

**STATE FARM LIFE INSURANCE COMPANY VARIABLE LIFE SEPARATE ACCOUNT
(Registrant)**

**STATE FARM LIFE INSURANCE COMPANY
(Depositor)**

**P.O. Box 2307
Bloomington, Illinois 61702-2307
Telephone (888) 702-2307**

**STATEMENT OF ADDITIONAL INFORMATION
Individual Flexible Premium Variable Universal Life Insurance Policy**

This Statement of Additional Information (“SAI”) contains additional information regarding the flexible premium variable universal life insurance policy (the “Policy”) offered by State Farm Life Insurance Company (“State Farm,” “we,” “us,” or “our”). This SAI is not a prospectus, and should be read together with the prospectus for the Policy dated May 1, 2019, and the prospectus for the Funds. You may obtain a copy of these prospectuses by writing or calling us at our address or phone number shown above. Capitalized terms in this SAI have the same meanings as in the prospectus for the Policy.

The date of this Statement of Additional Information is May 1, 2019.

STATEMENT OF ADDITIONAL INFORMATION
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ADDITIONAL POLICY INFORMATION

Incontestability

The Policy limits our right to contest the Policy as issued or as increased, for reasons of material misstatements contained in the application, after it has been in force during the Insured's lifetime for a minimum period, generally for two years from the Issue Date of the Policy or effective date of the increase.

Misstatement of Age or Sex

State Farm will adjust the Death Benefit if the application misstates the Insured's Age or sex.

Limited Death Benefit—Suicide Exclusion

The Policy limits the Death Benefit if the Insured dies by suicide generally within two years after the Issue Date of the Policy or effective date of the increase.

Assignment

You may assign the Policy subject to its terms. We are not deemed to know of an assignment unless we receive a written copy of it at our Variable Operation Center. We assume no responsibility for the validity or effect of any assignment. In certain circumstances, an assignment may be a taxable event. See "Tax Considerations" in the prospectus.

Change of Owner

When allowed by law, you may change the Owner of the Policy by sending a written request to our Variable Operation Center while the Insured is alive and the Policy is in force. The change will take effect the date you sign the written request, but the change will not affect any action we have taken before we receive the written request. A change of Owner does not change the Beneficiary designation. A change of Owner may have adverse tax consequences. You should consult a tax advisor before changing an Owner.

The Beneficiary

You designate the Beneficiary(ies) when you apply for the Policy. The Beneficiary is entitled to the insurance benefits under the Policy. You may change the Beneficiary or the order of payment during the Insured's lifetime by providing a written request to the Variable Operation Center. We will effect your change on the date you sign the request or on any later date specified in the request, but the change will not affect any action we have taken before we receive the request. When the Insured dies, we will make payment in equal shares to the primary Beneficiary(ies) living when payment is made. If a primary beneficiary dies after the first payment is made, we will pay that primary beneficiary's unpaid share in equal shares to the other primaries living when payment is made. If the last primary beneficiary dies, we will make payment in equal shares to the successor beneficiaries living when payment is made. If a successor dies when receiving payments, we will pay that successor's unpaid share in equal shares to the other successors living when payment is made. If, at any time, no primary or successor is alive, we will make a one sum payment in equal shares to the final beneficiaries. If, at any time, no beneficiary is living, we will make a one-sum payment to you, if you are alive when payment is made. Otherwise, we will make a one-sum payment to the estate of the last survivor of you and all Beneficiaries.

Dividends

The Policy is participating. However, we do not anticipate paying any dividends on the Policy.

Changing Death Benefit Options

You may change the Death Benefit Option on your Policy subject to the following rules:

You must submit each change by written request that we receive at our Variable Operation Center, and you may only change the Death Benefit Option once in any Policy Year. We will process each change on the date we receive your written request at our Variable Operation Center. We will send you revised Policy schedule pages reflecting the new Death Benefit Option and the effective date of the change.

If you request a change from Option 1 to Option 2, the Basic Amount will be decreased by the Policy Account Value on the effective date of the change. When you make a change from Option 2 to Option 1, the Basic Amount after the change will be increased by the Policy Account Value on the effective date of the change. The minimum monthly premium for the Death Benefit Guarantee will also change when you change a Death Benefit Option. Changing the Death Benefit option may have tax consequences and you should consult a tax advisor before doing so.

ADDITIONAL INFORMATION

The Compliance and Ethics Forum for Life Insurers

We and State Farm Life and Accident Assurance Company are members of The Compliance and Ethics Forum for Life Insurers (CEFLI). CEFLI is an independent and voluntary organization created by the American Council of Life Insurance (ACLI) to improve customer confidence in the life insurance industry. Life insurers that are members of CEFLI agree to meet and maintain high standards of ethical conduct in their dealings with consumers for individual life insurance and annuity products.

Potential Conflicts of Interest

The Funds currently sell shares to separate accounts to serve as the underlying investment for both variable life insurance policies and variable annuity contracts. We currently do not foresee any disadvantage to Owners arising from the sale of shares to support variable life insurance policies and variable annuity contracts. However, we will monitor events in order to identify any material irreconcilable conflicts that may possibly arise. In that event, we would determine what action, if any, should be taken in response to those events or conflicts. In addition, if we believe that a Fund's response to any of those events or conflicts insufficiently protects Owners, we will take appropriate action on our own, including withdrawing the Variable Account's investment in that Fund.

The Funds also may sell shares directly to certain pension and retirement plans qualifying under Section 401 of the Internal Revenue Code of 1986, as amended. As a result, there is a possibility that a material conflict may arise between the interests of Owners of this Policy or other policies or contracts (including policies issued by other companies), and such retirement plans or participants in such retirement plans. In the event of any such material conflicts, we will consider what action may be appropriate, including removing the Fund as an investment option under the Policies or replacing the Fund with another fund.

See the Funds' prospectuses for more detail.

Addition, Deletion or Substitution of Investments

Where permitted by applicable law, we may:

- (1) create new separate accounts;
- (2) combine separate accounts, including the Variable Account;

- (3) add new Subaccounts to or remove existing Subaccounts from the Variable Account or combine Subaccounts;
- (4) make any Subaccount available to such classes or policies as we may determine;
- (5) add new funds or remove existing Funds;
- (6) substitute new funds for any existing Fund if shares of the Fund are no longer available for investment or if we determine investment in a Fund is no longer appropriate in the light of the purposes of the Variable Account;
- (7) deregister the Variable Account under the 1940 Act if such registration is no longer required; and
- (8) operate the variable Account as a management investment company under the 1940 Act or in any other form permitted by law.

The investment policy of the Variable Account will be changed only with the approval of the insurance supervisory official of the state in Illinois, our State of domicile. The investment policy of the Variable Account is to invest in one or more investment companies. The process for such approval is on file.

Safekeeping of Account Assets

We hold the Variable Account's assets physically segregated and apart from the general account. We maintain records of all purchases and sale of portfolio shares by each of the Subaccounts. A fidelity bond in the amount of \$5 million covering our directors, officers, and employees has been issued by National Union Fire Insurance Company.

Reports to Policy Owners

State Farm maintains records and accounts of all transactions involving the Policy, the Variable Account, the Fixed Account and the Loan Account at its Variable Operation Center. Each year, or more often if required by law, we will send you a report showing information about your Policy for the period covered by the report. State Farm also will send you an annual and a semi-annual report for each Fund underlying a Subaccount to which you have allocated Policy Account Value, as required by the 1940 Act. In addition, when you pay premiums (other than by pre-authorized checking account deduction) or if you take out a Policy loan, make transfers or make withdrawals, you will receive a written confirmation of these transactions.

Principal Underwriter

State Farm VP Management Corp., the principal underwriter of the Policy, is located at One State Farm Plaza, Bloomington, Illinois 61710-0001. State Farm VP Management Corp. is affiliated with State Farm Life Insurance Company because each company is directly or indirectly owned by State Farm Mutual Automobile Insurance Company. State Farm VP Management Corp. received \$169,183 in 2018, \$755,719 in 2017 and \$2,059,217 in 2016 as commissions for serving as principal underwriter of the Policy. State Farm VP Management Corp. did not retain any commissions in 2018, 2017 and 2016.

We discontinued new sales of the Policy during the latter half of 2008; however, we will continue to administer existing Policies and will continue to accept premiums and permit transfers for such Policies.

Underwriting Procedures

State Farm will follow its established insurance underwriting procedures for life insurance designed to determine whether the proposed Insured is insurable. This process may involve such verification procedures as medical examinations and may require that further information be provided about the proposed Insured before a determination can be made.

Experts

The statutory statements of admitted assets, liabilities, and capital and surplus of State Farm Life Insurance Company as of December 31, 2018 and 2017, and the related statutory statements of operations and changes in capital and surplus, and cash flows for the years ended December 31, 2018, 2017 and 2016, included in this Statement of Additional Information have been so included in the reliance on the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, given on the authority of said firm as experts in accounting and auditing.

As stated in their report, these financial statements were prepared by the Company in conformity with the accounting practices prescribed or permitted by the Illinois Department of Insurance (statutory basis), which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The effects on the financial statements of the variances between the statutory basis of accounting and GAAP, although not reasonably determinable, are presumed to be material. Therefore, their report contains an adverse opinion on the financial statements of the Company in conformity with GAAP, but an unqualified opinion in conformity with statutory basis accounting.

The statements of assets and policy owners' equity and surplus of the State Farm Life Insurance Company Variable Life Separate Account at December 31, 2018, and the results of its operations for the year then ended, and the changes in its policy owners' equity and surplus for each of the two years in the period ended December 31, 2018, included in this Statement of Additional Information have been so included in the reliance on the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, given on the authority of said firm as experts in accounting and auditing.

The Company

We are an Illinois stock life insurance company and are wholly owned by State Farm Mutual Automobile Insurance Company, an Illinois mutual insurance company. We were incorporated in 1929 and have been continuously engaged in the life insurance business since that year. We are subject to regulation by the Insurance Department of the State of Illinois, as well as by the insurance departments of all other states and jurisdictions in which we do business. We sell insurance in 47 states and the District of Columbia. We submit annual statements on our operations and finances to insurance officials in such states and jurisdictions. The Policy described in the prospectus and this SAI has been filed with and, where required, approved by, insurance officials in those jurisdictions where it is sold.

Other Information

State Farm has filed a registration statement under the Securities Act of 1933, as amended, with the SEC relating to the offering described in the prospectus. The prospectus and SAI do not include all the information set forth in the registration statement. Statements contained in this SAI concerning the content of the Policies and other legal instruments are intended to be summaries. You may obtain the omitted information at the SEC's principal office at 100 F Street, N.E., Washington, DC 20549 by paying the SEC's prescribed fees. The omitted information is also available at the SEC's Internet site (<http://www.sec.gov>).

Financial Statements

The audited statutory statements of admitted assets, liabilities, and capital and surplus of State Farm Life Insurance Company as of December 31, 2018 and 2017, and the related statutory statements of operations and changes in capital and surplus, and cash flows for the years ended December 31, 2018, 2017 and 2016, as well as the Report of the Independent Registered Public Accounting Firm, appears in this SAI. Our financial statements should be considered only as bearing on our ability to meet our obligations under the Policies. They should not be considered as bearing on the investment performance of the assets held in the Variable Account.

Statements of assets and policy owners' equity and surplus of the State Farm Life Insurance Company Variable Life Separate Account at December 31, 2018, and the results of its operations for the year then ended, and the changes in its policy owners' equity and surplus for each of the two years in the period ended December 31, 2018, also appear in the SAI.

The audits were conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

State Farm Life Insurance 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, 2018, 2017, and 2016

State Farm Life Insurance 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 Life Insurance Company

We have audited the accompanying statutory financial statements of State Farm Life Insurance Company (the "Company"), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2018 and 2017, and the related statutory statements of operations and changes in capital and surplus, and of cash flows for each of the three years in the period ended December 31, 2018.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the Illinois Department of Insurance, which is a basis of accounting other than 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 described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2018 and 2017, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2018.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance described in Note 2.

PriceWaterhouseCoopers LLP

February 22, 2019

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

Statements of Admitted Assets, Liabilities, Capital and Surplus—Statutory Basis (in thousands)
As of December 31, 2018 and 2017

ADMITTED ASSETS	2018	2017
Bonds:		
United States government	\$ 3,923,581	\$ 4,250,014
Canadian government and subdivisions	33,947	33,938
Other governmental units	16,577,623	16,405,917
Industrial and other	30,883,135	30,255,157
	<u>51,418,286</u>	<u>50,945,026</u>
Stocks:		
Unaffiliated common	4,050,110	4,324,878
Affiliated common	8,335	8,300
	<u>4,058,445</u>	<u>4,333,178</u>
Mortgage loans	9,213,035	7,845,138
Contract loans	4,420,788	4,367,201
Cash (Overdraft)	(20,641)	(18,832)
Cash equivalents	767,422	574,884
Short-term investments	6,009	—
Other invested assets	2,915,804	2,343,900
Accounts receivable—investment sales	470	15,881
Total cash and invested assets	<u>72,779,618</u>	<u>70,406,376</u>
Premiums deferred and uncollected	39,286	39,856
Investment income due and accrued	583,269	593,306
Net deferred tax asset	352,143	300,737
Receivables from affiliates	541	—
Other assets	14,048	14,449
Assets held in separate accounts	1,221,793	1,725,279
Total admitted assets	<u>\$74,990,698</u>	<u>\$73,080,003</u>
LIABILITIES	2018	2017
Aggregate reserves for life contracts	\$48,411,512	\$46,917,074
Liability for deposit type contracts	10,283,048	10,062,631
Policy and contract claims	223,593	228,842
Policyholders' dividends due and unpaid	3,044	3,149
Dividends to policyholders payable in the following year	569,851	570,375
Advance premiums, deposits and other policy and contract liabilities	28,600	54,474
Interest maintenance reserve (IMR)	39,015	55,299
Commissions payable	87,739	82,154
Federal income taxes payable to affiliates	198,687	203,328
Postretirement benefits	357,837	354,301
Agent termination benefits	498,260	548,294
Payable to parent, subsidiaries and affiliates	62,350	60,362
Other liabilities	254,243	262,180
Liabilities related to separate accounts	1,221,793	1,388,088
Asset valuation reserve (AVR)	1,227,137	1,384,748
Total liabilities	<u>63,466,709</u>	<u>62,175,299</u>
CAPITAL AND SURPLUS		
Common stock, \$100 par value; 30,000 shares authorized, issued and outstanding	3,000	3,000
Paid-in surplus	21,846	21,846
Unassigned surplus	11,499,143	10,879,858
Total capital and surplus	<u>11,523,989</u>	<u>10,904,704</u>
Total liabilities, capital and surplus	<u>\$74,990,698</u>	<u>\$73,080,003</u>

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

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

Statements of Operations and Change in Capital and Surplus—Statutory Basis (in thousands)
For the Years Ended December 31, 2018, 2017, and 2016

SUMMARY OF OPERATIONS	2018	2017	2016
Income:			
Premiums and annuity considerations	\$ 5,118,642	\$ 5,018,729	\$ 5,418,678
Net investment income	2,670,538	2,630,859	2,602,884
Other income	121,022	77,744	65,868
	<u>7,910,202</u>	<u>7,727,332</u>	<u>8,087,430</u>
Benefits and other expenses:			
Death benefits	1,886,438	1,839,644	1,664,467
Surrender benefits and other fund withdrawals	1,386,033	1,237,072	1,121,321
Other benefits and claims	733,098	715,099	701,694
Net transfers to or (from) separate accounts	(72,295)	(66,862)	(63,925)
Increase in policy and contract reserves	1,494,438	1,638,546	2,240,127
Commissions	356,436	359,724	376,543
General insurance expenses	645,368	684,518	661,470
Taxes, licenses and fees	106,560	100,794	102,409
	<u>6,536,076</u>	<u>6,508,535</u>	<u>6,804,106</u>
Net gain from operations before dividends to policyholders and federal and foreign income taxes	1,374,126	1,218,797	1,283,324
Dividends to policyholders	558,883	559,891	566,109
Net gain from operations before federal and foreign income taxes	815,243	658,906	717,215
Federal and foreign income taxes incurred (excluding capital gains)	174,355	240,159	195,074
Net gain from operations before net realized capital gains or (losses)	640,888	418,747	522,141
Net realized capital gains (losses), net of transfers to the IMR less capital gains tax ..	35,808	47,631	10,922
Net income	<u>\$ 676,696</u>	<u>\$ 466,378</u>	<u>\$ 533,063</u>
CAPITAL AND SURPLUS ACCOUNT	2018	2017	2016
Common stock:			
Balance at beginning and end of year	\$ 3,000	\$ 3,000	\$ 3,000
Paid-in Surplus:			
Balance at beginning and end of year	21,846	21,846	21,846
Unassigned surplus:			
Balance at beginning of year	10,879,858	10,152,424	9,535,074
Net income	676,696	466,378	533,063
Change in net unrealized capital gains (losses)	(216,467)	783,249	188,538
Change in net deferred income tax	23,087	(535,004)	(25,344)
Change in nonadmitted assets	(48,485)	226,301	66,972
Change in asset valuation reserve	157,611	(209,611)	(137,754)
Surplus withdrawn from separate accounts during period	337,897	—	—
Other changes in surplus in separate accounts statement	(394,614)	38,190	3,620
Dividends to stockholder (parent company)	(480)	(480)	(480)
Additional liability for termination benefits	84,040	(41,589)	(11,265)
Balance at end of year	<u>11,499,143</u>	<u>10,879,858</u>	<u>10,152,424</u>
Total capital and surplus	<u>\$11,523,989</u>	<u>\$10,904,704</u>	<u>\$10,177,270</u>

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

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

Statements of Cash Flows—Statutory Basis (in thousands)
For the Years Ended December 31, 2018, 2017, and 2016

CASH FLOW	2018	2017	2016
Cash from operations:			
Premiums collected net of reinsurance	\$ 4,810,956	\$ 4,727,335	\$ 5,141,230
Net investment income	2,533,168	2,482,619	2,448,936
Other income	14,323	13,697	12,912
Benefits and loss related items	(2,864,063)	(2,633,217)	(2,332,837)
Net transfers from Separate Accounts	71,670	67,071	65,387
Commissions, expenses paid and other deductions	(1,077,730)	(1,111,066)	(1,107,295)
Dividends paid to policyholders	(44,168)	(42,901)	(39,491)
Federal and foreign income taxes paid	(218,958)	(263,135)	(106,287)
Net cash from operations	<u>3,225,198</u>	<u>3,240,403</u>	<u>4,082,555</u>
Cash from investments:			
Proceeds from investments sold, matured or repaid:			
Bonds	3,800,215	4,005,259	3,770,869
Stocks	224,361	222,765	114,551
Mortgage loans	378,987	694,913	603,442
Other invested assets	279,115	214,313	169,070
Miscellaneous proceeds	16,398	—	—
Total investment proceeds	<u>4,699,076</u>	<u>5,137,250</u>	<u>4,657,932</u>
Cost of investments acquired (long term only):			
Bonds	4,280,689	5,271,211	5,141,268
Stocks	230,458	138,652	113,871
Mortgage loans	1,746,915	1,698,332	1,642,734
Other invested assets	771,710	636,381	551,746
Miscellaneous applications	—	15,682	192
Total investments acquired	<u>7,029,772</u>	<u>7,760,258</u>	<u>7,449,811</u>
Increase in contract loans and premium notes	(116,864)	(146,326)	(145,163)
Net cash from investments	<u>(2,213,832)</u>	<u>(2,476,682)</u>	<u>(2,646,716)</u>
Cash from financing and miscellaneous sources:			
Net deposits on deposit-type contracts and other insurance liabilities	(1,154,818)	(1,106,057)	(1,057,390)
Other cash provided (applied)	340,670	6,823	(3,211)
Dividends to stockholder paid	(480)	(480)	(480)
Net cash from financing and miscellaneous sources	<u>(814,628)</u>	<u>(1,099,714)</u>	<u>(1,061,081)</u>
Net change in cash, cash equivalents, and short-term investments	196,738	(335,993)	374,758
Cash, cash equivalents, and short-term investments, beginning of year	556,052	892,045	517,287
Cash, cash equivalents, and short-term investments, end of year	<u>\$ 752,790</u>	<u>\$ 556,052</u>	<u>\$ 892,045</u>
Supplemental disclosures of cash flow information for non-cash transactions:			
Deposit type contracts and interest credited	\$ 1,101,924	\$ 1,103,840	\$ 1,109,461
Dividends held or used to pay premiums	515,344	520,561	521,320
Bond exchanges	409,055	209,988	500,156
Mortgage principal refinanced	163,988	170,324	185,924
Capitalized loan interest	170,217	170,158	167,856
Separate Account Net Gain From Operations	72,500	17,555	—
Waived premium	48,333	53,460	50,785
Common stock exchanges	24,624	58,164	51,215
Other assets (Schedule BA)	—	706	—

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

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

Notes to Financial Statements—Statutory Basis (in thousands)

1. Nature of Business Operations

State Farm Life Insurance Company (the Company), domiciled in Illinois, is a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company (SFMAIC). The Company is licensed in 47 states, as well as the District of Columbia. The Company primarily markets individual life and annuity products through an exclusive independent contractor agency force and by phone and internet. Individual life insurance products include traditional whole life, universal life, term insurance and variable universal life contracts which together account for approximately 91%, 90%, and 81% of premium revenue in 2018, 2017, and 2016, respectively. Individual annuity products including variable annuity contracts account for an additional 8%, 8%, and 18% in 2018, 2017, and 2016, respectively. The Company also writes a small amount of employee group life.

The Company is the parent company of the wholly owned State Farm Health Insurance Company (SFHIC).

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 financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the Illinois Department of Insurance.

The Illinois Department of Insurance recognizes only statutory accounting practices prescribed or permitted by the state of Illinois for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Illinois insurance law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP) has been adopted as a component of prescribed practices by the state of Illinois. During 2018, 2017, and 2016, the Company did not have any permitted practices.

The preparation of financial statements 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 dates of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. Certain amounts applicable to prior year have been reclassified to conform to the current year presentation. Management has evaluated subsequent events for recognition or disclosure through February 22, 2019, the date these financial statements were available for issuance.

The following discussion describes significant accounting practices and highlights the significant differences between statutory accounting practices followed by the Company and generally accepted accounting principles (GAAP). The effect of these differences has not been determined, but is presumed to be material.

A. Investments

Bonds and stocks are stated at values prescribed by the NAIC. Bonds not backed by other loans, except those in or near default (i.e., NAIC 6), are stated at amortized cost using the scientific method. Bonds not backed by other loans that are in or near default are stated at the lower of amortized cost using the scientific method or fair value. Loan-backed securities, except those in or near default, are stated at amortized cost using the scientific method including anticipated prepayments at the date of purchase. Loan-backed securities that are in or near default are stated at the lower of amortized cost using the scientific method or fair value.

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

Notes to Financial Statements—Statutory Basis (in thousands), Continued

Prepayment assumptions for loan-backed securities are obtained from ICE Data Pricing & Reference Data, LLC and Bloomberg. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective adjustment method. There have been no changes from the retrospective adjustment method to the prospective method of valuing loan-backed securities. Stocks, other than investments in subsidiaries, are stated at fair value. Prices published by the Securities Valuation Office (SVO) of the NAIC or prices from pricing vendors are used to calculate fair value. Where a price is not available from the SVO or pricing vendors, management's best estimate of fair value is used. Under GAAP, equity securities that have readily determinable fair values would be classified into two categories: trading and available-for-sale. 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 unassigned surplus.

Registered money market mutual funds are reported as cash equivalents and are stated at fair value.

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

Mortgage loans on real estate are stated at either the outstanding principal balance for loans originated by the Company or amortized cost for loans purchased by the Company. Cash receipts and interest income on impaired loans are deposited and accounted for as they are received. Impaired loans and accrued interest income on restructured impaired loans are evaluated to determine if the accrued interest is collectible. If deemed collectible, accrued interest on impaired loans is recorded as investment income due and accrued.

All mortgage loans are placed on non-accrual status when a loan is past due greater than 90 days or earlier if concerns exist as to the ultimate collectability of principal or interest. Loans remain in non-accrual status until full repayment of remaining contractual principal and interest is expected, the loan is current and there has been six months of sustained payment performance. Any due and accrued investment income that is 180 days past due and collectible is also reported as a non-admitted asset. If the accrued interest is not collectible, it is written-off and no further interest is accrued. The Company had no voluntary reserves for mortgage loans, in excess of those established for the asset valuation reserve, at December 31, 2018 or 2017.

Contract loans are stated at the aggregate of unpaid loan balances, which are not in excess of cash surrender values of related policies. Any loans in excess of cash surrender value are non-admitted in accordance with Statement of Statutory Accounting Principles (SSAP) No. 49.

The Company's other invested assets are comprised of ownership interests in joint ventures, partnerships, and limited liability companies. The Company carries these interests based on the underlying audited GAAP equity of the investee. Under SAP changes in these values are reflected in Surplus, whereas in GAAP these changes may be reflected in Income. Investments without audited GAAP financial statements are non-admitted with a book/adjusted carrying value of zero. No impairments were recorded during 2018 and 2017.

The underlying audited statutory equity method is used for valuing its interest in the U.S. insurance subsidiary. Under GAAP reporting, all majority-owned subsidiaries would be consolidated.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

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

Investment income is recorded when earned. Due and accrued investment income that is over 90 days past due or when collection is in doubt is excluded from surplus. There were no material amounts excluded in 2018 and 2017. Realized gains and losses on sale of investments are determined by the specific identification method. Net realized gains or losses are shown net of federal income tax. Unrealized gains and losses are recorded to unassigned surplus net of deferred income tax.

For any decline in the fair value of a bond, stock, or mortgage loan that is considered to be other-than-temporary, a valuation adjustment is made and recognized as a realized capital loss.

B. Premiums Deferred and Uncollected

Premiums deferred and uncollected represent modal premiums, either due directly from policyholders and uncollected or not yet due, where policy reserves have been provided on the assumption that the full premium for the current policy year has been collected. Also, where policy reserves have been provided on a continuous premium assumption, premiums uncollected are similarly defined.

C. Aggregate Reserves for Life Contracts

Policy reserves on life insurance are based on statutory mortality and interest rate requirements and are computed using principally net level and modified preliminary term methods with interest rates ranging primarily from 2.5% to 5.5%. The use of a modified reserve basis partially offsets the effect of immediately expensing policy acquisition costs. Policy reserves on annuities are based on statutory mortality and interest requirements with interest rates ranging from primarily 2.5% to 8%. Under GAAP, reserves are based on mortality, lapse, withdrawal and interest rate assumptions that are based on Company experience.

D. Policyholders' Dividends

All of the Company's individual and group life insurance business is written on the participating basis. Subject to the provisions of law regarding return of excess premiums, the Board of Directors may authorize such dividends to policyholders upon such terms and conditions as may, in their judgment, be proper, just and equitable. The amount of dividends to be paid to policyholders is determined annually by the Company's Board of Directors. Amounts declared and estimated to be payable to policyholders in the forthcoming year have been included in the accompanying financial statements as a liability based on approved dividend scales. Under GAAP, dividends are anticipated and may be considered as a planned contractual benefit when computing the value of future policy benefits. For the years ended December 31, 2018, 2017, and 2016, premiums under individual and group life participating policies were \$4,712,960, \$4,596,528, and \$4,451,368 or 100% of total individual and group life premiums earned. The Company's Statements of Operations for 2018, 2017, and 2016 includes \$558,883, \$559,891, and \$566,109 of policyholder dividends, respectively.

The Company absolutely and irrevocably commits and guarantees that, of the total dividends apportioned for the period beginning January 1, 2019 and ending December 31, 2019, it will pay or cause to be applied during 2019, in all events, annual dividends for participating individual life and annuity policies issued after December 31, 1983, in an amount not less than \$198,000. This guarantee covers policies in the aggregate only and does not confer a dividend guarantee on any specific policy.

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Notes to Financial Statements—Statutory Basis (in thousands), Continued

E. Federal and Foreign Income Taxes

The Company files a consolidated federal income tax return with the following companies:

State Farm Mutual Automobile Insurance Company	State Farm Investment Management Corp. (SFIMC)
State Farm Fire and Casualty Company	State Farm VP Management Corp.
State Farm General Insurance Company	State Farm Bank, FSB
State Farm Life and Accident Assurance Company	State Farm International Holding Company
State Farm Health Insurance Company	Plaza One Realty Company
State Farm Lloyds	Insurance Placement Services, Inc.
State Farm Indemnity Company	State Farm Realty Investment Company
State Farm Guaranty Insurance Company	Oglesby Reinsurance Company
State Farm Florida Insurance Company	Dover Bay Specialty Insurance Company
State Farm International Services, Inc.	HiRoad Assurance Company
State Farm Lloyds, Inc.	

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 after consolidating adjustments for regular and, for 2017 only, alternative minimum tax (AMT), with current credit for net losses and tax credits used by the consolidated group. 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.

Under NAIC SAP, the deferred tax assets (DTAs) are reduced by a valuation allowance if it is more likely than not that some portion of the DTAs will not be realized. In addition, the gross DTAs are subject to an admissibility test. The admissibility test has three parts. The first part of the admissibility test determines the loss carryback potential for temporary differences that reverse corresponding to Internal Revenue Service (IRS) tax loss carryback provisions, not to exceed three years. The second part of the admissibility test applies reversal periods and adjusted capital and surplus limitations based upon risk-based capital (RBC) thresholds to determine the admitted portion of DTAs expected to be realized during a period not to exceed three years. The third part of the test permits admission of gross DTAs to the extent of gross deferred tax liabilities (DTLs). Any changes in DTAs and DTLs are recognized as a separate component of the change in unassigned surplus.

The change in the net DTA/DTL is reflected in capital and surplus under NAIC SAP whereas under GAAP, the change would be reported in income. Admissibility testing may result in a charge to capital and surplus for non-admitted portions of a DTA. Under GAAP valuation allowances relating to DTAs would be charged to income.

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. State income tax is reported as a component of taxes, licenses, and fees and is an element of pre-tax book income; deferred state income taxes are not recorded. Under GAAP, there is no admissibility test. In addition, DTAs under GAAP include all tax components (federal, state, foreign, current and deferred); changes in deferred income taxes are recorded as a component of the total tax provision instead of a direct adjustment to unassigned surplus.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

The Company complies with the applicable income tax reporting and disclosure requirements pursuant to SSAP No. 101 for any uncertain tax positions. SSAP No. 101 requires that tax loss contingencies, including the related interest and penalties, for current and prior years be computed in accordance with SSAP No. 5R with certain modifications. A tax loss contingency is recorded only if it is more likely than not that such a loss has been incurred. If the Company determines that no tax loss contingency should be recorded, then analysis is completed to determine if a disclosure within the financial statements is required. Per SSAP No. 101, a disclosure is made when it is reasonably possible that the total liability for the income tax loss contingency will significantly increase within 12 months of the reporting date. The Company evaluates material tax positions taken that are 50% or less likely to result in a tax loss, and therefore are not recorded, to determine whether a disclosure should be made simply because the position is significant.

The provision for federal income taxes is based on the Internal Revenue Code of 1986, as amended.

F. Interest Maintenance Reserve and Asset Valuation Reserve

The Interest Maintenance Reserve (IMR) and Asset Valuation Reserve (AVR) are maintained in accordance with requirements prescribed by the NAIC. Realized investment gains and losses, net of tax, attributable to interest rate changes on short-term and long-term fixed income investments are deferred and held in the IMR account. Such gains and losses are then amortized over the remaining original maturity of the investment sold and the amortization is reflected in the Company's Statements of Operations.

The AVR provides a reserve for credit-related and equity risks in a broad range of invested assets including bonds, stocks, mortgage loans, real estate, and other invested assets. Changes in the AVR are charged or credited directly to the unassigned surplus. The IMR and AVR are not calculated under GAAP.

G. Separate Accounts

The Company has established individual variable life and individual variable annuity separate accounts as unit investment trusts registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and has issued individual variable universal life and individual variable annuity contracts as supported by Illinois Insurance Code 215 ILCS 5/245.21. A separate account is an accounting entity segregated as a discrete operation within an insurance company. Deposits received in connection with these contracts are placed in the Company's separate accounts and general account within certain limits.

Assets held in separate accounts under variable life and variable annuity contracts are invested as designated by the contract holder in units of the subaccounts of the separate accounts. The subaccounts invest those assets in shares of mutual funds.

Separate account assets are reported at Net Asset Value (NAV) and liabilities are recorded at amounts equal to contract holder assets. Contract holders are the only persons having rights to any assets in the separate accounts or to income arising from such assets. The Company withdrew all surplus of the separate account during 2018. Refer to Note 5 for additional disclosures.

The Company does not engage in security lending transactions within the separate accounts.

H. Recognition of Premiums and Annuity Considerations and Related Expenses

Scheduled life premiums are recognized as revenue over the premium paying period of the related policies. Flexible and single premiums and annuity considerations are recognized as revenues as received.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

Premiums received prior to the date of the financial statement which are due on or after the next modal premium date are recognized as a liability on the balance sheet. Acquisition costs, such as commissions and other costs related to the new business are expensed as incurred. Contracts that permit the insured to change the amount and timing of premium payments, such as universal life products are recorded as revenue when received. Under GAAP, the premiums for universal life contracts are recorded as increases to liabilities and revenue is recognized as mortality and other assessments are made to the policyholders. Additionally, acquisition costs under GAAP are capitalized and amortized over the policy period.

I. Non-admitted Assets

Certain assets designated as “non-admitted” assets, principally non-admitted DTAs, aggregating \$95,575 and \$47,090 at December 31, 2018 and 2017, respectively, are not recognized by statutory accounting practices. These assets are excluded from the balance sheet, and the net change in such assets is charged or credited directly to unassigned surplus. There is no such concept under GAAP.

J. Stockholder Dividends

The maximum amount of dividends which can be paid by state of Illinois insurance companies to shareholders without the prior approval of the Insurance Commissioner is subject to restrictions relating to statutory surplus and net income.

K. Guaranty Fund Assessments

As of December 31, 2018 and 2017, liabilities of \$17,374 and \$18,109, respectively, have been recorded for guaranty fund assessments. These amounts, when recorded, represent liabilities recorded for all states in which the Company operates. 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, as shown in the table below, are realized within five years of the payment of the guaranty fund assessment in most states.

Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end	\$13,044
Decreases current year:	
Premium tax offset applied to 2018 annual returns	615
Premium tax offset applied to 2017 annual returns (under accrual)	10
Premium tax offset accrual adjustment (NOLHGA)	151
Increases current year:	—
Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end	\$12,268

3. Reconciliation to Revised 2016 Audited Financial Statement

The Company revised the Statement of Cash Flows for the year ended December 31, 2016 to correct for non-cash items previously included in the financial statement and not separately disclosed as a supplemental disclosure. The following is a reconciliation of amounts previously reported within the Statement of Cash Flows of the 2016 audited financial statement to the revised values included in this financial statement. The Company has concluded that the impact on the previously issued financial statements was not material.

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Notes to Financial Statements—Statutory Basis (in thousands), Continued

For the Year Ended December 31, 2016	As Originally Reported	Adjustment	As Revised
Premiums collected net of reinsurance	\$ 5,441,227	\$ (299,997)	\$ 5,141,230
Net investment income	2,616,792	(167,856)	2,448,936
Benefits and loss related items	(3,493,083)	1,160,246	(2,332,837)
Dividends paid to policyholders	(560,811)	521,320	(39,491)
Net cash from operations	2,868,842	1,213,713	4,082,555
Proceeds from mortgage loans	789,366	(185,924)	603,442
Total investment proceeds	4,843,856	(185,924)	4,657,932
Cost of mortgage loans	1,828,658	(185,924)	1,642,734
Total investments acquired	7,635,735	(185,924)	7,449,811
Increase (decrease) in contract loans and premium notes	22,693	(167,856)	(145,163)
Net cash from investments	(2,814,572)	167,856	(2,646,716)
Net deposits on deposit-type contracts and other insurance liabilities	324,179	(1,381,569)	(1,057,390)
Net cash from financing and miscellaneous sources	320,488	(1,381,569)	(1,061,081)

4. Investments

A. Bonds and Other Debt Securities

The statement value and estimated fair value of investments in debt securities, including short-term investments were as follows:

	December 31, 2018			
	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. governments	\$ 3,923,581	\$ 57,766	\$ (34,286)	\$ 3,947,061
All other governments	78,529	291	(869)	77,951
States, territories and possessions (direct and guaranteed)	1,089,623	57,220	(185)	1,146,658
Political subdivisions of states, territories and possessions (direct and guaranteed)	2,951,761	120,010	(1,380)	3,070,391
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	12,491,657	186,434	(163,093)	12,514,998
Industrial and miscellaneous	30,889,144	177,307	(831,155)	30,235,296
Totals	<u>\$51,424,295</u>	<u>\$599,028</u>	<u>\$(1,030,968)</u>	<u>\$50,992,355</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

	December 31, 2017			
	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. governments	\$ 4,250,014	\$ 111,491	\$ (18,582)	\$ 4,342,923
All other governments	84,564	1,597	(358)	85,803
States, territories and possessions (direct and guaranteed)	1,144,278	87,625	(15)	1,231,888
Political subdivisions of states, territories and possessions (direct and guaranteed)	3,017,912	195,417	(1,091)	3,212,238
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	12,193,101	326,694	(60,647)	12,459,148
Industrial and miscellaneous	30,255,157	695,827	(202,190)	30,748,794
Totals	<u>\$50,945,026</u>	<u>\$1,418,651</u>	<u>\$(282,883)</u>	<u>\$52,080,794</u>

The statement value and estimated fair value of debt securities by expected maturity are shown below. The expected maturity may differ from the contractual maturity for certain securities and, where applicable, is based on assumed prepayment rates, payment schedules, and known calls.

	December 31, 2018	
	Statement Value	Fair Value
Due in one year or less	\$ 2,666,349	\$ 2,687,863
Due after one year through five years	20,477,922	20,471,190
Due after five years through ten years	24,181,751	23,764,876
Due after ten years	4,098,273	4,068,426
Totals	<u>\$51,424,295</u>	<u>\$50,992,355</u>

Gross proceeds and realized gains and losses, including other-than-temporary impairments, on bonds sold for the years ended December 31, consisted of:

	2018	2017	2016
Proceeds	\$329,747	\$185,440	\$278,322
Gross gains	20,035	12,682	15,222
Gross losses	(2,380)	(6,774)	(13,957)

B. Restricted Assets

Certain assets owned by the Company and reported as admitted assets in the financial statements are not under the exclusive control of the Company. These investments are held at depository institutions for the benefit of policyholders and other beneficiaries.

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Notes to Financial Statements—Statutory Basis (in thousands), Continued

	<u>2018</u>	<u>2017</u>
Bonds on deposit with regulatory authorities	\$ 2,333	\$ 2,351
Bonds pledged as collateral	47,593	46,466
Bonds held for special purposes	226	226
Cash account held for special purposes	5,000	5,000
Totals	<u>\$55,152</u>	<u>\$54,043</u>

C. Mortgage Loans

Credit quality of the mortgage portfolio is evaluated through a variety of quantitative and qualitative loan factors. The factors are used to measure weakness and assess risk levels in individual loans. Loan-to-value (“LTV”) and debt service coverage (“DSC”) ratios are two of the key quantitative factors used to identify loan risk and potential loss. LTV is the ratio of the amortized cost of a loan to the estimated value of the underlying collateral. DSC is the ratio of the cash flows from the underlying collateral to the principal and interest payments of the loan. Credit quality indicators are updated and evaluated at least annually.

The Company invests in commercial mortgage loans secured primarily by industrial, multi-family, office, and retail properties. Each loan in the portfolio is reviewed at least annually for potential impairment, delinquency, non-accrual status and ultimate collectability. During these reviews the collateral financial results, occupancy, and physical condition, as well as guarantor financial position, where applicable, and current market conditions are evaluated.

The Company’s recorded investments by property type and credit quality indicator were as follows:

(in thousands)	DSC ratio				LTV ratio			
	Greater than 1.25	1.00-1.25	Less than 1.00	Total	Less than 80%	80%-less than 90%	90% or greater	Total
December 31, 2018:								
Apartment	\$3,366,839	\$ 198,782	\$20,596	\$3,586,217	\$3,586,217	\$ —	\$—	\$3,586,217
Retail	987,105	150,200	15,472	1,152,777	1,152,777	—	—	1,152,777
Office	917,139	61,436	22,027	1,000,602	986,196	14,406	—	1,000,602
Industrial	2,537,583	552,904	1,649	3,092,136	3,092,136	—	—	3,092,136
Mixed Use	106,134	16,122	—	122,256	122,256	—	—	122,256
Other	256,317	2,730	—	259,047	259,047	—	—	259,047
Total	<u>\$8,171,117</u>	<u>\$ 982,174</u>	<u>\$59,744</u>	<u>\$9,213,035</u>	<u>\$9,198,629</u>	<u>\$14,406</u>	<u>\$—</u>	<u>\$9,213,035</u>
December 31, 2017:								
Apartment	\$2,782,244	\$ 197,703	\$43,341	\$3,023,288	\$3,023,288	\$ —	\$—	\$3,023,288
Retail	219,584	733,793	15,534	968,911	968,911	—	—	968,911
Office	798,385	22,330	13,427	834,142	834,142	—	—	834,142
Industrial	2,264,834	408,804	15,523	2,689,161	2,682,629	6,532	—	2,689,161
Mixed Use	82,947	19,706	—	102,653	102,653	—	—	102,653
Other	226,983	—	—	226,983	226,983	—	—	226,983
Total	<u>\$6,374,977</u>	<u>\$1,382,336</u>	<u>\$87,825</u>	<u>\$7,845,138</u>	<u>\$7,838,606</u>	<u>\$ 6,532</u>	<u>\$—</u>	<u>\$7,845,138</u>

As of December 31, 2018 and 2017, the weighted average DSC ratios for the portfolio were 2.17 and 2.04, respectively. The weighted average LTV ratios for the portfolio were 51.7% and 52.8% as of December 31, 2018 and 2017, respectively.

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Notes to Financial Statements—Statutory Basis (in thousands), Continued

The maximum lending rate for commercial mortgage loans was 4.64% and 4.62% for 2018 and 2017, respectively. The minimum lending rate for commercial mortgage loans was 3.06% and 3.12% for 2018 and 2017, respectively.

The maximum percentage of any one loan to the value of security at the time of the loan in 2018 and 2017, exclusive of insured or guaranteed mortgages or purchased money mortgages, was 71.21% and 88.37%, respectively.

The Company's mortgage loan age analysis and interest rate reduction summaries were as follows:

	Commercial	
	<u>Insured</u>	<u>All Other</u>
2018		
1. Recorded investments (all)		
(a) Current	\$ —	\$9,213,035
(b) 30-59 days past due	\$ —	\$ —
(c) 60-89 days past due	\$ —	\$ —
(d) 90-179 days past due	\$ —	\$ —
(e) 180+ days past due	\$ —	\$ —
2. Accruing interest 90-179 days past due		
(a) Recorded investment	\$ —	\$ —
(b) Interest accrued	\$ —	\$ —
3. Accruing interest 180+ days past due		
(a) Recorded investment	\$ —	\$ —
(b) Interest accrued	\$ —	\$ —
4. Interest reduced		
(a) Recorded investment	\$ —	\$ —
(b) Number of loans	—	—
(c) Percent reduced	0.00%	0.00%
5. Participant or co-lender in a mortgage loan agreement		
(a) Recorded investment	\$ —	\$ —

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Notes to Financial Statements—Statutory Basis (in thousands), Continued

	Commercial	
	Insured	All Other
2017		
1. Recorded investments (all)		
(a) Current	\$ —	\$7,845,138
(b) 30-59 days past due	\$ —	\$ —
(c) 60-89 days past due	\$ —	\$ —
(d) 90-179 days past due	\$ —	\$ —
(e) 180+ days past due	\$ —	\$ —
2. Accruing interest 90-179 days past due		
(a) Recorded investment	\$ —	\$ —
(b) Interest accrued	\$ —	\$ —
3. Accruing interest 180+ days past due		
(a) Recorded investment	\$ —	\$ —
(b) Interest accrued	\$ —	\$ —
4. Interest reduced		
(a) Recorded investment	\$ —	\$ 5,821
(b) Number of loans	—	2
(c) Percent reduced	0.00%	1.89%
5. Participant or co-lender in a mortgage loan agreement		
(a) Recorded investment	\$ —	\$ —
2016		
1. Recorded investments (all)		
(a) Current	\$ —	\$6,835,858
(b) 30-59 days past due	\$ —	\$ —
(c) 60-89 days past due	\$ —	\$ —
(d) 90-179 days past due	\$ —	\$ —
(e) 180+ days past due	\$ —	\$ —
2. Accruing interest 90-179 days past due		
(a) Recorded investment	\$ —	\$ —
(b) Interest accrued	\$ —	\$ —
3. Accruing interest 180+ days past due		
(a) Recorded investment	\$ —	\$ —
(b) Interest accrued	\$ —	\$ —
4. Interest reduced		
(a) Recorded investment	\$ —	\$ —
(b) Number of loans	—	—
(c) Percent reduced	0.00%	0.00%
5. Participant or co-lender in a mortgage loan agreement		
(a) Recorded investment	\$ —	\$ —

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Notes to Financial Statements—Statutory Basis (in thousands), Continued

The Company did not record an allowance for credit losses on its mortgage loans and had no taxes, assessments or other amounts not included in the mortgage loan total. The Company's impaired mortgage loans at December 31 were as follows:

	<u>Statement Value</u>	<u>Unpaid Principal Balance</u>	<u>Other-Than-Temporary Impairments</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
2018	\$ —	\$ —	\$ —	\$ —	\$ —
2017	\$ —	\$ —	\$ —	\$ —	\$ —
2016	\$8,506	\$14,416	\$8,400	\$8,506	\$4,000

Cash receipts are deposited and accounted for as received. Impaired loans are evaluated to determine if the accrued interest is collectible. If deemed collectible, accrued interest on impaired loans is recorded as investment income due and accrued. Any due and accrued investment income which is 180 days past due and collectible is also reported as a non-admitted asset. If the accrued interest is not collectible, it is written-off and no further interest is accrued.

The Company did not have any impaired mortgage loan activity as of December 31, 2018, 2017 and 2016.

The Company reported the following statement values as of December 31, 2018 and 2017, respectively:

Mortgages in Good Standing: \$9,213,035 and \$7,845,138
Restructured Mortgages: \$0 and \$0
Mortgages In the Process of Foreclosure: \$0 and \$0

D. Equity Investments

The cost and statement/fair value of investments in stocks and gross unrealized gains and losses from these investments were as follows:

	<u>December 31, 2018</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Statement/Fair Value</u>
Unaffiliated common	\$1,943,879	\$2,187,116	\$(80,885)	\$4,050,110
Affiliated common	3,500	4,835	—	8,335

	<u>December 31, 2017</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Statement/Fair Value</u>
Unaffiliated common	\$1,865,061	\$2,478,063	\$(18,246)	\$4,324,878
Affiliated common	3,500	4,800	—	8,300

Gross realized gains and losses, including other-than-temporary impairments, for the years ended December 31 consisted of:

	<u>2018</u>		<u>2017</u>		<u>2016</u>	
	<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>
Unaffiliated common	\$79,861	\$(7,904)	\$72,820	\$(7,117)	\$55,630	\$(11,600)
Affiliated common	\$ —	\$ —	\$ 4,682	\$(4,423)	\$ —	\$ —

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

Notes to Financial Statements—Statutory Basis (in thousands), Continued

E. Financial Instrument Impairments

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.

The Company had realized capital losses due to other-than-temporary declines in the fair value as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Bonds	\$368	\$6,766	\$13,577
Common Stocks	—	389	3,707
Other Invested Assets	—	—	508
Total	<u>\$368</u>	<u>\$7,155</u>	<u>\$17,792</u>

The unrealized losses due to temporary declines in the fair value of investments were as follows:

	December 31, 2018					
	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. governments	\$ 695,594	\$ (8,510)	\$ 961,269	\$ (25,776)	\$ 1,656,863	\$ (34,286)
All other governments	18,432	(130)	23,156	(739)	41,588	(869)
States, territories and possessions (direct and guaranteed)	25,209	(101)	6,501	(84)	31,710	(185)
Political subdivisions of states, territories and possessions (direct and guaranteed)	72,544	(449)	96,688	(931)	169,232	(1,380)
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	3,383,419	(44,957)	3,458,514	(118,136)	6,841,933	(163,093)
Industrial and miscellaneous	14,493,990	(365,252)	7,184,097	(465,903)	21,678,087	(831,155)
Subtotal, debt securities	18,689,188	(419,399)	11,730,225	(611,569)	30,419,413	(1,030,968)
Common unaffiliated stock	198,930	(63,288)	29,762	(17,597)	228,692	(80,885)
Total temporarily impaired securities	<u>\$18,888,118</u>	<u>\$(482,687)</u>	<u>\$11,759,987</u>	<u>\$(629,166)</u>	<u>\$30,648,105</u>	<u>\$(1,111,853)</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. governments	\$ 430,331	\$ (2,106)	\$ 650,997	\$ (16,476)	\$ 1,081,328	\$ (18,582)
All other governments	—	—	24,427	(358)	24,427	(358)
States, territories and possessions (direct and guaranteed)	6,570	(15)	—	—	6,570	(15)
Political subdivisions of states, territories and possessions (direct and guaranteed)	85,779	(506)	41,094	(585)	126,873	(1,091)
Special revenue and special assessment Obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	1,506,778	(8,551)	2,258,505	(52,096)	3,765,283	(60,647)
Industrial and miscellaneous	4,112,604	(54,525)	4,230,218	(147,665)	8,342,822	(202,190)
Subtotal, debt securities	6,142,062	(65,703)	7,205,241	(217,180)	13,347,303	(282,883)
Common unaffiliated stock	74,218	(7,399)	36,667	(10,847)	110,885	(18,246)
Total temporarily impaired securities	<u>\$6,216,280</u>	<u>\$ (73,102)</u>	<u>\$7,241,908</u>	<u>\$ (228,027)</u>	<u>\$13,458,188</u>	<u>\$ (301,129)</u>

Bonds

The unrealized losses on the Company's bond investments were primarily interest related with market declines driven by changes in interest rates and credit spreads, not on fundamental credit problems of the issuers. The contractual terms of the Company's bond investments, excluding loan-backed, do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The Company did not have the intent to sell these investments at the reporting date and does not consider these investments to be other-than-temporarily impaired at December 31, 2018.

Unaffiliated Stocks

The Company evaluates its stock investments for impairment loss by calculating unrealized losses and performing analysis at each quarter and annually. Based upon the timing and 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 their cost basis, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2018.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

F. Realized Capital Gains (Losses)

The reconciliation of realized capital gains (losses) is as follows:

	December 31, 2018		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	\$87,750	\$39,962	\$47,788
Less: IMR capital gains (losses)	15,164	3,184	11,980
Capital gains (losses) net of IMR	<u>\$72,586</u>	<u>\$36,778</u>	<u>\$35,808</u>

	December 31, 2017		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	\$72,534	\$19,157	\$53,377
Less: IMR capital gains (losses)	8,840	3,094	5,746
Capital gains (losses) net of IMR	<u>\$63,694</u>	<u>\$16,063</u>	<u>\$47,631</u>

	December 31, 2016		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	\$94,863	\$42,175	\$52,688
Less: IMR capital gains (losses)	65,259	23,493	41,766
Capital gains (losses) net of IMR	<u>\$29,604</u>	<u>\$18,682</u>	<u>\$10,922</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

G. Investment in Subsidiaries

The table below is an aggregate total of all subsidiary, controlled and affiliated entities (SCAs), excluding U.S. insurance affiliates and investments in limited liability companies, limited partnerships and joint ventures. There are no non-admitted amounts related to these SCAs reflected in the Company's Balance Sheet.

December 31, 2018

SCA Entity ^(a)	Percentage of SCA Ownership	Admitted Amount	Type of NAIC Filing*	Date of Filing to the NAIC	NAIC Valuation Amount	NAIC Response Received (Y/N)	NAIC Disallowed Entity's Valuation Method, Resubmission Required (Y/N)	Code**
SF VP Trust International Equity	0.0%	\$—	S2	3/7/2018	\$ 46,147	Y	N	M
SF VP Trust International Index Fund	0.0%	—	S2	3/7/2018	127,959	Y	N	M
SF VP Trust Large Cap Equity Fund	0.0%	—	S2	3/7/2018	55,853	Y	N	M
SF VP Trust Small/Mid Cap Equity	0.0%	—	S2	3/7/2018	56,039	Y	N	M
SF VP Trust Small Cap Index Fund	0.0%	—	S2	3/7/2018	51,193	Y	N	M
Aggregate Total		<u>\$—</u>			<u>\$337,191</u>			

* S1 – Sub-1, S2 – Sub-2 or RDF – Resubmission of Disallowed Filing

** I – Immaterial or M – Material

(a) These SCA investments were disposed during 2018.

December 31, 2017

SCA Entity	Percentage of SCA Ownership	Admitted Amount	Type of NAIC Filing*	Date of Filing to the NAIC	NAIC Valuation Amount	NAIC Response Received (Y/N)	NAIC Disallowed Entity's Valuation Method, Resubmission Required (Y/N)	Code**
SF VP Trust International Equity	82.8%	\$ 46,147	S2	3/3/2017	\$ 34,353	Y	N	M
SF VP Trust International Index Fund	38.3%	127,959	S2	3/3/2017	102,022	Y	N	I
SF VP Trust Large Cap Equity Fund	69.0%	55,853	S2	3/3/2017	45,123	Y	N	I
SF VP Trust Small/Mid Cap Equity	75.4%	56,039	S2	3/3/2017	50,135	Y	N	I
SF VP Trust Small Cap Index Fund	15.0%	51,193	S2	3/3/2017	44,713	Y	N	I
Aggregate Total		<u>\$337,191</u>			<u>\$276,346</u>			

* S1 – Sub-1, S2 – Sub-2 or RDF – Resubmission of Disallowed Filing

** I – Immaterial or M – Material

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

H. Net Investment Income

The components of net investment income earned by type of investment for the years ended December 31 were as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Bonds	\$1,830,354	\$1,888,666	\$1,904,824
Mortgage loans	348,907	313,720	286,854
Contract loans and liens	283,359	281,494	280,830
Cash, cash equivalents, and short-term investments	11,998	6,373	2,456
Affiliated common stocks	—	1,025	48
Unaffiliated common stocks	102,077	93,491	87,896
Other	125,753	76,717	66,448
Gross investment income	<u>2,702,448</u>	<u>2,661,486</u>	<u>2,629,356</u>
Investment expenses	<u>(31,910)</u>	<u>(30,627)</u>	<u>(26,472)</u>
Net investment income	<u>\$2,670,538</u>	<u>\$2,630,859</u>	<u>\$2,602,884</u>

I. Fair Value Measurements

Fair value is defined as the price that the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier hierarchy is used to classify fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in three broad levels as follows:

Level 1 – Unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, quoted prices for similar instruments in active markets, interest rates, yield curves and credit spreads. For assets or liabilities with a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available. These inputs, based on the best information available in the circumstances, would include reasonably available information about the assumptions that a market participant would use in valuing the asset or liability and might include the Company's own data.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure the fair value of an asset or liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

Financial Instruments measured at fair value were as follows:

<u>Description</u>	Fair Value Measurements at December 31, 2018			Net Asset Value (NAV)	Total
	Level 1	Level 2	Level 3		
Cash equivalents	\$ 31,538	\$ —	\$—	\$—	\$ 31,538
Stocks					
Domestic common	3,665,866	—	—	—	3,665,866
Foreign common	384,244	—	—	—	384,244
Bonds					
Industrial and miscellaneous	—	—	—	—	—
Separate accounts	1,221,793	—	—	—	1,221,793
Total	<u>\$5,303,441</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$—</u>	<u>\$5,303,441</u>

<u>Description</u>	Fair Value Measurements at December 31, 2017			Net Asset Value (NAV)	Total
	Level 1	Level 2	Level 3		
Cash equivalents	\$ 27,126	\$ —	\$—	\$—	\$ 27,126
Stocks					
Domestic common	3,857,727	—	—	—	3,857,727
Foreign common	467,151	—	—	—	467,151
Bonds					
Industrial and miscellaneous	—	—	441	—	441
Separate accounts	—	1,725,279	—	—	1,725,279
Total	<u>\$4,352,004</u>	<u>\$1,725,279</u>	<u>\$441</u>	<u>\$—</u>	<u>\$6,077,724</u>

The Company recognizes transfers between levels at the end of the reporting period. In association with the merger of the private, affiliated State Farm Variable Products Trust with BlackRock Variable Series Funds, Inc. and BlackRock Variable Series Funds II, Inc., \$1,221,793 for the Separate Accounts was transferred from Level 2 to Level 1 in 2018. At June 30, 2017 and September 30, 2017, the Company recognized transfers of corporate bonds from Level 2 to Level 3 due to the unavailability of external prices.

Level 1 Measurements

Cash Equivalents - These assets include registered money market mutual funds. The fair value is based on the (NAV).

Unaffiliated Stocks - These assets include actively traded exchange-listed equity securities. Valuations are based upon unadjusted quoted exchange prices.

Separate Accounts - These assets include mutual funds. The fair value is based upon closing NAV per share. The NAVs are published daily by the funds' managers.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

Level 2 Measurements

Separate Accounts - At December 31, 2017 these assets included private, affiliated mutual funds valued at NAV daily using observable inputs. Valuation inputs of underlying assets included, but were not limited to, quoted exchange prices, quotations by independent pricing services, bid price quotations from brokers, multiple of earnings, multiple of book values, similar freely traded securities, and yield to maturity.

Level 3 Measurements

Bonds – At December 31, 2017 these assets included below investment grade bonds that were reported in the financial statements at fair value at the reporting date. The fair value for these bonds was determined based on best information available.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

<u>Description</u>	<u>Beginning balance at 1/1/2018</u>	<u>Transfers into Level 3</u>	<u>Transfers out of Level 3</u>	<u>Total gains and (losses) included in Net Income</u>	<u>Total gains and (losses) included in Surplus</u>	<u>Purchases</u>	<u>Issuances</u>	<u>Sales</u>	<u>Settlements</u>	<u>Ending Balance at 12/31/2018</u>
a. Assets:										
Bonds:										
Industrial and miscellaneous	\$441	\$—	\$—	\$240	\$(181)	\$—	\$—	\$500	\$—	\$—

5. Separate Accounts

As of December 31, 2018 and 2017, the Company's separate accounts statement included legally insulated assets of \$1,221,793 and \$1,388,088, respectively. The assets legally insulated from the general account as of December 31, 2018 and 2017 are attributed to the following products:

December 31, 2018

<u>Product/Transaction</u>	<u>Legally Insulated Assets</u>	<u>Separate Accounts Assets (Not Legally Insulated)</u>
Variable Universal Life	\$ 525,141	\$—
Variable Annuities	696,652	—
Total	<u>\$1,221,793</u>	<u>\$—</u>

December 31, 2017

<u>Product/Transaction</u>	<u>Legally Insulated Assets</u>	<u>Separate Accounts Assets (Not Legally Insulated)</u>
Variable Universal Life	\$ 585,410	\$168,596
Variable Annuities	802,678	168,595
Total	<u>\$1,388,088</u>	<u>\$337,191</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

Certain guarantees are provided by the general account. For the years ended December 31, 2018, 2017, 2016, 2015, and 2014, the general account had paid \$101, \$50, \$167, \$133, and \$36, respectively, towards separate accounts guarantees. The Company's variable universal life and variable annuity contracts do not designate explicit risk charges to compensate the general account for the guarantees provided.

Information regarding the Separate Accounts of the Company for 2018, 2017, and 2016 is as follows:

	2018				
	(1)	(2)	(3)	(4)	(5)
	Indexed	Nonindexed Guarantee Less Than Equal to 4%	Nonindexed Guarantee More than 4%	Nonguaranteed Separate Accounts	Total
Premiums, considerations or deposits for year ended December 31	\$—	\$—	\$—	\$ 48,687	\$ 48,687
Reserves at December 31:					
For accounts with assets at:					
Fair value	—	—	—	1,220,207	1,220,207
Amortized cost	—	—	—	—	—
Total reserves	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1,220,207</u>	<u>\$1,220,207</u>
Withdrawal characteristics:					
Subject to discretionary withdrawal:					
With market value adjustment	\$—	\$—	\$—	\$ —	\$ —
At book value without market value adjustment and with current surrender of 5% or more	—	—	—	—	—
At fair value	—	—	—	1,219,576	1,219,576
At book value without market value adjustment and with current surrender charge of less than 5% ...	—	—	—	—	—
Subtotal	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1,219,576</u>	<u>\$1,219,576</u>
Not subject to discretionary withdrawal	—	—	—	631	631
Total	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1,220,207</u>	<u>\$1,220,207</u>

Reconciliation of Net Transfers to or (from) separate accounts:

	2018
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	\$ 52,570
Transfers from separate accounts	(124,861)
Net transfers to (from) separate accounts	<u>\$ (72,291)</u>
Reconciling adjustments:	
Transfers on account of deposit-type contracts	\$ (4)
Transfers as reported in the Statements of Operations	<u>\$ (72,295)</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

	2017				
	(1) Indexed	(2) Nonindexed Guarantee Less Than Equal to 4%	(3) Nonindexed Guarantee More than 4%	(4) Nonguaranteed Separate Accounts	(5) Total
Premiums, considerations or deposits for year ended December 31	\$—	\$—	\$—	\$ 51,464	\$ 51,464
Reserves at December 31:					
For accounts with assets at:					
Fair value	—	—	—	1,387,127	1,387,127
Amortized cost	—	—	—	—	—
Total reserves	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1,387,127</u>	<u>\$1,387,127</u>
Withdrawal characteristics:					
Subject to discretionary withdrawal:					
With fair market adjustment	\$—	\$—	\$—	\$ —	\$ —
At book value without market value adjustment and with current surrender of 5% or more	—	—	—	—	—
At fair value	—	—	—	1,385,456	1,385,456
At book value without market value adjustment and with current surrender charge of less than 5% . . .	—	—	—	—	—
Subtotal	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1,385,456</u>	<u>\$1,385,456</u>
Not subject to discretionary withdrawal	—	—	—	1,671	1,671
Total	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1,387,127</u>	<u>\$1,387,127</u>

Reconciliation of Net Transfers to or (from) separate accounts:

	2017
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	\$ 55,279
Transfers from separate accounts	(122,138)
Net transfers to (from) separate accounts	<u>\$ (66,859)</u>
Reconciling adjustments:	
Transfers on account of deposit-type contracts	\$ (3)
Transfers as reported in the Statements of Operations	<u>\$ (66,862)</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

Reconciliation of Net Transfers to or (from) separate accounts:

	<u>2016</u>
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	\$ 57,475
Transfers from separate accounts	(121,438)
Net transfers to (from) separate accounts	<u>\$ (63,963)</u>
Reconciling adjustments:	
Transfers on account of deposit-type contracts	\$ 38
Transfers as reported in the Statements of Operations	<u>\$ (63,925)</u>

6. 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 (including short-term investments)

Prices published by the SVO or prices from pricing vendors are used to calculate fair value. SVO valuations are based upon publicly available prices for identical or similar assets or on valuation models or matrices using observable inputs. Typical inputs to models used by pricing vendors include but are not limited to contractual cash flows, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. On newly acquired bonds not yet priced by the pricing vendors, the purchase price is used as fair value. For other bonds where a price is not available from the SVO or pricing vendors, an internal pricing matrix is used to estimate fair value. Inputs to the internal pricing matrix include benchmark yields, credit spreads, industry sector of the issuer, and illiquidity spreads for private placement securities. For money market mutual funds, fair value is based on NAV.

Unaffiliated Stocks

Prices from pricing vendors or prices prescribed by the SVO are used to calculate fair value. Valuation is based on unadjusted quoted market prices for identical assets in an active market, NAV, or shareholder's equity derived from the issuer's audited financial statements.

Mortgage Loans

Fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings by property type for the same remaining maturities.

Cash

The carrying amount is a reasonable estimate of fair value.

Cash Equivalents

Cash equivalents consist of shares in money market mutual funds and the Pool. The fair value of money market mutual funds is based on the NAV calculated by the funds. The fair value of the Pool is determined by the audited GAAP equity method.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

Contract Loans

Contract loans have no stated maturity dates and are an integral part of the insurance contract. Accordingly, it is not practicable to estimate a fair value for contract loans.

Separate Accounts

The fair value of the assets held in separate accounts and corresponding liabilities are based on the NAV of the underlying assets.

Structured Annuity Reserves and Other Similar Items

Fair values were estimated by discounting future annuity payments at the interest rates in effect at year end for similar contracts.

Deferred Annuity Reserves

Fair values were approximated by the amount due to the annuity holder as if the annuity contract was surrendered at year end, ignoring the effects of any market value adjustments.

Settlement Options without Life Contingencies

Settlement options without life contingencies are similar to demand deposits. The fair value is the amount payable on demand at year end.

The statement value and estimated fair value of the Company's financial instruments as of December 31 were as follows:

	2018					
	Fair Value	Statement Value	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV) / Not Practicable (carrying value)
Financial assets:						
Bonds:						
Loan-backed	\$13,587,191	\$13,660,410		\$13,587,191		
Other	37,399,157	37,757,876		37,399,157	—	
Unaffiliated common stocks	4,050,110	4,050,110	4,050,110			
Mortgage loans	9,087,625	9,213,035		9,087,625		
Cash (Overdraft)	(20,641)	(20,641)	(20,641)			
Cash equivalents	767,422	767,422	31,538	735,884		
Short-term investments	6,009	6,009	6,009	—		
Contract loans	—	4,420,788				4,420,788
Separate accounts	1,221,793	1,221,793	1,221,793			
Financial liabilities:						
Structured annuity reserves and other similar items	\$ 274,338	\$ (252,538)		\$ 274,338		
Deferred annuity reserves	6,813,900	6,863,967		6,813,900		
Settlement options without life contingencies	4,428,221	4,428,221		4,428,221		
Separate accounts	1,221,793	1,221,793	1,221,793			

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Notes to Financial Statements—Statutory Basis (in thousands), Continued

	2017					Net Asset Value (NAV)	Not Practicable (carrying value)
	Fair Value	Statement Value	(Level 1)	(Level 2)	(Level 3)		
Financial assets:							
Bonds:							
Loan-backed	\$13,758,754	\$13,574,292		\$13,758,754			
Other	38,322,041	37,370,734		38,321,600	441		
Unaffiliated common stocks	4,324,878	4,324,878	4,324,878				
Mortgage loans	7,934,020	7,845,138		7,934,020			
Cash (Overdraft)	(18,832)	(18,832)	(18,832)				
Cash equivalents	574,884	574,884	27,126	547,758			
Short-term investments	—	—	—	—			
Contract loans	—	4,367,201					4,367,201
Separate accounts	1,725,279	1,725,279		1,725,279			
Financial liabilities:							
Structured annuity reserves and other similar items	\$ 314,042	\$ (274,754)		\$ 314,042			
Deferred annuity reserves	6,901,299	6,939,221		6,901,299			
Settlement options without life contingencies	4,201,951	(4,201,951)		4,201,951			
Separate accounts	1,388,088	1,388,088		1,388,088			

Not practicable to estimate fair value:

Type or Class of Financial Instrument	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Contract loans	\$4,420,788	Various	Not applicable	See above

7. Life Reserves

A. Life Contracts and Deposit-Type Contracts

The Company waives deduction of deferred fractional premiums upon death of an insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Policies subject to an extra premium because the insured is placed in a special rating class are valued as follows:

Premium-paying Policies

If the nonforfeiture values provided by such policies are computed on the same basis as for standard risks, or if no nonforfeiture values are provided, reserves are based on a substandard mortality table or are equal to the sum of the reserve for a similar standard policy and the unearned extra premium. If the nonforfeiture values provided by such policy are based on a substandard mortality table, reserves are maintained according to the same table.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

Paid-up Policies

For whole life policies that are known to have been based on a substandard mortality table, the reserves are those based on the same substandard table. As of December 31, 2018 and 2017, the Company had \$68,853,486 and \$61,649,362, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the state of Illinois. Deficiency reserves to cover the above insurance totaled the gross amount of \$327,086 and \$264,732 at December 31, 2018 and 2017, respectively. The insurance amount does not include insurance on policies for which deficiency reserves are either exempted or calculated to be zero on a seriatim basis.

Tabular interest, tabular less actual reserve released, and tabular cost have been determined by formulas used in accordance with the NAIC Annual Statement Instructions. Tabular interest on deposit funds not involving life contingencies is determined as a balance item where interest is included in other items at appropriate rates and adjustments due to changes in valuation basis or other increases have been reflected.

B. Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics

Annuity actuarial reserves and deposit type contract funds and other liabilities without life or disability contingencies by withdrawal characteristics as of December 31, 2018 and 2017 were as follows:

	2018				
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed	Total	Percentage of Total
Subject to discretionary withdrawal:					
With market value adjustment	\$ 4,333,531	\$—	\$ —	\$ 4,333,531	21.9%
At book value less current surrender charge of 5% or more	354	—	—	354	0.0%
At fair value	—	—	694,463	694,463	3.5%
Subtotal	<u>4,333,885</u>	<u>—</u>	<u>694,463</u>	<u>5,028,348</u>	<u>25.4%</u>
At book value without adjustment (minimal or no charge or adjustment)	13,365,720	—	—	13,365,720	67.7%
Not subject to discretionary withdrawal	<u>1,363,178</u>	<u>—</u>	<u>631</u>	<u>1,363,809</u>	<u>6.9%</u>
Total (gross)	<u>\$19,062,783</u>	<u>\$—</u>	<u>\$695,094</u>	<u>\$19,757,877</u>	<u>100.0%</u>
Reinsurance ceded	—	—	—	—	
Total (net)*	<u>\$19,062,783</u>	<u>\$—</u>	<u>\$695,094</u>	<u>\$19,757,877</u>	

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

As reported in the Life, and Accident and Health Annual Statement:	
Annuities total (net)	\$ 8,703,318
Supplementary contracts with life contingencies total (net)	76,417
Deposit-type contracts	10,283,048
Subtotal	<u>19,062,783</u>
As reported in the Separate Accounts Annual Statement:	
Annuities total (net)	695,044
Supplementary contracts, total	—
Policyholder dividend and coupon accumulations	—
Policyholder premiums	—
Guaranteed interest contracts	—
Other contract deposit funds	50
Subtotal	<u>695,094</u>
Total annuity actuarial reserves and deposit-type contract liabilities	<u>\$19,757,877</u>

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities excludes annuity disability reserves of \$708.

	2017				
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed	Total	Percentage of Total
Subject to discretionary withdrawal:					
With market value adjustment	\$ 4,344,632	\$—	\$ —	\$ 4,344,632	22.0%
At book value less current surrender charge of 5% or more	376	—	—	376	0.0%
At fair value	—	—	801,018	801,018	4.1%
Subtotal	<u>4,345,008</u>	<u>—</u>	<u>801,018</u>	<u>5,146,026</u>	<u>26.1%</u>
At book value without adjustment (minimal or no charge or adjustment)	13,196,563	—	—	13,196,563	66.9%
Not subject to discretionary withdrawal	1,369,812	—	732	1,370,544	7.0%
Total (gross)	<u>\$18,911,383</u>	<u>\$—</u>	<u>\$801,750</u>	<u>\$19,713,133</u>	<u>100.0%</u>
Reinsurance ceded	—	—	—	—	
Total (net)*	<u>\$18,911,383</u>	<u>\$—</u>	<u>\$801,750</u>	<u>\$19,713,133</u>	

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

As reported in the Life, and Accident and Health Annual Statement:	
Annuities total (net)	\$ 8,772,591
Supplementary contracts with life contingencies total (net)	76,161
Deposit-type contracts	<u>10,062,631</u>
Subtotal	<u>18,911,383</u>
As reported in the Separate Accounts Annual Statement:	
Annuities total (net)	801,688
Supplementary contracts, total	—
Policyholder dividend and coupon accumulations	—
Policyholder premiums	—
Guaranteed interest contracts	—
Other contract deposit funds	<u>62</u>
Subtotal	<u>801,750</u>
Total annuity actuarial reserves and deposit-type contract liabilities	<u>\$19,713,133</u>

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities excludes annuity disability reserves of \$796.

C. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations were as follows:

<u>Type</u>	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Gross</u>	<u>Net of Loading</u>	<u>Gross</u>	<u>Net of Loading</u>
Industrial	\$ —	\$ —	\$ —	\$ —
Ordinary new business	1,340	498	1,182	427
Ordinary renewal	44,305	35,759	43,782	35,160
Credit life	—	—	—	—
Group life	212	212	187	187
Group annuity	—	—	—	—
Total	<u>\$45,857</u>	<u>\$36,469</u>	<u>\$45,151</u>	<u>\$35,774</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

8. Federal Income Taxes

The components of DTAs and DTLs at December 31 were as follows:

	December 31, 2018			December 31, 2017		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTAs	\$1,050,801	\$ 26,206	\$1,077,007	\$958,779	\$ 27,347	\$986,126
Statutory valuation allowance adjustment	—	—	—	—	—	—
Adjusted gross DTAs	1,050,801	26,206	1,077,007	958,779	27,347	986,126
Nonadmitted DTAs	79,491	—	79,491	35,182	—	35,182
Net admitted DTAs	971,310	26,206	997,516	923,597	27,347	950,944
DTLs	152,069	493,304	645,373	115,024	535,183	650,207
Net admitted adjusted DTAs (DTLs)	\$ 819,241	\$(467,098)	\$ 352,143	\$808,573	\$(507,836)	\$300,737

The admission calculations for adjusted gross DTAs at December 31 were as follows:

	December 31, 2018			December 31, 2017		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Adjusted gross DTAs expected to be realized after application of the threshold limitation.						
Lesser of:	352,143	—	352,143	333,394	—	333,394
Adjusted gross DTAs expected to be realized following the balance sheet date; or	352,143	—	352,143	333,394	—	333,394
Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	1,679,984	N/A	N/A	1,552,168
Adjusted gross DTAs offset by gross DTLs	619,167	26,206	645,373	590,203	27,347	617,550
Total admitted adjusted gross DTAs	\$971,310	\$26,206	\$ 997,516	\$923,597	\$27,347	\$ 950,944

Amounts used in recovery period and threshold limitation calculation:

	2018	2017
Ratio percentage used to determine recovery period and threshold limitation amount	1,215.72%	1,302.84%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$12,683,907	\$12,273,903

The Company did not utilize any tax planning strategies which would have resulted in an increase of the Company's adjusted gross DTA or net admitted DTAs.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

There were no unrecognized DTLs.

Current income taxes incurred consist of the following major components:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current income tax expense (benefit)	\$218,097	\$250,795	\$206,300
Foreign taxes incurred	1,109	1,489	869
Adjustments to prior year taxes	(44,851)	(12,125)	(12,095)
Combined income taxes incurred	<u>\$174,355</u>	<u>\$240,159</u>	<u>\$195,074</u>
Tax (benefit) on capital gains (losses)	39,962	19,157	42,175
Current income taxes incurred	<u>\$214,317</u>	<u>\$259,316</u>	<u>\$237,249</u>

The main components of the deferred tax amounts were as follows:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
DTAs:			
Ordinary:			
Deferred acquisition costs	\$ 340,394	\$317,766	\$ 22,628
Policyholder reserves	414,717	248,260	166,457
Reserves transition rule	—	87,087	(87,087)
Policyholder dividends accrual	78,823	80,299	(1,476)
Compensation and benefits accrual	186,456	179,433	7,023
Liability for termination benefits	21,841	39,489	(17,648)
Other	8,570	6,445	2,125
Total ordinary DTAs	<u>1,050,801</u>	<u>958,779</u>	<u>92,022</u>
Statutory valuation allowance adjustment	—	—	—
Nonadmitted DTAs	79,491	35,182	44,309
Admitted ordinary DTAs	<u>\$ 971,310</u>	<u>\$923,597</u>	<u>\$ 47,713</u>
Capital:			
Investments	\$ 26,206	\$ 27,347	\$ (1,141)
Total capital DTAs	26,206	27,347	(1,141)
Statutory valuation allowance adjustment	—	—	—
Admitted capital DTAs	<u>\$ 26,206</u>	<u>\$ 27,347</u>	<u>\$ (1,141)</u>
Admitted DTAs	<u>\$ 997,516</u>	<u>\$950,944</u>	<u>\$ 46,572</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

	<u>2018</u>	<u>2017</u>	<u>Change</u>
DTLs:			
Ordinary:			
Deferred and uncollected premium	\$ 7,289	\$ 7,711	\$ (422)
Basis of bonds	16,027	14,794	1,233
Guaranty funds receivable	2,576	2,739	(163)
Surplus adjustment on lapsed policies	2,431	1,170	1,261
Reserves transition rule	122,110	87,087	35,023
Accrued dividends on stocks	1,218	1,127	91
Other	418	396	22
Total ordinary DTLs	<u>\$152,069</u>	<u>\$115,024</u>	<u>\$ 37,045</u>
Capital:			
Investments	\$493,304	\$535,183	\$(41,879)
Total capital DTLs	<u>\$493,304</u>	<u>\$535,183</u>	<u>\$(41,879)</u>
DTLs	<u>\$645,373</u>	<u>\$650,207</u>	<u>\$ (4,834)</u>
Net Admitted DTAs/DTLs	<u>\$352,143</u>	<u>\$300,737</u>	<u>\$ 51,406</u>

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of non-admitted assets as the change in non-admitted assets is reported separately from the change in net deferred income tax in the surplus section of the financial statements):

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Total DTAs	\$1,077,007	\$986,126	\$90,881
Total DTLs	645,373	650,207	(4,834)
Net DTAs	\$ 431,634	\$335,919	\$95,715
Tax effect of unrealized (gains) losses			72,628
Change in net deferred income tax			<u>\$23,087</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

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

	2018		
	<u>Amount</u>	<u>Tax Effect at 21%</u>	<u>Effective Tax Rate</u>
Income after capital gains tax	\$863,031		
Capital gains (losses) tax	39,962		
Income before taxes	\$902,993	\$189,629	21.00%
Tax reform rate change effect	\$ (78,562)	\$ (16,498)	-1.83%
Prior year underaccrual (overaccrual)	78,985	16,587	1.84%
IMR amortization	(28,264)	(5,935)	-0.66%
Change in liability for termination benefits	84,040	17,648	1.95%
Foreign taxes	(3,938)	(827)	-0.09%
Change in nonadmitted assets	(4,174)	(877)	-0.10%
Dividends received deduction—Separate Accounts	(11,261)	(2,365)	-0.26%
Other adjustments	(29,200)	(6,132)	-0.68%
Total	<u>\$910,619</u>	<u>\$191,230</u>	<u>21.17%</u>
Federal income tax incurred		\$174,355	19.31%
Capital gain (loss) taxes incurred		39,962	4.43%
Change in net deferred income tax		(23,087)	-2.56%
Total statutory income taxes		<u>\$191,230</u>	<u>21.18%</u>

	2017		
	<u>Amount</u>	<u>Tax Effect at 35%</u>	<u>Effective Tax Rate</u>
Income after capital gains tax	\$ 712,282		
Capital gains (losses) tax	19,157		
Income before taxes	\$ 731,439	\$256,004	35.00%
Tax reform rate change effect	1,639,276	573,747	78.44%
Prior year underaccrual (overaccrual)	(12,198)	(4,269)	-0.58%
IMR amortization	(40,576)	(14,202)	-1.94%
Change in liability for termination benefits	(41,589)	(14,556)	-1.99%
Foreign taxes	(2,375)	(831)	-0.11%
Change in nonadmitted assets	387	135	0.02%
Dividends received deduction—Separate Accounts	(5,623)	(1,968)	-0.27%
Other adjustments	743	260	0.04%
Total	<u>\$2,269,484</u>	<u>\$794,320</u>	<u>108.61%</u>
Federal income tax incurred		\$240,159	32.83%
Capital gain (loss) taxes incurred		19,157	2.62%
Change in net deferred income tax		535,004	73.16%
Total statutory income taxes		<u>\$794,320</u>	<u>108.61%</u>

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

	2016		
	Amount	Tax Effect at 35%	Effective Tax Rate
Income after capital gains tax	\$769,904		
Capital gains (losses) tax	42,175		
Income before taxes	\$812,079	\$284,228	35.00%
Prior year underaccrual (overaccrual)	(10,015)	(3,505)	-0.43%
IMR amortization	(37,532)	(13,136)	-1.62%
Change in liability for termination benefits	(11,265)	(3,943)	-0.49%
Foreign taxes	(2,355)	(824)	-0.10%
Change in nonadmitted assets	(753)	(264)	-0.03%
Dividends received deduction—Separate Accounts	(5,165)	(1,808)	-0.22%
Other adjustments	5,271	1,845	0.23%
Total	<u>\$750,265</u>	<u>\$262,593</u>	<u>32.34%</u>
Federal income tax incurred		\$195,074	24.02%
Capital gain (loss) taxes incurred		42,175	5.19%
Change in net deferred income tax		25,344	3.13%
Total statutory income taxes		<u>\$262,593</u>	<u>32.34%</u>

At December 31, 2018, the Company did not have any net operating loss carryforwards.

Under Federal Internal Revenue Code, revised with the Tax Cuts and Jobs Act, net capital losses for life companies can be carried back three years. Life entities are not permitted to carryback ordinary losses. As such, admittance of operating deferred tax assets for life entities will be limited to SSAP No. 101, paragraph 11b and paragraph 11c. The following are income taxes incurred in the current and prior years, which will be available for recoupment in the event of future capital losses. Prior year amounts have been updated to reflect information filed with the IRS:

2018	\$39,962
2017	\$19,158
2016	\$42,175

The Company has not recognized any uncertain tax position in the financial statements.

The Company files a federal consolidated income tax return with SFMAIC and its affiliates. An administrative appeal for tax years 2000 through 2012 is currently pending. The anticipated resolution of the issues is not expected to have a material adverse effect on the surplus of the Company.

The Company and its affiliates file various state income tax returns and those state returns remain subject to examination from 2000 to present in conjunction with the results of federal examinations, unforeseen litigation, and appeals for those years.

The 2017 estimate of the “Reserves transition rule” impact was presented as both a DTA and DTL. In 2018, the DTA impact, as finalized, is embedded in the “Policyholders reserves” DTA amount.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

During 2018, all information necessary to calculate modifications enacted with the 2017 Tax Cuts and Jobs Act became available, therefore, at December 31, 2018, the Company is in compliance with the new tax law. The net impact of the modifications was not material to surplus.

The 2017 Tax Cuts and Jobs Act established a one-time transition tax on untaxed foreign earnings of foreign subsidiaries of U.S. companies. The total Repatriation Transition Tax owed by the Company under the Tax Cuts and Jobs Act was \$113. The full Repatriation Transition Tax liability was offset with 2017 overpayments. Below is a summary of activity to satisfy the liability.

	Repatriation Transition Tax: \$113	
	Application Of Overpayment	Remaining Tax
2017	\$113	\$—

9. Benefit Plans

A. Pension Plans

The Company participates in a qualified defined benefit pension plan sponsored by SFMAIC covering substantially all employees. The Company has no direct legal obligation for benefits under this plan. SFMAIC allocates amounts to the Company based on intercompany cost sharing arrangements. The Company's share of net expense for this qualified defined benefit pension plan for the years ended December 31, 2018, 2017, and 2016 was \$19,208, \$23,514, and \$35,894, respectively.

The Company also participates in a non-qualified defined benefit plan sponsored by SFMAIC covering select eligible highly compensated employees. Any benefits arising from this plan are paid from SFMAIC's general assets. The Company has no direct legal obligation for benefits under this plan. SFMAIC allocates amounts to the Company based on intercompany cost sharing arrangements. The Company's share of net expense for this non-qualified plan for the years ended December 31, 2018, 2017, and 2016 was \$5,655, \$5,792, and \$6,196, respectively.

B. Postretirement Benefits

The Company and its affiliates currently provide certain health care and life insurance benefits pursuant to plans sponsored by SFMAIC for eligible employees and agents hired or appointed prior to January 1, 2012 and their eligible dependents. The Company has no direct legal obligation for the benefits under the plans. Benefits provided by the Company and its affiliates are subject to a cap.

SFMAIC allocates amounts to the Company based on intercompany cost sharing arrangements. The Company's share of the post-career net periodic benefit cost for the years ended December 31, 2018, 2017, and 2016 was \$13,593, \$11,417, and \$11,632, respectively. At December 31, 2018 and 2017, the Company's share of the accrued post-career benefit liability was \$357,837 and \$354,301, respectively.

C. Agent Termination Benefits

The Company provides termination benefits for certain independent contractor agents subject to service and age eligibility requirements as defined in agent contracts. These benefits are valued using the Projected Unit Credit actuarial cost method. The actuarial valuations include a service-based premium growth assumption based on historical data. Benefits are paid from the Company's general assets.

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Notes to Financial Statements—Statutory Basis (in thousands), Continued

In June 2016, the NAIC approved the use of the yield curve approach (also referred to as the spot rate approach) for calculating the service cost and interest cost components of the annual net periodic benefit cost for agents' termination benefits reporting under SSAP No. 102. Effective January 1, 2017, the Company elected to adopt the spot rate approach. This change does not impact the measurement of the Company's agents' termination benefit obligations. In accordance with NAIC SAP, this change was applied prospectively and accounted for as a change in accounting estimate during 2017. The Company estimated the impact on net periodic benefit cost to be a reduction of \$4,014 through December 31, 2017.

A summary of obligations and assumptions related to agent termination benefits were as follows at December 31, 2018, 2017, and 2016, respectively.

	Underfunded Agent Termination Benefits		
	2018	2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	\$548,294	\$479,147	\$439,648
Service cost	15,762	11,544	11,014
Interest cost	19,154	18,774	20,509
Actuarial (gain) loss	(73,145)	50,022	18,698
Benefits paid	(11,805)	(11,193)	(10,722)
Benefit obligation at end of year	<u>\$498,260</u>	<u>\$548,294</u>	<u>\$479,147</u>
Change in plan assets:			
Reporting entity contribution	\$ 11,805	\$ 11,193	\$ 10,722
Benefits paid	(11,805)	(11,193)	(10,722)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status:			
Liabilities recognized			
Accrued benefit cost	\$394,257	\$360,251	\$332,693
Liability for termination benefits	104,003	188,043	146,454
Total liabilities recognized	<u>\$498,260</u>	<u>\$548,294</u>	<u>\$479,147</u>
Components of net periodic benefit cost:			
Service cost	\$ 15,762	\$ 11,544	\$ 11,014
Interest cost	19,154	18,774	20,509
Gains and losses	4,036	1,574	574
Prior service cost or credit	6,859	6,859	6,859
Total net periodic benefit cost	<u>\$ 45,811</u>	<u>\$ 38,751</u>	<u>\$ 38,956</u>

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Notes to Financial Statements—Statutory Basis (in thousands), Continued

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:			
Items not yet recognized as a component of net periodic cost—			
prior year	\$188,043	\$146,454	\$135,189
Net prior service cost or credit recognized	(6,859)	(6,859)	(6,859)
Net gain and loss arising during the period	(73,145)	50,022	18,698
Net gain and loss recognized	<u>(4,036)</u>	<u>(1,574)</u>	<u>(574)</u>
Items not yet recognized as a component of net periodic cost—			
current year	<u>\$104,003</u>	<u>\$188,043</u>	<u>\$146,454</u>
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:			
Net prior service cost or credit	6,859	6,859	6,859
Net recognized gains and losses	—	4,029	1,659
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:			
Net prior service cost or credit	56,726	63,585	70,444
Net recognized gains and losses	47,277	124,458	76,010
Accumulated benefit obligation	\$345,353	\$362,397	\$332,567
Weighted-average assumptions used to determine net periodic cost as of December 31:			
Discount rate	3.83%	4.53%	4.78%
Rate of compensation increase	4.00%*	4.00%*	4.00%*
Weighted-average assumptions used to determine projected benefit obligation as of December 31:			
Discount rate	4.46%	3.83%	4.52%
Rate of compensation increase	3.00%*	4.00%*	4.00%*

* Compensation is based on a service-based scale using five years of historical renewal commissions data.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Years</u>	<u>Amount</u>
2019	\$ 13,688
2020	\$ 14,628
2021	\$ 15,513
2022	\$ 16,405
2023	\$ 17,215
2024-2028	\$100,338

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

Notes to Financial Statements—Statutory Basis (in thousands), Continued

D. Defined Contribution Plans

The Company has unfunded deferred compensation plans for certain highly compensated employees and independent contractor agents. The Company incurred interest costs of \$33, \$36, and \$37 for 2018, 2017, and 2016, 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 for the plan was \$3,888, \$3,711, and \$3,628 for 2018, 2017, and 2016, respectively. At December 31, 2018 and December 31, 2017, the fair value of plan assets held in trust was \$11,516,394 and \$12,415,394, respectively.

10. Other Related Party Transactions

SFMAIC and some of its affiliated companies purchased annuities from the Company to settle claims of which the claimant is the payee. The reserve value of annuities purchased from the Company is \$349,679 and \$372,696 at December 31, 2018 and December 31, 2017, respectively. Should the Company fail to perform under these contracts, the affiliated companies would remain contingently liable.

In 2018, 2017, and 2016, the Company reported dividends to stockholders of \$480 for each respective year. Cash dividends of \$120 were declared in each of the quarters ending March 31, June 30, September 30 and December 31, 2018, 2017, and 2016.

The Company reported \$541 and \$0 as a receivable due from affiliates, and \$62,350 and \$60,362 as a payable due to affiliates at December 31, 2018 and December 31, 2017, respectively. These balances primarily represent the sharing of certain personnel, administrative, occupancy and marketing expenses generated under servicing agreements with State Farm affiliates. The Company has no direct employees. Expenses are allocated among affiliates based on statistical ratios, surveys and usage studies. The terms of settlement require that these amounts are settled within sixty (60) days. Such expenses allocated to the Company from the affiliates totaled \$824,069, \$801,192, and \$793,200 during 2018, 2017, and 2016, respectively.

At December 31, 2018 and December 31, 2017, the Company's federal income tax payable to affiliates was \$198,687 and \$203,328, respectively.

The Company is a party to a common clearing account agreement with its affiliates whereby any party may deposit premium payments and other cash receipts, disburse funds and accept electronic payments through a comprehensive cash balance system.

The Company incurs lease costs for real estate and equipment primarily through the allocation of expenses from the parent, SFMAIC, in accordance with company cost sharing agreements. SFMAIC is the lessee on almost all lease agreements.

Rental expense for real estate for 2018, 2017, and 2016 was \$22,181, \$17,446, and \$12,419, respectively. Rental expense for leased equipment for 2018, 2017, and 2016, was \$234, \$588, and \$315, respectively.

On May 18, 2017, the Board of State Farm International Life Insurance Company Ltd. authorized the repurchase of all but one of its outstanding shares from the Company. The Company received cash in the amount of \$31,694.

State Farm Life Insurance Company
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Notes to Financial Statements—Statutory Basis (in thousands), Continued

11. Contingencies

The Company is subject to liabilities of a contingent nature which may arise from time to time. Such liabilities could result from sales practices, income tax matters, guaranty fund assessments or other occurrences that take place in the normal course of doing business. In addition, the life insurance industry has not been exempt from the impact of an increasingly litigious environment, which is being experienced in the United States. Liabilities arising as a result of these factors, or other such contingencies, that are not provided for elsewhere in these financial statements are not reasonably estimable and are not considered by management to be material in relation to the financial position of the Company.

The Company had \$1,741,933 and \$1,423,542 in unfunded commitments to partnerships, limited liability companies, and joint ventures at December 31, 2018 and December 31, 2017. All commitments represent obligations to contribute additional capital or lend funds pursuant to an operating or lending agreement.

At December 31, 2018, the Company has made the following guarantee on behalf of a related party:

1	2	3	4	5
<u>Nature and circumstances of guarantee and key attributes, including date and duration of agreement</u>	<u>Liability recognition of guarantee</u>	<u>Ultimate financial statement impact if action under the guarantee is required</u>	<u>Maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee</u>	<u>Current status of payment or performance risk of guarantee</u>
In accordance with the Guaranty Agreement dated August 16, 2018, the Company guarantees the payment and performance of certain obligations and liabilities of Chicago Arlington Heights, LLC (which is 99.999% owned by the Company) to Wells Fargo Bank, NA, as trustee, under the Loan Agreement assumed by the LLC as part of the acquisition of a real estate investment project also on August 16, 2018. The outstanding principal balance of the Note is \$11,440. The interest rate of the Note is a fixed rate of 5.20% per annum, with interest-only payments due and payable on the first day of each calendar month. The stated maturity date of the Note is May 1, 2031.	\$0	Investment in SCA	\$12,878	The Company has made no payments under this agreement during 2018.
a. Aggregate maximum potential of future payments of all guarantees (undiscounted) the guarantor could be required to make under guarantees				\$12,878
b. Current liability recognized in the financial statement:				
1. Noncontingent liabilities				\$ 0
2. Contingent liabilities				\$ 0
c. Ultimate financial Statement Impact if action under the guarantee is required				
1. Investment in SCA				\$12,878
2. Joint venture				\$ 0
3. Dividends to stockholders (Capital contribution)				\$ 0
4. Expense				\$ 0
5. Other				\$ 0
6. Total				\$12,878

State Farm Life Insurance Company
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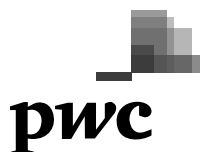
Notes to Financial Statements—Statutory Basis (in thousands), Continued

In a Missouri class action lawsuit, Vogt vs State Farm Life Insurance Company, a jury returned a verdict in the amount of \$34,330 against the Company on June 6, 2018. The judgment was later reduced to \$34,322 to exclude post-trial opt-outs. The case alleges that the Company breached its flexible premium adjustable whole life insurance policies (Form 94030) in Missouri by including factors other than mortality expectations in the determination of its non-guaranteed cost of insurance rates. The district court found as a matter of law that the Company was not permitted to take non-mortality factors, including expenses, into account in setting its monthly cost of insurance rate. Management believes the district court made legal errors that should require reversal. The Company timely filed an appeal to the 8th Circuit Court of Appeals. Plaintiffs have cross-appealed the court's order striking the punitive damage claim and finding pre-judgment interest was not owed under Missouri law. The Company has meritorious defenses to the verdict. As a result, operating results have not been reduced, nor has a liability been established by the Company.

12. Other

The Company committed to purchase \$367,500 of private placement securities in the latter part of 2018, which is expected to be funded in the first half of 2019. These securities were not reported as bond investments at December 31, 2018.

SUPPLEMENTAL FINANCIAL INFORMATION



Report of Independent Auditors

To the Board of Directors of
State Farm Life Insurance Company

We have audited the statutory-basis financial statements of State Farm Life Insurance Company as of December 31, 2018 and for the year then ended and our report thereon appears on pages one and two of this document. That audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The supplemental Schedule of Assets and Liabilities, Summary Investment Schedule and Investment Risk Interrogatories (collectively the “supplemental schedules”) of the Company as of December 31, 2018 and for the year then ended are presented to comply with the National Association of Insurance Commissioners’ Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the statutory-basis financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the statutory-basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 22, 2019

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T: (312) 298 2000, F: (312) 298 2001, www.pwc.com/us*

State Farm Life Insurance Company
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Supplemental Schedule of Assets and Liabilities (in thousands)
December 31, 2018

The following is a summary of certain financial data included in other exhibits and schedules subjected to audit procedures by independent auditors and utilized by actuaries in the determination of reserves.

Investment income earned:	
U.S. government bonds	\$ 132,145
Other bonds (unaffiliated)	1,698,209
Common stocks (unaffiliated)	102,077
Mortgage loans	348,907
Contract loans and liens	283,359
Cash, cash equivalents, and short-term investments	11,998
Other invested assets	125,753
Gross investment income	<u>\$ 2,702,448</u>
Mortgage loans—book value	
Commercial mortgages	\$ 9,213,035
Total mortgage loans	<u>\$ 9,213,035</u>
Mortgage loans by standing—book value:	
Good standing	<u>\$ 9,213,035</u>
Other long-term assets—statement value	<u>\$ 2,915,804</u>
Bonds and stocks of parents, subsidiaries and affiliates—book value:	
Affiliated common stocks	<u>\$ 8,335</u>
Bonds and short-term investments by class and maturity:	
Bonds by maturity—statement value	
Due within one year or less	\$ 2,666,349
Over 1 year through 5 years	20,477,922
Over 5 years through 10 years	24,181,751
Over 10 years through 20 years	4,043,698
Over 20 years	54,575
Total by maturity	<u>\$51,424,295</u>
Bond by class—statement value	
Class 1	\$40,639,123
Class 2	10,561,084
Class 3	136,380
Class 4	85,848
Class 5	—
Class 6	1,860
Total by class	<u>\$51,424,295</u>
Total bonds and short-term investments publicly traded	<u>\$42,239,494</u>
Total bonds and short-term investments privately placed	<u>\$ 9,184,801</u>

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life Insurance Company
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Supplemental Schedule of Assets and Liabilities (in thousands), Continued
December 31, 2018

Unaffiliated common stocks—market value	\$ 4,050,110
Short term investments—book value	\$ 6,009
Cash on deposit	\$ (20,641)
Cash equivalents	\$ 767,422
Life insurance in force:	
Ordinary	\$866,552,500
Credit life	\$ —
Group life	\$ 13,214,130
Amount of accidental death insurance in force under ordinary policies	\$ 3,193,955
Amount of life insurance with disability provisions in force:	
Ordinary	\$363,623,318
Group life	\$ 8,260,031
Supplementary contracts in force:	
Ordinary—not involving life contingencies:	
Amount on deposit	\$ 3,951,812
Income payable	\$ 6,352
Ordinary—involving life contingencies:	
Income payable	\$ 8,561
Annuities:	
Ordinary:	
Immediate—amount of income payable	\$ 253,122
Deferred—fully paid account balance	\$ 7,630,269
Deferred—not fully paid—account balance	\$ 305
Deposit funds and dividend accumulations:	
Deposit funds—account balance	\$ 148,510
Dividend accumulations—account balance	\$ 5,453,780

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life Insurance Company
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Supplemental Investment Schedule
December 31, 2018

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
1. Bonds:						
1.1 U.S. treasury securities	957,413,331	1.315	957,413,331		957,413,331	1.315
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies	2,929,501,045	4.025	2,929,501,045		2,929,501,045	4.025
1.22 Issued by U.S. government sponsored agencies	145,557,433	0.200	145,557,433		145,557,433	0.200
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	78,528,733	0.108	78,528,733		78,528,733	0.108
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	1,089,622,925	1.497	1,089,622,925		1,089,622,925	1.497
1.42 Political subdivisions of states, territories and possessions and political subdivision general obligations	2,951,761,288	4.056	2,951,761,288		2,951,761,288	4.056
1.43 Revenue and assessment obligations	1,492,761,855	2.051	1,492,761,855		1,492,761,855	2.051
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						
1.512 Issued or guaranteed by FNMA and FHLMC	196,572,526	0.270	196,572,526		196,572,526	0.270
1.513 All Other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	10,693,432,523	14.693	10,693,432,523		10,693,432,523	14.693
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	92,449,466	0.127	92,449,466		92,449,466	0.127
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	25,614,886,320	35.195	25,614,886,320		25,614,886,320	35.195
2.2 Unaffiliated non-U.S. securities (including Canada)	5,175,799,308	7.112	5,175,799,308		5,175,799,308	7.112
2.3 Affiliated securities						

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life Insurance Company
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Supplemental Investment Schedule, Continued
December 31, 2018

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
3. Equity interests:						
3.1 Investments in mutual funds						
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	4,050,110,102	5.565	4,050,110,102		4,050,110,102	5.565
3.4 Other equity securities:						
3.41 Affiliated	8,335,006	0.011	8,335,006		8,335,006	0.011
3.42 Unaffiliated						
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	352,909,344	0.485	352,909,344		352,909,344	0.485
4.2 Agricultural						
4.3 Single family residential properties						
4.4 Multifamily residential properties						
4.5 Commercial loans	8,860,125,923	12.174	8,860,125,923		8,860,125,923	12.174
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	4,420,787,596	6.074	4,420,787,596		4,420,787,596	6.074
7. Derivatives						
8. Receivables for securities	469,112	0.001	469,112		469,112	0.001
9. Securities Lending (Line 10, Assets Page reinvested collateral)						
10. Cash, cash equivalents and short-term investments	752,789,620	1.034	752,789,620		752,789,620	1.034
11. Other invested assets	2,915,804,309	4.007	2,915,804,309		2,915,804,309	4.007
12. Total invested assets	<u>\$72,779,617,765</u>	<u>100.000</u>	<u>\$72,779,617,765</u>	<u>\$—</u>	<u>\$72,779,617,765</u>	<u>100.000</u>

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life Insurance Company
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Supplemental Investment Risk Interrogatories
December 31, 2018

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. For Life, Health, and Fraternal blanks, responses are to exclude Separate Accounts.

1. Reporting entity's total admitted assets as reported on Page 3 of this annual statement. \$ 73,768,905,435

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	FHLMC MULTIFAMILY STRUCT CMO	Bonds	\$5,120,530,289	6.9%
2.02	FNMA CMO ACES	Bonds	\$2,463,944,971	3.3%
2.03	FHLMC CMO	Bonds	\$1,572,987,618	2.1%
2.04	FNMA CMO	Bonds	\$1,149,640,336	1.6%
2.05	STATE FARM REALTY MORTGAGE LLC . .	LLC	\$ 893,645,744	1.2%
2.06	STATE FARM LIQUIDITY POOL LLC	Cash Equivalent	\$ 735,883,434	1.0%
2.07	JOHNSON & JOHNSON	Bonds, Common Stock	\$ 603,354,387	0.8%
2.08	PEPSICO INC	Bonds, Common Stock	\$ 526,212,998	0.7%
2.09	VERIZON COMMUNICATIONS INC	Bonds, Common Stock	\$ 485,466,945	0.7%
2.10	CHEVRON CORP	Bonds, Common Stock	\$ 482,158,836	0.7%

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

	Bonds	1	2	Preferred Stocks	3	4
3.01	NAIC-1	\$40,639,123,052	55.1%	3.07	P/RP-1	\$ — — %
3.02	NAIC-2	\$10,561,084,583	14.3%	3.08	P/RP-2	\$ — — %
3.03	NAIC-3	\$ 136,379,994	0.2%	3.09	P/RP-3	\$ — — %
3.04	NAIC-4	\$ 85,848,236	0.1%	3.10	P/RP-4	\$ — — %
3.05	NAIC-5	\$ —	— %	3.11	P/RP-5	\$ — — %
3.06	NAIC-6	\$ 1,859,632	— %	3.12	P/RP-6	\$ — — %

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 No

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

4.02 Total admitted assets held in foreign investments \$4,836,401,785 6.6%

4.03 Foreign-currency-denominated investments \$ — — %

4.04 Insurance liabilities denominated in that same foreign currency . . . \$ — — %

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life Insurance Company
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Supplemental Investment Risk Interrogatories, Continued
December 31, 2018

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

	<u>1</u>	<u>2</u>
5.01 Countries rated NAIC-1	\$4,834,217,290	6.6%
5.02 Countries rated NAIC-2	\$ 1,180,094	— %
5.03 Countries rated NAIC-3 or below	\$ 1,004,401	— %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

	<u>1</u>	<u>2</u>
Countries rated NAIC-1:		
6.01 Country: Great Britain	\$1,255,407,967	1.7%
6.02 Country: Australia	\$ 789,078,445	1.1%
Countries rated NAIC-2:		
6.03 Country: Panama	\$ 1,180,094	— %
6.04 Country:	\$ —	— %
Countries rated NAIC-3 or below:		
6.05 Country: Liberia	\$ 1,004,401	— %
6.06 Country:	\$ —	— %

7. Aggregate unhedged foreign currency exposure

	<u>1</u>	<u>2</u>
	\$ —	— %

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

	<u>1</u>	<u>2</u>
8.01 Countries rated NAIC-1	\$ —	— %
8.02 Countries rated NAIC-2	\$ —	— %
8.03 Countries rated NAIC-3 or below	\$ —	— %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

	<u>1</u>	<u>2</u>
Countries rated NAIC-1:		
9.01 Country:	\$ —	— %
9.02 Country:	\$ —	— %
Countries rated NAIC-2:		
9.03 Country:	\$ —	— %
9.04 Country:	\$ —	— %
Countries rate NAIC-3 or below:		
9.05 Country:	\$ —	— %
9.06 Country:	\$ —	— %

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life Insurance Company
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Supplemental Investment Risk Interrogatories, Continued
December 31, 2018

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

	<u>1</u> Issuer	<u>2</u> NAIC Rating	<u>3</u>	<u>4</u>
10.01	SHELL INTL FIN BV	Bond 1	\$349,830,187	0.5%
10.02	BHP BILLITON FIN (USA) LTD	Bond 1	\$184,383,138	0.2%
10.03	VODAFONE GROUP PLC	Bond 2	\$166,435,153	0.2%
10.04	BASF SE	Bond 1	\$143,000,000	0.2%
10.05	STATNETT SF	Bond 1	\$140,736,728	0.2%
10.06	SCHLUMBERGER INVESTMENT	Bond 1	\$135,920,608	0.2%
10.07	AIR LIQUIDE FINANCE	Bond 1	\$128,300,206	0.2%
10.08	COMPASS GROUP	Bond 1	\$128,000,000	0.2%
10.09	FONTERRA CO-OP GROUP LTD	Bond 1	\$126,089,923	0.2%
10.10	DANONE SA	Bond 2	\$123,130,986	0.2%

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

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

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 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 ten largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets?
Yes No

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13

	<u>1</u> Name of Issuer	<u>2</u>	<u>3</u>
13.02	STATE FARM REALTY MORTGAGE LLC	\$893,645,744	1.2%
13.03	JOHNSON & JOHNSON	\$152,090,587	0.2%
13.04	DISNEY (WALT) CO	\$130,262,665	0.2%
13.05	EXXON MOBIL CORP	\$117,851,072	0.2%
13.06	PROCTOR & GAMBLE CO	\$116,993,202	0.2%
13.07	APPLE INC	\$110,773,230	0.2%
13.08	CATERPILLAR INC	\$103,197,486	0.1%
13.09	WALMART INC	\$100,506,428	0.1%
13.10	NESTLE SA	\$ 85,909,247	0.1%
13.11	ALPHABET INC	\$ 84,906,128	0.1%

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life Insurance Company
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Supplemental Investment Risk Interrogatories, Continued
December 31, 2018

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 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 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 No

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
	Type (Residential, Commercial, Agricultural)		
16.02	Commercial	\$107,000,000	0.1%
16.03	Commercial	\$105,000,000	0.1%
16.04	Commercial	\$ 91,460,000	0.1%
16.05	Commercial	\$ 90,000,000	0.1%
16.06	Commercial	\$ 90,000,000	0.1%
16.07	Commercial	\$ 83,182,316	0.1%
16.08	Commercial	\$ 82,000,000	0.1%
16.09	Commercial	\$ 80,000,000	0.1%
16.10	Commercial	\$ 74,500,000	0.1%
16.11	Commercial	\$ 74,375,456	0.1%

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

16.12	Construction Loans	\$352,909,344	0.5%
16.13	Mortgage loans over 90 days past due	\$ —	— %
16.14	Mortgage loans in the process of foreclosure	\$ —	— %
16.15	Mortgage loans foreclosed	\$ —	— %
16.16	Restructured mortgage loans	\$ —	— %

See Independent Auditor's Report on Supplemental Financial Information

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

Supplemental Investment Risk Interrogatories, Continued
December 31, 2018

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

	Loan-to-Value	Residential		Commercial		Agricultural	
		1	2	3	4	5	6
17.01	Above 95%	\$—	— %	\$ —	— %	\$—	— %
17.02	91% to 95%	\$—	— %	\$ 14,405,737	— %	\$—	— %
17.03	81% to 90%	\$—	— %	\$ 67,936,791	0.1%	\$—	— %
17.04	71% to 80%	\$—	— %	\$9,130,692,739	12.4%	\$—	— %
17.05	Below 70%	\$—	— %	\$ —	— %	\$—	— %

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 total admitted assets?

Yes No

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

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 No

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

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				
		1	2	3	4	5
20.01	Securities lending (do not include assets held as collateral for such transactions)	\$—	— %	\$—	\$—	\$—
20.02	Repurchase agreements	\$—	— %	\$—	\$—	\$—
20.03	Reverse repurchase agreements	\$—	— %	\$—	\$—	\$—
20.04	Dollar repurchase agreements	\$—	— %	\$—	\$—	\$—
20.05	Dollar reverse repurchase agreements	\$—	— %	\$—	\$—	\$—

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	\$—	— %	\$—	— %
21.02	Income generation	\$—	— %	\$—	— %
21.03	Other	\$—	— %	\$—	— %

See Independent Auditor's Report on Supplemental Financial Information

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

Supplemental Investment Risk Interrogatories, Continued
December 31, 2018

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		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22.01 Hedging	\$—	— %	\$—	\$—	\$—
22.02 Income generation	\$—	— %	\$—	\$—	\$—
22.03 Replications	\$—	— %	\$—	\$—	\$—
22.04 Other	\$—	— %	\$—	\$—	\$—

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		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
23.01 Hedging	\$—	— %	\$—	\$—	\$—
23.02 Income generation	\$—	— %	\$—	\$—	\$—
23.03 Replications	\$—	— %	\$—	\$—	\$—
23.04 Other	\$—	— %	\$—	\$—	\$—

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life Insurance Company Variable Life Separate Account

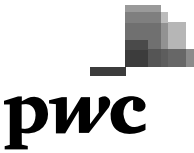
Annual Financial Statement

December 31, 2018

State Farm Life Insurance Company
Variable Life Separate Account

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Report of Independent Registered Public Accounting Firm

To the Board of Directors of State Farm Life Insurance
Company and Policy Owners of the State Farm Life
Insurance Company Variable Life Separate Account

Opinions on the Financial Statements

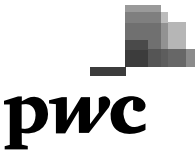
We have audited the accompanying statements of assets and policy owners' equity of BlackRock Small Cap Index V.I., BlackRock International Index V.I., BlackRock iShares Dynamic Allocation V.I., BlackRock S&P 500 Index V.I., BlackRock Government Money Market V.I. and BlackRock Total Return V.I. of State Farm Life Insurance Company Variable Life Separate Account as of December 31, 2018, and the related statements of operations and of changes in policy owners' equity for each of the subaccounts of State Farm Life Insurance Company Variable Life Separate Account indicated in the table below for each of the periods indicated in the table below, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of BlackRock Small Cap Index V.I., BlackRock International Index V.I., BlackRock iShares Dynamic Allocation V.I., BlackRock S&P 500 Index V.I., BlackRock Government Money Market V.I. and BlackRock Total Return V.I. in the State Farm Life Insurance Company Variable Life Separate Account as of December 31, 2018, and for each of the subaccounts in the State Farm Life Insurance Company Variable Life Separate Account indicated in the table below, the results of each of their operations and the changes in each of their policy owners' equity for the periods indicated in the table below, in conformity with accounting principles generally accepted in the United States of America.

BlackRock Small Cap Index V.I. (1)	Bond (2)
BlackRock International Index V.I. (1)	Money Market (2)
BlackRock iShares Dynamic Allocation V.I. (1)	International Equity Index (2)
BlackRock S&P 500 Index V.I. (1)	Stock and Bond Balanced (2)
BlackRock Government Money Market V.I. (1)	Large Cap Equity (3)
BlackRock Total Return V.I. (1)	Small/Mid Cap Equity (3)
Large Cap Equity Index (2)	International Equity (3)
Small Cap Equity Index (2)	

- (1) Statement of operations and statement of changes in policy owners' equity for the period October 26, 2018 (commencement of operations) to December 31, 2018
- (2) Statement of operations for the period January 1, 2018 to October 26, 2018 (date of merger) and statement of changes in policy owners' equity for the period January 1, 2018 to October 26, 2018 (date of merger) and the year ended December 31, 2017
- (3) Statement of operations for the period January 1, 2018 to October 18, 2018 (date of liquidation) and statement of changes in policy owners' equity for the period January 1, 2018 to October 18, 2018 (date of liquidation) and the year ended December 31, 2017

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606

T: (312) 298 2000, F: (312) 298 2001, www.pwc.com/us



Basis for Opinions

These financial statements are the responsibility of the State Farm Life Insurance Company's management. Our responsibility is to express an opinion on the financial statements of each of the subaccounts in the State Farm Life Insurance Company Variable Life Separate Account based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to each of the subaccounts in the State Farm Life Insurance Company Variable Life Separate Account in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of investments owned as of December 31, 2018 by correspondence with the transfer agents of the investee mutual funds. We believe that our audits provide a reasonable basis for our opinions.

PriceWaterhouseCoopers LLP

February 28, 2019

We have served as the auditor of one or more of the subaccounts in State Farm Life Insurance Company Variable Life Separate Account since 1999.

**State Farm Life Insurance Company
Variable Life Separate Account**

Statement of Assets and Policy Owners' Equity and Surplus December 31, 2018

	BlackRock Small Cap Index V.I. Subaccount	BlackRock International Index V.I. Subaccount	BlackRock iShares Dynamic Allocation V.I. Subaccount	BlackRock S&P 500 Index V.I. Subaccount	BlackRock Government Money Market V.I. Subaccount	BlackRock Total Return V.I. Subaccount
Assets:						
Investments, at market value ⁽¹⁾⁽²⁾						
BlackRock Small Cap Index V.I. Fund	\$101,623,555	\$ —	\$ —	\$ —	\$ —	\$ —
BlackRock International Index V.I. Fund	—	74,908,436	—	—	—	—
BlackRock iShares Dynamic Allocation V.I. Fund	—	—	31,123,562	—	—	—
BlackRock S&P 500 Index V.I. Fund	—	—	—	250,432,164	—	—
BlackRock Government Money Market V.I. Fund	—	—	—	—	30,568,661	—
BlackRock Total Return V.I. Fund	—	—	—	—	—	36,484,294
Total Assets	\$101,623,555	\$ 74,908,436	\$31,123,562	\$250,432,164	\$30,568,661	\$36,484,294
Liabilities:						
Total Liabilities	—	—	—	—	—	—
Net Assets	\$101,623,555	\$ 74,908,436	\$31,123,562	\$250,432,164	\$30,568,661	\$36,484,294
Net Assets:						
Policy Owners' Equity ⁽³⁾	\$101,623,555	\$ 74,908,436	\$31,123,562	\$250,432,164	\$30,568,661	\$36,484,294
Net Assets	\$101,623,555	\$ 74,908,436	\$31,123,562	\$250,432,164	\$30,568,661	\$36,484,294
(1) Investments, at cost	\$136,636,314	\$103,299,517	\$32,686,322	\$278,592,741	\$30,568,661	\$36,091,505
(2) Shares Owned	10,585,787	9,387,022	3,015,849	12,216,203	30,568,661	3,164,293
(3) Accumulation Unit Value	\$ 31.51	\$ 17.49	\$ 26.16	\$ 29.63	\$ 12.40	\$ 19.66
(3) Units Outstanding	3,225,434	4,282,176	1,189,886	8,450,761	2,465,285	1,856,111

See Note 1 for disclosures of changes in subaccounts during 2018.

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

**State Farm Life Insurance Company
Variable Life Separate Account**

**Statement of Operations
For the Year Ended December 31, 2018**

	1/1/2018 to 10/26/2018				1/1/2018 to 10/30/2018				
	Large Cap Equity Index Subaccount	Small Cap Equity Index Subaccount	Bond Subaccount	Money Market Subaccount	International Equity Index Subaccount	Stock and Bond Balanced Subaccount	Large Cap Equity Subaccount	Small/Mid Cap Equity Subaccount	International Equity Subaccount
Investment income:	\$ 9,582,379	\$ —	\$ 745,215	\$113,801	\$ 166,618	\$ 932,967	\$ 367,687	\$ 309,170	\$ 405,489
Dividend income									
Expenses:									
Mortality and expense risk charges	1,857,753	818,336	240,250	62,222	574,333	216,917	81,265	62,730	32,832
Net investment income (loss)	7,724,626	(818,336)	504,965	51,579	(407,715)	716,050	286,422	246,440	372,657
Realized gain (loss)	99,794,684	45,222,023	(781,872)	(485)	26,608,470	(2,300,680)	1,635,078	1,077,096	1,043,841
Realized gain distributions	21,287,039	884,738	10,601	—	242,657	11,726,883	10,980,780	4,410,700	2,208,992
Change in unrealized appreciation (depreciation), net	(127,826,619)	(45,942,623)	(544,013)	328	(36,913,014)	(10,405,996)	(11,476,071)	(5,751,844)	(6,750,569)
Net realized and unrealized gain (loss) on investments	(6,744,896)	164,138	(1,315,284)	(157)	(10,061,887)	(979,793)	1,139,787	(264,048)	(3,497,736)
Net increase (decrease) in policy owners' equity and surplus from operations	\$ 979,730	\$ (654,198)	\$ (810,319)	\$ 51,422	\$ (10,469,602)	\$ (263,743)	\$ 1,426,209	\$ (17,608)	\$ (3,125,079)

See Note 1 for disclosures of changes in subaccounts during 2018.

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

**State Farm Life Insurance Company
Variable Life Separate Account**

**Statement of Operations, Continued
For the Year Ended December 31, 2018**

	10/26/2018 to 12/31/2018					
	BlackRock Small Cap Index V.I. Subaccount	BlackRock International Index V.I. Subaccount	BlackRock iShares Dynamic Allocation V.I. Subaccount	BlackRock S&P 500 Index V.I. Subaccount	BlackRock Government Money Market V.I. Subaccount	BlackRock Total Return V.I. Subaccount
Investment income:	\$ 1,514,541	\$ 3,749,332	\$ 322,113	\$ 2,851,447	\$ 115,890	\$ 188,377
Dividend income						
Expenses:						
Mortality and expense risk charges	154,210	108,584	44,551	370,464	44,347	50,779
Net investment income (loss)	1,360,331	3,640,748	277,562	2,480,983	71,543	137,598
Realized gain (loss)	(88,759)	(59,186)	(3,784)	(50,159)	—	(461)
Realized gain distributions	23,649,227	22,218,923	441,105	11,188,019	—	—
Change in unrealized appreciation (depreciation), net	(35,012,758)	(28,391,081)	(1,562,760)	(28,160,577)	—	392,789
Net realized and unrealized gain (loss) on investments	(11,452,290)	(6,231,344)	(1,125,439)	(17,022,717)	—	392,328
Net increase (decrease) in policy owners' equity from operations	<u>\$ (10,091,959)</u>	<u>\$ (2,590,596)</u>	<u>\$ (847,877)</u>	<u>\$ (14,541,734)</u>	<u>\$ 71,543</u>	<u>\$ 529,926</u>

See Note 1 for disclosures of changes in subaccounts during 2018.

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

**State Farm Life Insurance Company
Variable Life Separate Account**

**Statement of Changes in Policy Owners' Equity and Surplus
For the Year Ended December 31, 2018**

	1/1/2018 to 10/26/2018				1/1/2018 to 10/30/2018				
	Large Cap Equity Index Subaccount	Small Cap Equity Index Subaccount	Bond Subaccount	Money Market Subaccount	International Equity Index Subaccount	Stock and Bond Balanced Subaccount	Large Cap Equity Subaccount	Small/Mid Cap Equity Subaccount	International Equity Subaccount
Operations:									
Net investment income (loss)	\$ 7,724,626	\$ (818,336)	\$ 504,965	\$ 51,579	\$ (407,715)	\$ 716,050	\$ 286,422	\$ 246,440	\$ 372,657
Realized gain (loss)	121,081,723	46,106,761	(771,271)	(485)	26,851,127	9,426,203	12,615,858	5,487,796	3,252,833
Change in unrealized appreciation (depreciation), net	(127,826,619)	(45,942,623)	(544,013)	328	(36,913,014)	(10,405,996)	(11,476,071)	(5,751,844)	(6,750,569)
Net realized and unrealized gain (loss) on investments	(6,744,896)	164,138	(1,315,284)	(157)	(10,061,887)	(979,793)	1,139,787	(264,048)	(3,497,736)
Net increase (decrease) in policy owners' equity and surplus from operations	979,730	(654,198)	(810,319)	51,422	(10,469,602)	(263,743)	1,426,209	(17,608)	(3,125,079)
Policy owners' equity transactions:									
Proceeds from units purchased	12,475,725	5,465,137	2,433,889	698,672	5,229,765	1,688,188	718,556	592,695	353,269
Transfers between subaccounts including fixed account, net	(267,903,365)	(112,280,036)	(35,057,190)	(8,445,517)	(77,134,550)	(31,425,429)	(12,616,687)	(9,492,588)	(4,523,651)
Payments for surrenders and other redemptions	(19,472,790)	(8,618,493)	(3,040,258)	(797,659)	(6,331,192)	(2,357,545)	(1,025,370)	(786,658)	(521,173)
Net increase (decrease) in policy owners' equity derived from policy owners' equity transactions	(274,900,430)	(115,433,392)	(35,663,559)	(8,544,504)	(78,235,977)	(32,094,786)	(12,923,501)	(9,686,551)	(4,691,555)
Total increase (decrease) in policy owners' equity and surplus	(273,920,700)	(116,087,590)	(36,473,878)	(8,493,082)	(88,705,579)	(32,358,529)	(11,497,292)	(9,704,159)	(7,816,634)
Transfers (from) to contributed surplus	—	(28,396,140)	—	—	(63,515,792)	—	(28,807,098)	(27,806,366)	(20,422,881)
Policy owners' equity and surplus:									
Beginning of year	273,920,700	144,483,730	36,473,878	8,493,082	152,221,371	32,358,529	40,304,390	37,510,525	28,239,515
End of year	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

See Note 1 for disclosures of changes in subaccounts during 2018.

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

**State Farm Life Insurance Company
Variable Life Separate Account**

**Statement of Changes in Policy Owners' Equity and Surplus, Continued
For the Year Ended December 31, 2018**

	10/26/2018 to 12/31/2018					
	BlackRock Small Cap Index V.I. Subaccount	BlackRock International Index V.I. Subaccount	BlackRock iShares Dynamic Allocation V.I. Subaccount	BlackRock S&P 500 Index V.I. Subaccount	BlackRock Government Money Market V.I. Subaccount	BlackRock Total Return V.I. Subaccount
Operations:						
Net investment income (loss)	\$ 1,360,331	\$ 3,640,748	\$ 277,562	\$ 2,480,993	\$ 71,543	\$ 137,598
Realized gain (loss)	23,560,468	22,159,737	437,321	11,137,860	—	(461)
Change in unrealized appreciation (depreciation), net	(35,012,758)	(28,391,081)	(1,562,760)	(28,160,577)	—	392,789
Net realized and unrealized gain (loss) on investments	(11,452,290)	(6,231,344)	(1,125,439)	(17,022,717)	—	392,328
Net increase (decrease) in policy owners' equity from operations	(10,091,959)	(2,590,596)	(847,877)	(14,541,734)	71,543	529,926
Policy owners' equity transactions:						
Proceeds from units purchased	1,227,965	1,152,378	369,282	2,826,459	511,235	530,743
Transfers between subaccounts including fixed account, net	112,346,612	77,709,794	32,087,171	266,306,225	31,138,318	36,199,445
Payments for surrenders and other redemptions	(1,859,063)	(1,363,140)	(485,014)	(4,158,786)	(1,152,435)	(775,820)
Net increase (decrease) in policy owners' equity derived from policy owners' equity transactions	111,715,514	77,499,032	31,971,439	264,973,898	30,497,118	35,954,368
Total increase (decrease) in policy owners' equity	101,623,555	74,908,436	31,123,562	250,432,164	30,568,661	36,484,294
Policy owners' equity:						
Beginning of year	—	—	—	—	—	—
End of year	\$101,623,555	\$ 74,908,436	\$31,123,562	\$250,432,164	\$30,568,661	\$36,484,294

See Note 1 for disclosures of changes in subaccounts during 2018.

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

**State Farm Life Insurance Company
Variable Life Separate Account**

**Statement of Changes in Policy Owners' Equity and Surplus, Continued
For the Year Ended December 31, 2017**

	Large Cap Equity Index Subaccount	Small Cap Equity Index Subaccount	Bond Subaccount	Money Market Subaccount	International Equity Index Subaccount	Stock and Bond Balanced Subaccount	Large Cap Equity Subaccount	Small/Mid Cap Equity Subaccount	International Equity Subaccount
Operations:									
Net investment income (loss)	\$ 2,684,696	\$ 594,387	\$ 622,233	\$ (13,458)	\$ 3,403,000	\$ 433,592	\$ 242,150	\$ 139,281	\$ 91,116
Realized gain (loss)	8,260,648	8,567,666	(2,256)	—	2,000,078	1,179,321	2,542,721	3,193,296	9,560
Change in unrealized appreciation (depreciation), net	37,009,613	8,478,056	(115,798)	(23)	25,199,922	2,187,975	4,903,723	540,970	7,083,858
Net realized and unrealized gain (loss) on investments	45,270,261	17,045,722	(118,054)	(23)	27,200,000	3,367,296	7,446,444	3,734,266	7,093,418
Net increase (decrease) in policy owners' equity and surplus from operations	47,954,957	17,640,109	504,179	(13,481)	30,603,000	3,800,888	7,688,594	3,873,547	7,184,534
Policy owners' equity transactions:									
Proceeds from units purchased	15,817,079	6,946,474	3,088,631	833,898	6,640,609	2,116,849	966,125	804,290	482,493
Transfers between subaccounts including fixed account, net	(2,102,463)	(1,225,085)	1,258,187	341,346	(633,273)	106,605	(342,514)	(155,773)	44,491
Payments for surrenders and other redemptions	(25,581,304)	(11,364,216)	(3,755,362)	(1,076,875)	(8,315,619)	(3,371,616)	(1,085,628)	(1,010,525)	(533,168)
Net increase (decrease) in policy owners' equity derived from policy owners' equity transactions	(11,866,688)	(5,642,827)	591,456	98,369	(2,308,283)	(1,148,162)	(462,017)	(362,008)	(6,184)
Total increase (decrease) in policy owners' equity and surplus	36,088,269	11,997,282	1,095,635	84,888	28,294,717	2,652,726	7,226,577	3,511,539	7,178,350
Transfers (from) to contributed surplus	—	—	—	—	—	—	—	—	—
Policy owners' equity and surplus:									
Beginning of year	237,832,431	132,486,448	35,378,243	8,408,194	123,926,654	29,705,803	33,077,813	33,998,986	21,061,165
End of year	\$273,920,700	\$144,483,730	\$36,473,878	\$ 8,493,082	\$152,221,371	\$32,358,529	\$40,304,390	\$37,510,525	\$28,239,515

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

State Farm Life Insurance Company Variable Life Separate Account

Notes to Financial Statements

1. General Information Organization

The State Farm Life Insurance Company Variable Life Separate Account (the "Separate Account") is a unit investment trust registered under the Investment Company Act of 1940 as amended, established by State Farm Life Insurance Company (the "Company"). The Separate Account was established by the Company on December 9, 1996. The Company sold a variable life insurance product, which has unique combinations of features and fees that are charged against the policy owners' account balances. Under applicable insurance law, the assets and liabilities of the Separate Account are clearly identified and distinguished from the Company's other assets and liabilities. The portion of the Separate Account's assets applicable to the variable life policies is not chargeable with liabilities arising out of any other business the Company may conduct.

The Company discontinued new sales of the variable life product during September, 2008; however, the Company continues to administer the existing book of variable life policies.

Portfolio Changes

Prior to October 2018, the assets of the Separate Account were invested in funds of the State Farm Variable Product Trust. During October 2018, all of the funds of the State Farm Variable Product Trust were either liquidated or merged into funds (the "Fund(s)") of BlackRock Variable Series Funds, Inc. and BlackRock Variable Series Funds II, Inc. (the "BVSFs".)

The operations of the following subaccounts were affected by the aforementioned liquidation and merger activity which occurred during in October 2018:

The following subaccounts were substituted into the Money Market subaccount on October 18, 2018 and were subsequently liquidated on October 30, 2018:

Large Cap Equity
Small/Mid Cap Equity
International Equity

The following subaccounts were merged on October 26, 2018:

<u>Original Subaccount</u>	<u>New Subaccount</u>
Large Cap Equity Index	BlackRock S&P 500 Index V.I.
Small Cap Equity Index	BlackRock Small Cap Index V.I.
International Equity Index	BlackRock International Index V.I.
Bond	BlackRock Total Return V.I.
Stock and Bond Balanced	BlackRock iShares Dynamic Allocation V.I.
Money Market	BlackRock Government Money Market V.I.

2. Significant Accounting Policies

Valuation of Investments

As of December 31, 2018, the assets of the Separate Account are invested in one or more of the Funds of the BVSFs at each Fund's net asset value (NAV), which is based on the daily closing market value prices of the underlying securities, in accordance with the selection made by the policy owners. The net assets of each subaccount of the Separate Account reflect the investment management fees and other operating expenses incurred by the Funds.

State Farm Life Insurance Company Variable Life Separate Account

Notes to Financial Statements, Continued

Fair Value

Fair value is defined as the price that the Separate Account would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. All Funds in the Separate Account included in the Statement of Assets and Policy Owners' Equity are stated at fair value and are based upon closing NAV per share and are therefore considered Level 1. The NAVs are published daily by the Funds' managers. The assets of the Separate Account transferred from Level 2 to Level 1 in association with the merger (see Note 1) and were valued at \$525,140,672 as of December 31, 2018.

Security Transactions and Investment Income

Securities transactions are recorded on the trade date (the date the order to buy or sell is executed). Dividend income is recorded on the ex-dividend date. The cost of investments sold and the corresponding capital gains and losses are determined on a specific identification basis. Net investment income (loss) and net realized gains (losses) and unrealized appreciation (depreciation) on investments are allocated to the policies on each valuation date based on each policy's pro rata share of the assets of the fund as of the beginning of the valuation date.

Accumulation Unit Valuation

On each day the New York Stock Exchange (NYSE) is open for trading, the accumulation unit value is determined as of the earlier of 3:00 PM Central time or the close of the NYSE by dividing the policy owners' share of the value of each fund's investments and other assets, less liabilities, by the number of policy owner accumulation units outstanding in the respective fund.

The NAV for each Fund is determined as of the time of the close of regular session trading on the NYSE, on each day when the NYSE is open for business. Shares of the Funds will not be priced on days when the NYSE is closed.

Each Fund of the State Farm Variable Product Trust valued its assets at their current market value when market quotations were readily available. Securities for which readily available market quotations were not available, or for those quotations deemed not to be representative of market values, were valued by a method that the Board of Trustees of the Fund believed reflected a fair value. Fair value pricing typically was used when trading for a portfolio security was halted during the day and did not resume prior to the Fund's NAV calculation or when a portfolio security had limited liquidity resulting in no market derived price. Securities also may have been fair valued as a result of significant events that occurred after the close of trading in markets within which the securities traded, but before the time at which the securities were valued for NAV calculation.

Federal Income Taxes

The operations of the Separate Account are included in the federal income tax return of the Company. Under existing federal income tax law, investment income and realized capital gains and losses of the Separate Account affect liabilities under the policies and are, therefore, not taxed. Thus, the Separate Account may realize net investment income and capital gains and losses without federal income tax consequences.

Transfers between subaccounts including the fixed account

Transfers between subaccounts including the fixed account (net) include transfers of all or part of the policy owners' interest to or from another eligible subaccount from or to the fixed account option of the general account of the Company.

State Farm Life Insurance Company Variable Life Separate Account

Notes to Financial Statements, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that could affect the amounts reported therein, as well as the disclosure of any contingent assets and liabilities. Actual results reported could differ from the estimates reported in the accompanying financial statements.

3. Expenses and Related Party Transactions

A mortality and expense risk charge, which includes a death benefit guarantee risk charge, is deducted by the Company from the Separate Account on a daily basis, which is equal, on an annual basis, to 0.8% of the daily net asset value of the policy owners' portion of assets in the Separate Account. The daily mortality and expense risk charges are assessed through the reduction in unit values. The charge may be adjusted after policy issue, but is guaranteed not to exceed 0.9% of net assets. The death benefit guarantee covers the risk that the policy would remain in force if the required minimum premiums were satisfied, even if the policy cash surrender value were to drop below zero. This could result from a decline in the value of the subaccounts due to market performance.

At the beginning of each policy month, the Company makes a deduction from the cash value of the policy, which consists of the cost of insurance for the policy, any additional benefits provided by the rider, and a monthly expense charge for the policy month. A monthly expense charge of \$6 is deducted from policies issued prior to July 1, 2004 and an \$8 monthly expense charge is deducted from policies issued from July 1, 2004. This monthly expense charge is subject to a maximum of \$8. These deductions reimburse the Company for administrative expenses relating to the issuance and maintenance of the policy.

A surrender charge may be deducted from the cash value of the policy in the event of a surrender to reimburse the Company for expenses incurred in connection with issuing the policy. The full surrender charge will be increased monthly during the first two policy years, stay constant during the third through sixth year and is reduced each year after the sixth year until it reaches zero in the tenth policy year.

A withdrawal fee is assessed from the cash value of the policy upon the partial withdrawal of funds which is equal to the lesser of \$25 or 2% of the amount withdrawn.

The Company reserves the right to deduct a \$25 transfer processing fee from the cash value of the policy for each subaccount transfer in excess of 12 during a policy year. In addition, the Company deducts and retains a 5% charge from each premium before allocating the resulting premium to the unit value in the Separate Account.

State Farm Life Insurance Company Variable Life Separate Account

Notes to Financial Statements, Continued

During the periods ended October 18, 2018 for the liquidated subaccounts, October 26, 2018 for the subaccounts merged into the BVSFs and the year ended December 31, 2017 for all the following subaccounts, investment advisory and management service fees were paid indirectly to State Farm Investment Management Corp. (SFIMC). Each Fund paid SFIMC an annual fee (computed on a daily basis and paid monthly) at the following annual rates:

Large Cap Equity Fund	0.60% of average daily net assets
Small/Mid Cap Equity Fund	0.80% of average daily net assets
International Equity Fund	0.80% of average daily net assets
Large Cap Equity Index Fund	0.10% of average daily net assets
Small Cap Equity Index Fund	0.13% of average daily net assets
International Equity Index Fund	0.15% of average daily net assets
Stock & Bond Balanced Fund	None
Bond Fund	0.50% of average daily net assets
Money Market Fund	0.10% of average daily net assets

After the merger, the Separate Account only invests in Funds of an unrelated party.

4. Changes in Units Outstanding

The changes in units outstanding for the years ended December 31, 2018 and 2017 are as follows:

Subaccount	December 31, 2018			December 31, 2017		
	Units Issued	Units Redeemed	Net Increase (Decrease)	Units Issued	Units Redeemed	Net Increase (Decrease)
Large Cap Equity Index	502,419	9,258,205	(8,755,786)	705,973	1,125,375	(419,402)
Small Cap Equity Index	203,378	3,526,272	(3,322,894)	288,269	461,615	(173,346)
Bond	230,800	2,072,104	(1,841,304)	267,612	237,547	30,065
Money Market	2,176,275	2,866,687	(690,412)	123,738	115,743	7,995
International Equity Index	366,183	4,683,741	(4,317,558)	479,511	601,078	(121,567)
Stock and Bond Balanced	87,644	1,281,602	(1,193,958)	116,123	161,684	(45,561)
Large Cap Equity	44,814	662,204	(617,390)	74,468	101,194	(26,726)
Small/Mid Cap Equity	41,307	510,317	(469,010)	61,583	81,983	(20,400)
International Equity	33,976	349,863	(315,887)	53,582	54,237	(655)
BlackRock Small Cap Index . . .	3,302,854	77,420	3,225,434	—	—	—
BlackRock International Index	4,394,698	112,522	4,282,176	—	—	—
BlackRock iShares® Dynamic Allocation	1,215,861	25,975	1,189,886	—	—	—
BlackRock S&P 500 Index	8,633,872	183,111	8,450,761	—	—	—
BlackRock Government Money Market	2,785,278	319,993	2,465,285	—	—	—
BlackRock Total Return	1,919,150	63,039	1,856,111	—	—	—

State Farm Life Insurance Company Variable Life Separate Account

Notes to Financial Statements, Continued

5. Purchases and Sales of Investments

The cost of purchases and proceeds from sales of investments for the year ended December 31, 2018 by each subaccount are shown below:

Subaccount	December 31, 2018	
	Purchases	Sales
Large Cap Equity Index	\$ 33,766,748	\$279,655,516
Small Cap Equity Index	2,413,111	146,176,241
Bond	2,429,073	37,577,066
Money Market	26,298,786	34,791,710
International Equity Index	2,158,417	144,075,243
Stock and Bond Balanced	13,530,572	33,182,425
Large Cap Equity	11,608,702	42,072,096
Small/Mid Cap Equity	5,023,127	37,858,904
International Equity	2,807,221	25,340,008
BlackRock Small Cap Index	137,778,048	1,052,974
BlackRock International Index	104,150,254	791,552
BlackRock iShares® Dynamic Allocation	32,866,637	176,531
BlackRock S&P 500 Index	281,340,619	2,697,720
BlackRock Government Money Market	33,879,937	3,311,276
BlackRock Total Return	36,711,312	619,346
Total	<u>\$726,762,564</u>	<u>\$789,378,608</u>

6. Unit Values and Financial Highlights

A summary of unit values and units outstanding for each subaccount of the Separate Account, net investment income ratios and the expense ratios, excluding expenses of the underlying funds, for each of the five years in the period ended December 31, 2018 are shown below. For the subaccounts liquidated or merged into the BVSFs, the results are through the date of the subaccount liquidation or merger, and therefore were not annualized. For the subaccounts in the BVSFs, the results are from the date of inception through the end of the year.

Subaccount	December 31, 2018				For the Year Ended December 31, 2018		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	—	\$ —	\$31.28	\$31.35	3.42%	0.8%	NA
Small Cap Equity Index	—	\$ —	\$35.79	\$34.63	0.00%	0.8%	NA
Bond	—	\$ —	\$19.81	\$19.37	2.06%	0.8%	NA
Money Market	—	\$ —	\$12.30	\$12.37	1.24%	0.8%	NA
International Equity Index	—	\$ —	\$20.43	\$18.10	0.12%	0.8%	NA
Stock and Bond Balanced	—	\$ —	\$27.09	\$26.87	2.86%	0.8%	NA
Large Cap Equity	—	\$ —	\$20.06	\$20.90	0.88%	0.8%	NA
Small/Mid Cap Equity	—	\$ —	\$20.25	\$20.61	0.80%	0.8%	NA
International Equity	—	\$ —	\$16.36	\$14.76	1.44%	0.8%	NA
BlackRock Small Cap Index	3,225,434	\$101,623,555	\$34.63	\$31.51	1.37%	0.8%	(9.01)%
BlackRock International Index	4,282,176	\$ 74,908,436	\$18.10	\$17.49	4.84%	0.8%	(3.37)%
BlackRock iShares® Dynamic Allocation	1,189,886	\$ 31,123,562	\$26.87	\$26.16	1.01%	0.8%	(2.64)%
BlackRock S&P 500 Index	8,450,761	\$250,432,164	\$31.35	\$29.63	1.08%	0.8%	(5.49)%
BlackRock Government Money Market	2,465,285	\$ 30,568,661	\$12.37	\$12.40	0.37%	0.8%	0.24%
BlackRock Total Return	1,856,111	\$ 36,484,294	\$19.37	\$19.66	0.52%	0.8%	1.50%

State Farm Life Insurance Company Variable Life Separate Account

Notes to Financial Statements, Continued

Subaccount	At December 31, 2017				For the Year Ended December 31, 2017		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	8,755,786	\$273,920,700	\$25.91	\$31.28	1.84%	0.8%	20.73%
Small Cap Equity Index	3,322,894	\$144,483,730	\$31.49	\$35.79	1.08%	0.8%	13.66%
Bond	1,841,304	\$ 36,473,878	\$19.54	\$19.81	2.53%	0.8%	1.38%
Money Market	690,412	\$ 8,493,082	\$12.32	\$12.30	0.64%	0.8%	(0.16)%
International Equity Index	4,317,558	\$152,221,371	\$16.42	\$20.43	2.94%	0.8%	24.42%
Stock and Bond Balanced	1,193,958	\$ 32,358,529	\$23.97	\$27.09	2.19%	0.8%	13.02%
Large Cap Equity	617,390	\$ 40,304,390	\$16.33	\$20.06	0.90%	0.8%	22.84%
Small/Mid Cap Equity	469,010	\$ 37,510,525	\$18.25	\$20.25	0.59%	0.8%	10.96%
International Equity	315,887	\$ 28,239,515	\$12.27	\$16.36	0.52%	0.8%	33.33%

Subaccount	At December 31, 2016				For the Year Ended December 31, 2016		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	9,175,188	\$237,832,431	\$23.38	\$25.91	2.04%	0.8%	10.82%
Small Cap Equity Index	3,496,240	\$132,486,448	\$26.24	\$31.49	1.18%	0.8%	20.01%
Bond	1,811,239	\$ 35,378,243	\$19.30	\$19.54	2.79%	0.8%	1.24%
Money Market	682,417	\$ 8,408,194	\$12.41	\$12.32	0.05%	0.8%	(0.73)%
International Equity Index	4,439,125	\$123,926,654	\$16.41	\$16.42	2.87%	0.8%	0.06%
Stock and Bond Balanced	1,239,519	\$ 29,705,803	\$22.39	\$23.97	2.21%	0.8%	7.06%
Large Cap Equity	644,116	\$ 33,077,813	\$15.26	\$16.33	0.96%	0.8%	7.01%
Small/Mid Cap Equity	489,410	\$ 33,998,986	\$16.28	\$18.25	0.39%	0.8%	12.10%
International Equity	316,542	\$ 21,061,165	\$13.04	\$12.27	0.59%	0.8%	(5.90)%

Subaccount	At December 31, 2015				For the Year Ended December 31, 2015		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	9,606,456	\$224,617,827	\$23.30	\$23.38	1.73%	0.8%	0.34%
Small Cap Equity Index	3,622,243	\$113,585,728	\$27.81	\$26.24	0.89%	0.8%	(5.65)%
Bond	1,855,507	\$ 35,796,181	\$19.26	\$19.30	2.78%	0.8%	0.21%
Money Market	691,353	\$ 8,582,137	\$12.51	\$12.41	0.00%	0.8%	(0.80)%
International Equity Index	4,491,034	\$124,256,309	\$16.73	\$16.41	2.34%	0.8%	(1.91)%
Stock and Bond Balanced	1,260,340	\$ 28,217,306	\$22.32	\$22.39	2.27%	0.8%	0.31%
Large Cap Equity	663,101	\$ 31,033,375	\$15.18	\$15.26	1.04%	0.8%	0.53%
Small/Mid Cap Equity	493,553	\$ 30,219,092	\$17.09	\$16.28	0.66%	0.8%	(4.74)%
International Equity	313,769	\$ 22,207,069	\$13.17	\$13.04	0.78%	0.8%	(0.99)%

**State Farm Life Insurance Company
Variable Life Separate Account**

Notes to Financial Statements, Continued

Subaccount	At December 31, 2014				For the Year Ended December 31, 2014		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	9,999,344	\$233,067,229	\$20.72	\$23.30	1.61%	0.8%	12.45%
Small Cap Equity Index	3,740,810	\$123,476,820	\$26.86	\$27.81	0.74%	0.8%	3.54%
Bond	1,867,522	\$ 35,976,927	\$18.75	\$19.26	3.00%	0.8%	2.72%
Money Market	688,232	\$ 8,612,035	\$12.61	\$12.51	0.00%	0.8%	(0.79)%
International Equity Index	4,505,277	\$126,576,939	\$17.92	\$16.73	3.17%	0.8%	(6.64)%
Stock and Bond Balanced	1,293,070	\$ 28,858,411	\$20.56	\$22.32	2.12%	0.8%	8.56%
Large Cap Equity	659,785	\$ 30,680,147	\$13.22	\$15.18	1.35%	0.8%	14.83%
Small/Mid Cap Equity	498,944	\$ 31,650,711	\$16.42	\$17.09	0.21%	0.8%	4.08%
International Equity	307,691	\$ 22,191,810	\$14.12	\$13.17	1.14%	0.8%	(6.73)%

- * The Investment Income Ratio represents the dividends, excluding distributions of capital gains, received by the subaccount from the underlying mutual fund, divided by the average net assets. This ratio excludes those expenses, such as mortality and expense charges, that are assessed against policy owner accounts either through reductions in the unit value or the redemption of units. The recognition of investment income by the subaccount is affected by the timing of the declaration of dividends by the underlying fund in which the subaccount invests.
- ** This ratio represents the annualized contract expenses of the separate account, resulting in a direct reduction of unit values, consisting primarily of mortality and expense charges. Charges that require redemption of policy owner units are excluded. There is no fluctuation in the annualized mortality and expense charge. This ratio does not include the expenses incurred by the underlying funds. Refer to Note 3.
- *** The total return is calculated using the beginning and ending unit value, which reflects the changes in the underlying fund values and reductions related to the Expense Ratio, for the period indicated.