins Co	IL	100.00
07079	State Farm Life & Acc Assur Co	IL	100.00
07080	State Farm Life Ins Co	IL	100.00
09158	State Farm Ann & Life Ins Co	IL	100.00
78618	State Farm Intl Lf Ins Co Ltd	Bermuda	100.00
50159	*State Farm Lloyds Inc*	TX	100.00
01767	State Farm Lloyds	TX	
87157	Top Layer Reinsurance Ltd	Bermuda	50.00

BUSINESS REVIEW

The group, led by State Farm Mutual Automobile Insurance Company, writes personal and commercial lines insurance throughout the United States and Canada. Its mix of business is approximately 85% personal lines and 10% commercial lines, with remainder spread amongst a variety of different lines. The group's principal products are private passenger automobile and homeowners insurance. The group maintains a significant market share in the U.S. property / casualty sector.

State Farm has an exclusive agency force that numbers approximately 17,000. The group selects and trains its own agents and provides them with exclusive agency contracts. State Farm works closely with its agents on underwriting, claims, rating and other matters, although it does not actively supervise them as they are independent contractors.

With personal lines serving as an entry into the market, agents are able to cross-sell other products to policyholders. These products include commercial lines that are generally for small to medium size accounts that are predominantly habitational, as well as life, annuity and variable life products that are underwritten by two life subsidiaries of the parent. In late 1998, State Farm received a Federal Savings Bank Charter that permitted its agents to offer banking products. The group's exclusive agents have been trained to focus on providing consumer-oriented financial products that complement State Farm's primary focus on personal insurance. These products include deposit and checking accounts, consumer credit cards and the writing of auto and home loans. In addition, the group began to offer mutual funds to the public in 2001 through State Farm VP Management Corp.

In 1999, State Farm Mutual and Renaissance Reinsurance Ltd., a Bermuda-based reinsurer, formed Top Layer Reinsurance, Ltd., an international property / casualty reinsurer. This company targets insurers and risks outside the U.S. and Caribbean and is able to cover potentially $4 billion in catastrophic exposure. The company insures a relatively small number of large, high layer risks, with aggregate zonal limits significantly lower than the aggregate capacity of Top Layer. Renaissance Re manages the company and underwrites its risks, receiving appropriate fees. The company was capitalized at $100 million, including $37.5 million in letters of credit from each company, and is backed by $3.9 billion of stop-loss reinsurance in excess of $100 million from State Farm Mutual. Each company owns 50% of the shares of Top Layer Re, with State Farm having voting control. A.M. Best will closely monitor the development of this company and the catastrophe risks State Farm assumes. In late 2001, State Farm Mutual and Renaissance Re Holdings announced the formation of an additional Bermuda-based reinsurer, DaVinci Reinsurance Ltd. The majority of capital was contributed by State Farm Mutual and Renaissance Re with additional capital provided by various other financial investors.

The property / casualty group writes business in eight companies. State Farm Mutual Automobile Insurance Company, the original member of the group, underwrites private passenger automobiles and small to medium size commercial vehicles, such as those operated by farmers, merchants and business and professional people, as distinguished from larger commercial or industrial, freight or passenger carrying risks. The company's underlying premium rates are generally less than those charged by the majority of companies for the same coverages. State Farm County Mutual Insurance Company of Texas, which substantially reinsures with State Farm Mutual, writes automobile products exclusively in Texas.

State Farm Fire and Casualty Company, State Farm Mutual's major subsidiary, underwrites multi-line property / casualty insurance. While the majority of its writings are personal lines coverages, predominantly homeowners insurance, various commercial lines products are also offered. Automobile risks that are not eligible for coverage with the parent company may be accepted in State Farm Fire and Casualty's "standard risk" program. All of the liability for motor vehicle insurance, however, is ceded to the parent company.

State Farm General Insurance Company is a multi-line property / casualty carrier that operates predominantly in California. Although the company was incorporated in 1962 and is licensed in 47 states and DC, its operational objectives were modified during 1998 to concentrate on the California market place. At that time, the company's operations were re-focused to fulfill a strategic initiative within the State Farm Group as the dedicated producer of non-auto business in California. During the past several years, programs have been implemented to isolate California's non-auto lines of business in State Farm General, while offering its non-California business to affiliated companies.

State Farm Lloyds underwrites multi-line insurance coverages in Texas, with homeowners and commercial multiple peril as its major lines. In February 1997, the company in conjunction with its affiliates State Farm Fire and State Farm General, began a program of non-renewing Texas homeowners business in those affiliates and offering coverage to their policyholders in the company. The homeowners program was completed in 1998. The program expanded in 1998 to include certain other non-automobile lines of business written in Texas by State Farm Fire and State Farm General and this program is generally complete.

State Farm Florida Insurance Company was incorporated in December 1998 in Florida. The company writes property / casualty business in Florida, which has been previously written by State Farm Fire and State Farm General. The company's business consists largely of Florida homeowners and commercial multiple peril lines. The company began writing new homeowners business on February 1, 1999. Beginning with May 1, 1999 renewal dates, Florida homeowners policyholders of State Farm Fire and State Farm General were offered policies of the company.

State Farm Indemnity Company started writing private passenger automobile insurance in New Jersey during 1992 and now handles all of State Farm's personal automobile business in the state along with its wholly-owned subsidiary, State Farm Guaranty. In June 2001, the company announced its intention to withdraw from the New Jersey automobile market, citing continuing losses and the challenging regulatory environment. In June 2002, a Market Stabilization Order was issued by the New Jersey Department of Banking and Insurance (NJDOBI), which specifies the terms and conditions of the company's withdrawal from the New Jersey auto insurance market and extended the exemption from the take-all-comers provision through the period covered by the order. In addition, the company also received a Corrective Order from the Illinois Department of Insurance in June 2002, which was recognized by the Market Stabilization Order, directing the company to non-renew approximately 96,000 vehicles over a two-year period beginning in December 2002. In October 2003, the Illinois Department of Insurance approved the temporary suspension of the Corrective Order non-renewals effective December 1, 2003. In November of 2004, the company agreed to a Consent Order which specified the terms and conditions of its re-entry into the New Jersey automobile insurance market. Effective January 1, 2005, the Market Stabilization Order was superseded by the terms and conditions of the Consent Order. The company is considered to be actively writing automobile insurance and per the order was allowed to maintain a zero percent growth rate in the number of vehicles insured during 2005 and a one percent growth rate during 2006. On and after January 1, 2007, the company shall issue new and renewal automobile insurance policies in accordance with the provisions of N.J.S.A. 17:33B-15.

State Farm Guaranty Insurance Company, a wholly-owned and fully reinsured subsidiary of State Farm Indemnity Company, was incorporated in 2004 and began issuing New Jersey private passenger automobile policies in January 2006.

2006 BUSINESS PRODUCTION AND PROFITABILITY ($000)

Product Line	Premiums Written Direct	Premiums Written Net	% of Total NPW	Pure Loss Ratio	Loss & LAE Reserves
Priv Pass Auto Liab	17,525,480	17,386,821	35.7	58.8	15,423,986
Auto Physical	12,666,978	12,662,693	26.0	63.8	1,737,835
Homeowners	13,580,291	12,559,591	25.8	52.4	3,849,347
Com'l MultiPeril	1,653,623	1,441,185	3.0	63.9	1,076,689
All Other	4,187,811	4,601,186	9.5	44.7	3,834,152
Totals	49,614,181	48,651,476	100.0	57.3	25,922,008

Major 2006 Direct Premium Writings By State ($000): California, $4,933,449 (9.9%); Florida, $4,706,971 (9.5%); Texas, $4,348,451 (8.8%); Illinois, $2,809,879 (5.7%); Pennsylvania, $1,921,007 (3.9%); 46 other jurisdictions, $29,459,412 (59.4%); Canada, $1,435,011 (2.9%).

FINANCIAL PERFORMANCE

Overall Earnings: State Farm has produced solid operating earnings as measured by its five-year pre-tax returns on revenue and equity. The group's operating performance was unfavorable at the beginning of the previous five-year period, as demonstrated by significant operating losses in 2002, which were driven by poor underwriting results and reduced investment income. However, the group has implemented numerous strategic initiatives in recent years that have led to significantly improved operating earnings, which were reflective of more favorable underwriting results and increasing investment income. The group's five-year total returns are higher than its five-year pre-tax returns and compare favorably to industry composite norms, attributable to solid capital gains on its sizeable equity portfolio. Operating losses in 2002 were exacerbated by significant capital losses due to poor equity market conditions. However, operating earnings in recent years have been enhanced by substantial capital gains due to more favorable equity market conditions.

PROFITABILITY ANALYSIS

	Company				Industry Composite			
Period Ending	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio
2002	-6.6	-19.1	113.7	106.2	0.4	-8.5	106.3	98.9
2003	6.8	20.7	100.0	93.1	7.3	17.8	99.3	92.4
2004	11.7	14.9	95.6	88.4	10.8	14.5	95.7	88.9
2005	7.4	7.8	101.5	93.3	8.6	9.9	99.2	91.8
2006	12.4	16.4	96.4	87.8	14.4	17.6	93.9	85.8
5-Yr Avg	6.7	9.2	101.1	93.4	8.6	11.0	98.6	91.3
09/2006	14.7	XX	93.4	85.4	XX	XX	XX	XX
09/2007	10.1	XX	98.8	90.5	XX	XX	XX	XX

Underwriting Income: State Farm has produced fluctuating underwriting results, as evidenced by its five-year average combined ratio that was above breakeven and slightly higher than the private passenger auto and homeowners industry composite. In 2002, the group's loss and loss adjustment expense (LAE) ratio deteriorated for both its private passenger automobile and homeowners lines of business. For private passenger automobile, the deterioration was driven by escalating loss cost trends due to medical inflation, increased costs related to more complex vehicles and the suspension of the use of non-original equipment manufactured (non-OEM) parts. For the homeowners line of business, the deterioration was driven by frequent and severe weather-related losses, catastrophic loss accumulation and an increased frequency and severity of Texas homeowners mold claims. In addition, underwriting performance for both lines of business reflected the group's top-line growth strategy along with competitive pricing conditions during the soft market cycle.

In response to unfavorable private passenger automobile loss experience, the group focused on managed growth, tightened underwriting guidelines and improved rate adequacy. Strategic initiatives for homeowners included more stringent underwriting guidelines, rate increases and management of new business growth in a significant number of states. In addition, the Texas Lloyds subsidiary began to utilize the State Farm countrywide homeowner policy form effective with the September 2002 renewals, which mitigated mold-related losses. Furthermore, the group's homeowners initiatives included the capitalizing of dedicated property companies in three of its highest catastrophe-prone states. By isolating its California, Florida, and Texas property business, State Farm increased its flexibility to mitigate and manage its exposure to frequent and severe weather-related losses. As a result of these initiatives and more favorable market conditions, the group reported significant improvement in underwriting results in recent years. In addition, the group's homeowners loss experience has continued to improve in recent years despite the extraordinary catastrophes losses from Hurricanes Charley, Frances, Ivan and Jeanne in 2004 and Hurricanes Dennis, Katrina, Rita and Wilma in 2005. The group's underwriting expense ratio has also declined modestly over the previous five-year period, which was driven by reduction in general expenses, as well as premium growth. The group's underwriting expense ratio continues to compare favorably with the industry composite, driven primarily by its cost efficient distribution network.

UNDERWRITING EXPERIENCE

	Net Undrw	Loss Ratios			Expense Ratios				
	Income	Pure		Loss &	Net	Other	Total	Div.	Comb
Year	($000)	Loss	LAE	LAE	Comm	Exp.	Exp.	Pol.	Ratio
2002	-6,021,942	74.7	14.7	89.4	8.9	15.4	24.3	0.0	113.7
2003	-280,586	63.3	12.9	76.2	9.0	14.8	23.7	0.0	100.0
2004	1,964,022	60.2	12.6	72.8	9.0	13.8	22.8	0.0	95.6
2005	-778,947	66.6	13.3	79.8	9.2	12.5	21.6	0.0	101.5
2006	1,600,919	57.3	12.8	70.1	9.3	14.0	23.4	2.9	96.4
5-Yr Avg	…	64.1	13.2	77.3	9.1	14.1	23.1	0.6	101.1
09/2006	2,142,968	56.9	12.9	69.8	XX	XX	23.3	0.4	93.4
09/2007	388,435	61.7	13.0	74.8	XX	XX	23.8	0.2	98.8

Investment Income: State Farm's investment portfolio is comprised of high quality fixed-income securities, equity holdings and affiliated investments, which include its life insurance subsidiaries. Invested assets are primarily allocated to long-term bonds and common stocks, with the remainder to affiliated investments, cash and short-term investments. Long-term bonds are primarily comprised of investment grade tax-exempt municipal, public corporate and U.S. Treasury securities.

The group's net investment income has trended steadily upward over the previous five-year period, driven by strong invested asset growth from solid operating cash flows that were partially offset by reduced investment yields due to lower market interest rates. As a result of the group's significant holdings in equities and tax-advantaged bonds, its five-year net investment yield lags the private passenger auto and homeowners industry composite. However, the group's five-year total return on invested assets is somewhat higher than its five-year net investment yield and compares favorably to industry composite norms due to solid capital gains from improved equity market conditions. As previously noted, the sizeable equity portfolio has contributed to earnings and surplus volatility over the last five years. This was evident in 2002, when significant capital losses on the equity portfolio contributed to an overall decline in surplus for the year. However, the portfolio is well-diversified across a number of industries and sectors and tends to closely mirror the overall market index given its considerable size.

INVESTMENT INCOME ANALYSIS ($000)

Year	Company: Net Inv Income	Company: Realized Capital Gains	Company: Unrealized Capital Gains
2002	3,050,368	-1,105,282	-3,947,288
2003	3,101,933	286,882	4,926,975
2004	3,414,523	687,244	1,396,555
2005	3,899,539	50,276	701,225
2006	4,094,644	146,038	4,066,871
09/2006	2,871,376	122,810	2,782,348
09/2007	3,009,528	398,092	3,246,274

	Company			Industry Composite	
Year	Inv Inc Growth (%)	Inv Yield (%)	Total Return (%)	Inv Inc Growth (%)	Inv Yield (%)
2002	-4.5	4.0	-2.6	-4.1	4.5
2003	1.7	3.9	10.8	1.3	4.3
2004	10.1	3.8	6.2	5.3	4.1
2005	14.2	4.1	4.9	12.6	4.3
2006	5.0	3.9	8.2	10.8	4.4
5-Yr Avg	5.4	4.0	5.6	5.4	4.3
09/2006	XX	XX	5.7	XX	XX
09/2007	XX	XX	5.9	XX	XX

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2006 Inv Assets ($000)	% of Invested Assets 2006	% of Invested Assets 2005	Annual % Chg
Long-Term bonds	58,412,024	52.3	53.4	9.4
Stocks	42,210,325	37.8	36.9	14.4
Affiliated Investments	8,005,421	7.2	7.2	10.9
Other Inv Assets	3,018,844	2.7	2.6	18.1
Total	111,646,613	100.0	100.0	11.6

2006 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt Val to Stmt Val(%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments	18.4	2.5	4.2	100.0	…	…	…
States, terr & poss	59.6	1.6	8.4	100.0	0.0	12.4	7.5
Corporates	22.0	0.0	4.5	97.4	2.6	3.6	0.8
Total all bonds	100.0	1.4	6.8	99.4	0.6	8.2	8.2

CAPITALIZATION

Capital Generation: The group has reported solid overall surplus growth for the previous five-year period with some fluctuation at the beginning of the period. This volatility was driven by a deterioration in underwriting results and equity market fluctuations. The significant surplus decline in 2002 was the result of a deterioration in loss experience, which was primarily driven by inadequate rates and increasing loss cost trends. Further impacting surplus in 2002 were the group's sizeable common stock holdings and unfavorable equity market conditions that resulted in substantial capital losses. However, the group has posted strong surplus growth in recent years due to improved operating earnings and solid capital gains due to improved equity market conditions.

As a mutual company, State Farm does not distribute stockholder dividends, which, over time, has given it a significant advantage over many of its stock competitors in retaining earnings and generating surplus internally. However, it does distribute policyholder dividends with an extraordinary $1.38 billion pay-out in 2006 to its automobile customers, which added approximately 3 points to the group's combined ratio. A.M. Best anticipates that over the intermediate term, dividend payments are unlikely to impact the group's overall risk-adjusted capitalization materially.

CAPITAL GENERATION ANALYSIS ($000)

	Source of Surplus Growth		
Year	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital
2002	-2,699,758	-5,052,570	3,500
2003	3,067,354	5,213,857	14,000
2004	5,513,143	2,083,799	14,000
2005	3,522,480	751,501	-26,600
2006	5,958,819	4,212,909	-2,450
5-Yr Total	15,362,038	7,209,496	2,450
09/2006	5,283,938	2,905,158	…
09/2007	3,665,923	3,644,366	…

	Source of Surplus Growth		
Year	Other, Net of Tax	Change in PHS	PHS Growth (%)
2002	1,359,605	-6,389,223	-16.8
2003	300,155	8,595,366	27.2
2004	-1,320,528	6,290,414	15.6
2005	-538,491	3,708,890	8.0
2006	-2,204,009	7,965,269	15.9
5-Yr Total	-2,403,267	20,170,717	…
09/2006	-1,394,489	6,794,607	13.5
09/2007	-1,441,294	5,868,995	10.1

Overall Capitalization: State Farm maintains superior risk-adjusted capitalization as measured by its Best's Capital Adequacy Ratio (BCAR), which comfortably supports its rating. The group's overall capitalization reflects its modest underwriting leverage, favorable loss reserve development and minimal dependence on reinsurance, which is partially offset by its above average investment leverage and off balance sheet catastrophe exposure. Although the group's capitalization is exposed to both frequent and severe catastrophe losses, as well as to fluctuations in the value of its equity portfolio and affiliated subsidiaries, adjusted for this exposure, risk-adjusted capitalization remains strongly supportive of its rating. State Farm's risk-adjusted capitalization has displayed some volatility over the previous five year period, as evidenced by the decrease in BCAR earlier in the period due to a significant decline in surplus and substantial growth in premiums and liabilities. However, the group's risk-adjusted capitalization has trended steadily upward in recent years due to solid surplus growth and modest growth in net premiums written.

QUALITY OF SURPLUS ($000)

		% of PHS			Dividend Requirements		
Year	Year-End PHS	Cap Stk/ Contrib. Cap.	Other	Un-assigned Surplus	Stock-holder Divs	Div to POI (%)	Div to Net Inc. (%)
2002	31,634,376	…	58.9	41.1	…	…	…
2003	40,229,742	…	62.3	37.7	…	…	…
2004	46,520,157	1.3	63.6	35.1	…	…	…
2005	50,229,046	1.2	63.5	35.3	…	…	…
2006	58,194,316	1.0	64.5	34.4	…	…	…
09/2006	57,023,654	1.1	62.5	36.4	…	…	…
09/2007	64,063,311	0.9	67.9	31.1	…	…	…

Underwriting Leverage: State Farm maintains modest underwriting leverage, as measured by its gross and net leverage ratios that compare favorably to the private passenger auto and homeowners industry composite. The group's underwriting leverage is driven by below average net premiums written and net liabilities leverage, and nominal ceded leverage as the group consistently retains approximately 98% of its direct premium writings. The group's gross and net underwriting leverage ratios have trended downward in recent years, as strong surplus growth has outpaced modest growth in net premiums written and associated liabilities. The group's net premiums written growth has flattened in recent years, as modest policy growth was mostly offset by private passenger auto and homeowners rate decreases due to more competitive market conditions.

LEVERAGE ANALYSIS

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
2002	1.4	0.8	3.0	3.1	1.5	0.9	3.4	3.6
2003	1.2	0.6	2.6	2.7	1.4	0.8	3.1	3.3
2004	1.0	0.5	2.3	2.4	1.3	0.8	2.9	3.1
2005	1.0	0.5	2.2	2.3	1.2	0.8	2.8	3.0
2006	0.8	0.4	1.9	2.0	1.1	0.6	2.4	2.6
09/2006	0.8	0.4	1.9	XX	XX	XX	XX	XX
09/2007	0.8	0.4	1.8	XX	XX	XX	XX	XX

Current BCAR: 297.5

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW ($000)	DPW (% Chg)	GPW ($000)	GPW (% Chg)
2002	43,403,995	13.0	43,520,205	13.0
2003	47,226,012	8.8	47,382,230	8.9
2004	48,457,771	2.6	48,620,324	2.6
2005	48,762,122	0.6	48,910,479	0.6
2006	49,614,181	1.7	49,762,722	1.7
5-Yr CAGR	…	5.3	…	5.3
5-Yr Change	…	29.2	…	29.2
09/2006	37,642,209	1.6	40,069,651	1.9
09/2007	37,686,158	0.1	41,330,892	3.1

Period Ending	NPW ($000)	NPW (% Chg)	NPE ($000)	NPE (% Chg)
2002	42,747,364	12.8	41,048,143	11.2
2003	46,581,240	9.0	45,306,142	10.4
2004	47,762,343	2.5	47,298,906	4.4
2005	47,924,426	0.3	47,547,120	0.5
2006	48,651,476	1.5	48,021,058	1.0
5-Yr CAGR	…	5.1	…	5.4
5-Yr Change	…	28.4	…	30.1
09/2006	36,892,488	1.5	35,949,504	0.9
09/2007	36,386,338	-1.4	36,178,268	0.6

Reserve Quality: State Farm maintains a conservative loss reserve position with consistently favorable development reported on a calendar and accident year bases. Approximately 60% of total loss reserves are allocated to the private passenger automobile line of business, with approximately 15% allocated to the homeowners line of business.

According to A.M. Best's estimates, through its State Farm Fire and Casualty Company subsidiary, State Farm Group ranks among the top 15 insurers in the nation with an approximate 2% historic market share of commercial lines that are exposed to ongoing asbestos and environmental (A&E) claims emergence. Based on Footnote 33 disclosure data, State Farm reported $45 million of both gross and net A&E reserves at year-end 2006, approximately 55% of both having been allocated to asbestos liabilities. Given its huge personal lines orientation, State Farm's net A&E reserves constitute approximately less than 0.2% of its overall loss reserves. The source of the group's A&E exposures principally arise from low hazard and lower limit main street commercial business. Also, its historic market share is heavily influenced by its large commercial package orientation that is less prone to A&E exposures than general liability business. Ultimately, A.M. Best believes that State Farm's exposure to ongoing emergence of A&E claims is modest with minimal future earnings drag expected.

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2006	Develop. to Orig.(%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @ 12/2006	Unpaid Resrv. to Dev.(%)
2001	21,411,567	20,053,819	-6.3	-3.6	54.3	1,846,872	9.2
2002	22,714,396	20,269,726	-10.8	-7.7	49.4	2,667,410	13.2
2003	22,319,650	20,298,794	-9.1	-5.0	44.8	4,122,635	20.3
2004	22,296,184	20,727,097	-7.0	-3.4	43.8	6,670,997	32.2
2005	23,028,142	22,257,481	-3.3	-1.5	46.8	11,451,238	51.4
2006	22,163,102	22,163,102	…	…	46.2	22,163,102	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2006	Develop. to Orig.(%)	Unpaid Reserves @12/2006	Acc Yr. Loss Ratio	Acc Yr. Comb Ratio
2001	11,267,456	10,367,179	-8.0	469,033	95.1	120.0
2002	11,999,741	10,295,074	-14.2	820,538	86.2	110.5
2003	11,582,174	9,833,776	-15.1	1,455,225	76.9	100.6
2004	11,249,700	10,076,348	-10.4	2,548,362	73.7	96.5
2005	11,855,827	11,337,850	-4.4	4,780,241	81.4	103.0
2006	10,711,864	10,711,864	…	10,711,864	74.8	101.0

ASBESTOS & ENVIRONMENTAL (A&E) RESERVES ANALYSIS

	Company		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net IBNR Mix (%)
2002	35,182	99.9	54.9
2003	41,847	99.9	62.9
2004	47,162	99.8	56.0
2005	50,928	99.9	51.8
2006	45,025	99.6	58.6

	Company			Industry Composite		
Year	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)
2002	…	0.0	…	…	2.2	…
2003	…	0.0	…	…	1.7	…
2004	4.3	0.0	0.0	8.3	1.4	1.7
2005	3.9	0.0	0.0	8.4	1.0	1.4
2006	2.8	0.0	0.0	7.9	0.5	0.9

Reinsurance Utilization: State Farm's reinsurance dependence is modest as measured by its reinsurance recoverable and ceded reinsurance leverage ratios, which are lower than the private passenger auto and homeowners industry composite. Business retention has been high over the previous five-year period at approximately 98%. The group's utilization of external reinsurance has historically been nominal, with its ceded reinsurance related to its participation in residual market facilities. Due to State Farm's expansive market share and property base, the group considered it impractical to purchase meaningful external catastrophe reinsurance protection for many years. However, since 1998 separate catastrophe excess of loss contracts have been written to cover catastrophe risk in the states of Florida, California, Texas and all other states for underlying policies written in State Farm Fire and Casualty Company, State Farm General Insurance Company, State Farm Lloyds, State Farm TCM and State Farm Florida. The majority of each of these contracts is reinsured by State Farm Mutual Automobile Insurance Company with the remaining portion brokered to a number of external reinsurers.

As a countrywide homeowners writer, the group is susceptible to aggregate losses from earthquakes (including fire following) and hurricanes. However, the group's gross and pre-tax net catastrophe leverage for a 250-year earthquake or a 100-year hurricane, as depicted in a probable maximum loss analysis, is manageable at less than 15% of surplus. The group's dedicated Florida-only property insurer, State Farm Florida, maintains reinsurance protection from the Florida Hurricane Catastrophe Fund. In addition, the group's dedicated California-only property insurer, State Farm General, is a participating member in the California Earthquake Authority.

CEDED REINSURANCE ANALYSIS ($000)

	Company				Industry Composite		
Year	Ceded Reins Total	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS (%)	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS(%)
2002	3,404,824	98.2	8.3	10.8	94.1	14.5	23.7
2003	3,846,897	98.2	7.5	9.6	94.1	14.6	22.9
2004	4,377,794	98.2	7.5	9.4	94.4	14.5	22.1
2005	6,140,404	97.9	10.2	12.2	94.6	16.4	22.7
2006	5,153,334	97.7	6.9	8.9	94.9	11.9	17.6

2006 REINSURANCE RECOVERABLES ($000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates	1,145,367	491,723	601,193	…	2,238,286
US Insurers	45,975	43,128	294,774	26	383,902
Pools/Associations	2,624,893	656,017	345,239	…	3,626,150
Other Non-US	1,947	689	1,170	-49	3,760
Total (ex US Affils)	2,672,815	699,834	641,183	-23	4,013,812
Grand Total	3,818,186	1,191,555	1,242,375	-23	6,252,097

* Includes Commissions less Funds Withheld

Investment Leverage: State Farm maintains investment leverage that is higher than the private passenger auto and homeowners industry composite. The group's investment leverage is derived from high common stock leverage due to its sizeable equity portfolio, which equates to approximately 70% of surplus. The large investment risk associated with State Farm's common stock portfolio has had a considerable impact on the group's overall capitalization, contributing to significant declines, particularly in 2002. However, the more favorable equity market conditions of 2003 through 2006, resulted in $11.4 billion in unrealized capital gains. The remaining non-affiliated investment leverage is derived from a modest amount of non-investment grade bonds and real estate and mortgage holdings. The group's pyramided capital is modestly lower than industry composite norms, representing approximately 15% of surplus, which is principally related to its well capitalized life insurance subsidiaries.

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affl Inv. Lev.	Affil Inv.	Class 3-6 Bonds	Common Stocks
2002	2.7	0.3	1.6	87.8	92.4	20.9	4.9	47.0
2003	1.4	0.5	1.2	84.5	87.6	17.5	4.1	48.7
2004	0.8	0.4	0.9	76.5	78.6	15.3	3.1	46.0
2005	0.5	0.3	0.9	73.4	75.1	14.4	3.3	44.3
2006	0.6	0.3	1.1	72.5	74.4	13.8	2.7	44.7

LIQUIDITY

State Farm maintains a strong liquidity position as non-affiliated invested assets significantly exceed overall liabilities. The company's quick, current and overall liquidity ratios are well in advance of the private passenger auto and homeowners industry composite. The group's invested assets, which are primarily allocated to fixed-income securities and equity holdings, provide an adequate rate of return that matches as closely as possible to the expected pay-out of losses and expenses. Liquidity measures have been on a generally increasing trend over the previous five-year period, which was driven by consistent invested asset growth due to solid operating cash flows. The group's liquidity position has been enhanced by favorable operating cash flows over the period, which were reflective of premium growth, reduced loss payments and increasing investment income.

LIQUIDITY ANALYSIS

		Company				Industry Composite		
Year	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)
2002	60.9	129.7	160.1	2.5	37.9	120.0	152.9	8.5
2003	64.0	140.2	170.3	2.1	39.7	126.1	158.5	8.2
2004	64.7	148.9	178.2	1.8	40.2	130.0	162.3	7.0
2005	60.1	148.9	180.2	1.6	37.9	128.6	161.9	7.0
2006	71.2	167.4	193.8	1.2	44.1	141.1	173.4	5.4
09/2006	XX	167.1	194.2	1.2	XX	XX	XX	XX
09/2007	XX	168.0	198.6	1.2	XX	XX	XX	XX

CASH FLOW ANALYSIS ($000)

			Company			Industry Composite	
Year	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper Cash Flow (%)	Underw Cash Flow (%)	Oper Cash Flow (%)
2002	-2,678,624	2,164,635	931,096	94.0	104.8	98.5	108.0
2003	1,191,307	5,032,223	-106,270	102.6	111.2	106.4	114.1
2004	3,011,860	5,853,663	-159,820	106.8	112.8	109.5	113.9
2005	-217,086	2,729,128	967	99.5	105.5	105.0	109.7
2006	3,337,400	7,656,952	224,852	107.4	116.9	107.3	113.3
09/2006	2,555,064	5,631,161	274,009	107.5	116.4	XX	XX
09/2007	555,873	3,405,767	388,756	101.6	109.3	XX	XX

HISTORY

State Farm Mutual Automobile Insurance Company, the lead company of the State Farm Group, commenced business on June 7, 1922 as a full legal reserve mutual company restricted to insuring automobile and other vehicles. The company has grown into the largest automobile insurance underwriter in the United States.

Companion carriers formed or affiliated subsequently are State Farm Fire and Casualty Company, Illinois (formed in 1935); State Farm County Mutual Insurance Company of Texas (affiliated since 1960); State Farm General Insurance Company, Illinois (organized in 1962); State Farm Lloyds, Texas (organized in 1983); State Farm Indemnity Company, Illinois (formed in 1991); State Farm Florida Insurance Company (formed in 1998); State Farm Guaranty Insurance Company, Illinois (formed in 2004); State Farm Life Insurance Company, Illinois (organized in 1929); State Farm Life and Accident Assurance Company, Illinois (established in 1960); and State Farm Annuity and Life Insurance Company, Illinois (formed in 1982).

MANAGEMENT

The State Farm Group is one of the most prominent multiple lines insurance operations in the United States and enjoys the distinction of ranking as the leading group in the writing of property / casualty insurance.

The official staff is headed by Edward B. Rust, Jr., chairman and chief executive officer, who began his career with State Farm in 1975.

TERRITORY

The individual member companies of the group collectively operate in all states and the District of Columbia. State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company are also licensed in Canada in the provinces of Alberta, New Brunswick and Ontario.

REINSURANCE PROGRAMS

Catastrophe Excess of Loss Reinsurance Contracts (July 1, 2007 - June 30, 2008) - Four catastrophe excess of loss reinsurance contracts and three catastrophe aggregate excess of loss reinsurance agreements were developed to manage catastrophe exposures within State Farm Fire, State Farm General, State Farm Lloyds and State Farm Florida. Each contract is significantly reinsured through SF Mutual. Deposit premiums will be paid quarterly with final premium calculated as a percent of net subject earned premium at the end of the contract term. The agreements are as follows:

Texas: State Farm Lloyds, along with State Farm Fire, State Farm General, and State Farm County Mutual, purchases catastrophe excess of loss reinsurance that provides coverage in the state of Texas for $2.8 billion in excess of $400 million retention. This coverage is provided through both State Farm Mutual as well as a number of external reinsurers. There is one reinstatement of the limit allowed.

SF Lloyds has a catastrophe aggregate excess of loss reinsurance agreement that provides a limit of $500 million in excess of an aggregate retention of $675 million for individual catastrophe events exceeding $15 million. Retention and limit for the aggregate contract extend from each July 1st to June 30th. This reinsurance is provided 100% by SF Mutual.

California: State Farm General purchases catastrophe excess of loss reinsurance that provides coverage in the state of California for $1.85 billion in excess of $750 million retention. This coverage is provided through both State Farm Mutual as well as a number of external reinsurers. There is one reinstatement of the limit allowed. The company's 2007/2008 catastrophe excess of loss reinsurance program also includes coverage for California Earthquake Authority (CEA) assessment liability. This coverage is provided 100% by State Farm Mutual, with no reinstatement provision.

SF General has a catastrophe aggregate excess of loss reinsurance agreement that provides a limit of $500 million in excess of an aggregate retention of $1.25 billion for individual catastrophe events exceeding $15 million. Retention and limit for the aggregate contract extend from each July 1st to June 30th. This reinsurance is provided 100% by SF Mutual.

Florida: State Farm Florida purchases catastrophe excess of loss reinsurance that provides coverage in the state of Florida for $10.15 billion in excess of $175 million retention. This coverage is provided through State Farm Mutual, the Florida Hurricane Catastrophe Fund (FHCF), and a number of external reinsurers. Although the FHCF limit can apply to multiple occurrences, there is no reinstatement of this limit. All remaining coverage allows for one reinstatement of the limit.

SF Florida has a catastrophe aggregate excess of loss reinsurance agreement that provides a limit of $500 million in excess of an aggregate retention of $350 million for individual catastrophe events exceeding $10 million. Retention and limit for the aggregate contract extend from each July 1st to June 30th. This reinsurance is provided 100% by State Farm Mutual.

Companywide (excluding Texas, California and Florida): State Farm Fire and Casualty purchases catastrophe excess of loss reinsurance program for countrywide (excluding Texas, California and Florida) that provides coverage for $6.6 billion in excess of $2.0 billion retention. This coverage is provided through both State Farm Mutual as well as a number of external reinsurers. There is one reinstatement of the limit allowed.

State Farm Mutual has purchased catastrophe excess of loss reinsurance (effective July 6, 2007) to protect against a portion of the catastrophe exposure assumed from its affiliates. This coverage has been 100% assumed by Oglesby Reinsurance Ltd., which is 100% owned by State Farm Mutual. Oglesby Reinsurance Ltd. has obtained catastrophe aggregate excess of loss protection (July 6, 2007 - June 30, 2010) in the amount of $1.18 billion from Merna Reinsurance Ltd., through the issuance of investment notes and loans.

CONSOLIDATED BALANCE SHEET ($000)

ADMITTED ASSETS	12/31/2006	12/31/2005	2006 %	2005 %
Bonds	58,412,024	53,395,644	48.6	47.3
Preferred stock	5,283	23,112	0.0	0.0
Common stock	42,205,042	36,873,694	35.1	32.7
Cash & short-term invest	1,380,373	1,155,521	1.1	1.0
Real estate, investment	150,989	158,493	0.1	0.1
Other non-affil inv asset	621,556	438,984	0.5	0.4
Investments in affiliates	6,588,531	5,750,565	5.5	5.1
Real estate, offices	1,416,890	1,468,977	1.2	1.3
Total invested assets	110,780,687	99,264,990	92.1	87.9
Premium balances	5,867,843	7,795,704	4.9	6.9
Accrued interest	865,926	803,263	0.7	0.7
All other assets	2,727,175	5,030,690	2.3	4.5
Total assets	120,241,631	112,894,647	100.0	100.0

LIABILITIES & SURPLUS	12/31/2006	12/31/2005	2006 %	2005 %
Loss & LAE reserves	25,922,008	26,728,321	21.6	23.7
Unearned premiums	17,114,845	16,484,060	14.2	14.6
Conditional reserve funds	1,751	1,215	0.0	0.0
All other liabilities	19,008,711	19,452,004	15.8	17.2
Total liabilities	62,047,316	62,665,600	51.6	55.5
Total policyholders' surplus	58,194,316	50,229,046	48.4	44.5
Total liabilities & surplus	120,241,631	112,894,647	100.0	100.0

CONSOLIDATED SUMMARY OF 2006 OPERATIONS ($000)

STATEMENT OF INCOME	12/31/2006
Premiums earned	48,021,058
Losses incurred	27,534,126
LAE incurred	6,143,245
Undrw expenses incurred	11,362,608
Div to policyholders	1,380,161
Net underwriting income	1,600,919
Net investment income	4,094,644
Other income/expense	263,257
Pre-tax oper income	5,958,819
Realized capital gains	146,038
Income taxes incurred	1,265,064
Net income	4,839,793

FUNDS PROVIDED FROM OPERATIONS	12/31/2006
Premiums collected	48,280,152
Benefit & loss related pmts	27,888,774
LAE & undrw expenses paid	16,923,823
Div to policyholders	130,156
Undrw cash flow	3,337,400
Investment income	4,454,889
Other income/expense	263,257
Pre-tax cash operations	8,055,546
Income taxes pd (recov)	398,593
Net oper cash flow	7,656,952

INTERIM BALANCE SHEET

ADMITTED ASSETS	03/31/2007	06/30/2007	09/30/2007
Cash & short term invest	1,249,277	818,243	1,769,129
Bonds	59,820,736	59,691,010	59,784,198
Preferred stock	250,000	250,000	251,998
Common stock	49,220,172	53,711,139	55,261,369
Other investments	2,072,048	2,042,300	2,047,881
Total investments	112,612,233	116,512,692	119,114,575
Premium balances	5,839,392	5,945,616	6,861,858
Reinsurance funds	326,378	273,121	250,953
Accrued interest	833,442	821,894	810,041
All other assets	2,518,463	2,123,421	2,028,117
Total assets	122,129,907	125,676,744	129,065,544

LIABILITIES & SURPLUS	03/31/2007	06/30/2007	09/30/2007
Loss & LAE reserves	26,054,849	26,390,874	27,013,500
Unearned premiums	16,915,551	17,209,209	17,321,606
Conditional reserve funds	1,971	1,821	1,548
All other liabilities	20,121,010	20,036,447	20,665,579
Total liabilities	63,093,381	63,638,351	65,002,233
Capital & assigned surp	39,163,822	42,924,982	44,134,014
Unassigned surplus	19,872,704	19,113,411	19,929,296
Policyholders' surplus	59,036,526	62,038,393	64,063,311
Total liabilities & surplus	122,129,907	125,676,744	129,065,544

INTERIM INCOME STATEMENT

	Period Ended 09/30/2007	Period Ended 09/30/2006	Increase/ Decrease
Premiums earned	36,178,268	35,949,504	228,763
Losses incurred	22,340,075	20,454,033	1,886,042
LAE incurred	4,708,532	4,634,307	74,224
Underwriters expenses incurred	8,670,218	8,588,173	82,045
Div to policyholders	71,008	130,024	-59,016
Net underwriting income	388,435	2,142,968	-1,754,533
Net investment income	3,009,528	2,871,376	138,152
Other income/expenses	267,960	269,595	-1,635
Pre-tax operating income	3,665,923	5,283,938	-1,618,016
Realized capital gains	398,092	122,810	275,282
Income taxes incurred	640,255	1,512,807	-872,552
Net income	3,423,760	3,893,942	-470,182

INTERIM CASH FLOW

	Period Ended 09/30/2007	Period Ended 09/30/2006	Increase/ Decrease
Premiums collected	36,356,096	36,570,148	-214,052
Benefit & loss related pmts	21,548,892	21,022,562	526,330
Undrw expenses paid	12,999,254	12,992,499	6,755
Div to policyholders	1,252,078	24	1,252,054
Underwriting cash flow	555,873	2,555,064	-1,999,191
Investment income	3,186,213	3,150,629	35,584
Other income/expense	316,698	319,426	-2,728
Pre-tax cash operations	4,058,783	6,025,119	-1,966,336
Income taxes pd (recov)	653,016	393,958	259,058
Net oper cash flow	3,405,767	5,631,161	-2,225,394