002477 - State Farm Fire and Casualty Company

Report Revision Date: 06/25/2013

Rating and Commentary [1]	*Financial* [2]	*General Information* [3]
Best's Credit Rating: 05/30/2013	**Time Period:** 2nd Quarter - 2013	**Corporate Structure:** N/A
Rating Rationale: 05/30/2013	**Last Updated:** 08/29/2013	**States Licensed:** 07/19/2001
Report Commentary: 06/25/2013	**Status:** Quality Cross Checked	**Officers and Directors:** 06/22/2012

Best's Credit Rating Methodology   Disclaimer   Best's Rating Guide

Additional Online Resources

Related News	Archived AMB Credit Reports
Rating Activity and Announcements	Corporate Changes & Retirements
Company Overview	AMB Country Risk Reports - United States

[1]The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

[2]The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

[3]The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Ultimate Parent: State Farm Mutual Automobile Ins Co

State Farm Fire and Casualty Company

One State Farm Plaza, Bloomington, Illinois, United States 61710

Tel.: 309-766-2311 **Web:** www.statefarm.com **Fax:** 309-766-4655

AMB #: 002477 **Ultimate Parent:** 002479 **NAIC #:** 25143 **FEIN#:** 37-0533080

Best's Credit Ratings

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

Best's Issuer Credit Rating: aa- **Outlook:** Stable

Rating Effective Date: 05/30/2013

Financial Size Category: XV

Report Revision Date: 06/25/2013

Rating Rationale

Rating Rationale: The ratings and outlooks reflect State Farm Fire and Casualty's (SFFCC) adequate risk-adjusted capitalization, extensive geographic spread of risk, a superior business profile derived from its strategic role within the State Farm Group, a comprehensive enterprise risk management program and significant capital and operational support from its parent. Partially offsetting these positive rating factors are below average operating results, above average common stock leverage, high gross and net exposure to catastrophic loss and strong reliance upon its parent for surplus protection.

Risk-adjusted capitalization is supportive of the ratings. Balance sheet liquidity is adequate and reserves have shown more stable development in recent years. Product line and geographic diversification are excellent. SFFCC is the primary property writer in North America for State Farm and a market leader in nearly every state, the District of Columbia and the Canadian provinces of Alberta, Ontario and New Brunswick. Private passenger and commercial automobile liability and physical damage, commercial multi-peril, inland marine, allied lines, other liability, workers compensation and other smaller lines are also written. SFFCC has more than twice the homeowners' market share in the U.S. than any other homeowners' writer based on 2012 direct premium written.

The company benefits considerably from the business profile of the State Farm Group with excellent brand-name recognition and market presence, which provide significant influence over market pricing and regulatory matters. In addition, products are mass marketed and distributed through an exclusive agency force of approximately 18,000 and enhanced by the sale of life insurance products of affiliated life companies. This has helped the company maintain a favorable expense structure. SFFCC also participates with several affiliates in various corporate-wide programs to manage risks and improve cash flow and liquidity.

Furthermore, surplus is supported through catastrophe per occurrence excess of loss reinsurance, catastrophe aggregate excess of loss and quota share reinsurance for auto business from State Farm Mutual Automobile Insurance Company (SFMAIC). In 2011, SFFCC issued a surplus note against a line of credit with SFMAIC in the amount of $500 million to partially offset the adverse impact to surplus of catastrophic storm losses.

Moreover, the risk management process within State Farm is sophisticated and appears to be more advanced than the average property and casualty insurer in the U.S. It provides a framework to identify, prioritize, designate ownership of, communicate, and manage risks and opportunities. Enterprise Risk Management (ERM) is a strategic and proactive process applied throughout the organization. It is endorsed by leadership and the board of directors and influenced by associates at every level.

These positive rating factors are offset in part by below average operating performance over the last five years due primarily to unfavorable underwriting results and declining net investment income. Underwriting losses were reflective of increased frequency and severity of catastrophe losses, while declining investment income was attributable to reduced investment yields and negative operating cash flows, which hindered reinvestment of capital. Poor underwriting results in 2008 were the result of the non-Texas remnants of hurricanes Ike and Gustav. Underwriting for 2009 and 2010 was also adversely impacted by

Rating Rationale (Continued ...)

increased frequency and severity of storm losses in the South and Midwest. In 2011, the company was adversely impacted by a series of severe storm losses across the country, which included the tornado system that went through the South and Southeast U.S. in April that devastated Tuscaloosa, AL, the tornado system that went through Joplin, MO, in May, and Hurricane Irene along the Atlantic seaboard in August. Results for 2012 include catastrophic losses attributed to the wildfires in Colorado and Hurricane Sandy. Moreover, gross and net probable maximum loss estimates are high despite recent reductions, exposing it to loss of surplus from catastrophic events or a significant aggregation of loss events.

Net investment income has also been lower in recent years, driven by a gradual decline in investment yields due to lower market interest rates and a reduction in the average maturity of the bond portfolio. Investment income was on an increasing trend earlier in the period due to invested asset growth that was partially offset by gradually declining investment yields.

These concerns are partially mitigated by the company's broad geographic diversification and by SFMAIC's explicit support and management's actions to improve earnings through rate increases, re-underwriting its property business, reducing its exposure in higher-risk areas and changes in its reinsurance program. State Farm is also in the process of realigning business functions and upgrading its systems to modernize its operations and increase production through multiple distribution channels.

The ratings for SFFCC benefit from its relationship with its parent, SFMAIC, as well as its strategic role as the lead personal lines property writer in the U.S. The ratings may come under pressure if capitalization weakens, if operating performance does not continue to improve or if the company's role or importance within the State Farm organization were to change. The outlook on the ratings would become more stable from a positive earnings trend that leads to capital appreciation without excessive growth.

Five Year Rating History

	BEST'S	
Date	FSR	ICR
05/30/2013	A+	aa-
05/29/2012	A+	aa-
06/08/2011	A+	aa-
04/23/2010	A+	aa-
06/18/2009	A+	aa-
06/12/2008	A+	aa-

View 25 Year Rating History

Key Financial Indicators

	Statutory Data ($000)					
	Premiums Written					
Period Ending	Direct	Net	Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
2012	17,021,683	14,409,506	189,681	317,195	28,999,078	8,805,362
2011	16,435,514	14,161,401	-1,763,979	-1,465,126	27,243,277	7,748,685
2010	16,469,178	13,613,006	-32,576	50,841	27,656,824	8,772,950
2009	15,908,279	13,025,494	-325,326	-206,094	26,422,187	8,540,899
2008	15,245,183	12,421,704	-1,952,431	-1,192,569	25,815,803	8,184,647
06/2013	8,768,463	7,653,040	473,135	399,973	30,307,559	9,242,395
06/2012	8,275,249	7,255,665	242,717	183,417	28,814,849	8,572,643

Key Financial Indicators (Continued ...)

	Profitability			Leverage			Liquidity	
Period Ending	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	104.8	3.7	1.3	52.7	1.6	3.9	143.6	106.1
2011	119.2	3.9	-12.7	54.9	1.8	4.3	139.8	91.0
2010	107.1	3.8	-0.2	48.1	1.6	3.7	146.5	103.4
2009	108.9	4.1	-2.6	47.5	1.5	3.6	147.8	106.1
2008	123.9	4.3	-16.0	43.0	1.5	3.7	146.4	94.9
5-Yr Avg	112.6	4.0	-5.9	...	...	...	...	...
06/2013	98.3	3.5	6.5	57.7	1.6	3.9	143.9	112.4
06/2012	102.7	3.6	3.4	55.9	1.7	4.0	142.4	112.5

(*) Within several financial tables of this report, this company is compared against the Personal Property Composite.
(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

Business Profile

The company was organized on June 12, 1935, under the laws of Illinois and commenced business on June 29, 1935. The present title was adopted on July 1, 1950, when the company absorbed by merger the State Farm Casualty Company. SFFCC is headquartered in Bloomington, IL. Major affiliated property and casualty carriers are: SFMAIC, Illinois, State Farm County Mutual Insurance Company of Texas (TCM), Texas (affiliated since 1960); State Farm General Insurance Company (SFGIC), Illinois (incorporated in 1962); State Farm Lloyds (SFL), Texas (affiliated since 1983); State Farm Indemnity Company (SFIND), Illinois (incorporated in 1991); State Farm Florida Insurance Company (SFFIC), Florida (incorporated in 1998); and State Farm Guaranty Insurance Company (Guaranty), Illinois (incorporated in 2004). Oglesby Reinsurance Company (ORC), Illinois (U.S. domiciled in 2011), is a wholly-owned reinsurance subsidiary of SFMAIC. Affiliated life insurance carriers are: State Farm Life Insurance Company (SFLIC), Illinois (incorporated in 1929); State Farm Life and Accident Assurance Company (SFLAAC), Illinois (incorporated in 1960); State Farm Health Insurance Company (SFHIC), Illinois (incorporated in 1982); State Farm International Life Insurance Company Ltd. (SFILIC), Bermuda (incorporated in 2006). SFMAIC has a 50 percent equity interest (with 65 percent voting rights) in Top Layer Reinsurance Ltd. (Top Layer Re), a Bermuda domiciled company, which provides catastrophe excess of loss reinsurance to non-United States risks.

Scope of Operations

Scope of Operations: SFFCC writes most forms of multiple line fire and casualty insurance and reinsures TCM's non-automobile business through 100 percent quota share reinsurance. Homeowners' insurance is written in all states (with the exception of California, Florida and Texas), the District of Columbia and in the Canadian Provinces of Ontario, Alberta and New Brunswick. SFFCC also writes automobile business which is reinsured on a 100 percent quota share basis by SFMAIC.

State Farm is currently in a multi-year process of modernizing the organization to meet the needs of its changing markets. This is being accomplished by reorganizing its field and home office operations and its twelve zones in the U.S. and Canada into 8 market areas, centralizing claims and underwriting and upgrading systems. These changes are designed to promote profitable growth by allowing customers multiple access points, while creating more efficient and consistent processes throughout the organization. Policyholders are primarily serviced by an exclusive independent agency force numbering approximately 18 thousand.

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2012	17,021,683	3.6	81,932	3.4	2,694,109	14.5	14,409,506	1.8
2011	16,435,514	-0.2	79,222	-8.4	2,353,334	-20.0	14,161,401	4.0
2010	16,469,178	3.5	86,470	-16.0	2,942,643	-1.4	13,613,006	4.5
2009	15,908,279	4.3	102,937	-38.1	2,985,722	-0.1	13,025,494	4.9
2008	15,245,183	2.8	166,398	64.9	2,989,877	-4.7	12,421,704	5.4
5-Yr CAGR	...	2.8	...	-4.1	...	-3.0	...	4.1
06/2013	8,768,463	6.0	42,007	26.5	1,157,430	9.9	7,653,040	5.5
06/2012	8,275,249	2.7	33,208	-6.6	1,052,792	12.0	7,255,665	1.5

Territory

The company is licensed in the District of Columbia and all states. It is also licensed in Canada in the provinces of Alberta, New Brunswick and Ontario.

Business Trends

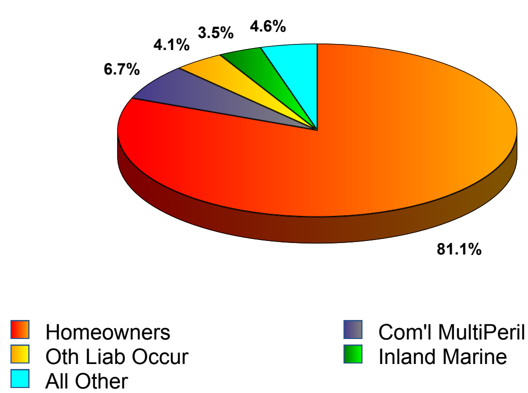
Business Trends: Overall, direct premium written (DPW) increased by 3.6% in 2012 after decreasing by approximately 0.2% in 2011. This was primarily attributed to an increase in policies in force and higher premium rates. Over the last five years DPW was up approximately 14.8%, growing at a compound annual growth rate of 2.8%. Premium growth over the period has primarily been driven by the homeowners' line of business. This is SFFCC's predominate line representing approximately 72.2% of total DPW in 2012. Homeowners' premiums grew by 3.8% in 2012 and by 27.1% over the last five years. Liability insurance premiums as well as premiums for earthquake and farmowners' coverages also showed double digit growth trends over the last five years. This was partially offset by declining premium primarily on workers' compensation and commercial multi-peril lines of business. Growth in automobile premiums, which are ceded 100% to SFMAIC, was relatively flat in 2012 but down 5.3% over the last five years. Automobile premiums accounted for approximately 10.8% of total DPW in 2012.

Net premium written (NPW) was up 1.8% in 2012 and 22.2% over the last five years. The NPW growth rate in 2012 was half the growth rate of DPW due to a 14.5% increase in ceded reinsurance premiums written (CPW). However, NPW was up 22.2% over the last five years, in part due to the growth in DPW and an overall decrease in CPW during the period. The majority of reinsurance premiums are ceded to SFMAIC and changes are primarily reflective of changes in coverage. In 2012, property catastrophe retentions were lowered and limits increased. In addition, SFMAIC added a catastrophe aggregate cover.

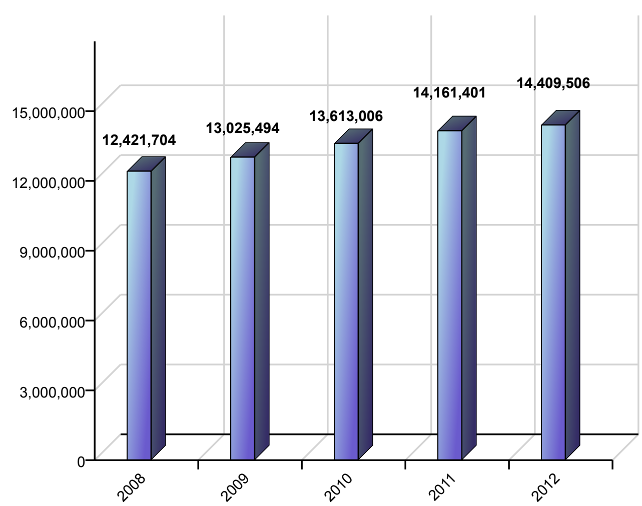
2012 By-Line Business ($000)

	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention
Product Line	($000)	(%)	($000)	(%)	($000)	(%)	($000)	(%)	%
Homeowners	12,286,953	72.2	14,679	17.9	620,927	23.0	11,680,705	81.1	95.0
Com'l MultiPeril	1,075,249	6.3	0	0.0	105,901	3.9	969,348	6.7	90.2
Oth Liab Occur	593,977	3.5	...	...	4,304	0.2	589,673	4.1	99.3
Inland Marine	490,575	2.9	36,715	44.8	21,960	0.8	505,330	3.5	99.3
All Other	2,574,928	15.1	30,538	37.3	1,941,018	72.0	664,449	4.6	25.5
Total	17,021,683	100.0	81,932	100.0	2,694,109	100.0	14,409,506	100.0	84.5

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



Business Trends (Continued ...)

By-Line Reserve ($000)

Product Line	2012	2011	2010	2009	2008
Homeowners	4,297,181	4,085,105	3,864,888	3,715,863	3,869,126
Com'l MultiPeril	998,682	991,216	986,910	1,021,765	1,045,624
Oth Liab Occur	853,624	886,274	997,530	964,758	945,755
Inland Marine	164,730	145,947	140,651	134,075	126,114
All Other	1,124,439	1,152,734	1,149,167	1,142,558	1,190,934
Total	7,438,655	7,261,276	7,139,145	6,979,019	7,177,554

Market Share / Market Presence

Market Share/Market Presence: The company's geographic diversification is excellent. SFFCC is licensed and active in all 50 states and the District of Columbia as well as Canada where it writes only in Ontario, Alberta and New Brunswick. No one state or province represented more than 8% to total DPW in 2012.

Based on 2012 DPW, SFFCC was the leading provider of homeowners' insurance in the U.S. with approximately 15.7% of the total market. It was at or near the top of the homeowners' market in every state, with the exception of California, Florida and Texas where its sister companies write homeowners.

The company's significant size, market share and exclusive independent agency force give it distinct advantages over competitors in terms of setting rates and coverages. The company benefits from tremendous brand-name recognition, cost-efficient exclusive agents, strong customer loyalty and diversified financial service capabilities.

Geographical Breakdown By Direct Premium Writings ($000)

	2012	2011	2010	2009	2008
Illinois	1,367,437	1,284,863	1,281,587	1,225,781	1,153,189
New York	1,005,717	1,004,584	1,013,211	985,166	918,565
Georgia	910,082	857,432	818,287	790,132	786,970
Ohio	730,162	706,758	684,526	651,731	612,870
Pennsylvania	717,078	694,865	693,590	668,466	630,537
Louisiana	663,416	637,984	694,161	674,981	634,617
Minnesota	603,902	565,622	542,846	506,158	465,217
Missouri	596,630	576,958	568,338	538,303	501,386
Tennessee	568,897	534,403	509,158	479,719	457,565
Indiana	561,913	526,302	530,280	518,104	479,073
All Other	9,296,450	9,045,744	9,133,194	8,869,737	8,605,193
Total	17,021,683	16,435,514	16,469,178	15,908,279	15,245,183

Risk Management

Enterprise Risk Management within the organization is sophisticated and appears to be more advanced than the average personal lines insurer in the U.S. It provides a framework to identify, prioritize, designate ownership of, communicate, and manage risks and opportunities. ERM is a strategic and proactive process applied throughout the organization. It is endorsed by leadership and the Board of Directors and influenced by associates at every level.

The objectives of the ERM program are to: promote financial strength and stability to enhance the ability to provide value and security to policyholders; increase risk and opportunity awareness; inform leadership and the Board of key risks, exposures, and opportunities and facilitate leadership, Board, and associate understanding and accountability for managing risk and exploring opportunity; standardize risk and opportunity communication; standardize risk and opportunity documentation and reporting; manage risk appetite; informed decisions using economic capital; explore risk transfer strategies; provide strategic direction for managing risk and opportunity; and develop people, procedures, and systems support.

Catastrophe Exposure & Management: The most significant exposures to catastrophic loss based on the company's catastrophe modeling, are from hurricanes in the South and earthquakes in California. These exposures are managed by a corporate risk management team responsible for assessing enterprise wide property catastrophe risk exposure and developing strategies to mitigate the risk. These risks are further segregated through separate legal entities in Florida, Texas and California who specialize in writing property coverage in those states. Also, catastrophe excess of loss reinsurance, and in some cases aggregate excess of loss catastrophe reinsurance, is used to limit losses. SFMAIC uses its significant capital position to provide the majority of catastrophe coverage to its subsidiaries.

Several catastrophe models are used to evaluate exposures and determine an appropriate amount of reinsurance protection. Because the company is primarily a personal lines writer with limited commercial risk, most of which are small to mid-size accounts and fairly well diversified by geographic region, management does not believe that it has a material exposure to terrorism risk. As such, State Farm does not perform terrorism modeling analysis nor has is excluded terrorism coverage from its policies.

Prior to July 1, 2012, SFMAIC provided SFFCC with a $1 billion line of credit that could be used whenever an aggregate of qualifying catastrophe losses exceeded a $3 billion aggregate retention during the period of the cover that extended from July 1 to June 30. During 2011, SFFCC exceeded the aggregate retention from losses due to late winter storms and tornadoes through Tuscaloosa Alabama, Joplin Missouri and other Southern and Southeastern States. As a result, SFFCC drew down $500 million against the line of credit. The line of credit was replaced by a catastrophe aggregate excess cover effective July 1, 2012.

Investment Risk Management: The investment strategy is a key component to the company's earnings. Management uses its considerable investment base to generate income to competitively price its insurance products and produce a reasonable overall return. Because of its sizeable investment base, management is willing to maintain above average holdings in equities relative to surplus and accept the volatility in these markets in exchange for potentially higher returns in the long run. During the financial crisis of 2008, unrealized capital losses in the equity portfolio totaled over $1.3 billion or approximately 13.3 percent of year end 2007 surplus. These losses were partially offset by unrealized capital gains on other investments; however, the total unrealized loss for 2008 was $881.1 million or approximately 8.7 percent of the prior year end surplus.

The investment portfolio is tested against various economic scenarios to examine a range of possible outcomes in the value of the portfolio over the course of a year on a market value basis. Both market and credit risks are included in the evaluation.

SFFCC, SFMAIC, SFGIC, SFIND, Guaranty, SFFIC, SFL, TCM, SFLIC, SFLAAC, SFHIC and ORC participate in a short-term investment pooling agreement. Any party may transfer a portion of their cash and short-term investments to the liquidity pool in exchange for proportional membership interests in the pool.

Operating Performance

Operating Results: Operating performance for 2012 was an improvement over the prior year. After-tax net income totaled nearly $0.3 billion compared to a net loss of approximately $1.5 billion in 2011. The improvement was mainly attributed to a significant decrease in underwriting losses partially offset by lower net investment income, lower realized capital gains and lower income tax recoveries.

Underwriting losses were $0.7 billion in 2012 compared to over $2.7 billion in 2011. The improvement in underwriting performance was primarily attributed to a reduction in loss and loss adjustment expense incurred and a modest increase in net premium earned. Loss and loss adjustment expenses were down in 2012 as a result of fewer catastrophe and non-catastrophic losses compared to 2011. Net earned premium was up due to overall rate increases. Net investment income was down due to a reduction in interest earned on bonds, an increase in investment expenses and an increase in interest expense on the surplus note partially offset by higher dividend income on unaffiliated stocks.

Significant catastrophes in 2012 included claims from wildfires in Colorado and Superstorm Sandy. However, 2011 included losses from the tornado systems that swept through Tennessee, Tuscaloosa Alabama and Joplin Missouri, as well as Hurricane Irene and wildfires in Texas.

Overall, five year average profitability ratios fall below the personal property composite averages. After-tax net losses were reported in three of the last five years. This has been attributed to underwriting losses and lower net investment income during the period from 2008 through 2011. Underwriting losses in 2008 through 2010 were primarily attributed to the non-Texas remnants of Hurricanes Ike and Gustav and increased frequency and severity of storm losses in the South and Midwest. Results for 2008 were also adversely impacted by the downturn in the investment markets, which highlighted the company's above average common stock leverage.

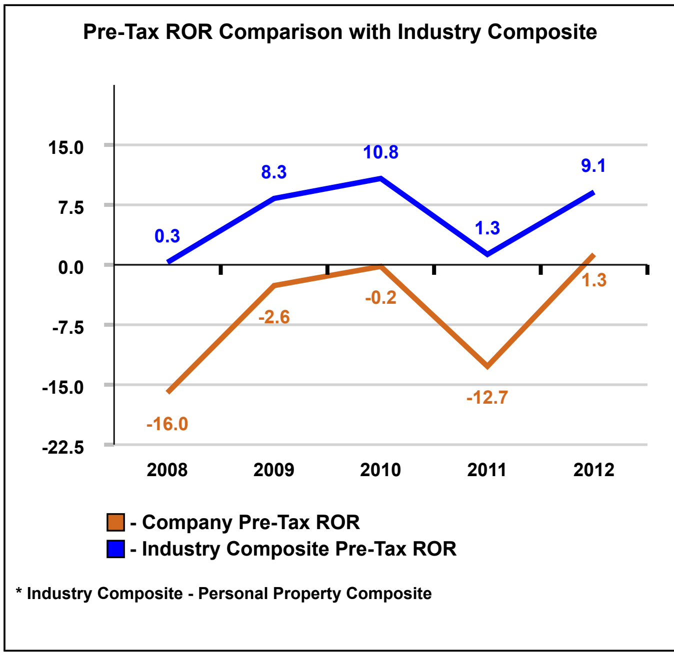
Over the long run, the company's significant geographic diversification and leadership position in most every homeowners market throughout the United States should produce more stable underwriting results. However, the company has been challenged during the last five years by severe weather losses countrywide which has helped contribute to its below average earnings performance.

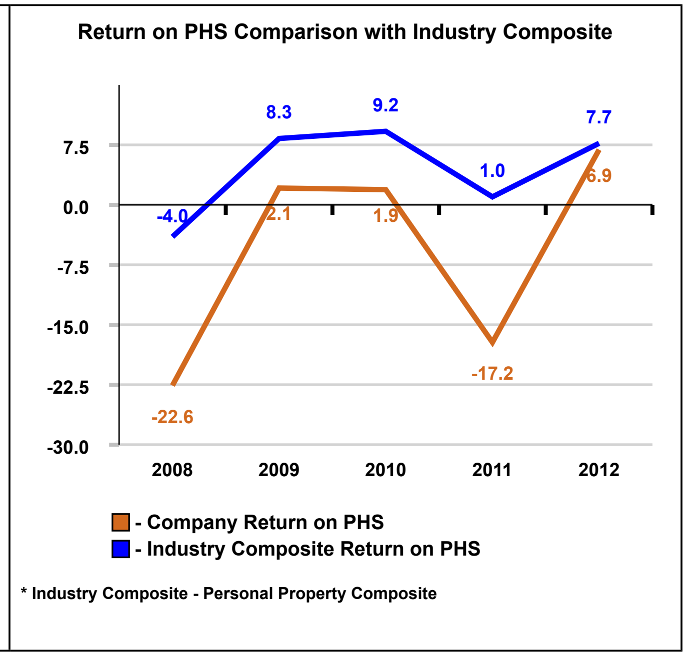
Advancements have been made to improve earnings by rate activity, property exposure management and changes in the reinsurance program. In addition, claims handling and underwriting functions are being centralized throughout the organization, systems are being upgraded and new technology is being developed to modernize operations and improve customer service, sales and efficiency.

Profitability Analysis

	Company							Industry Composite		
Period Ending	**Pre-tax Operating Income**	**After-tax Operating Income**	**Net Income**	**Total Return**	**Pre-Tax ROR**	**Return on PHS**	**Operating Ratio**	**Pre-Tax ROR**	**Return on PHS**	**Operating Ratio**
2012	189,681	309,058	317,195	569,287	1.3	6.9	98.7	9.1	7.7	91.4
2011	-1,763,979	-1,495,911	-1,465,126	-1,419,814	-12.7	-17.2	112.6	1.3	1.0	101.8
2010	-32,576	11,592	50,841	163,331	-0.2	1.9	100.4	10.8	9.2	89.7
2009	-325,326	-212,658	-206,094	172,087	-2.6	2.1	101.7	8.3	8.3	92.3
2008	-1,952,431	-1,157,975	-1,192,569	-2,073,631	-16.0	-22.6	115.9	0.3	-4.0	100.5
5-Yr Avg/Tot	-3,884,630	-2,545,894	-2,495,754	-2,588,741	-5.9	-6.1	105.7	6.0	4.6	95.1
06/2013	473,135	391,939	399,973	714,910	6.5	10.4	92.4	XX	XX	XX
06/2012	242,717	177,319	183,417	354,919	3.4	3.0	96.5	XX	XX	XX

Operating Performance (Continued ...)





Underwriting Results

Underwriting Results: Underwriting performance in 2012 was a significant improvement over the prior year. Net underwriting losses were $0.7 billion for the year compared to over $2.7 billion in 2011. The improvement was mainly due to a reduction in losses incurred and a modest increase in net premium earned partially offset by higher loss adjustment expenses incurred.

Net premium earned was up approximately 2 percent over the prior year primarily due to the effect of rate increases. Losses incurred were down $1.8 billion in 2012 compared to 2011. The decrease is primarily attributed to a $1.7 billion decrease in catastrophe losses, which totaled $3.5 billion in 2012 compared to $5.3 billion in 2011. Major catastrophes in 2012 included the wildfires in Colorado and Superstorm Sandy while major catastrophes in 2011 included severe tornado and hail storms in April and May through Tennessee, Alabama, Missouri and other Southern and Southeastern states, as well as winter storm events earlier in the year and losses from Hurricane Irene in the latter part of the year. The improvement in results reduced the combined ratio down to 104.8 compared to 119.2 the prior year.

There were fewer significant storm events in 2010 compared to 2011 and 2009, however, the frequency was still above average. Net underwriting losses totaled just over $1.0 billion after reinsurance in 2010.

Underwriting results for 2008 and 2009 were adversely impacted by claims from the non-Texas remnants of Hurricanes Ike and Gustav and an increase in frequency and severity of windstorms in the South and Midwest.

Management has and continues to take action to improve underwriting performance. This includes raising premium rates primarily on homeowners' policies, reunderwriting the property book to focus on more profitable accounts, reducing exposure in higher catastrophe risk areas, increasing homeowner deductibles where needed and improving its rate modeling capabilities. These actions have resulted in improving baseline underwriting performance (loss and loss adjustment expenses incurred excluding catastrophes) each of the last five years.

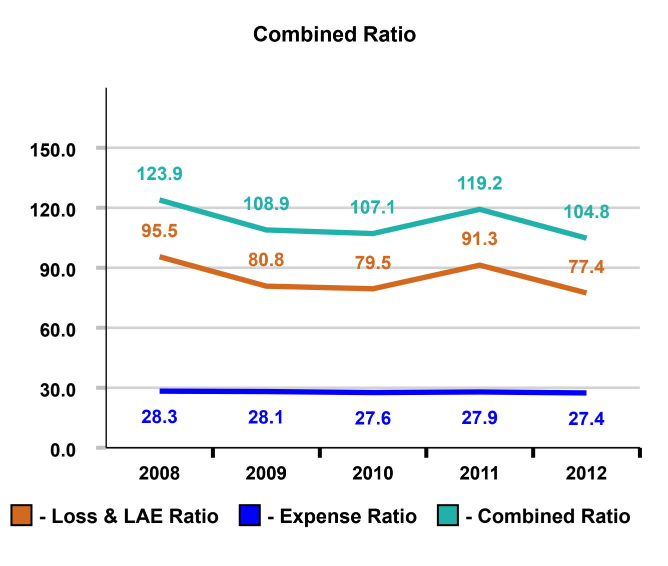
Underwriting Results (Continued ...)

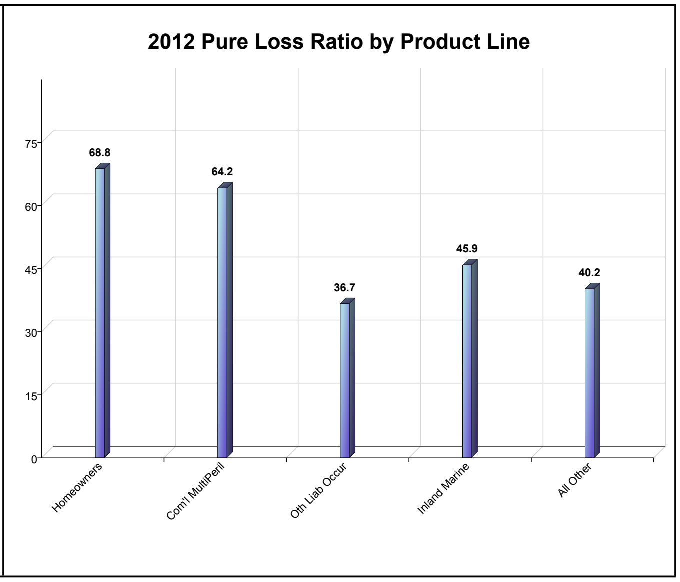
Underwriting Experience

Year	Net Undrw Income ($000)	Loss Ratios: Pure Loss	LAE	Loss & LAE	Expense Ratios: Net Comm	Other Exp.	Total Exp.	Div. Pol.	Comb. Ratio
2012	-743,364	65.1	12.4	77.4	12.7	14.8	27.4	...	104.8
2011	-2,738,805	79.3	11.9	91.3	12.6	15.3	27.9	...	119.2
2010	-1,027,484	67.6	11.9	79.5	12.2	15.4	27.6	...	107.1
2009	-1,233,555	68.2	12.6	80.8	12.5	15.5	28.1	...	108.9
2008	-2,974,556	81.9	13.7	95.5	12.1	16.2	28.3	...	123.9
5-Yr Avg	-8,717,764	72.3	12.5	84.7	12.4	15.4	27.9	...	112.6
06/2013	41,328	59.3	12.0	71.3	XX	XX	26.9	...	98.3
06/2012	-239,851	64.0	11.5	75.4	XX	XX	27.2	...	102.7

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Homeowners	68.8	85.8	71.7	73.1	87.3	77.1
Com'l MultiPeril	64.2	72.2	57.5	57.5	80.2	66.4
Oth Liab Occur	36.7	27.6	51.9	54.9	65.2	46.6
Inland Marine	45.9	44.4	42.6	43.7	43.7	44.0
All Other	40.2	50.7	46.8	40.0	51.4	45.9
Total	65.1	79.3	67.6	68.2	81.9	72.3





Underwriting Results (Continued ...)

Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
Illinois	65.6	78.9	83.2	67.6	83.7	75.6
New York	81.1	65.9	63.0	55.4	51.0	63.6
Georgia	52.2	73.5	67.1	123.0	101.3	82.4
Ohio	73.9	82.9	79.5	87.9	91.2	82.7
Pennsylvania	67.7	69.5	78.7	61.6	60.2	67.7
Louisiana	44.3	44.2	30.7	24.6	136.1	55.0
Minnesota	49.4	73.6	72.4	61.8	159.6	80.6
Missouri	68.2	106.1	53.4	56.1	82.1	73.4
Tennessee	77.0	167.8	75.0	78.2	72.4	95.1
Indiana	77.6	72.4	49.0	71.1	106.1	74.6
All Other	60.3	71.6	64.0	66.2	71.7	66.7
Total	62.9	75.5	65.2	67.5	80.0	70.0

Investment Results

Investment Results: The preponderance of investment income is derived from interest earned on fixed income securities. These have contributed approximately 87.5 percent of the company's gross investment income (before expenses) over the last five years. SFFCC holds a greater percentage of its investments in equities and takes on more investment risk for the potential of higher returns over the long run. Over the last five years, equities have contributed approximately 12.0 percent to gross investment income compared to approximately 8.5 percent on average for the companies that comprise the personal property composite.

Net investment income was down approximately 4.8 percent in 2012 and 10.5 percent below levels from five years ago. This was mainly attributed to lower interest earned on bonds partially offset by higher dividends on non-affiliated stocks. Bond yields have been trending downward over the last five years due to declining interest rates. The gross yield on the bond portfolio was down to 4.3 percent in 2012 compared to 4.4 percent in 2011.

Net investment income growth has been erratic over the last five years. This has been attributed to several factors which include volatility in the equities markets, fluctuations in the level of invested assets and a drop in interest rates. However, growth of invested assets has been flat over the last five years.

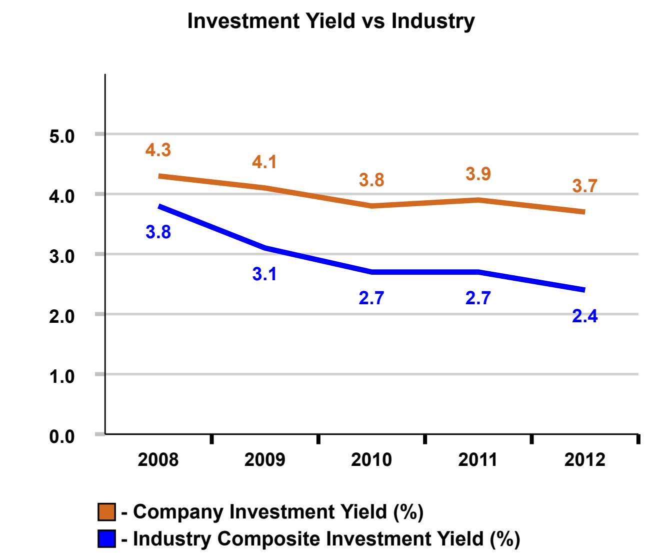
Net investment income fell by 6.4 percent in 2009 from lower bond income due to a decrease in invested assets and lower common stock dividends as a result of the down turn in the financial markets. Net investment income was down another 2.2 percent in 2010, due primarily to a further drop in yields and higher investment expenses. In 2011, net investment income was up 2.8 percent over the prior year due to an increase in common stock investments and higher yields from common stocks partially offset by a reduction in bond investments.

The average total return on invested assets over the last five years including realized and unrealized capital gains and losses was 3.9 percent. The five year average was significantly impacted by unrealized capital losses reported in 2008 after the collapse of the financial markets. This resulted in a total return on invested assets of 0.3 percent for that year.

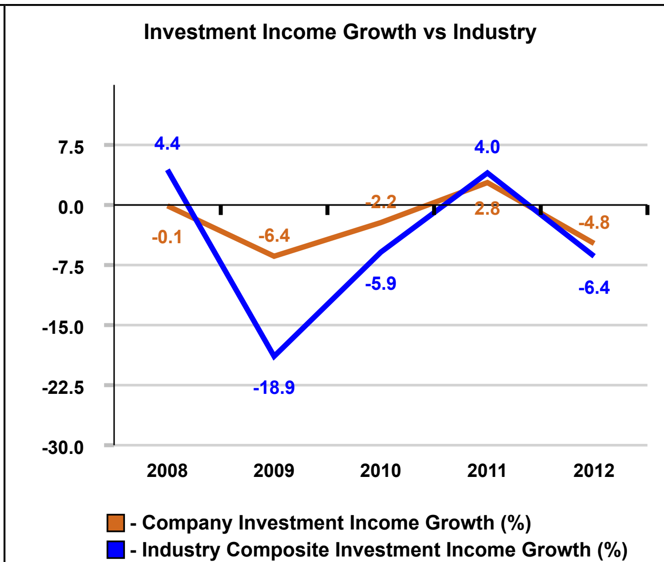
Investment Results (Continued ...)

Investment Gains ($000)

	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	872,299	8,136	252,092	-4.8	3.7	3.7	4.8	-6.4	2.4
2011	916,278	30,785	45,312	2.8	3.9	4.1	4.3	4.0	2.7
2010	890,988	39,248	112,490	-2.2	3.8	4.0	4.5	-5.9	2.7
2009	911,147	6,564	378,181	-6.4	4.1	4.1	5.9	-18.9	3.1
2008	973,796	-34,594	-881,062	-0.1	4.3	4.2	0.3	4.4	3.8
5-Yr Avg/Tot	4,564,509	50,139	-92,987	-2.2	4.0	4.0	3.9	-5.0	2.9
06/2013	431,146	8,034	314,937	-1.1	3.5	3.5	5.1	XX	XX
06/2012	435,941	6,098	171,502	-5.4	3.6	3.8	4.1	XX	XX



* Industry Composite - Personal Property Composite



* Industry Composite - Personal Property Composite

Balance Sheet Strength

Capitalization

Capitalization: Risk adjusted capitalization, as measured by its Best's Capital Adequacy Ratio (BCAR), was minimally supportive of the company's ratings at December 31, 2012. Surplus increased by nearly $1.1 billion or 13.6 percent in 2012 after falling by $1.0 billion or 11.7 percent in 2011. Surplus growth in 2012 was primarily due to after-tax net income of $0.3 billion, unrealized capital gains of $0.3 billion and other surplus gains of $0.5 billion which were mainly attributed to a change in accounting principles for income taxes. The decrease in surplus in 2011 was due to after-tax net losses of nearly $1.5 billion and other surplus losses of $0.1 billion, partially offset by $0.5 billion of additional capital obtained from SFMAIC through the issuance of a surplus note. The surplus note continued to be outstanding at year end 2012 and matures on March 31, 2017. Capitalization was reflective of the company's elevated underwriting and investment leverage.

The net retention for a single catastrophic loss event was reduced to $1.5 billion in 2012 from $2.0 billion, and represented approximately 17.0 percent of surplus on a pre-tax basis at year end 2012. When stressed for a 1 in 100 year magnitude hurricane, BCAR falls below the minimum guideline for the current ratings. However; these concerns are partially mitigated by past support provided by SFMAIC, which in 2011, acquired a surplus note in exchange for cash.

Surplus growth has been erratic over the last five years. Surplus fell by 19.5 percent in 2008 due to substantial underwriting and investment losses. Underwriting losses were the result of a combination of premium rate reductions in prior years and catastrophe losses. Investment losses were due to declining interest rates and realized and unrealized capital losses from the financial crisis in the fourth quarter. Surplus grew modestly in 2009 and 2010 from lower underwriting losses and investment gains as the financial markets had a partial recovery.

These concerns are partially mitigated by favorable returns in the first quarter of 2013 and by actions taken to improve earnings and manage risk. However; additional reductions in BCAR and unfavorable operating performance may put pressure on the ratings.

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	189,681	8,136	-119,378	252,092	...	487,391	1,056,678	13.6
2011	-1,763,979	30,785	-268,068	45,312	500,000	-104,451	-1,024,265	-11.7
2010	-32,576	39,248	-44,168	112,490	...	68,720	232,051	2.7
2009	-325,326	6,564	-112,668	378,181	...	184,165	356,252	4.4
2008	-1,952,431	-34,594	-794,455	-881,062	...	96,815	-1,976,816	-19.5
5-Yr Total	-3,884,630	50,139	-1,338,736	-92,987	500,000	732,640	-1,356,101	-2.8
06/2013	473,135	8,034	81,196	314,937	...	-277,877	437,033	5.0
06/2012	242,717	6,098	65,398	171,502	...	469,039	823,958	10.6

Capitalization (Continued ...)

Quality of Surplus ($000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	500,000	...	5,524,755	2,780,607	8,805,362	2,470	8,807,833
2011	500,000	...	5,272,060	1,976,625	7,748,685	2,620	7,751,305
2010	...	...	5,226,835	3,546,115	8,772,950	2,881	8,775,831
2009	...	...	5,115,454	3,425,445	8,540,899	1,984	8,542,883
2008	...	...	4,741,545	3,443,102	8,184,647	1,458	8,186,105
06/2013	500,000	...	5,839,676	2,902,719	9,242,395	2,931	9,245,326
06/2012	500,000	...	5,443,549	2,629,093	8,572,643	2,504	8,575,146

Underwriting Leverage

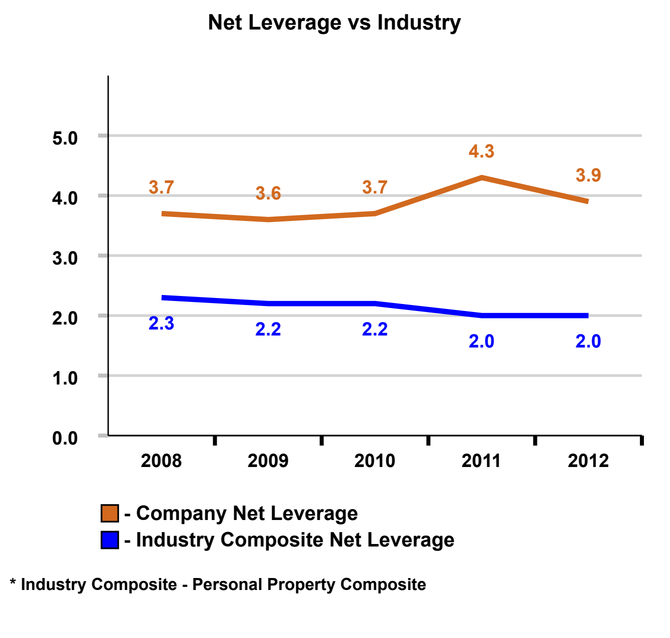
Underwriting Leverage: Underwriting leverage measures are elevated relative to the personal property composite averages. The ratios are indicators of a company's surplus exposure to pricing errors and misstatement of policyholder liabilities on a gross and net basis. SFFCC's elevated underwriting leverage is primarily attributed to its higher level of retained risk relative to surplus combined with significant reductions in surplus in 2008 and 2011. Premium and loss reserve growth have also exceeded the overall growth in surplus over the last five years. Net premium written was up 22.2 percent and net loss and loss adjustment expense reserves were up 23.6 percent, compared to a 13.3 percent decrease in surplus over the period. This concern is partially mitigated by SFFCC's favorable reserve development trend and actions being taken to increase homeowners' rates and other underwriting initiatives being implemented to improve earnings.

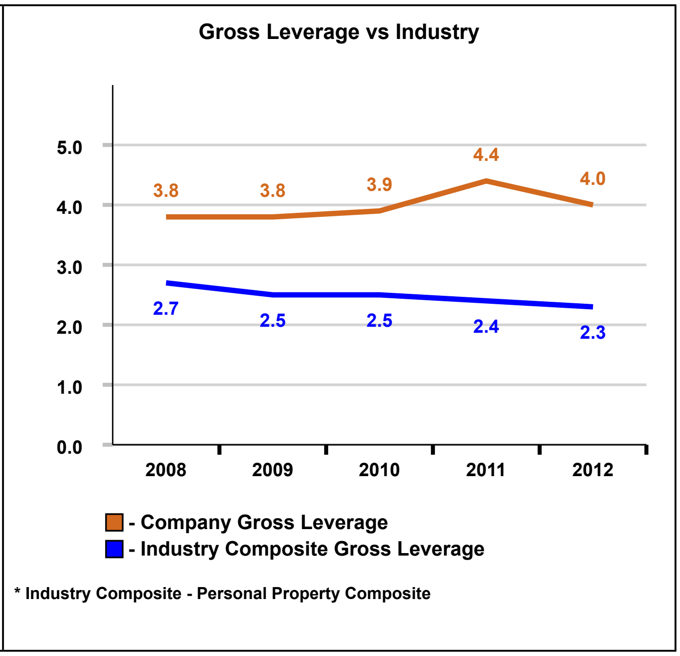
Leverage Analysis

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	1.6	0.8	3.9	4.0	0.8	0.4	2.0	2.3
2011	1.8	0.9	4.3	4.4	0.8	0.4	2.0	2.4
2010	1.6	0.8	3.7	3.9	0.9	0.4	2.2	2.5
2009	1.5	0.8	3.6	3.8	0.9	0.4	2.2	2.5
2008	1.5	0.9	3.7	3.8	0.9	0.5	2.3	2.7
06/2013	1.6	0.8	3.9	XX	XX	XX	XX	XX
06/2012	1.7	0.9	4.0	XX	XX	XX	XX	XX

Current BCAR: 160.3

Underwriting Leverage (Continued ...)





Ceded Reinsurance Analysis ($000)

	Company				Industry Composite		
Year	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	451,999	84.5	1.7	5.1	68.8	12.8	33.7
2011	465,115	86.0	2.8	6.0	67.5	13.0	37.4
2010	1,379,975	82.5	6.5	15.7	71.3	12.3	33.2
2009	1,425,328	81.7	7.2	16.7	69.5	13.8	36.8
2008	1,440,289	80.9	8.0	17.6	68.0	17.0	42.3

2012 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	1,202,628	335,899	764,622	...	2,303,150
US Insurers	23,714	16,536	52,686	3,388	96,324
Pools/Associations	7,054	546	11,533	...	19,132
Other Non-Us	138	266	30,663	227	31,296
Total(ex Us Affils)	30,906	17,348	94,882	3,615	146,752
Grand Total	1,233,535	353,248	859,505	3,615	2,449,903

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: Reserve development in recent years has been relatively stable overall with redundancies on both an accident and calendar year basis. SFFCC does not discount loss reserves nor anticipate future salvage and subrogation recoveries in loss reserve estimates. The company appears to have minimal exposure to asbestos and environmental claims which arose from the direct sale and reinsurance of personal and commercial multiple peril insurance policies and general liability insurance policies as well as limited participation in various reinsurance pools.

The majority of loss and loss adjustment expense reserves at year end 2012 were allocated to homeowners'/farmowners' lines of business (58.5 percent), workers' compensation (13.8 percent), commercial multi-peril (13.4 percent) and other liability lines (11.5 percent). Generally longer tail lines and older claims have the greatest potential to develop adversely because initial ultimate claims cost estimates are less accurate. However; the majority of claims over 10 years old were workers' compensation claims which are generally well defined.

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	6,142,775	6,142,775	...	...	43.3	6,142,775	100.0
2011	6,082,424	5,897,335	-3.0	-2.4	42.4	2,973,280	50.4
2010	5,978,114	5,599,138	-6.3	-4.3	42.0	1,942,767	34.7
2009	5,879,062	5,437,219	-7.5	-5.2	43.0	1,392,745	25.6
2008	6,096,172	5,707,437	-6.4	-4.7	46.7	1,037,112	18.2
2007	5,064,968	5,181,560	2.3	1.1	44.0	799,709	15.4

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	3,169,495	3,169,495	...	3,169,495	82.0	109.4
2011	3,181,839	3,074,969	-3.4	1,030,513	93.6	121.5
2010	2,998,877	2,923,529	-2.5	550,022	79.7	107.3
2009	2,858,644	2,780,211	-2.7	355,633	80.4	108.4
2008	3,103,253	3,007,745	-3.1	237,403	91.0	119.3
2007	2,336,359	2,430,832	4.0	166,054	65.9	93.8

Loss Reserves (Continued ...)

Asbestos And Environmental Reserves Analysis

Year	Company						Industry Composite		
	Net A&E Reserves ($000)	Reserve Retention (%)	Net Incurred But Not Reported (IBNR) Mix (%)	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)
2012	22,696	100.0	...	1.3	0.1	0.1	9.1	0.6	0.6
2011	33,085	100.0	48.0	1.6	0.1	0.1	9.1	0.5	0.6
2010	34,985	100.0	53.5	1.7	0.1	0.1	7.2	0.7	0.5
2009	38,948	100.0	55.2	...	0.2	...	...	0.6	...
2008	45,352	100.0	58.2	...	0.1	...	...	0.3	...

Liquidity

Liquidity: Balance sheet liquidity is adequate; however, liquidity ratios fall well below the composite averages. This is due to a higher level of common stock in the investment portfolio and a higher level of reserves relative to assets. The majority of the company's invested assets are in highly liquid bonds, short-term securities, cash and cash equivalents, however, approximately 18.9 percent total invested assets and 16.0 percent of total assets were in less liquid non-affiliated common stocks.

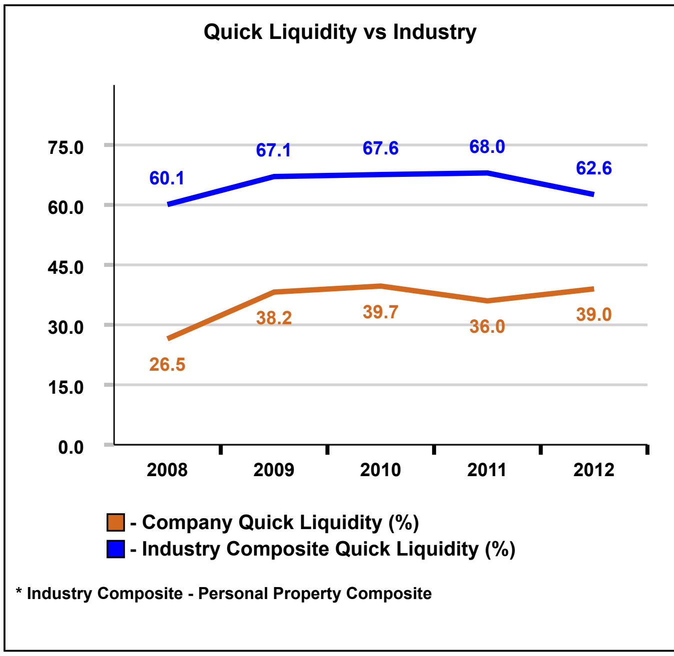
Operating cash flows were positive in three of the last five years. The exceptions were in 2008 and 2011 when claim payments increased significantly to cover catastrophic losses. In 2011, SFFCC issued a $500 million surplus note to SFMAIC. Despite the inflow of cash from this transaction, overall net cash flow was negative for the year.

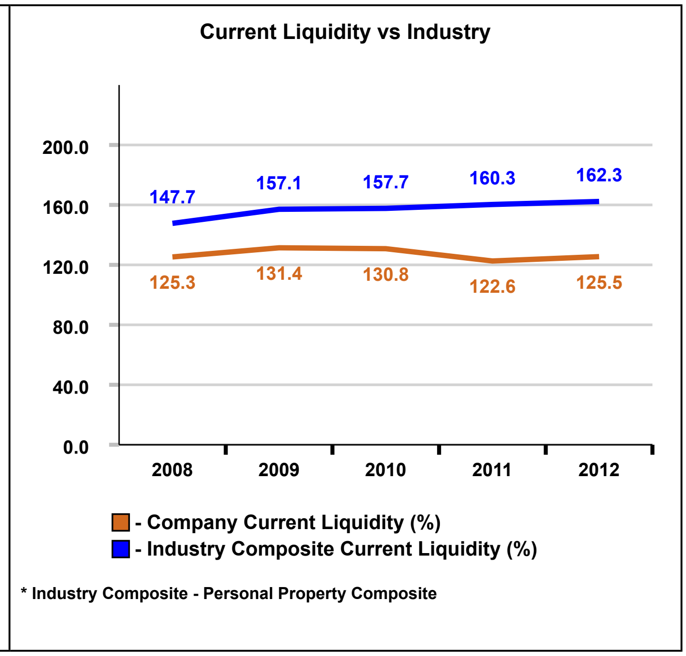
SFFCC participates in a short-term investment pooling agreement with affiliated companies, whereby any party may transfer a portion of its cash and short-term investments to a liquidity pool in exchange for proportional membership interest in the pool. The company is also a party to a common clearing account agreement whereby it may deposit premium payments and other cash receipts, disburse funds and accept electronic payments through a comprehensive cash balance system.

Liquidity Analysis

Year	Company				Industry Composite			
	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	39.0	125.5	143.6	2.0	62.6	162.3	179.5	3.5
2011	36.0	122.6	139.8	2.1	68.0	160.3	177.7	4.4
2010	39.7	130.8	146.5	2.1	67.6	157.7	175.0	3.8
2009	38.2	131.4	147.8	1.6	67.1	157.1	175.1	3.7
2008	26.5	125.3	146.4	1.7	60.1	147.7	170.2	4.1
06/2013	XX	124.8	143.9	2.4	XX	XX	XX	XX
06/2012	XX	122.6	142.4	2.3	XX	XX	XX	XX

Liquidity (Continued ...)





Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	-254,249	885,653	19,419	98.3	106.1	106.4	112.8
2011	-2,410,410	-1,498,199	-353,984	85.3	91.0	94.2	101.4
2010	-539,337	484,093	-149,433	96.2	103.4	107.0	112.3
2009	-995,708	847,095	269,851	92.9	106.1	104.1	114.0
2008	-1,552,717	-718,016	-573,404	88.8	94.9	94.6	99.7
5-Yr Total	-5,752,421	626	-787,552	...	...	...	...
06/2013	186,256	896,354	188,496	102.6	112.4	XX	XX
06/2012	184,719	868,304	158,275	102.7	112.5	XX	XX

Investments

Investments: Invested assets totaled approximately $24.5 billion as of December 31, 2012, which was up 5.4 percent from the prior year. Fixed income securities (bonds and short-term investments), which totaled $19.9 billion were 81.2 percent of the investment portfolio and were up approximately 4.4 percent for the year. The remainder of the portfolio included non-affiliated common stock (18.9 percent of total invested assets) and cash, cash equivalents and other invested assets (-0.1 percent).

The bond portfolio consisted of a diversified mix of tax-exempt and taxable municipal bonds, U.S. Treasuries, mortgage backed obligations and investment grade corporate and foreign denominated securities. Similarly, common stock investments included a broad array of industrial and miscellaneous corporate stocks and mutual funds. No one investment by issuer represented more than 4.7 percent of year end 2012 surplus. However; the common stock portfolio in total was greater than 50 percent of

Investments (Continued ...)

year end 2012 surplus and presented a greater degree of risk from equity market fluctuations than the average of the personal property composite.

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	0.2	...	...	52.6	52.7	...	1.1	19.9
2011	0.3	...	...	54.6	54.9	...	1.1	19.8
2010	0.3	...	...	47.8	48.1	...	1.4	19.8
2009	0.3	...	...	47.2	47.5	...	1.2	19.1
2008	0.5	...	...	42.4	43.0	...	1.7	17.6

Investments - Bond Portfolio

2012 Distribution By Maturity

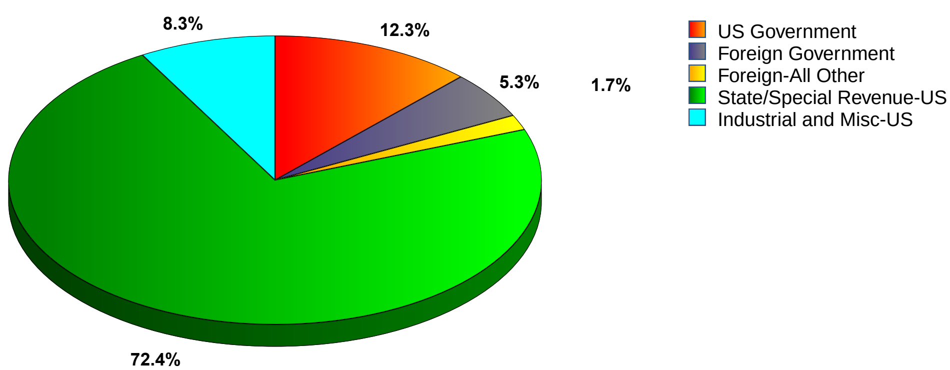
	Years					
	0-1	1-5	5-10	10-20	20+	Years Average Maturity
Government	3.3	11.2	2.8	0.4	...	3.5
Government Agencies & Muni.	6.7	36.8	21.1	6.7	0.9	5.5
Industrial & Misc.	1.3	5.3	3.4	0.1	...	4.0
Total	11.2	53.3	27.4	7.2	0.9	5.0

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	19,845,123	19,003,258	19,463,188	18,697,542	18,084,300
US Government	12.3	13.9	17.7	18.0	12.3
Foreign Government	5.3	5.1	4.5	4.3	2.4
Foreign-All Other	1.7	1.5	1.8	2.0	4.2
State/Special Revenue-US	72.4	70.8	67.6	65.3	68.4
Industrial and Misc-US	8.3	8.8	8.3	10.4	12.8

2012 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	0.2	0.3	0.4	0.5	0.7
Public Issues	99.8	99.7	99.6	99.5	99.3

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	96.8	96.9	97.1	95.6	95.1
Class 2	3.1	3.0	2.8	4.3	4.7
Class 3	0.1	0.1	0.1	0.1	0.2
Class 4	...	...	...	...	0.1
Class 5	...	...	...	...	...
Class 6	...	...	...	...	...

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	4,627,902	4,234,386	4,195,798	4,034,836	3,473,495
Unaffiliated Common	100.0	100.0	100.0	100.0	100.0

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	-2,495	-21,913	332,073	481,734	212,192
Cash	645.4	154.3	70.8	86.6	29.1
Short-Term	-99.9	-54.0	29.2	13.4	70.6
All Other	-2.3	-0.3	...	0.1	0.3

History

The company was organized on June 12, 1935, under the laws of Illinois and commenced business on June 29, 1935. The present title was adopted on July 1, 1950, when the company absorbed by merger the State Farm Casualty Company.

Capital paid up is $10,000,000. Authorized capital comprises 250,000 shares of $100 par value each, 100,000 of which are issued and outstanding. All of the common stock of the company is held by State Farm Mutual Automobile Insurance Company.

Management

The company's operations are under the direction of Edward B. Rust, Jr., Chairman, President and Chief Executive Officer, who began his career with State Farm in 1975.

Officers And Directors

Officers

Chairman of the Board, President and CEO Edward B. Rust, Jr.
EVP and COO Michael L. Tipsord
EVP Brian V. Boyden
SVP, Treasurer and CFO Paul J. Smith
SVP and General Counsel Jeffrey W. Jackson
SVP Randall H. Harbert
Vice President and Controller Mark E. Schwamberger
Vice President Susan Q. Hood (Claims)
Vice President Angela K. Sparks (Underwriting)
Secretary Lynne M. Yowell

Directors

Brian V. Boyden
Gerald M. Czarnecki
Randall H. Harbert
William H. Knight, Jr.
Edward B. Rust, Jr.
Paul J. Smith
Paul T. Stecko
Michael L. Tipsord
Michael S. Wey

Regulatory

An examination of the financial condition was made as of December 31, 2010, by the insurance department of Illinois. The 2012 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Christopher Walker, P&C Actuarial Partner, PricewaterhouseCoopers, LLP.

Reinsurance

The following text is derived from A.M. Best's Credit Report on State Farm Group (AMB# 000088).

Catastrophe excess of loss per occurrence reinsurance is provided for the non-automobile property lines written by SFFCC, SFGIC, SFL, TCM and SFFIC. SFMAIC is the primary reinsurer on these contracts, however, non-affiliated reinsurers also participate in the coverage.

SFMAIC further provides aggregate excess of loss catastrophe reinsurance for qualifying events in excess of contract retentions to SFFCC, SFGIC, SFL, and SFFIC. Contract retentions and limits vary by company and year. There is one

Reinsurance (Continued ...)

reinstatement of the limits on the catastrophe excess of loss per occurrence reinsurance and no reinstatement of the limits on the aggregate excess of loss contracts.

In 2012, SFL entered into a wildfire aggregate excess of loss catastrophe reinsurance contract with SFMAIC. Reinsurance is provided for non-automobile property lines written by SFL in the state of Texas.

Recovery under the catastrophe excess of loss per occurrence, aggregate excess of loss catastrophe and wildfire aggregate excess of loss catastrophe treaties is net of other available reinsurance recoveries. The contracts are effective July 1 through the following June 30 of each year.

TCM cedes 100 percent of its non-automobile premiums and losses to SFFCC and 90 percent of its automobile premiums and losses to SFMAIC.

Effective in 2013, SFFCC entered into a three-year catastrophe excess of loss reinsurance contract with Merna Re IV Ltd., an unrelated party. The reinsurance agreement provides coverage for the SFFCC's Central U.S. earthquake risk with no reinstatement of coverage limits.

SFMAIC has an excess of loss catastrophe reinsurance contract with ORC, which provides reinsurance coverage for a portion of the exposure SFMAIC assumed through catastrophe reinsurance treaties with SFFCC, TCM, SFGIC, SFL, and SFFIC.

SFMAIC also assumes 100 percent of automobile business written by subsidiaries other than SFIND, Guaranty, and TCM through quota share reinsurance. SFFCC assumes 100 percent of the non-automobile business written by SFGIC outside of the State of California. SFMAIC also assumes property per risk excess of loss reinsurance from its subsidiaries. Property per risk is used to protect against large single risk losses from commercial and homeowners/farmowners exposures. Boiler and machinery (equipment breakdown) coverage written on commercial risks is 100 percent reinsured with Hartford Steam Boiler.

The Canadian branch of SFFCC has boiler and machinery reinsurance, homeowners identity restoration reinsurance and commercial data compromise/identity restoration reinsurance through 100 percent quota share reinsurance contracts with Boiler Inspection & Insurance Co. of Canada.

Balance Sheet ($000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	19,845,123	19,003,258	68.4	69.8
Preferred Stock	...	...	...	...
Common Stock	4,627,902	4,234,386	16.0	15.5
Cash & Short-Term Invest	-2,552	-21,971	...	-0.1
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	57	59	...	...
Investments in Affiliates	...	...	...	...
Real Estate, Offices	...	...	...	...
Total Invested Assets	24,470,530	23,215,731	84.4	85.2
Premium Balances	2,571,867	2,404,999	8.9	8.8
Accrued Interest	222,789	226,828	0.8	0.8
Life department	...	...	...	...
All Other Assets	1,733,892	1,395,718	6.0	5.1
Total Assets	28,999,078	27,243,277	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	7,438,655	7,261,276	25.7	26.7
Unearned Premiums	7,507,208	7,293,004	25.9	26.8
Conditional Reserve Funds	2,470	2,620	...	...
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	5,245,382	4,937,690	18.1	18.1
Total Liabilities	20,193,716	19,494,592	69.6	71.6
Surplus notes	500,000	500,000	1.7	1.8
Capital & Assigned Surplus	5,524,755	5,272,060	19.1	19.4
Unassigned Surplus	2,780,607	1,976,625	9.6	7.3
Total Policyholders' Surplus	8,805,362	7,748,685	30.4	28.4
Total Liabilities & Surplus	28,999,078	27,243,277	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2013	06/30/2013
Bonds	20,076,546	20,771,604
Preferred Stock	...	...
Common Stock	5,098,621	5,083,272
Cash & Short-Term Invest	726,935	185,944
Other Investments	...	3,063
Total Invested Assets	25,902,102	26,043,883
Premium Balances	2,570,063	2,708,027
Accrued Interest	218,914	231,714
Reinsurance Funds	125,322	121,391
All Other Assets	997,160	1,202,545
Total Assets	29,813,560	30,307,559

Liabilities & Surplus	03/31/2013	06/30/2013
Loss & LAE Reserves	7,172,187	7,590,148
Unearned Premiums	7,169,628	7,832,314
Conditional Reserve Funds	2,345	2,931
All Other Liabilities	5,848,247	5,639,771
Total Liabilities	20,192,407	21,065,164
Capital & Assigned Surp	6,358,224	6,339,676
Unassigned Surplus	3,262,930	2,902,719
Total Policyholders' Surplus	9,621,154	9,242,395
Total Liabilities & Surplus	29,813,560	30,307,559

Summary Of 2012 Operations ($000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	14,195,494	Premiums collected	14,381,103
Losses incurred	9,234,900	Benefit & loss-related pmts	9,153,634
LAE incurred	1,753,953		
Undwr expenses incurred	3,950,004	LAE & undwr expenses paid	5,481,719
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	-743,364	Underwriting cash flow	-254,249
		Net transfer	...
Net investment income	872,299	Investment income	935,851
Other income/expense	60,745	Other income/expense	60,745
Pre-tax operating income	189,681	Pre-tax cash operations	742,347
Realized capital gains	8,136		
Income taxes incurred	-119,378	Income taxes pd (recov)	-143,306
Net income	317,195	Net oper cash flow	885,653

Interim Income Statement ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums earned	7,333,298	7,063,763	269,535
Losses incurred	4,349,095	4,519,193	-170,098
LAE incurred	882,259	809,286	72,973
Undwr expenses incurred	2,060,615	1,975,134	85,481
Other expenses incurred	...	...	...
Dividends to policyholders	...	...	...
Net underwriting income	41,328	-239,851	281,179
Net investment income	431,146	435,941	-4,794
Other income/expense	661	46,627	-45,966
Pre-tax operating income	473,135	242,717	230,418
Realized capital gains	8,034	6,098	1,936
Income taxes incurred	81,196	65,398	15,799
Net income	399,973	183,417	216,555

Interim Cash Flow ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums collected	7,408,092	7,121,364	286,727
Benefit & loss-related pmts	4,203,200	4,187,075	16,125
LAE & undwr expenses paid	3,018,636	2,749,571	269,065
Dividends to policyholders	...	...	...
Underwriting cash flow	186,256	184,719	1,537
Net transfer	...	...	...
Investment income	455,050	463,844	-8,795
Other income/expense	661	46,627	-45,966
Pre-tax cash operations	641,966	695,190	-53,224
Income taxes pd (recov)	-254,387	-173,113	-81,274
Net oper cash flow	896,354	868,304	28,050

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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