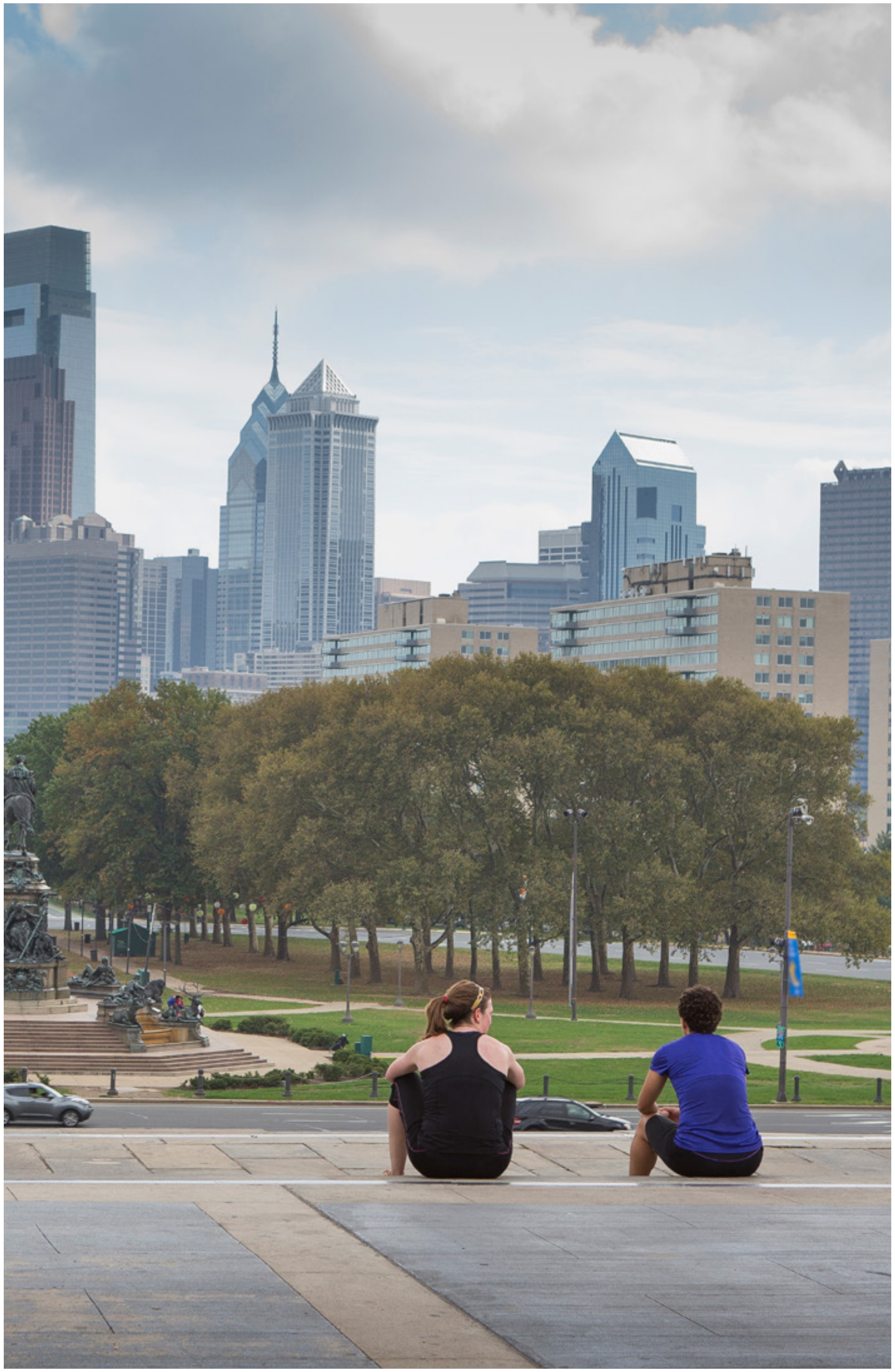
2021 Task Force on Climate-Related Financial Disclosures Report

10.31.2022

State Farm®

Contents



Intro

The State Farm® mission is to help people manage the risks of everyday life, recover from the unexpected, and realize their dreams. A changing climate introduces more risk and uncertainty into the lives of our policyholders, particularly regarding the frequency, severity and location of catastrophic weather events. State Farm Mutual Automobile Insurance Company ("State Farm")[1] believes our primary role is to be there for our customers as they face these risks by maintaining the financial strength necessary to help them recover. We undertake actions to help mitigate the impact of climate change, including efforts to promote safer, stronger and more sustainable communities. We are committed to reducing our impact on the environment and addressing climate change through efforts to lessen our carbon footprint, reduce waste and improve energy efficiency.

This report, which is our first in alignment with the Task Force on Climate-Related Financial Disclosures, offers more information about how we govern, evaluate and pursue these efforts on behalf of our policyholders. It also helps us identify areas where we can continue to improve or that require further study. State Farm is steadfast in our commitment to understanding and assessing the risks associated with climate change and the impact to our policyholders.

In 2022, State Farm released our second annual Environmental, Social & Governance (ESG) Report. Our ESG motto is "Good Neighbors. Better World." We know that a better world tomorrow starts with a strong neighborhood today:

- **Environmental** – Committing to actions that promote a more sustainable environment, starting inside our walls and in our neighborhoods.
- **Social** – Our focus is on building safer, stronger, better-educated communities and fostering diversity and inclusion both inside and outside State Farm.
- **Governance** – Fostering a culture of ethics, integrity and accountability to ensure we deliver on our promises to customers, agents, employees and communities.

This TCFD disclosure supplements the annual ESG Report. While much of the work in the organization related to the risks associated with climate change falls within the Environmental pillar of our ESG strategy, the three components of ESG are all interrelated and we are continuing to mature our coordination of ESG strategy and initiatives throughout the entire organization.

A key theme of our ESG Strategy is "Building Resilient Futures." State Farm is committed to advancing climate resilience and encouraging environmental stewardship among the communities we serve by being a steward of a sustainable society, supporting the hardening of communities, and offering relevant product options and solutions.

We began offering auto insurance 100 years ago. Through many significant weather events and major disasters in those 100 years, we have always maintained our promise to our policyholders. We stand ready to continue helping people manage the risks of everyday life, recover from the unexpected, and realize their dreams. With one of the largest catastrophe response teams in the industry, State Farm is confident in our ability to respond to even the most devastating weather events. We are committed to better understanding rising global temperatures and the potential impact on weather patterns. State Farm continues to invest in the most current tools and techniques available to model weather events to be able to better match price to risk and underwrite insurance for millions of American homeowners and businesses.

We are concentrating the bulk of our efforts on property insurance exposures, which is where our policyholders are experiencing the most substantial current risk related to climate change. We are focused on building codes, general awareness of loss mitigation measures and resiliency issues. Buildings constructed under newer building codes requiring stronger mitigation measures have been shown to sustain less damage from severe events such as hurricanes and earthquakes.

Throughout our work, State Farm is committed to operating in a manner where environmental values are promoted and key to the way we serve our policyholders.

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[1]State Farm Mutual Automobile Insurance Company is a mutual insurance company domiciled in Illinois and is the controlling entity of the State Farm holding company system which includes its affiliates and subsidiaries. Each legal entity within the holding company system has its own system of corporate governance. However, overall corporate governance practices, risk management, financial operations and reputational risk are overseen and coordinated at the holding company level. Therefore, this Disclosure will focus primarily on governance with respect to climate-related financial risk at the holding company level. References to the Board of Directors refer to the Board of Directors of State Farm Mutual Automobile Insurance Company, except as otherwise noted. GAINSCO, Inc. and its subsidiaries ("GAINSCO") are part of the State Farm holding company system; however, its activities with respect to climate risk are not included in the scope of this report.

Governance

Board Governance of Risks Associated with Climate Change[2]

The Board of Directors of State Farm has the responsibility for establishing strategic direction and overseeing the material risks of the enterprise, including understanding the frameworks that are in place for managing them, and providing insight on material emerging risks. For State Farm, climate change can impact the entire organization and influence different types of risk. Risk, including the impact from climate change, is overseen by the full Board of Directors as part of their risk oversight responsibilities. Risks associated with climate change are also an input to the Board's holistic review of the Company strategy, and the Board helps address how climate change issues may impact and shape this strategy. The Board closely monitors the pricing and underwriting performance, along with catastrophe exposure and other loss experience, on a quarterly and annual basis to ensure the Company is meeting the established strategic direction. Risks associated with climate change are not the only factor that impacts the pricing and underwriting approach or strategy, but it is one of several factors the Board closely monitors. The Board of Directors draws upon the expertise, experience and diversity of background and thought of its members in fulfilling its oversight responsibilities.

In addition, each Board Committee plays a role in the oversight of various risks and issues that climate change may impact. The current Board Committee structure includes the following Committees: Audit; Compensation; Finance & Investment; Law, Regulatory & Public Policy; Nominating & Corporate Governance; and Technology. Each Committee has specific oversight responsibilities according to its charter, and each plays a crucial role in the oversight of Environmental, Social and Governance (ESG) activities, including the risks associated with climate change, and monitoring management's progress on ESG topics.

The **Audit Committee** assists the Board in fulfilling its oversight responsibilities for compliance, ethical conduct and financial controls to ensure accountability and integrity throughout the organization. This committee also provides oversight of the Internal Audit department and the relationship with any independent accounting firm, as each may play a role in auditing data, systems and processes involved in ESG reporting and disclosures.

The **Compensation Committee** has the responsibility of overseeing the salary and benefits structure of the Company as well as reviewing ESG efforts of State Farm. This committee also oversees the Company's talent management and succession planning, and monitors workforce trends including the working environment.

The **Finance & Investment Committee** assists the Board in oversight of strategic financial decisions and capital management. The committee also assists the Board in oversight of investment policy (including the ESG policy), investment plans and management's execution of investment strategies and related risks. The committee receives regular reports of investment diversification and exposures by various classifications, including geographic, industry and property type.

The **Law, Regulatory & Public Policy Committee** oversees and reviews legal developments that may significantly impact the Company and its affiliates as well as its brand and reputation. This committee consults with the General Counsel of the Company and provides oversight of the Company's public policy positions, strategies on legislative and regulatory issues, and pending or expected litigation. As a leader in the Property & Casualty (P&C) insurance industry, State Farm engagement in public policy discussions regarding climate change and building resiliency is closely monitored by this committee, along with any brand or reputational issues related to climate change.

The **Nominating & Corporate Governance Committee** has the general responsibility of locating, evaluating and recommending candidates for membership on the Board. Candidates for the Board are selected to foster diversity of background and thought, and to strengthen its collective skill sets and experience profile. This committee oversees and monitors ESG-related efforts regarding corporate governance, and provides oversight of disclosures related to these issues, including this TCFD Report.

The **Technology Committee** oversees the role of technology in executing the business strategy of the Corporation and its subsidiaries and affiliates. This committee reviews the Company's technology, innovation and digital strategies, along with associated risks and overall trends that may impact those strategies.

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[2]When looking at the risk climate change presents to our policyholders and our business, State Farm primarily uses the definition of impact of climate change risk developed for the Financial Condition Examiner's Handbook: "The impact of climate change risk may be identified as any significant change in the measures of climate over an extended period of time that includes major changes in relative temperatures, precipitation or wind patterns that occur over several decades or longer. It may include the effects from the increase in severity and occurrence of climate change-related weather events (some may include but are not limited to: thunderstorms – including severe hail and strong winds; tornadoes; hurricanes; windstorms; the aftermath of floods; heat waves; droughts; rise in sea level; forest fires; grass fires and the resultant subsequent debilitating effects created by these events)."

Governance

Management of Risks Associated with Climate Change

ESG Executive Steering Committee

In 2020, State Farm established an ESG Executive Steering Committee to formally connect executive leadership with the senior leaders overseeing ESG efforts throughout the Company. The ESG Executive Steering Committee includes the CEO and several other senior executive leaders from key business areas. They regularly meet to receive updates on the progress of ESG initiatives and set a high-level vision for enterprise ESG initiatives.

Three Working Groups were created to report up to the ESG Executive Steering Committee: the Environmental Sustainability Working Group; the Social Responsibility Working Group; and the Governance Working Group.

Chief Risk Officer (CRO)

The CRO is responsible for coordinating with and advising risk owners throughout State Farm as they work to identify, measure, manage, monitor and report significant risks and evaluate the effectiveness of processes in place to manage those risks.

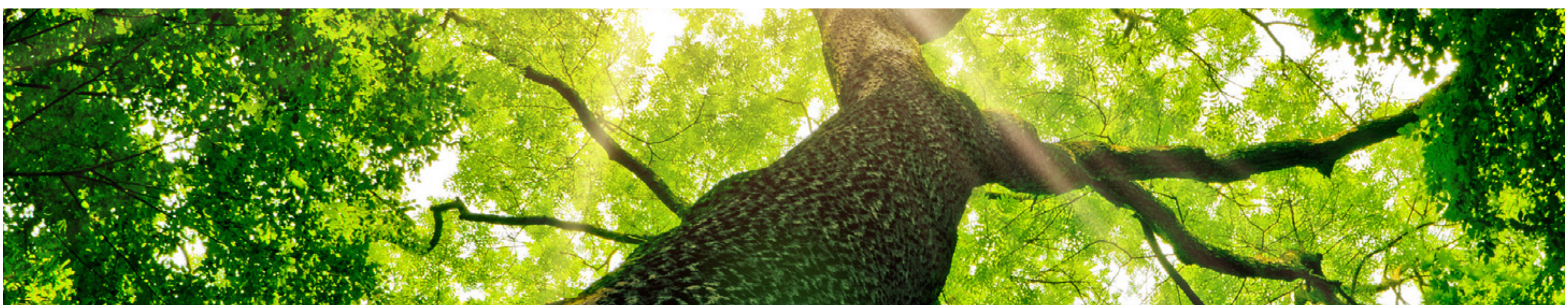
The CRO has an obligation to help ensure the enterprise is operating within the risk appetite, and to escalate risk issues to the Board of Directors and/or applicable committees, when appropriate. The CRO is appointed by and reports to the CEO as a member of the senior executive team.

Executive Risk Committee (ERC)

The CEO has designated the ERC to help inform risk oversight responsibilities of the Board of Directors. The ERC provides oversight and guidance in relation to enterprise risk management efforts at State Farm, and helps ensure material risks, including risks associated with climate change, are identified and effective processes are in place to manage those risks. The CRO serves as the chair of the committee and membership is comprised of senior leadership in business areas throughout State Farm.

Business Areas

As owners of the business processes and decisions, leaders in business areas own the associated risks and controls, including risks associated with climate change. They are responsible for appropriately managing risk, maintaining strong internal controls, and escalating risks as needed to ERM and State Farm leadership. Some examples of key business areas involved in managing the risks associated with climate change include, but are not limited to: Actuarial, Administrative Services, Claims, Corporate Responsibility, Enterprise Risk Management, Financial Operations, the Investment Department, the Law Department, Office of the Corporate Secretary, Public Affairs and Underwriting.



Strategy

State Farm and our insurance affiliates are proud to be the leading providers of home and auto insurance in the United States. Our business is assessing risk and matching the cost of our insurance products to risk. Climate change introduces greater uncertainty around the frequency, severity and location of severe weather events. State Farm is monitoring, learning from and reacting to the evolving scientific understanding of climate change to help the organization better manage the impacts in order to serve our policyholders. Our strategic approach to addressing the risks associated with climate change is centered around preserving our financial strength to keep our promises to policyholders and help them recover from the unexpected, along with seeking new product opportunities to align with our customers' changing needs. We also are committed to operating in a more environmentally sustainable and resilient manner and will continue to encourage and advocate the same with our customers and the communities we serve.

Financial Strength

As a mutual insurance company, State Farm takes a long-term view of strategy and risk to ensure financial strength and sustainability for the benefit of the policyholder group as a whole. Financial strength is a core value of State Farm as it allows the Company to meet its promises to policyholders in their time of need. Financial strength is a measure of the Company's net worth relative to the risks that net worth is intended to support, including risks associated with climate change. State Farm generates net worth from business operations and investments. Investment portfolios are designed to align with and support the insurance operations by generating earned investment income.

The insurance operating policies and investment policies are designed to work together to ensure ample liquidity to meet the financial obligations we have to our policyholders. A foundational element of the investment philosophy is for each insurance affiliate to have adequate liquidity to meet its respective daily cash demands from operations and stress liquidity scenario. Each insurance affiliate has a unique business profile, cash flow profile and liability structure that dictates individualized liquidity management at the insurance affiliate level.

Each State Farm property insurance affiliate purchases catastrophe reinsurance due to their exposure to severe weather events. As the unpredictability of these events increases due to climate change, reinsurance further helps to mitigate the exposure. Each reinsurance program is designed to ensure adequate coverage based on the underlying exposure within the affiliate and enable each affiliate to have the financial strength to continue operating after a severe weather event. In addition, State Farm uses stress testing and economic capital modeling to analyze its financial position relative to the risks the Company is exposed to, one of which is extreme catastrophe losses from severe weather events. The financial strength of State Farm and each individual affiliate is expected to be maintained to meet solvency and regulatory requirements on an individual entity-by-entity basis without regard to the solvency or financial condition of any other affiliated entity.[3]

Physical Risk and Catastrophe Management

Over time, the greatest risk posed to underwriting and managing risks exposed to climate change is from the potential for an increase in frequency and severity of extreme weather-related events which, in turn, could create additional uncertainty around the volatility and magnitude of losses in the future.

State Farm expects that residential and commercial property have the greatest exposure to any significant change in frequency and/or severity of weather events which may be influenced by climate change. However, this is not to say such events cannot impact private passenger auto and other lines of insurance, but the exposure to these lines is less as there are more opportunities to mitigate or prevent loss entirely by moving a vehicle or parking under cover to protect against weather-related events.

State Farm uses an enterprise-led approach called Catastrophe Exposure Management (CEM) to manage catastrophe exposure. CEM utilizes science-based catastrophic peril data where it is available unless prohibited by legislative or regulatory action to manage exposure at the regional and affiliate level. Catastrophe models are the primary tool used in the process and are combined with other qualitative criteria to help set underwriting guidelines, quantify catastrophe exposure and monitor overall catastrophe exposure. These models are regularly updated to reflect the latest science and observed climate trends. Though these models generally are not yet able to forecast potential impacts of climate

[3]While this TCFD Report is reporting on an enterprise basis for the limited purpose of disclosure of certain information related to risks associated to climate change, it should not be utilized for any other purpose, including without limitation, the determination of premiums or rates, or referenced in rate filings of State Farm or any of its affiliates.

Strategy

change far into the future, many utilize climate measures, such as sea surface temperatures and drought/rainfall patterns, to ensure the view of risk is consistent with and responding to observed climate trends. State Farm is continually analyzing new models and datasets as they become available to see if there are opportunities to better quantify catastrophe risk and any impacts climate change may have on severe weather events.

While State Farm is unable to quantify the precise impact climate change may have on the frequency, severity and location of severe weather events, the Company continuously measures and models risk for the perils insured under its contracts to determine its total risk exposure, including those related to severe weather events. Changes in population concentration, population shift to the coastal regions and other catastrophe prone areas, land use and changes to weather patterns related to climate change could cause further uncertainty in these estimates going forward.

Product Strategy and Opportunities

State Farm is focused on assessing risk, including but not limited to catastrophe risk, and matching the cost of our insurance products to that risk to ensure premium levels are adequate. State Farm monitors loss trends and makes changes to premium levels, rating factors and loss mitigation strategies as needed to address any underlying trends that can be seen in the historical experience. State Farm also incentivizes policyholders to be more resilient by providing premium discounts in some jurisdictions for certain mitigation features that reduce their vulnerability to losses from several perils, including but not limited to wildfire, hurricanes and severe convective storms. By incentivizing through discounts, the policyholder can lower their premium and make their home more resilient. This allows them to reduce or even eliminate their potential for a catastrophic loss. For example, 250,000 policyholders currently receive a discount for having an impact-resistant roof.

State Farm offers policyholders products for an additional premium that will enable them to rebuild post loss to more resilient standards beyond what is required by code, creating a more resilient home in the event of future catastrophic storms. Below are some examples of these endorsements:

- Coverage that allows a policyholder to replace a heating or air conditioning unit, or water heater, with more energy-efficient equipment if the equipment requires replacement due to a covered loss.
- Coverage that allows a policyholder to replace a damaged roof using material and construction methods that qualify for the FORTIFIED Roof™ designation from the Insurance Institute for Business and Home Safety.

In 2021, we also expanded a wildfire protection service program. State Farm is working with Wildfire Defense Systems to help mitigate the threat of wildfires for nearly 2.4 million properties in several Western states. Wildfire Defense Systems proactively sends highly trained, safety-focused wildfire and fire personnel to assess and potentially address threats to property. In 2021, about 3,400 threatened properties insured by State Farm were protected by Wildfire Defense Systems resources.

State Farm recently stood up a new initiative focused on resiliency and sustainability within the P&C product portfolio. This team is focused on meeting changing customers' needs through the following:

- Enhancing pricing and products that may be impacted by climate change.
- Researching how climate change can further impact severe weather events in the future.
- Leveraging relationships and community building to collaborate with others to further educate and understand climate change impacts.

Research, External Relationships and Public Policy

For several years, State Farm has actively supported several organizations studying loss mitigation related to natural disasters and conducted its own research on various loss mitigation products, regardless of the relationship to climate change. In 1995, State Farm built its own training facility where claims associates end their training with a week-long course examining full-scale houses built with different materials and construction techniques. Each house has various levels of damage that associates are tasked with identifying and estimating. Damages range from vandalism, fire, water, wind and hail.

In 1999, State Farm opened the Technology Research and Innovation Laboratory (TRAIL) to research building construction techniques, simulate building structures, and test those structures to failure to gain insights and share our findings with the construction industry. A vital part of TRAIL is the research done on hurricanes. There are specialists who study hurricanes and the damage suffered from them,

Strategy

and work with national organizations to change building standards. They study the physics of wind, how roofs are put on, and how buildings are attached to the ground to advise on building to withstand hurricanes which cause widespread and devastating damage to homes, automobiles and communities. Finally, through its federal and state lobbying efforts, State Farm is active in public policy discussions, promoting improved building code adoption to help mitigate potential risk and build resilient communities.

State Farm works with organizations across the country – such as the Insurance Institute for Building and Home Safety (IBHS) and the Federal Alliance for Safe Homes (FLASH) – to help protect our policyholders from the injuries, property destruction and financial impact that can result from natural disasters. State Farm is also a member of the BuildStrong Coalition. These efforts are focused on building codes, land use and awareness of mitigation issues.

As noted above, State Farm supports IBHS efforts by incentivizing policyholders through discounts and product offerings to build to IBHS standards. Since its inception in 1978, IBHS has helped to promote better building codes and code enforcement, and create safer and more resilient communities.

State Farm is involved in public policy discussions and works on educating regulators and public officials to help them better understand the topics of catastrophe risk and the P&C insurance market, the P&C claims process, the availability of insurance, the impacts of population density, land use and community resiliency. This includes advocating for sophisticated catastrophe modeling, which can supplement historical data and increase accuracy of projected potential loss exposure in the event of a catastrophe with current information. Regulation that may limit the use of current and future catastrophe modeling capabilities could negatively impact our ability to effectively manage catastrophe risk.

Sustainability in Operations

As a company whose mission is to help people manage the risks of everyday life, recover from the unexpected and realize their dreams, we have a responsibility to promote and engage in environmentally sustainable behaviors along with our customers and employees. We are committed to reducing our impact on the environment and addressing climate change through efforts to lessen our carbon footprint, reduce waste and improve energy efficiency. Reducing our footprint will positively impact people, our planet and our financial strength.

There are many environmental sustainability efforts underway or recently completed including, but not limited to:

Reducing Paper

- Streamlining the customer communication experience to provide our customers with preferred communication channels – using electronic/paperless delivery options, and/or integrated mailings for all approved forms of written communications related to sales and services, including billing and payment options.
- State Farm is continuing an enterprise-wide effort to reduce the amount of paper used within our operations. Through changes such as paperless customer communications and double-sided printing, we reduced approximately 70 million paper communications in 2021, the equivalent of saving more than 18,600 trees.

Supporting Environmental Efforts Following Disasters

- Contributed $1.1 million in grants to impacted communities following natural disasters in 2021.
- Developed a strategy for incorporating environmentally focused projects into the Company's charitable giving portfolio aligned to philanthropic pillars of safety, education and community development.
- In 2021, $1 million was allocated to Arbor Day Foundation, which resulted in the planting of nearly 275,000 trees across 15 states impacted by natural disasters.

Sustainable Vehicles and Facilities

- Researching options to improve efficiency of our enterprise fleet to help reduce emissions.
- Researching energy-efficient opportunities for electrical and mechanical operations.
- Our three hub facilities in Atlanta, Dallas and Phoenix align with Leadership in Energy and Environmental Design (LEED) standards. The Atlanta and Dallas facilities are LEED Gold Certified.
- Received UL Verified Healthy Building status for three Bloomington facilities and our three hub locations.

Strategy

Renewable Energy

- Installing on-site solar energy in some of our Bloomington facilities and evaluating additional technologies.
- Promoting the creation of renewable energy generation in those markets where we have our largest operations. For example, State Farm has entered into a long-term power purchase agreement to support the development of a 200-megawatt solar facility in Texas beginning in 2022, as well as a 600-megawatt solar development in Illinois slated to begin in 2024.

Reducing Waste

- State Farm no longer provides single-use plastic bottles in our large offices across the country, potentially avoiding the use of over 100,000 pounds of plastic each year.
- To encourage reducing plastic bottles, we distributed 100,000 refillable aluminum water bottles to employees, nonprofits and community partners across the country, such as the City of Richardson, Texas, for use with school bus drivers, first responders and many students in underserved communities through "Back to School" programs. Our Catastrophe Claims Unit also shared bottles with individuals recovering from devastating storms, wildfires and other catastrophic events.
- In 2021, we introduced three-bin waste management systems in two Bloomington cafeterias to expand composting and recycling on campus.
- Transitioning from traditional plastic food packaging to compostable products in Bloomington cafeterias and break areas.
- In 2021, we repaired and/or refurbished over 126,000 pieces of IT equipment and donated 5,800 computers to non-profit organizations.

Investment Approach

The Impact of Climate Change on the Investment Portfolio

Risks associated with State Farm's investments are continuously monitored and evaluated in order to preserve State Farm's financial strength and to ensure the obligations to our policyholders can be met. State Farm investment analysis evaluates all material risk factors into the decision-making process, including Environmental, Social and Governance factors that may have an impact on a company's future prospects, operating performance or future valuation.

Additionally, State Farm monitors and evaluates changes in climate and weather patterns in conjunction with assessments of changing sources of energy and the innovation necessary to produce economic, sustainable and reliable energy, over time. State Farm also considers regulatory, physical and litigation risks, as well as competitiveness and return when assessing investments. State Farm Investment teams engage in direct discussions with Company management regarding their ESG initiatives as part of their normal course of business.

Strategic Investments

In the normal course of managing the investment portfolios, State Farm invests in green bonds, properties with LEED certifications, and state and municipal governments and companies with "green" initiatives. State Farm also provides financing to entities and funds engaged in energy efficiency projects.

In addition to incorporating ESG factors in the day-to-day investment activity, State Farm is also increasing the role we play in bringing new climate technologies and renewable energy resources to the market. As an example of a more targeted investment, State Farm is teaming up with Breakthrough Energy, a network that brings together businesses, governments, philanthropies and individuals to invest in climate technologies. As announced in 2021, we committed to invest up to $50 million over the next five years in the Catalyst program to scale the technologies the world needs to reach net-zero emissions by 2050. Catalyst funds demonstration projects for carbon-reducing technologies, including direct air capture, green hydrogen, long-duration energy storage and sustainable aviation fuel.

Risk Management

While it is difficult to determine the precise influence of climate change on weather-related events, multiple areas at State Farm, including Actuarial, Claims, Underwriting and Enterprise Risk Management, are involved in identifying, assessing and managing risks associated with climate change. Several concerning trends[4,5] which may impact the P&C insurance industry include, but are not limited to:

- More frequent extreme weather events
- Rising temperatures
- Warming oceans

State Farm is striving to better understand how these changes impact the frequency, severity and location of weather events, and is working to manage risks accordingly.

As an insurer, risk management is at the core of our identity and overall strategy. Several of our methods of managing risk are discussed in the Strategy section, as business strategy and risk management are inextricably linked. This section includes some additional practices and principles we follow from a risk management standpoint to address the risks associated with climate change.

Enterprise Risk Management

State Farm has a robust risk management program, led by the Enterprise Risk Management department (ERM) to identify, assess and mitigate risk throughout the organization. ERM provides a risk management framework to identify, prioritize, designate ownership of, communicate and manage enterprise risks and opportunities. Climate change is a recognized risk category within the risk management framework. ERM also aggregates risks across business areas, reporting to State Farm leadership on aggregated risk, risk mitigation strategies, factors impacting risk and risk monitoring.

The State Farm Enterprise Risk Management Policy clearly defines risk management roles and responsibilities throughout State Farm. State Farm has created and strives to maintain a sound culture of risk management in which risk assessment, mitigation, guidelines and risk-aware decision-making are effectively integrated and executed. This includes, but is not limited to, managing risks associated with climate change.

Business areas identify, assess and manage risks. Within each area, there are individuals and teams responsible for identifying, evaluating and monitoring the potential risks and creating strategies to mitigate and manage risks, including risks associated with climate change. Each function determines how best to approach the evaluation of these risks. For example, multiple models are used to underwrite certain exposures, including those based on historical data and others on changing weather patterns. In these efforts to evaluate and model weather-related effects, State Farm is continuously investing in the latest tools and improving techniques to model severe weather to better match price to risk for the various P&C insurance products.

The Model Risk Management program within ERM provides a framework to identify, designate ownership of, and manage model risk. The Model Risk Management Policy establishes governance and oversight for the use of models throughout State Farm, including but not limited to catastrophe models. Management of models and the associated model risk is the responsibility for the business area that owns the risk.

Additionally, ERM regularly conducts risk assessments, which include but are not limited to the risks associated with climate change, to better understand how these risks are impacting State Farm, as well as the actions the organization is taking to address them. The ERM methodology enables the use of different time horizons when conducting risk assessments; specific to risks associated with climate change, State Farm most recently used a 3-5 year time horizon. In the future, when looking at these risks holistically as they relate to climate change, we plan to use different time horizons as the understanding/modeling of the impacts related to the changing climate increases to better understand how these risks may evolve over time.

The process of assessing the overall financial strength of State Farm, which includes assessing all known risks (e.g., those related to weather), is continuous, such that if any known risk evolves, the associated strategy to manage the risk also evolves. In addition, overall risk appetite and risk tolerances are an important part of risk management at State Farm.

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[4] Environmental Protection Agency, Climate Change Indicators: Weather and Climate
[5] National Oceanic and Atmospheric Administration, Climate Change Impacts

Risk Management

Monitoring Trends and Risk Impact

State Farm's risk management approach includes careful monitoring of trends in relation to operational business practices, legal and regulatory activity, customer and employee preferences, and ultimately how to communicate on these topics to help multiple parties better understand climate change and environmental sustainability.

Operational Business Practices
State Farm uses several modeling techniques and stress tests to analyze possible covered loss scenarios and to manage its risk to financially sound levels. State Farm does not currently explicitly model physical or transition risk resulting directly from climate change; however, the extreme nature of simulated losses used in some models helps to replicate the potential impact of risks associated with climate change.

Social Inflation
Legislation, regulation and post catastrophe litigation in catastrophe-prone areas can affect the financial impact of large events. State Farm is carefully monitoring a trend known as social inflation, indicated by a rising cost of insurance claims and settlements, as well as jury verdicts, related to a broadening interpretation by the courts and increasing consumer expectations of what is covered by insurance policies. These trends ultimately affect how much policyholders pay for coverage and can be impacted by the risks associated with climate change.

Customer and Employee Preferences
State Farm understands how we address the risks associated with climate change, as well as our environmental sustainability efforts, is an important consideration for customers and employees. As such, we regularly conduct research on these topics to better understand customer and employee preferences and expectations. Customers expect organizations to address the risks associated with climate change, and employees want to work for organizations which have a positive environmental impact. In 2021, State Farm published our first annual ESG Report which shares, among other things, the State Farm commitment to environmental sustainability, positive social impact and responsible governance practices. We plan to continue to publish the report, including progress on our goal to reduce GHG emissions, on an annual basis.

Communication and Educational Efforts
State Farm communicates with media and various external groups around environmental sustainability. The organization also works internally to help inform employees and independent contractor agents on how risks associated with climate change impact the business and what State Farm is doing to decrease our impact on the environment. By continuing to educate State Farm associates on the topic of climate change, as well as its potential impacts to State Farm, the organization is better positioning its associates to help ensure business objectives are achieved.

The Impact of Climate Change on the Investment Portfolio

The investment team proactively seeks investment opportunities that align with our investment strategies and also directly support sustainability efforts. Investment risks are managed through diversification guidelines across various asset types to prevent concentrations in a given geographic location, industry, property type or municipal funding. Restrictions on investments in unregulated coal-fueled energy generation limit the exposure within the utilities industry and investments are not made in coal-focused mining companies. Coastal and earthquake exposures are managed in the commercial mortgage loan and real estate portfolios and are considered when evaluating investments in municipalities. In the real estate portfolio, focus is given to the efficient operation of a building in an environmentally responsible manner and new investments are evaluated to determine whether it is economically and physically feasible to achieve a LEED certification. Capital improvement projects and building system enhancements are also identified on an annual basis with the objective to reduce the use of energy.

State Farm invests in green bonds and provides financing to entities and funds that are engaged in energy efficiency projects, as well as in municipal and state governments, commercial mortgages and real estate, and utilities and energy companies with "green" initiatives as a subset of their business operations. State Farm also directly supports various initiatives associated with investing in social or community development opportunities, including affordable housing or providing capital to support diversity and impact investing.

Metrics and Targets

State Farm is committed to minimizing our operational impact on the environment. The Environmental Sustainability Team focuses on influencing sustainable behaviors and processes and measuring enterprise environmental goals and performance.

In 2021, State Farm announced our goal to reduce GHG emissions 50% by 2030 using 2019 as our baseline year. Our goal includes both direct emissions from owned or controlled sources (Scope 1) and indirect emissions we consume (Scope 2). It is aligned with the Science-Based Targets initiative (SBTi) goal of keeping global temperature rise below 1.5 degrees Celsius by 2050. We measure progress against our targets by building out an annual GHG inventory that has been assured by a third party.

We are evaluating relevancy of all 15 categories that fall within Scope 3. We are working on a strategy to measure emissions that occur in our Company's value chain and will report on Scope 3 in future TCFD reports.

Data

Direct emissions (Scope 1) – mtCO2e	2019	2020	2021
Company Fleet	31,322	17,176	14,702
Facility Machinery Fuel and Refrigerant	27,719	24,488	23,710
Totals*	59,041	41,664	38,412
Indirect emissions (Scope 2) – mtCO2e			
Location-Based Electricity*	213,373	173,812	139,876
Market-Based Electricity*	142,963	131,480	87,110
Combined totals – mtCO2e			
Scope 1 & 2 Location-Based	272,414	215,476	178,288
Scope 1 & 2 Market-Based	202,004	173,144	125,522

Internal operations energy consumption

Fuel Type	2019	2020	2021
Fleet Fuel (gallons)	3,512,711	1,931,355	1,639,334
Machinery Fuel (gallons)	59,308	44,534	197,663
Electricity (Kwh)	399,765,034	341,438,720	300,619,724
Natural Gas (Therms)	4,753,159	4,322,311	3,902,873

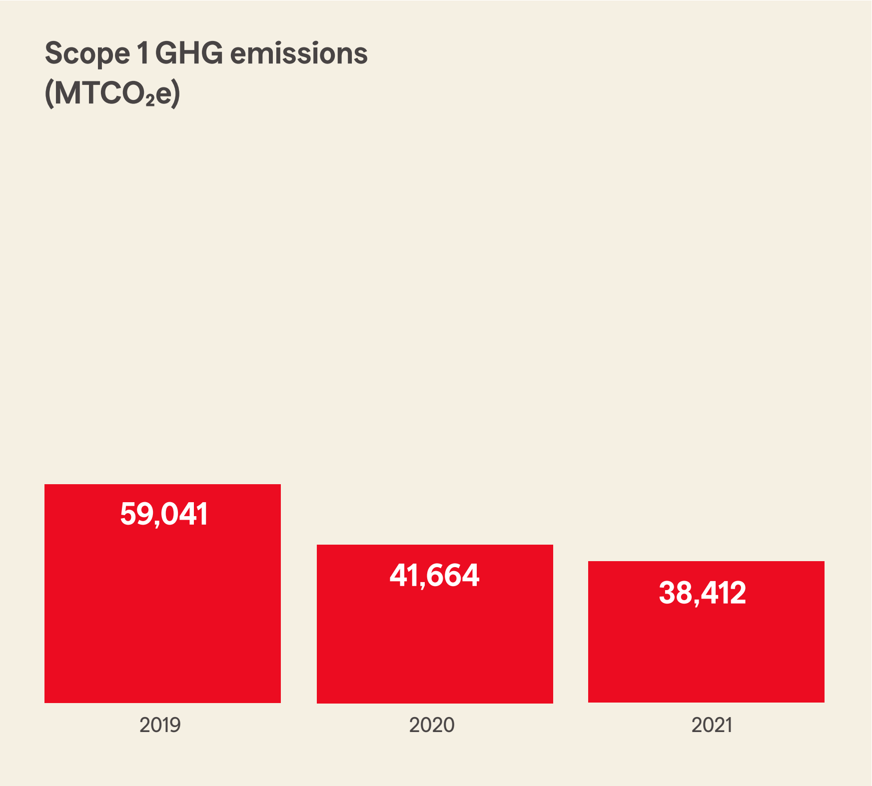
Progress against science-based target

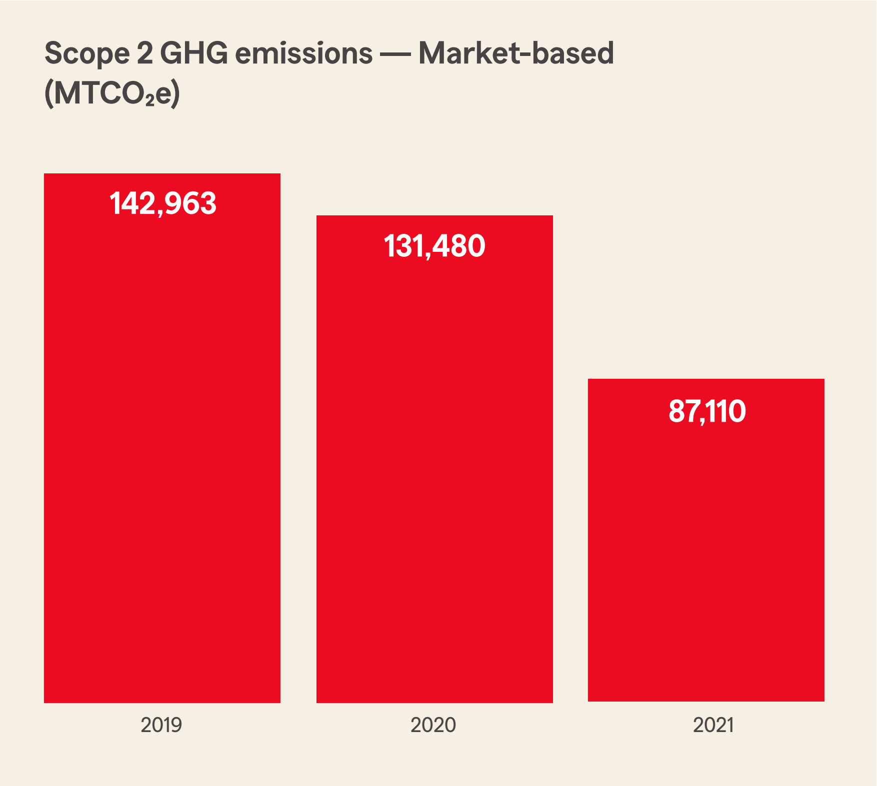
Emissions	2030 Target	2030 Target %	Baseline (2019)	% Reduction in 2020	% Reduction in 2021
Scope 1 & 2 Market-Based	101,002 mtCO2e	-50%	202,004 mtCO2e	14.3%	37.8%

*We engaged an independent third-party to perform an attest review engagement over our total Scope 1 greenhouse gas (GHG) emissions, Scope 2 GHG emissions (market-based) and Scope 2 GHG emissions (location-based), as represented in State Farm Mutual Automobile Insurance Company's Management Assertion, for the years ending Dec. 31, 2019, Dec. 31, 2020 and Dec. 31, 2021.

Metrics and Targets

Measuring Carbon Emissions
In 2021, we achieved a 37.8% reduction of Scope 1 and 2 global emissions compared to our 2019 baseline.





Most emissions reduction from 2019 to 2021 was due to hybrid work arrangement decisions and facility closings or subleases. In addition, we reduced the number of vehicles in our enterprise fleet and accelerated virtual claim handling technology. New technologies and increased use of renewable energy in the U.S. power grids have also contributed to small reductions in Scope 2 emissions.

Looking Ahead

Our commitment to be there for our customers and address climate change demands that we keep doing more. We will continue reducing our greenhouse gas emissions to meet our 2030 target. We will continue to invest more in renewable energy resources. We will continue to study climate change impacts and adapt our pricing and products to best meet our customers' needs.

Ultimately, these efforts will help us keep our promises to customers and create a neighborhood we are proud to pass on to the next generation.