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Introduction

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”) 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. Operating in an environmentally sustainable way positively impacts our business through reduced costs and waste, increased efficiency and improved employee attraction and retention. We undertake actions to help mitigate the impact of catastrophes and natural disasters, including efforts to promote safer, stronger and more sustainable communities. We are committed to reducing our impact on the environment and improving the long-term resiliency of the planet.

The business of being a good neighbor starts with us.

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1State 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 evaluated at the holding company level. 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.
Introduction

This report, which is our second 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. While climate change itself is not an insurable risk, we do insure specific perils arising out of natural disasters, such as wildfires, hurricanes, and other severe weather events.

In 2023, State Farm released our 2022 Impact Report with the theme of “Good Neighbors. Better World.” We know that a better world tomorrow starts with a strong neighborhood today. This TCFD disclosure supplements the Impact Report. Our sustainability efforts are centered around four focus areas:

- **Enabling Our Workforce to Power Our Future** – Foster an inclusive working environment and provide employees with tools to grow professionally and serve the State Farm customer with empathy, integrity and trust.
- **Building Environmentally Sustainable and Resilient Futures** – Advance efforts in communities by being a steward for sustainable practices, supporting strong building codes and other loss mitigation actions and offering relevant product options and solutions.
- **Strengthening Communities** – Provide resources for all communities to succeed through safety, education and community development efforts to help people realize their dreams.
- **Demonstrating Responsible Governance** – Promote ethical and accountable behaviors and practices across our business and develop transparent and useful disclosures for State Farm stakeholders to ensure the strength of our brand.

We began offering auto insurance more than 100 years ago and added property, liability, and life insurance products a few years later. Through many significant weather events and major disasters, 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 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.
Governance

Board Governance of Risks Associated With Climate Change

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 oversight responsibilities. Risks associated with climate change are also an input to the Board’s holistic strategy review and the Board helps address how climate change issues may impact and shape this strategy. The Board monitors the pricing and underwriting performance, along with catastrophe exposure and other loss experience, on a quarterly and annual basis to ensure State Farm 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 monitors. The Board of Directors draws upon the expertise, experience and diversity of background and thought of its members in fulfilling its oversight responsibilities.

Risk, including the impact from climate change, is overseen by the full Board of Directors as part of their risk oversight responsibilities.

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2When 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

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 critical 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, audit and financial controls to ensure accountability and integrity throughout the organization.

The Compensation Committee monitors the workforce environment, talent management and diversity and inclusion strategies. The Committee also reviews and approves employee benefit programs and executive compensation plans.

The Finance & Investment Committee assists the Board in its oversight of strategic financial decisions, long-term financial strength, investment policy and plans, and management’s execution of capital management, investment strategies and related risks.

The Law, Regulatory & Public Policy Committee reviews risks related to the organization’s brand and reputation, provides oversight of risks related to public policy, political and social trends affecting the organization, and consults with the general counsel regarding litigation and legislative/regulatory issues.

The Nominating & Corporate Governance Committee monitors corporate governance developments and leading practices for effective Board governance. The Committee assists the Board in its oversight of Board composition, identifying potential candidates for Board and committee services, and monitoring the status of ESG activities.

The Technology Committee oversees the role of technology within the Company’s operations, including digital strategy, innovation, technology trends and vendor management, and monitors the information security program.

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 Chief Executive Officer 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.

Each Focus Area has leadership assigned to carry out initiatives and report progress to the Executive Steering Committee.

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.

Enterprise Risk Management

As detailed more thoroughly in the Risk Management section of this Report, the Enterprise Risk Management (ERM) department at State Farm assists business areas in identifying, assessing and managing risks to the organization, including risks associated with climate change. ERM promotes a risk management culture throughout State Farm that enhances risk awareness and resilience.

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.
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 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 to reduce costs and increase efficiency.
Strategy

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 organization to meet its promises to policyholders in their time of need. Financial strength is a measure of each insurance affiliate’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 and growth of capital.

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 and investment strategy at the insurance affiliate level.

Each State Farm property insurance affiliate purchases catastrophe reinsurance due to its exposure to severe weather events. Reinsurance helps manage the exposure from the unpredictability of these events as modeling and other tools grow in sophistication. 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. State Farm evaluates the financial strength of each individual affiliate, as each must meet solvency and regulatory requirements on an individual entity basis without regard to the solvency or financial condition of any other affiliated entity.²

Physical Risk and Catastrophe Management

Over time, the potential increase in frequency and severity of extreme weather-related events could create additional uncertainty around the volatility and magnitude of losses in the future and will require advanced modeling tools and substantial capital.

State Farm expects that residential and commercial property have the greatest exposure to any significant change in frequency and/or severity of weather events. However, this is not to say such events cannot impact private passenger auto and other lines of insurance. 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 analyzes catastrophe exposure at the regional and affiliate level utilizing a science-based approach unless prohibited by legislative or regulatory action. Catastrophe models are the primary tools used to help set underwriting guidelines, quantify catastrophe exposure and monitor overall catastrophe exposure of each entity. These models are regularly updated to reflect the latest science and observed climate trends. Though these models generally are not able to forecast potential impacts of climate change into the future, many utilize measures, such as sea surface temperatures, drought and rainfall patterns, to ensure the view of risk is consistent with and responding to observed climate trends. State Farm continually analyzes new models and datasets as they become available to see if there are opportunities to better quantify impacts of severe weather events.

State Farm is unable to quantify the impact climate change may have on the frequency, severity and location of severe weather events. Instead, State Farm continuously measures and models risk for the perils insured under its insurance 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.

²While this TCFD Report is reporting on an enterprise basis for the limited purpose of disclosure of certain information related to risks associated with 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.
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 by providing premium discounts in certain jurisdictions for mitigation features that improve resiliency against multiple types of severe weather events including but not limited to wildfire, hurricanes and severe convective storms. By incentivizing through actuarially justified discounts off adequate rates, 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, over 278,000 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.

We currently contract with Wildfire Defense Systems, Inc. (WDS) to offer Wildfire Response Service in four western states. This service provides just-in-time wildfire mitigation for over 1.2 million Homeowners and Farm/Ranch policyholders in Arizona, Colorado, Oregon and Washington. WDS proactively sends highly trained fire personnel to assess and address threats to the property. WDS services depend on the specific risk, and may include installing temporary sprinkler systems, enclosing eaves and vents, moving combustible debris and applying fire retardant compounds to the home or surrounding vegetation. The program began in 2020 and is provided to customers for no additional premium. Since the program began, 5,603 wildfire-threatened homes have been serviced.

State Farm has a dedicated team 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 more severe weather events.
- 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

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 to educate 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. 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.
**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 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:

**Optimizing Paper Use**
- 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.

**Supporting Environmental Efforts Within Communities**
- **Century of Good:** In commemoration of our 100th anniversary, State Farm dedicated $2 million in grants in 2022 to create safer, stronger, more resilient communities where we have our largest employee footprints: Bloomington, IL; Tempe, AZ; Dallas, TX; and Atlanta, GA. The grants support projects focused on a range of community-specific environmental priorities, including improving air quality and energy efficiency, protecting land and water sources from pollution, improving recycling rates and conserving biodiversity and green spaces.

- **Disaster Response and Recovery:**
  - State Farm provided more than $587,000 in disaster preparedness grants in 2022 and more than $3 million in disaster recovery grants following Hurricane Ian, the Marshall Fire and other natural disasters across the country.
  - **Arbor Day Partnership:** In 2022, State Farm pledged $700,000 to support reforestation, tree distribution and planting areas affected by natural disasters across the U.S. This funding made it possible to plant nearly 109,000 trees across 21 communities in 15 states throughout the year, honoring our goal to plant 100,000 trees in celebration of our 100th anniversary.

**2022 Emissions Reduction Factors:**
- **37%** from hybrid work arrangements and facility efficiency improvements (e.g., upgrades to boilers, heating ventilation and air conditioning [HVAC], and LED lighting)
- **34%** from closing or subleasing facilities
- **14%** from accelerated use of virtual claim handling technology, fewer fleet miles driven, and fewer vehicles in the fleet
- **8%** from purchasing renewable energy

**Renewable Energy**
- Activated on-site solar energy in two of our Bloomington facilities. At our transportation facility, a 200-kilowatt system provides approximately 100% of the annual energy used. At our distribution center, an 880-kilowatt system provides approximately 50% of the annual energy used. Entered into a long-term power purchase agreement to support the development of a 200-megawatt solar facility in Texas which began in 2022, as well as a 600-megawatt solar development in Illinois slated to begin in 2024.

**Reducing Waste**
- Partnered with our food services provider to compost 97%, or 10.3 tons of our cafeteria waste and converted 94.3% of food packaging and products to compostable materials.
- In 2022, we performed waste audits of our Bloomington, Illinois, campus and our distribution centers, and in early 2023, we conducted waste audits at our hub offices in Atlanta, Dallas and Phoenix, where our largest employee footprints exist. The audits provided a holistic view of our waste streams, established baseline waste data, identified opportunities to reduce waste and will support the development of waste reduction goals.
- Results of waste audits highlighted two of our distribution centers leading the way in waste management and diverting waste from landfills in alignment with TRUE (Total Resource Use and Efficiency) certification – a zero-waste certification program that will reinforce and elevate the centers’ success and demonstrate best practices for other facilities.
- Formed a Zero Waste Champions team of employees to build on waste audit findings, share best practices and encourage new behaviors in waste reduction.
Strategy

Investment Approach

Analysis and Decision-Making

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.

Strategic Investments

In the normal course of managing the investment portfolios, State Farm invests in green and sustainable bonds, state and municipal governments and companies with “green” initiatives, and real estate and commercial loan properties with LEED certifications. State Farm also provides financing to entities and funds engaged in energy efficiency projects. These investments serve the dual purpose of supporting the financial strength of State Farm while also fostering ESG initiatives.

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. We have committed to invest 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, State Farm is actively 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

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.

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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

Enterprise Risk Management

State Farm has a robust risk management program, led by the Enterprise Risk Management (ERM) department 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.

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, we plan to use different time horizons as the understanding/modeling of the impacts related to volatile weather patterns 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.

Monitoring Trends and Risk Impact

The State Farm 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 increased weather volatility 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.

Model

The Model Risk Management program 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.
Risk Management

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 liability-expanding 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. Earlier this year, State Farm published our Impact Report which shares, among other things, the State Farm commitment to environmental sustainability, positive social impact, workforce development and responsible governance practices. We plan to continue to publish a 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, as well as its potential impacts to State Farm, the organization is better positioning its associates to help ensure business objectives are achieved.

Investment Practices

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.
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.

### Data

**Direct emissions (Scope 1)**

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<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td>Company Fleet</td>
<td>31,322</td>
<td>17,176</td>
<td>14,702</td>
<td>18,310</td>
</tr>
<tr>
<td>Facility Machinery Fuel and Refrigerant</td>
<td>27,719</td>
<td>24,488</td>
<td>23,710</td>
<td>22,189</td>
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<tr>
<td>Totals*</td>
<td>59,041</td>
<td>41,664</td>
<td>38,412</td>
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**Indirect emissions (Scope 2)**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
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<tbody>
<tr>
<td>Location-based Electricity*</td>
<td>213,373</td>
<td>173,812</td>
<td>139,876</td>
<td>137,251</td>
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<tr>
<td>Market-based Electricity*</td>
<td>142,963</td>
<td>131,480</td>
<td>87,110</td>
<td>68,343</td>
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<tr>
<td>Totals</td>
<td>356,336</td>
<td>295,292</td>
<td>226,986</td>
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**Internal operations energy consumption**

<table>
<thead>
<tr>
<th>Fuel type</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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</thead>
<tbody>
<tr>
<td>Fleet Fuel (gallons)</td>
<td>3,512,711</td>
<td>1,931,355</td>
<td>1,639,334</td>
<td>2,031,741</td>
</tr>
<tr>
<td>Machinery Fuel (gallons)</td>
<td>59,308</td>
<td>44,534</td>
<td>197,663</td>
<td>51,640</td>
</tr>
<tr>
<td>Electricity (MWh)</td>
<td>399,765</td>
<td>341,439</td>
<td>300,620</td>
<td>287,599</td>
</tr>
<tr>
<td>Natural Gas (therms)</td>
<td>4,753,159</td>
<td>4,322,311</td>
<td>3,902,873</td>
<td>3,886,027</td>
</tr>
</tbody>
</table>

**Progress against science-based target**

<table>
<thead>
<tr>
<th>Emissions</th>
<th>Baseline (2019)</th>
<th>2030 Target</th>
<th>2030 Target %</th>
<th>Cumulative % reduction from baseline through 2020</th>
<th>% reduction from baseline through 2021</th>
<th>% reduction from baseline through 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1 &amp; 2 Market-based</td>
<td>202,004</td>
<td>101,002</td>
<td>-50%</td>
<td>14.3%</td>
<td>37.9%</td>
<td>46.1%</td>
</tr>
</tbody>
</table>

*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, Dec. 31, 2021 and Dec. 31, 2022.
Metrics and Targets

Measuring Carbon Emissions
In 2022, we achieved a 46.1% reduction of Scope 1 and 2 global emissions compared to our 2019 baseline.

Most emission reductions from 2019 to 2022 were due to hybrid work arrangement decisions and facility closings or subleases. Providing our workforce flexible work options not only impacts employee retention, but also helps with continued reduced emissions from our 2019 baseline year. 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 reductions in Scope 2 emissions.

<table>
<thead>
<tr>
<th>Scope 1 CO₂ emissions (MTCO₂e)</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>59,041</td>
<td>41,664</td>
<td>43,107</td>
<td>40,499</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scope 2 CO₂ emissions — Market-based (MTCO₂e)</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>142,963</td>
<td>131,480</td>
<td>91,432</td>
<td>68,343</td>
<td></td>
</tr>
</tbody>
</table>
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, efforts which result in increased efficiency and lower costs. We will continue to purchase more renewable energy resources. We will continue to study weather-related activity 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.