State Farm Fire and Casualty Company

(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Report on Audits of Financial Statements – Statutory Basis

For the Years Ended December 31, 2006 and 2005

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

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Report of Independent Auditors

To the Board of Directors of
State Farm Fire and Casualty Company

We have audited the accompanying statutory statements of admitted assets, liabilities, capital and surplus of State Farm Fire and Casualty Company (the "Company") as of December 31, 2006 and 2005 and the related statutory statements of income, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Illinois Department of Financial and Professional Regulation Division of Insurance, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2006 and 2005, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

PricewaterhouseCoopers LLP

February 16, 2007

State Farm Fire and Casualty Company

(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Admitted Assets, Liabilities, Capital and Surplus – Statutory Basis
As of December 31, 2006 and 2005

ADMITTED ASSETS	2006	2005
Bonds:		
United States government	$ 2,247,231,798	$ 2,146,194,538
Canadian government and subdivisions	686,675,239	595,436,470
Other governmental units	10,633,849,354	9,104,748,413
Corporate, industrial and public utilities	3,714,924,869	3,302,788,859
	17,282,681,260	15,149,168,280
Stocks:		
Preferred	-	454,688
Common	4,599,192,988	4,087,987,736
	4,599,192,988	4,088,442,424
Cash	(51,907,981)	(36,954,607)
Cash equivalents	6,144,019	324,987,594
Short-term investments	48,443,312	26,239,159
Receivable for securities	98,474,745	50,448,467
Total cash and invested assets	21,983,028,343	19,602,331,317
Uncollected premiums receivable (see Note 3)	1,590,627,336	1,481,482,348
Investment income due and accrued	233,359,558	212,759,944
Receivable from affiliates (see Note 3)	15,151,871	31,863,283
Reinsurance recoverable	141,960,656	1,137,547,789
Federal income tax recoverable from affiliates	-	196,481,493
Net deferred tax asset	138,109,966	296,910,174
Recoupable Citizens Property Insurance Corporation assessment	9,959,682	33,610,881
Other assets (see Note 3)	301,392,824	353,197,373
Total admitted assets	$ 24,413,590,236	$ 23,346,184,601

LIABILITIES	2006	2005
Losses and loss adjustment expenses	$ 5,596,870,501	$ 5,337,001,803
Unearned premiums	6,149,084,402	5,892,576,201
Advance premium (see Note 3)	157,520,125	152,844,521
Agent termination benefits	1,250,437,715	1,229,408,989
Taxes, licenses, fees and other expenses	1,180,904,431	1,055,572,454
Drafts outstanding	464,825,402	1,391,764,259
Payable to affiliates (see Note 3)	211,442,494	310,050,445
Federal income tax payable to affiliates	209,270,804	-
Other liabilities (see Note 3)	245,125,451	310,305,138
Total liabilities	15,465,481,325	15,679,523,810
CAPITAL AND SURPLUS		
Common stock, $100 par value; 250,000 shares authorized; 100,000 shares issued and outstanding	10,000,000	10,000,000
Paid-in and contributed surplus	3,060,786,638	3,060,786,638
Investment fluctuation reserve	2,341,885,136	2,010,978,541
Unassigned surplus	3,535,437,137	2,584,895,612
Total capital and surplus	8,948,108,911	7,666,660,791
Total liabilities, capital and surplus	$ 24,413,590,236	$ 23,346,184,601

The accompanying notes are an integral part of these financial statements.

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Income - Statutory Basis
For the Years Ended December 31, 2006 and 2005

	2006	2005
Premiums earned	$ 11,379,553,156	$10,902,829,371
Losses and other underwriting expenses:		
Losses incurred	6,722,628,657	5,964,893,667
Loss adjustment expenses incurred	1,222,129,512	1,346,630,297
Other underwriting expenses incurred	3,237,471,283	2,856,969,619
Total underwriting deductions	11,182,229,452	10,168,493,583
Net underwriting gain	197,323,704	734,335,788
Investment income:		
Net investment income earned	928,506,935	830,186,073
Realized capital gains (losses), net of capital gains tax	75,437,294	(4,069,562)
Net investment gain	1,003,944,229	826,116,511
Other income, net	50,579,254	21,291,501
Income before federal and foreign income taxes	1,251,847,187	1,581,743,800
Federal income tax, excluding capital gains tax	312,372,213	331,453,730
Net income	$ 939,474,974	$ 1,250,290,070

The accompanying notes are an integral part of these financial statements.

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Changes in Capital and Surplus - Statutory Basis
For the Years Ended December 31, 2006 and 2005

	2006	2005
Common stock:		
Balance at beginning and end of year	$ 10,000,000	$ 10,000,000
Paid-in and contributed surplus:		
Balance at beginning and end of year	3,060,786,638	3,060,786,638
Special surplus funds:		
Investment fluctuation reserve:		
Balance at beginning of year	2,010,978,541	1,982,396,212
Transfer from unassigned surplus	330,906,595	28,582,329
Balance at end of year	2,341,885,136	2,010,978,541
Unassigned surplus:		
Balance at beginning of year	2,584,895,612	1,466,384,556
Net income	939,474,974	1,250,290,070
Net unrealized capital gain	330,950,957	27,857,088
Change in net deferred income tax	19,391,832	(112,991,919)
Change in nonadmitted assets	(3,614,238)	(5,806,934)
Change in net unrealized foreign exchange loss	(4,577,493)	(7,583,059)
Change in provision for reinsurance	(177,912)	464,464
Deferred ceded reinsurance commission from prior years (see Note 3A)	-	(5,136,325)
Transfer to special surplus funds:		
Investment fluctuation reserve	(330,906,595)	(28,582,329)
Balance at end of year	3,535,437,137	2,584,895,612
Total capital and surplus	$ 8,948,108,911	$ 7,666,660,791

The accompanying notes are an integral part of these financial statements.

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Cash Flows - Statutory Basis
For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash from operations:		
Premiums collected net of reinsurance	$ 11,477,478,169	$ 11,090,163,477
Net investment income	945,819,442	856,972,213
Miscellaneous income	50,579,253	22,087,905
Total	12,473,876,864	11,969,223,595
Benefits and loss related payments	5,442,068,267	6,735,041,647
Commissions and expenses paid	4,347,682,456	3,978,218,206
Federal and foreign income taxes (recovered) paid	(56,013,813)	594,887,599
Total	9,733,736,910	11,308,147,452
Net cash from operations	2,740,139,954	661,076,143
Cash from investments:		
Proceeds from investments sold, matured or repaid:		
Bonds	2,091,475,849	2,249,567,553
Stocks	172,200,753	40,951,736
Net losses on cash and short-term investments	(6,244)	(982)
Other invested assets	-	587,993
Total investment proceeds	2,263,670,358	2,291,106,300
Cost of investments acquired (long-term only):		
Bonds	4,263,193,364	4,285,918,433
Stocks	59,210,885	36,267,685
Miscellaneous applications	38,133,618	24,762,217
Total investments acquired	4,360,537,867	4,346,948,335
Net cash from investments	(2,096,867,509)	(2,055,842,035)
Cash from financing and miscellaneous sources:		
Other cash (applied) provided	(954,865,241)	1,276,683,585
Net cash from financing and miscellaneous sources	(954,865,241)	1,276,683,585
Net change in cash, cash equivalents and short-term investments	(311,592,796)	(118,082,307)
Cash, cash equivalents and short-term investments, beginning of year	314,272,146	432,354,453
Cash, cash equivalents and short-term investments, end of year	$ 2,679,350	$ 314,272,146

The accompanying notes are an integral part of these financial statements.

1. Nature of Business Operations

State Farm Fire and Casualty Company (the Company) is a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company (SFMAIC). The Company, with its principal focus on personal lines, writes most property and casualty lines of insurance, predominately homeowners and commercial multiple peril. It is licensed in all states, the District of Columbia, and in Canada for the provinces of Alberta, New Brunswick and Ontario. It sells and services its products through an exclusive independent contractor agency force.

Although the Company's business is widely spread throughout the United States, significant portions of the Company's property insurance business are located in areas exposed to natural disasters, which potentially could have a significant financial impact on the Company. Primary areas of risk and exposure are West Coast and Midwest earthquake losses and hurricane losses along the Gulf Coast and Atlantic states. The Company maintains reinsurance contracts partially covering such losses.

The insurance industry is highly regulated and deals in contractual obligations. As such, the industry is subject to the risk of changes resulting from legislative enactments, legal interpretations and regulatory actions not anticipated in pricing the product.

2. Summary of Significant Accounting Practices

The accompanying financial statements have been prepared principally for filing with regulatory agencies and, as such, are prepared in conformity with accounting practices prescribed or permitted by the Illinois Department of Financial and Professional Regulation, Division of Insurance (statutory accounting practices).

Prescribed statutory accounting practices include the National Association of Insurance Commissioners (NAIC) "*Accounting Practices and Procedures Manual*" (NAIC SAP), which reflects the NAIC's adoption of the Codification of Statutory Accounting Principles, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed when such practices are approved by the insurance department of the insurer's state of domicile. The Company did not use any significant permitted practices during 2006 or 2005.

The preparation of financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant statutory accounting practices include:

A. Investments

Bonds and stocks are stated at values prescribed by the NAIC. Investment grade bonds not backed by other loans are stated at amortized cost using the modified scientific method. Below investment grade bonds not backed by other loans are stated at the lower of amortized cost using the modified scientific method or fair value. Preferred stocks and common stocks are stated at fair value. Quoted market prices from third party organizations and prices published by the Securities Valuation Office (SVO) of the NAIC are used to calculate fair value. Where no SVO published price or quoted market price is available, management's best estimate of fair value is used. Under generally accepted accounting principles in the United States of America (GAAP), equity securities that have readily determinable fair values and debt securities would be classified into three categories: held-to-maturity, trading and available-for-sale. Held-to-maturity securities would be reported at amortized cost. Trading securities would be reported at fair value with unrealized gains and losses included in earnings. Available-for-sale securities would be reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of surplus.

Single class mortgage-backed/asset-backed and multi-class mortgage-backed/asset-backed securities are stated at amortized cost using the modified scientific method including anticipated prepayments at the date of purchase. Significant changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method. Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities are obtained from FT Interactive Data and Bloomberg. The Company uses prices provided by FT Interactive Data and RBC Dexia in determining the market value of its loan-backed securities. There have been no changes from the retrospective to the prospective method of valuing loan-backed securities.

Short-term investments are stated at amortized cost which represent investments with maturities less than one year.

The Company's interest in State Farm Liquidity Pool, LLC is carried at its underlying audited GAAP equity. The Company's interest in the pool is reported as a cash equivalent.

Investment income is recorded when earned. Due and accrued investment income that is 90 days past due or when collection is in doubt is excluded from surplus. No investment income was excluded during 2006 and 2005. Realized gains and losses on sale of investments are determined by the specific identification method. Net realized capital gains or losses are shown net of federal income tax. Unrealized capital gains or losses are recorded to unassigned surplus net of deferred income tax.

For any decline in the fair value of a bond, common stock, or preferred stock that is considered to be other than temporary, a valuation adjustment is made to reduce the cost of the security to fair value and to recognize a realized capital loss.

A portion of total surplus as regards policyholders, equal to the excess of market value over book value of unaffiliated common and preferred stocks reduced by federal income tax thereon, is segregated in a special surplus account entitled investment fluctuation reserve. This account is designed to reduce the impact of stock market fluctuations on unassigned funds. This account increased $330.9 million and $28.6 million in 2006 and 2005, respectively. The increase in both years was due primarily to the general improvement in the U.S. equities market, which resulted in an increase in the market value over book value of the Company's unaffiliated common and preferred stock portfolio. This account was also affected by the recording of $1.1 million and $13.6 million of other than temporary impairments on certain unaffiliated common stock holdings in 2006 and 2005, respectively. The other than temporary impairments result in a reduction in book value and the recording of realized capital losses with an offsetting change in the market value over book value of the unaffiliated common stocks, and therefore an increase in the investment fluctuation reserve of $696 thousand and $8.8 million net of federal income tax in 2006 and 2005, respectively.

B. Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses include amounts determined on the basis of claim evaluations and other estimates for reported losses and include an estimate of losses incurred but not reported. The method of making such estimates and establishing the reserve is continually reviewed and updated, and any resulting adjustments are reflected currently. Accordingly, losses and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expenses are not discounted and are shown net of amounts ceded under reinsurance contracts. Under GAAP, the deduction for reinsurance placed with reinsurers would be reported separately as an asset.

Salvage and subrogation recoveries are recorded when received and excluded from claim evaluations and the resulting estimates for reported and unreported losses. Under GAAP, estimated amounts for salvage and subrogation recoverable on paid and unpaid losses are included in claim evaluations and the resulting estimates for reported and unreported losses. Salvage and subrogation recoveries were $91,421,044 and $98,070,939 during 2006 and 2005, respectively.

C. Premiums

Unearned premiums represent the pro rata portion of premiums written which are applicable to the unexpired terms of policies in force, net of deductions for reinsurance. Accordingly, premiums written are taken into income when earned. Policies are generally issued for terms of twelve months. Under GAAP, ceded unearned premiums would be reported separately as an asset.

All uncollected premium receivables represent premiums due directly from policyholders. Company procedures generally provide for policy cancellations for uncollectible amounts prior to premium being earned. As a result, the potential loss from uncollectible balances is not material.

Advance premium represents the amount of premium received prior to the policy effective date.

The Company anticipates investment income as a factor in the premium deficiency calculation by discounting losses and loss adjustment expenses in accordance with Statement of Statutory Accounting Principles (SAP) 53. As of December 31, 2006 and December 31, 2005, the Company did not have a premium deficiency reserve.

D. Acquisition Costs

Expenses incurred with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable. Under GAAP, acquisition costs would be capitalized and amortized over the policy period, subject to recoverability.

E. Federal and Foreign Income Taxes

The Company's federal income tax return is consolidated with the following entities:

State Farm Mutual Automobile Insurance Company
State Farm General Insurance Company (SFGIC)
State Farm Life Insurance Company (SFLIC)
State Farm Life and Accident Assurance Company (SFLAAC)
State Farm Annuity and Life Insurance Company (SFALIC)

State Farm Lloyds (SFL)
State Farm Indemnity Company (SFIC)
State Farm Guaranty Insurance Company (Guaranty)
State Farm Florida Insurance Company (SFFIC)
State Farm International Services, Inc. (SFIS)
State Farm Lloyds, Inc.
State Farm Investment Management Corp.
State Farm VP Management Corp.
State Farm Bank, FSB
State Farm Investor Services (Canada) Holding Company (SFISCHC)
State Farm Funding Corp.
Insurance Placement Services, Inc. (IPSI)
State Farm Realty Investment Company (formerly AmberJack Ltd.)
Fiesta Jack, Ltd.

The consolidated federal income tax liability is apportioned to each company in accordance with an agreement authorized by each Company's Board of Directors or Underwriters. The allocation is based upon separate return calculations for regular and alternative minimum tax with current credit for net losses and tax credits. Intercompany federal income tax balances are settled as follows: 1) intercompany federal income tax receivables and payables which relate to the current tax year will be settled within ninety (90) days; 2) any refunds of federal income tax will be settled within thirty (30) days of receipt of the refund; and 3) any payments of federal income tax due will be settled within thirty (30) days of payment of the tax due. Changes in prior year tax liability may result in reallocation of prior year tax.

The reporting of federal and foreign income taxes under NAIC SAP is similar to the reporting requirements under GAAP except for the following differences. Under NAIC SAP, the calculation of state income taxes incurred is limited to taxes due on the current year's taxable income and any adjustments due to changes in prior year returns. Therefore, deferred state income taxes are not recorded. Furthermore, the estimate of the current state income tax expense is not a component of income taxes incurred. Instead, current state income tax is reported as a component of general expenses and is an element of pre-tax book income. Under GAAP, Statement of Financial Accounting Standards (SFAS) 109 contains a requirement to reduce the amount of deferred tax assets (DTAs) by a valuation allowance if it is more likely than not that some portion of the deferred tax asset will not be realized. No such provision is required by NAIC SAP. Instead, NAIC SAP requires that the gross DTA be subject to an admissibility test. The admissibility test has three parts. The first two parts determine the portion of the gross DTA that can be reduced to cash or result in a reduction of future cash taxes. The third part of the test permits admission of gross DTAs to the extent of gross deferred tax liabilities (DTLs). Overall, the test limits the net admitted DTA to the sum of 10% of a modified surplus amount plus taxes subject to recovery via loss carryback for the current year and the previous year. Any changes in DTAs and DTLs are to be recognized as a separate component of the change in unassigned surplus. Therefore, changes in the DTAs and DTLs will not be included in current year income. This differs from GAAP, which reports the change in deferred income taxes (deferred tax provision) as a component of the total tax provision (sum of federal, state, and foreign, current and deferred) rather than as a direct adjustment to unassigned surplus.

As of December 31, 2006, the Company's federal income tax payable to affiliates was $209,270,804. As of December 31, 2005, the Company's federal income tax recoverable from affiliates was $196,481,493.

F. Benefit Plans

Defined Benefit Plans

The Company is a wholly-owned subsidiary of SFMAIC, which sponsors a qualified defined benefit pension plans covering substantially all of the Company's employees in the United States and Canada. The Company has no legal obligation for benefits under these plans. Pension costs are allocated among participating companies based on Plan provisions.

Under GAAP, net periodic benefit cost is based on the cost of incremental benefits for employee service during the period, interest on the projected benefit obligation, actual return on plan assets and amortization of actuarial gains and losses. Under NAIC SAP, statutory accounting adopts a similar actuarial approach to estimated pension costs; however, costs related to non-vested participants are excluded.

Other Postretirement Benefits

As a result of the policy promulgated by the NAIC concerning the treatment of certain postretirement benefits, beginning in 1993, the Company changed its method of accounting for the costs of the potential health care and life insurance benefits provided to post-career associates to the accrual method, and elected to amortize its transition obligation attributable to these potential benefits over twenty years. Under GAAP, an additional accrual would be required for the estimated cost of the potential benefit obligation under the plans for active, but not yet eligible, employees and their dependents.

G. Nonadmitted Assets

Certain assets designated as "nonadmitted" assets aggregating $34,648,277 and $31,034,039 at December 31, 2006 and 2005, respectively, are not recognized by statutory accounting practices. Nonadmitted assets consisted primarily of uncollected premiums receivable in 2006 and in 2005. These assets are excluded from the balance sheet, and the net change in such assets is charged or credited directly to unassigned surplus. Under GAAP, such assets would be recognized at the lower of cost or net realizable value.

H. Foreign Exchange

Foreign assets and liabilities stated in functional currencies are combined with domestic assets and liabilities stated in U.S. dollars. A translation adjustment for the excess or deficiency of the Company's foreign assets over its foreign liabilities is recognized as a net asset or liability. Under GAAP, the translation of functional currencies to U.S. dollars for assets and liabilities would be required prior to combination with domestic assets and liabilities.

I. Stockholder Dividends

The maximum amount of dividends that can be paid by State of Illinois insurance companies to shareholders without the prior approval of the Insurance Commissioner is subject to restrictions. The Company did not pay cash dividends in 2006 or 2005.

J. Policyholder Dividends

Subject to the provisions of law regarding return of excess premium, the Board of Directors may authorize such refunds or credit to policyholders upon such terms and conditions as may, in their judgment, be proper, just and equitable. There were no dividends declared that remained unpaid at December 31, 2006 or December 31, 2005.

K. Agent Termination Benefits

The Company provides termination benefits for its exclusive independent contractor agency force subject to service and age eligibility requirements as defined in agents' contracts. Liabilities are recorded based on the actuarial present value of benefits attributed to the agent according to the Company's termination payment formula at the time eligibility requirements are met. The calculation of the liability, and therefore the current year expense, is primarily affected by a change in the discount factor used to calculate the actuarial present value of benefits (5.76% in 2006 compared to 5.41% in 2005), the number of agents who become fully eligible for benefits during the year (272 in 2006 compared to 338 in 2005), and changes in agents' earnings which are affected by changes in premium levels (an increase of 7.2% in 2006 compared to an increase of 3.8% in 2005).

During 2005, State Farm performed an experience study on the demographic assumptions used to determine the liability. The study confirmed active agents are working to older ages, resulting in a change to the retirement decrement which now extends to age 85. This replaced the previous decrement which assumed agents would retire by age 75. This change in decrement resulted in a reduction of the liability in 2005. As of December 31, 2006 and December 31, 2005, the Company's agent termination benefits liability, excluding the effect of internal reinsurance, was $1,250,437,715 and $1,229,408,989, respectively.

The preceding discussion highlights the significant differences between statutory accounting practices followed by the Company and GAAP. The effect of these differences has not been determined, but is presumed to be material.

3. Correction of Errors

A. Deferred Ceded Reinsurance Commission

SAP 62, paragraph 51 requires establishing a liability for ceded reinsurance commissions in excess of anticipated acquisition costs of the business ceded and amortizing such amounts pro rata over the life of applicable reinsurance arrangements.

During 2005, the Company determined that its historical accounting for ceded commissions in excess of anticipated acquisition costs did not conform to the provisions of SAP 62, paragraph 51. Surplus at January 1, 2005 was overstated $5,136,325. The surplus overstatement was reported as an adjustment to unassigned surplus in 2005.

B. Advance Premiums and Uncollected Premiums Receivable

During 2006, the Company determined its historical accounting did not conform to the provisions of SAP 6 and 53 as some uncollected premium balances and advance premiums were recognized prior to policy effective date and collection of premiums, respectively. There was no change to net income or surplus as a result of these overstatements. 2005 uncollected premium receivable was reduced $447,323,056, receivable from affiliates was reduced $1,765,143, other assets were increased $13,566,998, advance premium was reduced $427,805,948, other liabilities were reduced $9,057,844, and payable to affiliates increased $1,342,591. 2006 assets and liabilities reflect appropriate balances.

4. Bonds and Other Debt Securities

The amortized cost and estimated market values of investments in debt securities, including short-term investments, were as follows (in thousands):

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Governments	$ 2,271,864	$ 86,495	$ (14,893)	$ 2,343,466
All Other Governments	404,917	7,706	(722)	411,901
States, Territories and Possessions (Direct and Guaranteed)	1,579,376	35,522	(5,031)	1,609,867
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	5,047,727	111,731	(5,712)	5,153,746
Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	4,315,478	61,572	(38,998)	4,338,052
Public Utilities (Unaffiliated)	522,271	4,309	(9,999)	516,581
Industrial & Miscellaneous (Unaffiliated)	3,194,804	33,181	(45,796)	3,182,189
Totals	$ 17,336,437	$ 340,516	$ (121,151)	$ 17,555,802

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Governments	$ 2,161,588	$ 121,120	$ (16,520)	$ 2,266,188
All Other Governments	351,083	10,418	(621)	360,880
States, Territories and Possessions (Direct and Guaranteed)	1,319,943	41,137	(4,807)	1,356,273
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	4,427,001	116,990	(8,908)	4,535,083
Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	3,613,003	52,836	(24,878)	3,640,961
Public Utilities (Unaffiliated)	467,994	7,033	(5,197)	469,830
Industrial & Miscellaneous (Unaffiliated)	2,834,795	61,927	(33,174)	2,863,548
Totals	$ 15,175,407	$ 411,461	$ (94,105)	$ 15,492,763

The amortized cost and estimated market value of debt securities by contractual maturity are shown below (in thousands). Expected maturity will differ from contractual maturity because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2006	
	Amortized Cost	Estimated Market Value
Due in one year or less	$ 653,602	$ 655,867
Due after one year through five years	3,129,468	3,127,344
Due after five years through ten years	5,313,480	5,410,855
Due after ten years	8,239,887	8,361,736
Totals	$ 17,336,437	$ 17,555,802

Gross proceeds and realized gains and losses on bonds sold, including other than temporary impairments, for the years ended December 31 consist of (in thousands):

	2006	2005
Proceeds	$ 1,214,838	$ 1,304,053
Gross gains	11,666	13,686
Gross losses	(21,880)	(24,151)

At December 31, 2006 and December 31, 2005, bonds carried at an amortized cost of $747,508,721 and $755,903,305, respectively, were on deposit with regulatory authorities.

5. Equity Investments

The cost and market value of investments in preferred and common stocks and gross unrealized gains and losses from those investments were as follows (in thousands):

	December 31, 2006			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Common	$ 996,293	$ 3,612,162	$ (9,262)	$ 4,599,193

	December 31, 2005			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Preferred	$ 382	$ 119	$ -	$ 501
Common	994,248	3,113,286	(19,546)	4,087,988

Gross realized gains and losses, including other than temporary impairments, for the years ended December 31 consist of (in thousands):

	2006		2005	
	Gains	**Losses**	**Gains**	**Losses**
Preferred	$ 86	$ -	$ 113	$ -
Common	117,308	(2,740)	8,426	(15,209)

On a quarterly basis, the Company evaluates its investment portfolio for other than temporary impairments. In evaluating whether a decline in value is other than temporary, management considers several factors including, but not limited to, the following:

- The Company's ability and intent to retain the security for a sufficient period of time for it to recover.
- The extent and duration of the decline in value.
- The probability of collecting all cash flows according to contractual terms in effect at acquisition or restructuring.
- Relevant industry conditions and trends.
- The financial condition and current and future business prospects of the issuer.

During 2006, the Company realized capital losses of $18.0 million on bonds and $1.1 million on common stocks due to other than temporary declines in the fair value. During 2005, the Company realized capital losses of $0.9 million on bonds and $13.6 million on common stocks due to other than temporary declines in the fair value.

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Notes to Financial Statements – Statutory Basis, Continued

The unrealized losses due to temporary declines in the fair value of bonds and unaffiliated common stocks were as follows (in thousands):

	December 31, 2006					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Governments	$ 266,381	$ (1,807)	$ 469,168	$ (13,086)	$ 735,549	$ (14,893)
All Other Governments	57,335	(125)	30,313	(597)	87,648	(722)
States, Territories and Possessions (Direct and Guaranteed)	222,664	(1,171)	83,735	(3,860)	306,399	(5,031)
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	599,388	(3,223)	154,917	(2,489)	754,305	(5,712)
Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	616,368	(4,908)	1,136,401	(34,090)	1,752,769	(38,998)
Public Utilities (Unaffiliated)	103,679	(1,194)	244,268	(8,805)	347,947	(9,999)
Industrial & Miscellaneous (Unaffiliated)	333,681	(3,444)	1,241,973	(42,352)	1,575,654	(45,796)
Subtotal, debt securities	$ 2,199,496	$ (15,872)	$ 3,360,775	$ (105,279)	$ 5,560,271	$ (121,151)
Common Unaffiliated Stock	12,442	(1,379)	37,712	(7,883)	50,154	(9,262)
Total temporarily impaired securities	$ 2,211,938	$ (17,251)	$ 3,398,487	$ (113,162)	$ 5,610,425	$ (130,413)

	December 31, 2005					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Governments	$ 716,836	$ (14,202)	$ 51,397	$ (2,318)	$ 768,233	$ (16,520)
All Other Governments	42,031	(352)	9,720	(269)	51,751	(621)
States, Territories and Possessions (Direct and Guaranteed)	234,497	(2,489)	46,469	(2,318)	280,966	(4,807)
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	935,512	(8,079)	32,272	(829)	967,784	(8,908)
Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	1,449,857	(20,003)	114,443	(4,875)	1,564,300	(24,878)
Public Utilities (Unaffiliated)	200,402	(3,431)	49,472	(1,766)	249,874	(5,197)
Industrial & Miscellaneous (Unaffiliated)	960,473	(18,986)	346,893	(14,188)	1,307,366	(33,174)
Subtotal, debt securities	$ 4,539,608	$ (67,542)	$ 650,666	$ (26,563)	$ 5,190,274	$ (94,105)
Common Unaffiliated Stock	60,480	(5,471)	42,674	(14,075)	103,154	(19,546)
Total temporarily impaired securities	$ 4,600,088	$ (73,013)	$ 693,340	$ (40,638)	$ 5,293,428	$ (113,651)

The unrealized losses on the Company's bond investments were caused primarily by interest rate increases. Of the $105.3 million in unrealized losses on bonds with losses outstanding for greater than 12 months, $87.1 million in losses are on bonds whose market value is greater than 95% of the book value and $104.3 million in losses are on bonds whose market value is greater than 90% of the book value of these securities. The contractual terms of the Company's bond investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2006.

The Company evaluates its common stock investments for impairment loss by calculating unrealized losses and performing analysis at at each quarter and annually. Of the $9.3 million in unrealized losses, $2.7 million are on common stocks whose market value is greater than 80% of book value and $5.7 million are on common stocks whose market value is greater than 70% of book value. Based upon the relative severity of the losses and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2006.

6. Net Investment Income

The components of net investment income earned, by type of investment, for the years ended December 31 were as follows (in thousands):

	2006	2005
Bonds	$ 808,164	$ 742,720
Preferred stocks	7	29
Common stocks	109,086	89,859
Cash, cash equivalents and short-term investments	27,477	14,987
Other invested assets	500	1,369
	945,234	848,964
Investment expenses	(16,727)	(18,778)
Net investment income	$ 928,507	$ 830,186

7. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practicable to estimate that value:

Bonds and Short-term Investments

Quoted market prices from third party organizations and prices published by the SVO of the NAIC are used to calculate fair value. Where no SVO published price or quoted market price is available, management's best estimate of fair value is used.

Preferred Stocks and Common Stocks

Quoted market prices from third party organizations and prices published by the SVO of the NAIC are used to calculate fair value. Where no SVO published price or quoted market price is available, management's best estimate of fair value is used.

Cash, Cash Equivalents and Uncollected Premiums

The carrying amount is a reasonable estimate of fair value.

Drafts Outstanding

The carrying amount is a reasonable estimate of fair value.

The estimated fair values and statement values of the Company's financial instruments at December 31 were as follows (in thousands):

	2006		2005	
	Fair Value	Statement Value	Fair Value	Statement Value
Financial assets:				
Bonds	$ 17,502,055	$ 17,282,681	$ 15,466,527	$ 15,149,168
Preferred stocks	-	-	501	455
Unaffiliated common stocks	4,599,193	4,599,193	4,087,988	4,087,988
Cash	(51,908)	(51,908)	(36,955)	(36,955)
Cash equivalents	6,144	6,144	324,988	324,988
Short-term investments	48,443	48,443	26,236	26,239
Uncollected premiums receivable	1,590,627	1,590,627	1,928,805	1,928,805
Financial liability:				
Drafts outstanding	464,825	464,825	1,391,764	1,391,764

8. Liability for Losses and Loss Adjustment Expenses

Activity in the liability for losses and loss adjustment expenses is summarized as follows (in thousands):

	2006	2005
Balance as of January 1, net of reinsurance recoverables of $3,253,693 and $1,521,944	$ 5,337,002	$ 4,712,254
Incurred related to:		
Current year	7,916,840	7,505,147
Prior years	27,918	(193,623)
Total incurred	7,944,758	7,311,524
Paid related to:		
Current year	5,030,722	4,678,684
Prior years	2,654,167	2,008,092
Total paid	7,684,889	6,686,776
Balance as of December 31, net of reinsurance recoverables of $2,214,425 and $3,253,693	$ 5,596,871	$ 5,337,002

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses (in thousands), net of reinsurance recoveries of $1,464,965 and $672,817 in 2006 and 2005, respectively, decreased $27,918 in 2006 and $193,623 in 2005. The increase in 2006 reflects an increase in prior year estimates largely due to additional development on prior year catastrophe losses with partially offsetting improvement in non-catastrophe property losses. The decrease in 2005 reflects improvement in prior year estimates due primarily to favorable developments in non-catastrophe property losses and loss adjustment expense. The changes are also impacted by collection of salvage and subrogation on prior year losses which is not anticipated in establishing loss reserves.

The Company sustained substantial losses from hurricanes Katrina and Rita which occurred in 2005. Direct incurred losses and loss adjustment expenses (in thousands) from the hurricanes were $71,125 in 2006 and $4,272,013 in 2005. Of these amounts, $2,222 and $3,056,860 is recoverable from reinsurers in 2006 and 2005 respectively as follows (in thousands):

	Direct Losses and Loss Adjustment Expenses* 2006	Assumed from Affiliates	Ceded to SFMAIC	Ceded to External Reinsurers*	Net Retained by Company
Katrina	$ 61,029	$ 1,774	$ (37,710)	$ 38,480	$ 62,033
Rita	10,096	(732)	1,004	448	7,912
Total	$ 71,125	$ 1,042	$ (36,706)	$ 38,928	$ 69,945

	Direct Losses and Loss Adjustment Expenses* 2005	Assumed from Affiliates	Ceded to SFMAIC	Ceded to External Reinsurers*	Net Retained by Company
Katrina	$ 3,738,846	$ 64,462	$ 2,837,379	$ 217,293	$ 748,636
Rita	533,167	35,094	838	1,350	566,073
Total	$ 4,272,013	$ 99,556	$ 2,838,217	$ 218,643	$ 1,314,709

*Excludes $(106,515) in 2006 and $5,173,255 in 2005 of Federal flood incurred losses (in thousands) which are entirely ceded to the National Flood Insurance Program (NFIP).

The company's net liability for losses and loss adjustment expenses (in thousands) related to the 2005 hurricanes was $63,029 and $301,736 in 2006 and 2005 respectively.

9. Reinsurance

The Company participates in reinsurance through contractual agreements. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risks reinsured. The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

A. Catastrophe Reinsurance

Excess of Loss

The Company renewed its catastrophe excess reinsurance contracts with SFMAIC and external reinsurers, which are effective from July 1 through June 30 of each year. Reinsurance is provided for non-automobile property lines written by the Company and its affiliate, SFGIC, in all states other than Texas, Florida, and California. The contracts provide for one reinstatement of the coverage limits per year.

For contracts prior to July 1, 2006, ceded premiums were equal to a percentage of net premiums earned by the Company on policies reinsured under the agreement, subject to a minimum premium. Estimated deposit premiums were paid on a quarterly basis, and adjusted to the specified percentage at the end of the contract term. The specific terms of the contracts are as follows (in thousands):

	Contract Year		
	2006-07	**2005-06**	**2004-05**
Company retention	$ 1,000,000	$ 750,000	$ 750,000
Contract limits per occurrence	3,000,000	3,250,000	2,250,000
Minimum premium *	N/A	136,862	100,224
Ceded premium % *	N/A	1.6468%	1.2699%
Deposit premium	431,020	171,078	12,528

* Beginning with the July 1, 2006 contract, ceded premium for most layers of the catastrophe excess of loss contract is a stated dollar amount. However, ceded premium for the portion of the contract shared between SFMAIC and external reinsurers continues to be equal to a percentage of net premium earned by the Company on policies reinsured under the agreement, subject to a minimum premium.

B. Catastrophe Reinsurance Ceded Amounts

The Company ceded premium, losses, and loss adjustment expenses under its current catastrophe excess of loss contract for the years ended December 31 as follows (in thousands):

	2006	**2005**
Ceded written premium	$ 303,312	$ 317,544
Reinstatement Premium	182	167,543
Ceded losses and loss adjustment expenses	(37,710)	3,037,379

C. Quota Share Reinsurance

1) SFMAIC

Subject to certain contractual exclusions, all automobile insurance directly written by the Company is ceded to SFMAIC. All underwriting and loss adjustment expenses are ceded by the Company. These expenses include those related to other postretirement benefits, agent termination benefits, leases and other related party transactions. The Company's expense for these items, as disclosed in Notes 2K, 11B, 11C, 12 and 13, is on a direct basis and includes the portion of the expense ceded to SFMAIC.

2) SFGIC

Subject to certain contractual exclusions, SFGIC cedes all non-California non-automobile insurance written or assumed to the Company. All underwriting and loss adjustment expenses are assumed by the Company. These expenses include those related to other postretirement benefits, agent termination benefits, leases and other related party transactions. The Company's expense for these items, as disclosed in Notes 2K, 11A, 11B, 11C, 12 and 13, is on a direct basis and excludes the portion of the expense assumed from SFGIC.

3) State Farm County Mutual Insurance Company of Texas (TCM)

Subject to certain contractual exclusions, the Company assumes all inland marine, fire and allied lines insurance written by TCM. All underwriting and loss adjustment expenses are assumed by the Company. These expenses include those related to other postretirement benefits, agent termination benefits, leases and other related party transactions. The Company's expense for these items, as disclosed in Notes 2K, 11A, 11B, 11C, 12 and 13, is on a direct basis and excludes the portion of the expense assumed from TCM.

D. Excess of Loss

The Company reinsures the Personal Liability Umbrella Policies (PLUP) and Commercial Liability Umbrella Policies (CLUP) of SFGIC and SFFIC up to $5 million excess of $5 million.

E. Pools and Associations

The Company participates in several pools, associations and similar underwriting facilities. This participation generally includes the assumption or cession of property and liability insurance risks. These assumptions and cessions are accounted for as reinsurance. The amounts included in and deducted from assets, liabilities, premiums and losses for this participation in 2006 and 2005 were as follows (in thousands):

	Assumed		**Ceded**	
	2006	**2005**	**2006**	**2005**
For the years ended December 31:				
Premiums earned	$ 35,700	$ 31,868	$ 356,655	$ 312,881
Losses and loss adjustment expenses incurred	21,365	31,558	(12,585)	5,570,519
Reinsurance commissions	18,723	19,111	109,124	102,270
At December 31:				
Reinsurance balances receivable	(8)	5	20,928	536,571
Reinsurance balances payable	3	1	(3,477)	(4,447)
Losses and loss adjustment expense reserves	62,796	65,712	614,389	903,046
Unearned premiums	16,230	10,591	177,286	154,012

F. Reinsurance Summary

The amounts included in and deducted from assets, liabilities, premiums and losses for all reinsurance agreements were as follows (in thousands):

	Ceded to Affiliates		Ceded to Non Affiliates		Total Ceded	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
For the years ended December 31:						
Premiums earned	$ 2,347,584	$ 2,358,281	$ 536,472	$ 481,548	$ 2,884,056	$ 2,839,829
Losses and loss adjustment expenses incurred	1,589,250	4,537,113	59,802	5,849,651	1,649,052	10,386,764
Reinsurance commissions	470,833	440,878	157,656	146,209	628,489	587,087
At December 31:						
Reinsurance balances receivable	120,641	468,089	21,320	669,458	141,961	1,137,547
Reinsurance balances payable	(93,276)	(48,002)	5,912	30,862	(87,364)	(17,140)
Losses and loss adjustment expenses	1,556,091	2,220,986	658,334	1,032,707	2,214,425	3,253,693
Unearned premiums	525,297	532,435	255,670	223,525	780,967	755,960

	Assumed from Affiliates		Assumed from Non Affiliates		Total Assumed	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
For the years ended December 31:						
Premiums earned	$ 55,644	$ 55,134	$ 35,700	$ 31,868	$ 91,344	$ 87,002
Losses and loss adjustment expenses incurred	31,302	107,852	23,713	32,690	55,015	140,542
Reinsurance commissions	17,320	16,327	18,723	19,111	36,043	35,438
At December 31:						
Reinsurance balances receivable	4,220	6,141	(8)	5	4,212	6,146
Reinsurance balances payable	2,722	15,708	3	33	2,725	15,741
Losses and loss adjustment expense reserves	35,444	68,573	148,701	151,821	184,145	220,394
Unearned premiums	28,007	27,090	16,230	10,591	44,237	37,681

The Company had unsecured reinsurance recoverables at December 31 as presented below (in thousands):

	2006	**2005**
SFMAIC	$ 2,036	$ 3,074

G. Reinsurance Assumed and Ceded

The maximum amount of return commission which would have been due reinsurers if all reinsurance were canceled with the return of the direct unearned premium reserve of $6,885,815,006 and $6,610,854,843 as of December 31, 2006 and December 31, 2005, respectively, is as follows (in thousands):

	December 31, 2006					
	Assumed		Ceded		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Affiliates	$ 28,007	$ 12,882	$ 525,297	$ 179,768	$ (497,290)	$ (166,886)
All Other	16,230	7,362	255,670	80,378	(239,440)	(73,016)
TOTAL	$ 44,237	$ 20,244	$ 780,967	$ 260,146	$ (736,730)	$ (239,902)

	December 31, 2005					
	Assumed		Ceded		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Affiliates	$ 27,090	$ 13,155	$ 532,435	$ 157,050	$ (505,345)	$ (143,895)
All Other	10,591	5,213	223,525	70,800	(212,934)	(65,587)
TOTAL	$ 37,681	$ 18,368	$ 755,960	$ 227,850	$ (718,279)	$ (209,482)

10. Federal Income Taxes

The components of the net deferred tax asset/liability at December 31 are as follows (in thousands):

	2006	2005
Total deferred tax assets (admitted and non-admitted)	$ 1,427,993	$ 1,407,584
Total deferred tax liabilities	(1,289,883)	(1,110,674)
Net deferred tax assets	138,110	296,910
Total deferred tax assets non-admitted in accordance with SAP 10	-	-
Admitted deferred tax assets	$ 138,110	$ 296,910
Decrease in non-admitted deferred tax assets	-	-

There were no unrecognized deferred tax liabilities.

The components of current income taxes incurred are as follows (in thousands):

	2006	2005
Current federal income tax expense	$ 359,289	$ 312,645
Foreign taxes incurred	436	384
Adjustment to prior year incurred taxes	(9,986)	11,005
Combined income taxes incurred	349,739	324,034
(Tax) benefit on capital (gains) losses	(37,367)	7,420
Current income taxes incurred	$ 312,372	$ 331,454

The main components of the deferred tax amounts are as follows (in thousands):

	2006	2005	Change
DTAs			
Invested assets	$ 33,828	$ 36,176	$ (2,348)
Employee benefits	244,258	214,051	30,207
Agent benefits	424,042	448,701	(24,659)
Fixed assets	125	208	(83)
Insurance liabilities	705,004	672,009	32,995
Non-admitted assets	12,127	10,862	1,265
AMT credits	-	18,098	(18,098)
Other	8,609	7,479	1,130
Total DTAs	$ 1,427,993	$ 1,407,584	$ 20,409
DTAs non-admitted	$ -	$ -	$ -
DTLs			
Invested assets	$ 1,269,481	$ 1,085,647	$ 183,834
Other	20,402	25,027	(4,625)
Total DTLs	$ 1,289,883	$ 1,110,674	$ 179,209

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of nonadmitted assets as the Change in Nonadmitted Assets is reported separately from the Change in Net Deferred Income Tax in the surplus section of these financial statements) (in thousands):

	2006	2005	Change
Total deferred tax assets	$ 1,427,993	$ 1,407,584	$ 20,409
Total deferred tax liabilities	(1,289,883)	(1,110,674)	(179,209)
Net deferred tax assets	$ 138,110	$ 296,910	$ (158,800)
Tax effect of unrealized gains			178,192
Change in net deferred income tax			$ 19,392

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before taxes. The significant items causing this difference are as follows (in thousands):

	2006	Tax Effect at 35%	Effective Tax Rate
Income after capital gains tax	$1,251,847		
Capital gains tax	37,367		
Income before taxes	$1,289,214	$ 451,225	35.00%
Tax exempt interest, net of proration	(303,458)	(106,210)	-8.24%
Dividends received deduction, net of proration	(57,270)	(20,045)	-1.55%
Tax interest expense	(7,440)	(2,604)	-0.20%
Prior year underaccrual	34,460	12,061	0.94%
Prior year adjustments	(10,556)	(3,695)	-0.29%
Separate company nondeductible capital loss	(21,157)	(7,405)	-0.57%
Consolidated tax adjustments	19,960	6,986	0.54%
Non-admitted assets	(3,614)	(1,265)	-0.10%
Foreign taxes	1,242	435	0.03%
Other adjustments	2,468	864	0.07%
Total	$ 943,849	$ 330,347	25.63%
Federal and foreign income tax incurred		$ 312,372	24.23%
Capital losses tax benefit		37,367	2.90%
Change in net deferred income tax		(19,392)	-1.50%
Total statutory income taxes		$ 330,347	25.63%

As of December 31, 2006 and December 31, 2005, the Company had no net operating loss carryforwards.

The following are income taxes incurred in the current and prior years, which will be available for recoupment in the event of future net losses (in thousands). Prior year amounts have been updated to reflect information filed with the Internal Revenue Service:

2006	$ 359,289
2005	308,094
2004	35,365

The Company's total estimated alternative minimum tax credit available after 2006 and 2005 for years in which the company is a regular taxpayer is $0 and $18,097,880, respectively. All remaining AMT credits available at December 31, 2005 were used during 2006.

SFMAIC and its affiliated companies file a consolidated federal income tax return. The Company has filed a petition in the U.S. Tax Court relating to the 1996, 1997, 1998 and 1999 returns. The Company has filed administrative appeals for the 2000, 2001 and 2002 returns and they are currently pended. Returns for 2003 and 2004 are currently under examination. The tax effect of the issues to which the Internal Revenue Service and State Farm have agreed are properly accrued in the financial statements. At this time, there have been no other issues raised that would require adjustments which would have a material effect on surplus. The provision for federal income taxes is based on the Internal Revenue Code of 1986, as amended. Change in prior year tax liability may result in reallocation of prior year tax.

11. Benefit Plans

A. Defined Benefit Plans

The Company is a wholly-owned subsidiary of SFMAIC, which sponsors two qualified defined benefit pension plans (one in the U.S. and one in Canada) covering substantially all the Company's employees. The Company has no legal obligation for benefits under these plans. No pension cost was allocated in 2006 or 2005 as the total net periodic cost was $0 in 2006 and 2005.

SFMAIC also sponsors several non-qualified defined benefit pension plans (in both the U.S. and Canada) covering selected eligible highly compensated employees. Any benefits arising from these plans are paid from SFMAIC's general assets. The Company has no legal obligation for benefits under these plans. SFMAIC allocates amounts to the Company based on cost sharing arrangements.. The Company's share of net expense for these non-qualified plans, excluding the effect of internal reinsurance, was $15,747,186 and $11,851,668 for 2006 and 2005, respectively.

B. Defined Contribution Plans

The Company has unfunded deferred compensation plans for certain highly compensated employees and independent contractor agents. As of December 31, 2006 and December 31, 2005, the Company's deferred compensation liability was $27,120,513 and $25,830,177, respectively.

The Company participates with its affiliates in a qualified defined contribution plan for which substantially all employees are eligible. Benefits provided by the plan are paid from net assets available for plan benefits. The Company's contribution to the plan, excluding the effect of internal reinsurance, was $17,973,900 and $17,897,800 for 2006 and 2005, respectively. At December 31, 2006 and December 31, 2005, the fair value of plan assets held in trust was $6,331,575,771 and $5,526,545,595, respectively.

C. Other Postretirement Benefits

The Company and its affiliated insurers currently provide certain health care and life insurance benefits pursuant to plans sponsored by its parent, SFMAIC. Eligible former employees, eligible former agents, and their eligible dependents currently may participate in these plans.

As a result of the policy promulgated by the NAIC concerning the treatment of certain postretirement benefits, beginning in 1993, the Company changed its method of accounting for the costs of the potential health care and life insurance benefits provided to post-career associates to the accrual method, and elected to amortize its transition obligation attributable to these potential benefits over twenty years. The Company's share of the remaining transition obligation for these potential benefits, excluding the effect of internal reinsurance, was $86,014,280 and $101,834,787 at December 31, 2006 and December 31, 2005, respectively.

The Company began accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) on a prospective basis effective January 1, 2005. The effects of the Act on the U.S. Employee and Agent Plans were included in the post-career net periodic benefit cost and unfunded post-career benefit obligation described in the paragraphs immediately following.

The Company's share of the post-career net periodic benefit cost for the years ended December 31, 2006 and December 31, 2005 , excluding the effect of internal reinsurance, was $159,996,978 and $146,514,177, respectively.

At December 31, 2006 and December 31, 2005, the Company's share of the unfunded post-career benefit obligation attributable to the potential health care and life insurance benefits for post-career associates, excluding the effect of internal reinsurance, was $1,053,809,961 and $935,949,152, respectively.

12. Leases

The Company incurs lease cost for real estate, vehicles, computer equipment and other equipment primarily through the allocation of expenses from SFMAIC.

Rental expense for leased real estate for 2006 and 2005 was $53,149,331 and $55,217,300, respectively. Rental expense for leased vehicles, computer and other equipment for 2006 and 2005 was $31,577,621 and $30,373,082, respectively. These amounts exclude the effect of internal reinsurance.

At January 1, 2007, the minimum rental commitments are immaterial.

13. Other Related Party Transactions

The State Farm Liquidity Pool, LLC was created in 2001 as a means to more effectively manage cash equivalents. SFMAIC, the Company, SFGIC, SFLIC, SFIC, Guaranty, SFLAAC, SFALIC, SFL, SFFIC and TCM are active participants in the pool, however, Guaranty was not an active participant. The participants carry their interest in the pool at its underlying audited GAAP equity. The Company's interest in the pool is reported as a cash equivalent.

The Company reported $15,151,871 and $31,863,283 as a receivable due from affiliates and $211,442,494 and $310,050,445 as a payable due to affiliates at December 31, 2006 and December 31, 2005, respectively. These balances primarily represent the sharing of certain administrative, occupancy and marketing expenses, which are allocated between State Farm affiliates based on surveys and usage studies. The terms of settlement require that these amounts are settled within sixty (60) days. Expense reimbursements from affiliates that are included as an offset to the related expenses in the accompanying statements of income at December 31, 2006 and December 31, 2005 were $274,240,033 and $262,620,905, respectively. Such expenses allocated to the Company were $1,869,205,060 and $1,977,274,667 as of December 31, 2006 and December 31, 2005, respectively. These amounts exclude the effect of internal reinsurance.

SFMAIC, SFIC, TCM, the Company, SFGIC, SFL, SFFIC, SFLIC, SFLAAC, and SFIS are parties to individual but identical trainee agents' compensation cost allocation agreements, whereby services are rendered by trainee agents who are employees of and recruited, trained, and supervised by either SFMAIC or SFIC.

The Company and State Farm Lloyds, Inc. are parties to a servicing agreement, whereby the Company may provide certain services and facilities to State Farm Lloyds, Inc. as Attorney-in-Fact for SFL.

The Company and TCM are parties to a servicing agreement whereby the Company may provide certain services and facilities to TCM.

SFFIC, the Company, SFMAIC, and SFGIC are parties to a servicing agreement, whereby SFFIC may provide certain services and facilities to the Company, SFMAIC, and SFGIC.

The Company and SFGIC are parties to a servicing agreement, whereby the Company may provide certain services and facilities to SFGIC.

The Company and SFFIC are parties to a servicing agreement, whereby the Company may provide certain services and facilities to SFFIC.

SFMAIC, the Company, SFLIC, SFLAAC, IPSI, SFIS, and SFISCHC are parties to a servicing agreement whereby SFMAIC may provide certain services and facilities to the Company, SFLIC, SFLAAC, IPSI, SFIS, and SFISCHC.

During 2006, SFMAIC established a revocable line of credit agreement (Agreement) for the current use of the Company pursuant to which, in the sole and absolute discretion of SFMAIC, the Company may borrow from SFMAIC up to the aggregate principal amount outstanding at any one time of $1,000,000,000. SFMAIC may decline any advance under this Agreement at any time, without notice and without having made demand for payment of any amounts outstanding. Similarly, the Company shall not be obligated to borrow under this Agreement at any time or for any reason. The entry into this Agreement by SFMAIC was reviewed and accepted by the Illinois Division of Insurance pursuant to Section 131.20a(1)(a) of the Illinois Insurance Code. As of December 31, 2006, the Company has not drawn upon this line of credit.

14. Other Assessments

At December 31, 2006 and December 31, 2005, a liability of $14,061,677 and $13,779,049 was recorded for various state mandated assessments and a liability of $37,897,146 and $37,650,465 was recorded for guaranty fund assessments, respectively. At December 31, 2006 and December 31, 2005, an asset of $43,610,068 and $48,713,798 for premium tax offsets was recorded based on guaranty fund assessments and an asset of $4,665,053 and $5,462,756 was recorded for recoupable guaranty fund assessments, respectively. These guaranty fund liabilities and assets for premium tax offsets include estimates for the Reliance Insurance Company insolvency. At December 31, 2006 and December 31, 2005, a guaranty fund liability of $12,017,684 and $11,999,983 with a corresponding asset for premium tax offsets of $7,552,217 and $7,562,699 was recorded for Reliance Insurance Company, respectively.

State mandated assessments are generally paid during the following calendar year. Guaranty fund assessments are paid when called by the state guaranty fund associations, generally within a one to three year period. Premium tax offset assets for guaranty fund payments are realized within five years of the payment of the guaranty fund assessment in most states.

The Louisiana Citizens Property Insurance Corporation levied a regular assessment as a result of Hurricane Katrina. The assessment of $33,610,881 was paid in 2005. The assessment is recoupable from policyholders, and therefore does not impact the Company’s income or surplus.

15. Contingencies

The Company has purchased annuities to settle claims of which the claimant is payee. The aggregate amortized value of these annuities is $448,262,314 and $451,859,226 at December 31, 2006 and December 31, 2005, respectively. The amortized value of annuities purchased from SFLIC is $255,579,195 and $254,465,703 at December 31, 2006 and December 31, 2005, respectively. Should the seller of the annuities fail to perform, the Company would remain contingently liable.

In Woullard v. State Farm Fire and Casualty Company, a preliminary class action settlement was presented to the United States District Court which would require the Company, upon class member's requests, to re-examine claims of policyholders residing in the Mississippi counties of Jackson, Harrison and Hancock impacted by Hurricane Katrina during 2005. The United States District Court denied preliminary approval but did so without prejudice. A hearing is scheduled for February 28, 2007 to clarify the terms of this proposed settlement. It is management's intent to work toward a settlement as proposed to the court; however, the Company's ability to negotiate a settlement that will be approved by the court cannot be determined. Operating results have not been reduced nor has a liability been established due to the uncertainty of the ultimate outcome of this settlement.

In Broussard v. State Farm Fire and Casualty Company, the United States District Court awarded plaintiffs $223,272 damages and $2,500,000 punitive damages on January 11, 2007. On January 31, 2007, the punitive damages award was reduced to $1,000,000 by the U.S. District Court Judge. The issues in this lawsuit involve insurance policy provisions and burden of proof issues related to water damage from storm surge resulting from Hurricane Katrina in Mississippi during 2005.

Management believes the court in this lawsuit misapplied Mississippi law and intends to vigorously defend through the appeals process. The impact of this ruling on other claims resulting from Hurricane Katrina is undeterminable but could be significant if the Broussard rulings are not modified or reversed. Operating results have not been reduced nor has a liability been established due to the uncertainty of the ultimate outcome of this lawsuit.

16. Asbestos and Environmental Reserves

The Company has exposure to asbestos and environmental claims. These exposures arise 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. However, for direct business, due to various policy exclusions and the kinds of business insured, these exposures have not and are not expected to generate a material number or amount of losses. Due to the limited number and amount of such claims, they were not identified separately in the Company's statistical records for its direct business and business assumed from affiliates prior to 1996. The Company establishes loss and loss adjustment expense reserves for these claims in the same manner as for other multiple peril and general liability exposures; however, bulk reserves are not identified separately.

The Company has limited participation in inactive voluntary reinsurance pools that have generated some claim activity. These claims are paid and case reserved as reported to the Company by the pool. Additional reserves for unreported losses are established based upon historical average annual payments for an expected number of future years. Known loss and loss adjustment expense related to asbestos and environmental claims resulting from the Company's participation in these voluntary pools and from direct business for the most recent two calendar years are reported as follows:

Environmental

Gross of Reinsurance	**2006**	**2005**
Beginning reserves	$ 23,646,936	$ 23,412,522
Incurred losses and loss adjustment expenses	12,373,028	14,500,856
Calendar year payments for loss and loss adjustment expenses	16,519,579	14,266,442
Ending reserves	$ 19,500,385	$ 23,646,936

Net of Reinsurance		
Beginning reserves	$ 23,646,936	$ 23,407,522
Incurred losses and loss adjustment expenses	12,372,477	14,505,518
Calendar year payments for loss and loss adjustment expenses	16,519,027	14,266,104
Ending reserves	$ 19,500,386	$ 23,646,936

Asbestos

Gross of Reinsurance	**2006**	**2005**
Beginning reserves	$ 27,251,306	$ 23,690,639
Incurred losses and loss adjustment expenses	(550,293)	4,899,454
Calendar year payments for loss and loss adjustment expenses	1,225,667	1,338,787
Ending reserves	$ 25,475,346	$ 27,251,306

Net of Reinsurance		
Beginning reserves	$ 27,251,306	$ 23,690,639
Incurred losses and loss adjustment expenses	(558,076)	4,898,706
Calendar year payments for loss and loss adjustment expenses	1,217,883	1,338,039
Ending reserves	$ 25,475,347	$ 27,251,306

17. Subsequent Event

In January and February 2007, the Company concluded settlement of certain disputed claims related to Hurricane Katrina (2005) in the state of Mississippi. 2006 operating results include the impact of these confidential settlements.

SUPPLEMENTAL FINANCIAL INFORMATION

PricewaterhouseCoopers

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Report of Independent Auditors on Supplemental Financial Information

To the Board of Directors of
State Farm Fire and Casualty Company

The report on our audit of the basic statutory basis financial statements (the "financial statements") of State Farm Fire and Casualty Company (the "Company") as of December 31, 2006 and for the year then ended is presented on page one of this document. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the accompanying index of the Company as of December 31, 2006 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The effects on the supplemental schedules listed in the accompanying index of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules listed in the accompanying index do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2006 and for the year then ended. The supplemental schedules listed in the accompanying index have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 16, 2007

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Index to Supplemental Schedules

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Summary Investment Schedule
December 31, 2006

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	**Percentage**	**Amount**	**Percentage**
1. Bonds:				
1.1 U.S. treasury securities	1,872,501,128	8.518	1,872,501,128	8.518
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	210,904,145	0.959	210,904,145	0.959
1.22 Issued by U.S. government sponsored agencies	161,126,860	0.733	161,126,860	0.733
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	663,984,050	3.020	663,984,050	3.020
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories, and possessions and general obligations	1,411,004,792	6.419	1,411,004,792	6.419
1.42 Political subdivisions of states, territories and possessions and political subdivision general obligations	4,907,366,120	22.323	4,907,366,120	22.323
1.43 Revenue and assessment obligations	2,634,666,894	11.985	2,634,666,894	11.985
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	2,699,666	0.012	2,699,666	0.012
1.512 Issued or guaranteed by FNMA and FHLMC	13,482,819	0.061	13,482,819	0.061
1.513 All other	22,691,188	0.103	22,691,188	0.103
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	1,667,328,729	7.585	1,667,328,729	7.585
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other				
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	3,260,802,199	14.833	3,260,802,199	14.833
2.2 Unaffiliated foreign securities	454,122,670	2.066	454,122,670	2.066
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	25,942,207	0.118	25,942,207	0.118
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	4,572,583,256	20.801	4,572,583,256	20.801
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated	667,525	0.003	667,525	0.003
3.5 Other equity interests including tangible personal property under leases:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company				
5.2 Property held for production of income (including $________ of property acquired in satisfaction of debt)				
5.3 Property held for sale (including $________ property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities	98,474,745	0.448	98,474,745	0.448
8. Cash, cash equivalents and short-term investments	2,679,350	0.012	2,679,350	0.012
9. Other invested assets				
10. Total invested assets	21,983,028,343	100.000	21,983,028,343	100.000

See the Report of Independent Auditors on Supplemental Financial Information

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Investment Risk Interrogatories
December 31, 2006

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 24,413,590,236

2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	WELLS FARGO & CO	Bonds, Common Stock	$ 309,664,949	1.3 %
2.02	CANADA GOVERNMENT OF	Bonds	$ 276,561,368	1.1 %
2.03	M&T BANK CORP	Common Stock	$ 244,675,119	1.0 %
2.04	IBM CORP	Bonds, Common Stock	$ 243,784,919	1.0 %
2.05	JOHNSON & JOHNSON	Bonds, Common Stock	$ 233,657,712	1.0 %
2.06	PFIZER INC	Bonds, Common Stock	$ 225,306,188	0.9 %
2.07	EXXON MOBIL CORP	Common Stock	$ 199,019,834	0.8 %
2.08	HEWLETT-PACKARD CO	Common Stock	$ 192,738,225	0.8 %
2.09	ABBOTT LABS INC	Bonds, Common Stock	$ 179,340,060	0.7 %
2.10	AT&T INC	Common Stock	$ 173,351,536	0.7 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$ 16,901,070,538	69.2 %	3.07	P/RP-1	$ 0	0.0 %
3.02	NAIC-2	$ 351,065,462	1.4 %	3.08	P/RP-2	$ 0	0.0 %
3.03	NAIC-3	$ 37,418,542	0.2 %	3.09	P/RP-3	$ 0	0.0 %
3.04	NAIC-4	$ 46,707,965	0.2 %	3.10	P/RP-4	$ 0	0.0 %
3.05	NAIC-5	$ 174,126	0.0 %	3.11	P/RP-5	$ 0	0.0 %
3.06	NAIC-6	$ 0	0.0 %	3.12	P/RP-6	$ 0	0.0 %

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [X]	No [ ]
4.02	Total admitted assets held in foreign investments	$ 574,723,922	2.4 %
4.03	Foreign-currency-denominated investments	$ 0	0.0 %
4.04	Insurance liabilities denominated in that same foreign currency	$ 0	0.0 %

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10

See the Report of Independent Auditors on Supplemental Financial Information

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Investment Risk Interrogatories, Continued
December 31, 2006

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

6. Two largest foreign investment exposures to a single country, categorized by NAIC sovereign rating:

7. Aggregate unhedged foreign currency exposure

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure.

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]
If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

		1	2
11.02 Total admitted assets held in Canadian Investments	$	869,741,625	3.6 %
11.03 Canadian-currency-denominated investments	$	721,376,088	3.0 %
11.04 Canadian-denominated insurance liabilities	$	504,210,000	2.1 %
11.05 Unhedged Canadian currency exposure	$	721,376,088	3.0 %

12. Report aggregate amounts and percentages of reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:
    13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]
    If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13

	1 Name of Issuer		2	3
13.02	WELLS FARGO & CO	$	293,682,359	1.2 %
13.03	M&T BANK CORP	$	244,675,119	1.0 %
13.04	JOHNSON & JOHNSON	$	219,867,330	0.9 %
13.05	IBM CORP	$	199,850,568	0.8 %
13.06	EXXON MOBIL CORP	$	199,019,834	0.8 %
13.07	HEWLETT-PACKARD CO	$	192,738,225	0.8 %
13.08	PFIZER INC	$	189,350,005	0.8 %
13.09	AT&T INC	$	173,351,536	0.7 %
13.10	BAXTER INTL INC	$	160,606,030	0.7 %
13.11	NUCOR CORPORATION	$	153,619,744	0.6 %

14 Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
    14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
    15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
    16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

17 Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:
    18.01 Are assets held in real estate less than 2.5% of the reporting entity's admitted assets? Yes [X] No [ ]
    If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

See the Report of Independent Auditors on Supplemental Financial Information

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Investment Risk Interrogatories, Continued
December 31, 2006

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:
    19.01 Are assets held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-End		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
20.01	Securities lending	$ 0	0.0 %	$ 0	$ 0	$ 0
20.02	Repurchase agreements	$ 0	0.0 %	$ 0	$ 0	$ 0
20.03	Reverse repurchase agreements	$ 0	0.0 %	$ 0	$ 0	$ 0
20.04	Dollar repurchase agreements	$ 0	0.0 %	$ 0	$ 0	$ 0
20.05	Dollar reverse repurchase agreements	$ 0	0.0 %	$ 0	$ 0	$ 0

21 Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	$ 0	0.0 %	$ 0	0.0 %
21.02	Income generation	$ 0	0.0 %	$ 0	0.0 %
21.03	Other	$ 0	0.0 %	$ 0	0.0 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

		At Year-End		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
22.01	Hedging	$ 0	0.0 %	$ 0	$ 0	$ 0
22.02	Income generation	$ 0	0.0 %	$ 0	$ 0	$ 0
22.03	Replications	$ 0	0.0 %	$ 0	$ 0	$ 0
22.04	Other	$ 0	0.0 %	$ 0	$ 0	$ 0

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

		At Year-End		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
23.01	Hedging	$ 0	0.0 %	$ 0	$ 0	$ 0
23.02	Income generation	$ 0	0.0 %	$ 0	$ 0	$ 0
23.03	Replications	$ 0	0.0 %	$ 0	$ 0	$ 0
23.04	Other	$ 0	0.0 %	$ 0	$ 0	$ 0

State Farm Fire and Casualty Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Schedule of Reinsurance Disclosures
December 31, 2006

1. Disclose if any risks are reinsured under a quota share reinsurance contract with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Disclosures are limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1994.

   Yes [X] No [ ]

   If yes, indicate the number of reinsurance contracts containing such provisions:

   Two contracts

   If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?

   Yes [ ] No [X]

2. Disclose if the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features that would have similar results:

   a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

   b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

   c. Aggregate stop loss reinsurance coverage;

   d. An unconditional or unilateral right by either party to commute the reinsurance contract, except for such provisions which are only triggered by a decline in the credit status of the other party;

   e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

   f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

   Yes [ ] No [X]

3. Disclose if the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:

   a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

   b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.

   Yes [ ] No [X]

4. If affirmative disclosure is required for items 2 or 3 above (paragraphs 74 or 75 of SSAP 62), provide the following information:

   a. A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting items 2 or 3;

   b. A brief discussion of management's principal objectives in entering into the reinsurance contract including the economic purposes to be achieved; and

   c. The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income.

   Not applicable.

5. Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62 - Property and Casualty Reinsurance, disclose if the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

   a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

   b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

   Yes [ ] No [X]

6. If affirmative disclosure is required for item 5 (paragraph 77 of SSAP 62), explain in a supplemental filing why the contract(s) is treated differently for GAAP and SAP.

   Not Applicable.