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## 2002 ANNUAL REPORT TO STATE FARM® MUTUAL POLICYHOLDERS

Premiums paid by State Farm Mutual policyholders during 2002 were insufficient to cover the cost of claims and expenses. Meanwhile investment income was impacted by lower interest rates and was inadequate to offset insurance underwriting losses. Unfortunately, after several years of lower and level auto insurance rates in most states, it was necessary to increase rates in nearly all jurisdictions.

Substantial underwriting losses coupled with the third straight year of weakness in the equities market and a subsequent reduction in the value of the Company's common stock portfolio led to an overall reduction in the organization's total assets.

There was significant improvement in our insurance operations results during the second half of the year. Total State Farm policies in force grew more than one million.

We remain dedicated to keeping State Farm Mutual financially strong, and we thank you for allowing us to serve you.

Edward B. Rust Jr.  
Chairman of the Board and Chief Executive Officer

### Notice of Annual Meeting

The annual meeting of State Farm Mutual Automobile Insurance Company is held each year at 10 a.m. on the second Monday of June at the company's Corporate Headquarters, One State Farm Plaza, Bloomington, Illinois. All members may participate in the annual meeting and have a right to vote by proxy or in person. Proxies must be on file with the Corporate Secretary 20 days before the annual meeting.

**State Farm Mutual Automobile Insurance Company**  
Home Office: One State Farm Plaza  
Bloomington, IL 61710-0001

*More information is available at [statefarm.com](http://statefarm.com)®.*

## STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY

### Statement of Condition (In Millions of Dollars)

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and Short Term Investments	\$ 469	\$ 133
Bonds	22,118	22,200
Common & Preferred Stocks	25,381	31,173
Equity in Insurance Subsidiaries	8,499	8,815
Other Assets	<u>9,349</u>	<u>8,762</u>
<b>Total Assets</b>	<b>\$65,816</b>	<b>\$71,083</b>
<u>Liabilities</u>		
Claims and Claim Expenses	\$18,079	\$16,447
Unearned Premiums	7,769	6,954
Other Liabilities	8,367	9,692
<u>Policyholder Protection Funds</u>		
Funds for Protection of State Farm		
Mutual Policyholders	\$13,018	\$15,864
Investment Fluctuation Reserve	8,546	11,985
Funds Assigned for Protection of		
Policyholders of Subsidiaries	8,499	8,815
Catastrophe Reserve – Reinsurance	<u>1,538</u>	<u>1,326</u>
<b>Total Liabilities and Surplus</b>	<b>\$65,816</b>	<b>\$71,083</b>

### Summary of Operating Data (In Millions of Dollars)

	<u>2002</u>	<u>2001</u>
Premium	\$29,148	\$26,038
Less: Dollars for Claims	22,419	21,315
Expenses for Paying Claims	4,260	4,183
Service and Administrative Fees	<u>6,977</u>	<u>5,868</u>
<b>Underwriting Gain or (Loss)</b>	<b>(4,508)</b>	<b>(5,328)</b>
Plus: Investment and Other Income	<u>1,385</u>	<u>2,568</u>
Income Before Dividends and Taxes	(3,123)	(2,760)
Less: Dividends to Policyholders	0	3
Income Taxes	<u>(1,129)</u>	<u>(117)</u>
<b>Net Income</b>	<b>\$(1,994)</b>	<b>\$(2,646)</b>

The financial statements of the company are audited by an independent public accounting firm.

### Board of Directors

- Gerald M. Czarnecki** – Chairman and Chief Executive Officer, Deltennium Corporation
- W. H. Knight Jr.** – Dean, School of Law, University of Washington
- Hanne Merriman** – Principal, Hanne Merriman Associates
- Judith A. Muhlberg** – Senior Vice President, Communications, The Boeing Company
- George L. Perry** – Senior Fellow, The Brookings Institution
- Susan M. Phillips** – Dean, School of Business and Public Management, George Washington University
- Jerry I. Porras** – Lane Professor of Organizational Behavior and Change, Emeritus, Stanford University
- Edward B. Rust Jr.** – Chairman of the Board and Chief Executive Officer, State Farm Mutual
- James E. Rutrough** – Senior Executive Vice President and Chief Administrative Officer, State Farm Mutual
- Paul T. Stecko** – Chairman of the Board and Chief Executive Officer, Packaging Corporation of America
- Vincent J. Trosino** – Vice Chairman of the Board, President, and Chief Operating Officer, State Farm Mutual
- James Q. Wilson** – Professor of Management and Public Policy, Emeritus, University of California at Los Angeles
- Charles R. Wright** – Senior Executive Vice President and Chief Agency and Marketing Officer, State Farm Mutual