State Auto Financial CORP
Form 10-K
March 13, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2008 or

¨ **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File Number 000-19289

STATE AUTO FINANCIAL CORPORATION

(Exact name of Registrant as specified in its charter)

Ohio	**31-1324304**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
518 East Broad Street, Columbus, Ohio	**43215-3976**

(Address of principal executive offices) **(Zip Code)**

Registrant s telephone number, including area code:

(614) 464-5000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Shares, without par value

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 30, 2008, the last business day of the Registrant s most recently completed second fiscal quarter, the aggregate market value (based on the closing sales price on that date) of the voting stock held by non-affiliates of the Registrant was $336,814,989.

On March 6, 2009, the Registrant had 39,620,850 Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement relating to the annual meeting of stockholders to be held May 8, 2009 (the 2009 Proxy Statement), which will be filed within 120 days of December 31, 2008, are incorporated by reference into Part III of this Form 10-K.

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IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical facts, included in this Annual Report on Form 10-K (this Form 10-K) of State Auto Financial Corporation (State Auto Financial or STFC) or incorporated herein by reference, including, without limitation, statements regarding State Auto Financial s future financial position, business strategy, budgets, projected costs, goals and plans and objectives of management for future operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe or continue or the negative thereof or variations thereon or similar terminology. Forward-looking statements speak only as the date the statements were made. Although State Auto Financial believes that the expectations reflected in forward-looking statements have a reasonable basis, it can give no assurance that these expectations will prove to be correct. Forward-looking statements are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. For a discussion of the most significant risks and uncertainties that could cause State Auto Financial s actual results to differ materially from those projected, see Risk Factors in Item 1A of this Form 10-K. Except to the limited extent required by applicable law, State Auto Financial undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

IMPORTANT DEFINED TERMS USED IN THIS FORM 10-K

As used in this Form 10-K, the following terms have the meanings ascribed below:

State Auto Financial or STFC refers to State Auto Financial Corporation;

We, us, our or the Company refers to STFC and its consolidated subsidiaries, namely State Auto Property & Casualty Insuranc Company (State Auto P&C), Milbank Insurance Company (Milbank), Farmers Casualty Insurance Company (Farmers), State Auto Insurance Company of Ohio (SA Ohio), State Auto National Insurance Company (SA National), Stateco Financial Services, Inc. (Stateco), Strategic Insurance Software, Inc. (S.I.S.) and 518 Property Management and Leasing, LLC (518 PML);

State Auto Mutual or our parent company refers to State Automobile Mutual Insurance Company, which owns approximately 64% of STFC s outstanding common shares;

The Pooled Companies or our Pooled Companies refer to State Auto P&C, Milbank, Farmers, SA Ohio (referred to as the STFC Pooled Companies), State Auto Mutual, and certain subsidiaries and affiliates of State Auto Mutual, namely State Auto Florida Insurance Company (SA Florida), State Auto Insurance Company of Wisconsin (SA Wisconsin), Meridian Security Insurance Company (Meridian Security) Meridian Citizens Mutual Insurance Company (Meridian Citizens Mutual), Beacon National Insurance Company (Beacon National), Patrons Mutual Insurance Company of Connecticut (Patrons Mutual), and Litchfield Fire Mutual Insurance Company (Litchfield), (State Auto Mutual, SA Florida, SA Wisconsin, Meridian Security, Meridian Citizens Mutual, Beacon National, Patrons Mutual and Litchfield are referred to as the Mutual Pooled Companies);

The MIGI Insurers refer to Meridian Security and Meridian Citizens Mutual, and the MIGI Companies refer to the MIGI Insurers and Meridian Insurance Group, Inc. (MIGI);

The Beacon Insurance Group or Beacon Group refers to Beacon National and Beacon Lloyds Insurance Company (Beacon Lloyds);

The Patrons Insurance Group or Patrons Group refers to Patrons Mutual and Litchfield; and

The State Auto Group refers to the Pooled Companies, SA National and Beacon Lloyds.

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PART I

Item 1. Business

(a) General Development of Business

State Auto Financial is an Ohio domiciled super-regional property and casualty insurance holding company incorporated in 1990. We are primarily engaged in writing both personal and business lines of insurance. State Auto Financial owns 100% of State Auto P&C, Milbank, Farmers, SA Ohio, and SA National, each of which is a property and casualty insurance company. Our operations are headquartered in Columbus, Ohio.

State Auto Financial owns 100% of Stateco, which provides investment management services to affiliated insurance companies. State Auto Financial also owns 100% of S.I.S., a developer and seller of insurance-related software. State Auto P&C and Stateco share ownership of 518 PML, which owns and leases property to affiliated companies. The results of the operations of S.I.S. and 518 PML are not material to our total operations.

Our parent company is State Auto Mutual, an Ohio domiciled super-regional mutual property and casualty insurance company organized in 1921. It owns approximately 64% of State Auto Financial s outstanding common shares. It also owns 100% of SA Florida and SA Wisconsin, each of which is a property and casualty insurance company. It also owns 100% of MIGI, an insurance holding company. MIGI owns 100% of Meridian Security, a property and casualty insurance company. MIGI is also a party to an affiliation agreement with Meridian Citizens Mutual, a mutual property and casualty insurance company. MIGI also owns 100% of State Auto Holdings, Inc., an insurance holding company, which owns 100% of the Beacon Insurance Group. The Beacon Insurance Group was acquired in 2007, and is comprised of Beacon National and Beacon Lloyds, which are affiliated through a trust agreement. In December 2007, State Auto Mutual completed its affiliation with the Patrons Insurance Group, which is comprised of Patrons Mutual and Litchfield, both of which are mutual property and casualty insurers.

State Auto P&C has participated in a quota share reinsurance pooling arrangement with State Auto Mutual since 1987 (the Pooling Arrangement). Since January 1, 2005, the participants in the Pooling Arrangement have been State Auto P&C, State Auto Mutual, Milbank, SA Wisconsin, Farmers, SA Ohio, SA Florida, Meridian Security and Meridian Citizens Mutual. On January 1, 2008, Beacon National and the Patrons Insurance Group became participants in the Pooling Arrangement. See Narrative Description of Business Pooling Arrangement in this Item 1 for further information regarding the Pooling Arrangement.

The State Auto Group markets a broad line of property and casualty insurance, such as standard personal and commercial automobile, nonstandard personal automobile, homeowners and farmowners, commercial multi-peril, workers compensation, commercial general liability and property insurance, through independent insurance agencies in 33 states. Our Pooled Companies and SA National are rated A+ (Superior) by the A.M. Best Company.

(b) Financial Information about Segments

Our significant reportable segments are personal insurance, business insurance (the insurance segments), and investment operations. The three segments reflect the manner in which we manage our business and report our results internally to our principal operating decision makers. See detailed discussion regarding our segments at Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Section and Note 15 to our Consolidated Financial Statements included in Item 8 of this Form 10-K.

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(c) Narrative Description of Business

Property and Casualty Insurance

Pooling Arrangement

Our Pooled Companies are parties to the Pooling Arrangement. In general, under the Pooling Arrangement, State Auto Mutual assumes premiums, losses and expenses from each of the remaining Pooled Companies and in turn cedes to each of the Pooled Companies a specified portion of premiums, losses and expenses based on each of the Pooled Companies respective pooling percentages. State Auto Mutual then retains the balance of the pooled business. The participation percentage for the STFC Pooled Companies has remained at 80% since 2001. Prior to 2008, the Pooling Arrangement covered all property and casualty insurance written by the Pooled Companies except State Auto Mutual s voluntary assumed reinsurance, middle market business insurance written by State Auto Mutual and Meridian Security and intercompany catastrophe reinsurance written by State Auto P&C.

In 2008, we made the following changes to the Pooling Arrangement:

- Added Beacon National to the pool with a participation percentage of 0.0%;
- Added Patrons Mutual and Litchfield to the pool with participation percentages of 0.4% and 0.1%, respectively;
- Reduced State Auto Mutual s participation percentage from 19.5% to 19.0% to accommodate the participation percentages allocated to Patrons Mutual and Litchfield; and
- Included State Auto middle market business insurance written by State Auto Mutual and Meridian Security.

The following table sets forth a chronology of the participants and their participation percentages in the Pooling Arrangement since January 1, 1997:

Year[1]	State Auto Mutual	State Auto P&C	Milbank	SA Wisconsin	Farmers	SA Ohio	SA Florida	Meridian Security	Meridian Citizens Mutual	Beacon National	Patrons Mutual	Litchfield Mutual
1997	55.0	35.0	10.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1998	52.0	37.0	10.0[2]	1.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1999	49.0	37.0	10.0	1.0	3.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2000 9/30/2001	46.0	39.0	10.0	1.0	3.0	1.0	N/A	N/A	N/A	N/A	N/A	N/A
10/1/2001 2002	19.0	59.0	17.0	1.0	3.0	1.0	N/A	N/A	N/A	N/A	N/A	N/A
2003 2004	18.3	59.0	17.0	1.0	3.0	1.0	0.7	N/A	N/A	N/A	N/A	N/A
1/1/2005 2007	19.5	59.0	17.0	0.0	3.0	1.0	0.0	0.0	0.5	N/A	N/A	N/A
1/1/2008 current	19.0	59.0	17.0	0.0	3.0	1.0	0.0	0.0	0.5	0.0	0.4	0.1

(1) Time period is for the year ended December 31, unless otherwise noted.
(2) In July 1998, Milbank became a 100% owned subsidiary of STFC. Previously, Milbank was a 100% owned subsidiary of State Auto Mutual.

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The following table sets forth a summary of the Pooling Arrangement participation percentages of STFC and State Auto Mutual, aggregating their respective affiliates and 100% owned subsidiaries:

Year[1]	STFC Pooled Companies	State Auto Mutual Pooled Companies
1997	35	65
1/1/1998 6/30/1998	37	63
7/1/1998 12/31/1998	47	53
1999	50	50
2000 9/30/2001	53	47
10/1/2001 current	80	20

(1) Time period is for the year ended December 31, unless otherwise noted.

It is not management s intention to recommend an adjustment to the STFC Pooled Companies 80% participation level in the foreseeable future. Under applicable governance procedures, if the Pooling Arrangement were to be amended, management would make recommendations to the independent committees of the Board of Directors of both State Auto Mutual and STFC. The independent committees review and evaluate such factors as they deem relevant and recommend any appropriate pooling change to the Board of Directors of both State Auto Mutual and STFC. The Pooling Arrangement is terminable by any of our Pooled Companies at any time by any party by giving twelve months notice to the other parties and their respective domiciliary insurance departments. None of our Pooled Companies currently intends to terminate the Pooling Arrangement.

Under the terms of the Pooling Arrangement, all subject premiums, incurred losses, loss expenses and other underwriting expenses are prorated among our Pooled Companies on the basis of their participation in the pool. By spreading the underwriting risk the Pooling Arrangement is designed to produce more uniform and stable underwriting results for each of our Pooled Companies than any one company would experience individually. This has the effect of providing each of our Pooled Companies with a similar mix of pooled property and casualty insurance business on a net basis.

Prior to July 1, 2008, the Pooling Arrangement excluded catastrophic losses and loss adjustment expenses that were reinsured under our Catastrophe Assumption Agreement (defined below), as well as the premium for such exposures. State Auto P&C reinsured each insurer in the State Auto Group for this layer of reinsurance in the amount of $100.0 million in excess of $135.0 million. No losses were paid by State Auto P&C under the Catastrophe Assumption Agreement in 2008, 2007 or 2006. The State Auto Group did not renew the Catastrophe Assumption Agreement upon its expiration on July 1, 2008. See Management s Discussion and Analysis of Financial Condition and Results of Operations Reinsurance Arrangements in this Item 7 for further information regarding the Catastrophe Assumption Agreement.

Our nonstandard automobile program written through SA National, provides insurance for private passenger automobile risks which do not qualify for the standard or preferred automobile insurance market. Typically, nonstandard risks have higher than average loss experience and an overall higher degree of risk than standard or preferred automobile business. We do not include the business of SA National in the Pooling Arrangement.

Management Agreement

State Auto P&C provides the employees to perform all organizational, operational and management functions for the State Auto Group and State Auto Mutual provides certain operating facilities, including our corporate headquarters, for the State Auto Group through management and cost sharing agreements. In addition, the insurance operations of the Patrons Group are conducted at facilities owned by Patrons Mutual and Litchfield.

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Our primary management agreement, which we refer to as the 2005 Management Agreement, has a ten year term and renews for an additional ten-year period unless terminated sooner in accordance with its terms. If the 2005 Management Agreement was terminated for any reason, we would have to relocate our facilities to continue our operations. However, we do not currently anticipate the termination of the 2005 Management Agreement. See Properties included in Item 2 of this Form 10-K.

Marketing

As of January 1, 2009, the State Auto Group marketed its products in 33 states through independent insurance agencies. None of the companies in the State Auto Group has any contracts with managing general agencies.

We view our independent insurance agents as our primary customers, because they are in a position to recommend either our insurance products or those of a competitor to their customers. We strongly support the independent agency system and believe its maintenance is essential to our present and future success. As such, we continually develop programs and procedures to enhance our agency relationships, including the following: regular travel by senior management and regional office staff to meet with agents, in person, in their home states; training opportunities; incentives related to profit and growth; and an agent stock purchase plan. In addition, we share the cost of approved advertising with selected agencies.

We actively help our agencies develop professional sales skills of their staffs. Our training programs include both products and sales training conducted in our home office. Further, our training programs include disciplined follow-up and coaching for an extended time. Other targeted training sessions are held in our branch office locations from time to time, as well as in our agents offices.

We provide our agents with defined travel and cash incentives if they achieve certain sales and underwriting profit levels. Further, we recognize our very top agencies measured by consistent profitability, achievement of written premium thresholds and growth as Inner Circle Agencies. Inner Circle Agencies are rewarded with additional trip and financial incentives, including additional contingent commissions and additional contributions to their Inner Circle Agent Stock Purchase Plan, a part of our Agent Stock Purchase Plan described below.

To strengthen agency commitment to producing profitable business and further develop our agency relationships, we make available to our agents a stock purchase plan which provides them with the opportunity to use their commission income to purchase our stock. Our transfer agent administers this stock purchase plan using commission dollars assigned by the agents to purchase shares on the open market through a stockbroker.

We have made continuing efforts to use technology to make it easier for our agents to do business with us. We offer internet-based (i) rating, (ii) policy application submission, (iii) execution of changes to policies for certain products and (iv) claims submission. In addition, we provide our agents with the opportunity to maintain policyholder records electronically, avoiding the expense of preparing and storing paper records. Software developed by S.I.S. also enhances the ability of our agents and us to take advantage of electronic data submission. We believe that, since agents and their customers realize better service and efficiency through automation, they value their relationship with us. Automation can make it easier for an agent to do business with us, which attracts prospective agents and enhances existing agencies relationships with us.

During 2008, the State Auto Group, received premiums on products marketed in Alabama, Arizona, Arkansas, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, West Virginia and Wisconsin. During 2008, the eight states that contributed the greatest percentage of our direct premiums written were as follows: Ohio (16.7%), Kentucky (9.9%), Indiana (6.6%), Tennessee (6.2%), Pennsylvania (4.7%), Maryland (4.4%), Minnesota (4.4 %) and Arkansas (4.2%).

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Claims

Our claims division emphasizes timely investigation of claims, settlement of meritorious claims for equitable amounts, maintenance of adequate case reserves for claims, and control of external claims adjustment expenses. Achievement of these goals supports our marketing efforts by providing agents and policyholders with prompt and effective service.

Claim settlement authority levels are established for each adjuster, supervisor and manager based on his or her level of expertise and experience. Our claims division is responsible for reviewing the claim, obtaining necessary documentation and establishing loss and expense reserves of certain claims. Generally, property or casualty claims estimated to reach $150,000 or above are sent to our home office to be supervised by claims division specialists. Branches with low volumes of large claims are assigned a lower dollar threshold for referring claims to the home office. In territories in which there is not sufficient volume to justify having full-time adjusters, we use independent appraisers and adjusters to evaluate and settle claims under the supervision of claims division personnel.

We attempt to minimize claims adjusting costs by settling as many claims as possible through our internal claims staff and, if possible, by settling disputes regarding automobile physical damage and property insurance claims (first party claims) through arbitration. In addition, selected agents have authority to settle small first party claims, which improves claims service.

Our claim representatives use third party, proprietary bodily injury evaluation software to help them value bodily injury claims, except for the most severe injury cases. Our Claims Contact Centers allow us to improve claims efficiency and economy by concentrating the handling of smaller, less complex claims in a centralized environment. We provide claim service 24 hours a day, seven days a week, either through associates in our Claims Contact Centers, which are located in Des Moines, Iowa and Columbus, Ohio, or, for a few overnight hours, through a third party service provider.

Reserves

Loss reserves are management s best estimates at a given point in time of what we expect to pay to settle all losses incurred as of the end of the accounting period, based on facts, circumstances and historical trends then known. During the loss settlement period, additional facts regarding individual claims may become known, and consequently it often becomes necessary to refine and adjust the estimates of liability. The results of our operations and financial condition could be impacted, perhaps significantly, in the future if the ultimate payments required to settle claims vary from the liability currently recorded.

We maintain reserves for the eventual payment of losses and loss expenses for both reported claims and incurred claims that have not yet been reported. Loss expense reserves are intended to cover the ultimate costs of settling all losses, including investigation, litigation and in-house claims processing costs associated with such losses.

Reserves for reported losses are initially established on either a case-by-case or formula basis depending on the type and circumstances of the loss. The case-by-case reserve amounts are determined based on our reserving practices, which take into account the type of risk, the circumstances surrounding each claim and applicable policy provisions. The formula reserves are based on historical paid loss data for similar claims with provisions for trend changes caused by inflation. Loss and loss expense reserves for incurred claims that have not yet been reported are estimated based on many variables including historical and statistical information, changes in exposure units, inflation, legal developments, storm loss estimates and economic conditions. Case and formula basis loss reserves are reviewed on a regular basis. As new data becomes available, estimates are updated resulting in adjustments to loss reserves. Generally, reported losses initially reserved on a formula basis which have not settled after six months, are case reserved at that time. Although our management uses many resources to calculate reserves, there is no precise method for determining the ultimate liability. We do not discount loss

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reserves for financial statement purposes. For additional information regarding our reserves, see Item 7 of this Form 10-K, Management, Discussion and Analysis of Financial Condition and Results of Operations Loss and Loss Expense Reserves.

The following table presents our one-year development information on changes in the reserve for loss and loss expenses for each of the three years in the period ended December 31:

($ millions)	Year Ended December 31		
	2008	2007	2006
Beginning of Year:			
Loss and loss expenses payable	**$ 658.3**	674.5	728.7
Less: Reinsurance recoverable on losses and loss expenses payable(1)	**11.2**	13.5	17.4
Net losses and loss expenses payable(2)	**647.1**	661.0	711.3
Impact of pooling change, January 1, 2008	**51.3**		
Provision for losses and loss expenses occurring:			
Current year	**874.0**	645.5	659.3
Prior years(3)	**(27.3)**	(54.7)	(71.7)
Total	**846.7**	590.8	587.6
Loss and loss expense payments for claims occurring during:			
Current year	**518.7**	368.7	389.4
Prior years	**256.4**	236.0	248.5
Total	**775.1**	604.7	637.9
End of Year:			
Net losses and loss expenses payable	**770.0**	647.1	661.0
Add: Reinsurance recoverable on losses and loss expenses payable(4)	**21.2**	11.2	13.5
Losses and loss expenses payable(5)	**$ 791.2**	658.3	674.5

(1) Includes amounts due from affiliates of $1.2 million, $2.7 million, and $5.5 million at beginning of year 2008, 2007, and 2006, respectively.
(2) Includes net amounts assumed from affiliates of $257.2 million, $281.7 million, and $302.6 million at beginning of year 2008, 2007, and 2006, respectively.
(3) This line item shows decreases in the current calendar year in the provision for losses and loss expenses attributable to claims occurring in prior years. See discussion regarding the calendar year developments at Item 7 of this Form 10-K Management s Discussion and Analysis section at 2008 Compared to 2007 Loss and LAE and 2007 Compared to 2006 Loss and LAE.
(4) Includes amounts due from affiliates of $0.6 million, $1.2 million, and $2.7 million at end of year 2008, 2007, and 2006, respectively.
(5) Includes net amounts assumed from affiliates of $343.0 million, $257.2 million, and $281.7 million at end of year 2008, 2007, and 2006, respectively.

The following table sets forth our development of reserves for losses and loss expenses from 1998 through 2008. Net liability for losses and loss expenses payable sets forth the estimated liability for unpaid losses and loss expenses recorded at the balance sheet date, net of reinsurance recoverable, for each year shown. This liability represents the estimated amount of losses and loss expenses for claims incurred during the current year or incurred during prior years that are unpaid at the balance sheet date, including losses incurred but not reported to us.

The upper section of the table shows the cumulative amounts paid with respect to the previously reported reserve as of the end of each succeeding year. For example, through December 31, 2008, we have paid 103.1% of the losses and loss expenses that had been incurred but not paid, as estimated at December 31, 1998.

The lower portion of the table shows the current estimate of the previously reported reserve based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the claims incurred.

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The amounts on the cumulative redundancy (deficiency) line represent the aggregate change in the estimates over all prior years. For example, the 1998 calendar year reserve has developed a $48.3 million or 23.6% deficiency through December 31, 2008. This $48.3 million amount has been included in operating results over the ten years and did not have a significant effect on income in any one year.

In evaluating the information in the table, it should be noted that each amount includes the effects of all changes in amounts for prior periods. For example, the amount of the redundancy or deficiency evaluated at December 31, 2000, on claims incurred in 1998 includes the cumulative redundancy or deficiency for years 1998, 1999 and 2000. Conditions and trends that have affected the development of the liability in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this table.

In 1998, 1999, 2000 and 2001, the Pooling Arrangement was amended to increase our share of premiums, losses and expenses. An amount of assets equal to the increase in net liabilities was transferred to us from our parent company in 1998, 1999, 2000 and 2001 in conjunction with each year s respective pooling change. In 2005, the MIGI Insurers were added to the pool and our share of their net liabilities and assets were transferred to us from them. In 2008, Beacon National, the Patrons Insurance Group and State Auto Middle Market business were added to the pool and accordingly net assets equal to the increase in net liabilities were transferred to us from them. The amount of the assets transferred on the reserve liabilities assumed in 1998, 1999, 2000, 2001, 2005 and 2008 has been netted against and has reduced the cumulative amounts paid for years prior to 1998, 1999, 2000, 2001, 2005 and 2008, respectively.

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($ millions)	Years Ended December 31										
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Net liability for losses and loss expenses payable	$ 205.0	$ 221.7	$ 236.7	$ 509.9	$ 592.1	$ 628.8	$ 655.9	$ 711.3	$ 661.0	$ 647.1	$ 770.0
Paid (cumulative) as of:											
One year later	35.4%	41.8%	5.9%	43.4%	41.2%	36.7%	31.6%	34.9%	34.9%	31.7%	
Two years later	61.6%	43.0%	52.7%	65.3%	60.8%	53.2%	48.4%	51.1%	50.5%		
Three years later	62.1%	71.9%	79.9%	78.4%	71.4%	63.3%	59.6%	60.9%			
Four years later	78.8%	86.9%	95.5%	84.4%	77.3%	70.6%	66.1%				
Five years later	86.3%	96.1%	101.6%	88.5%	82.3%	74.3%					
Six years later	92.5%	99.0%	107.0%	92.3%	85.1%						
Seven years later	94.9%	102.4%	112.2%	94.7%							
Eight years later	97.4%	106.0%	116.4%								
Nine years later	100.3%	109.3%									
Ten years later	103.1%										
Net liability re-estimate as of:											
One year later	96.6%	97.5%	125.7%	102.4%	99.7%	96.5%	93.3%	89.9%	91.7%	95.8%	
Two years later	96.7%	119.1%	129.1%	105.1%	100.6%	93.2%	87.6%	86.4%	90.5%		
Three years later	111.9%	120.3%	133.1%	106.9%	98.8%	91.0%	86.9%	85.6%			
Four years later	111.5%	123.2%	136.1%	106.2%	98.5%	90.6%	86.2%				
Five years later	115.6%	126.7%	135.6%	107.1%	98.8%	89.8%					
Six years later	118.5%	127.9%	138.2%	107.7%	98.4%						
Seven years later	120.0%	128.9%	140.1%	107.4%							
Eight years later	121.5%	131.1%	139.5%								
Nine years later	123.9%	130.6%									
Ten years later	123.6%										
Cumulative redundancy (deficiency)	$ (48.3)	$ (67.8)	$ (93.5)	$ (37.6)	$ 9.2	$ 63.8	$ 90.7	$ 102.2	$ 63.1	$ 27.3	
Cumulative redundancy (deficiency)	(23.6%)	(30.6%)	(39.5%)	(7.4%)	1.6%	10.2%	13.8%	14.4%	9.5%	4.2%	
Gross* liability end of year	$ 414.2	$ 438.7	$ 457.2	$ 743.7	$ 862.4	$ 934.0	$ 1,006.4	$ 1,111.1	$ 1,032.7	$ 1,029.9	$ 1,198.6
Reinsurance recoverable	$ 209.2	$ 217.0	$ 220.5	$ 233.8	$ 270.3	$ 305.2	$ 350.5	$ 399.8	$ 371.7	$ 382.8	$ 428.6
Net liability end of year	$ 205.0	$ 221.7	$ 236.7	$ 509.9	$ 592.1	$ 628.8	$ 655.9	$ 711.3	$ 661.0	$ 647.1	$ 770.0
Gross liability re-estimated latest	117.4%	118.7%	125.0%	107.1%	98.9%	92.3%	89.3%	88.1%	92.1%	97.1%	
Reinsurance recoverable re-estimated latest	111.4%	106.5%	109.3%	106.6%	99.9%	97.5%	95.2%	92.4%	95.0%	99.3%	
Net liability re-estimated latest	123.6%	130.6%	139.5%	107.4%	98.4%	89.8%	86.2%	85.6%	90.5%	95.8%	

* Gross liability includes: Direct and assumed losses and loss expenses payable.

As the Pooling Arrangement provides for the right of offset, we have reported losses and loss expenses payable ceded to our parent company as assets only in situations when net amounts ceded to our parent company exceed that assumed. The following table provides a reconciliation of the reinsurance recoverable to the amount reported in our consolidated financial statements at each balance sheet date:

Reinsurance recoverable	$ 209.2	$ 217.0	$ 220.5	$ 233.8	$ 270.3	$ 305.2	$ 350.5	$ 399.8	$ 371.7	$ 382.8	$ 428.6
Amount netted against assumed from State Auto Mutual	$ 197.7	$ 206.3	$ 212.6	$ 219.9	$ 261.5	$ 291.0	$ 324.6	$ 382.4	$ 358.2	$ 371.6	$ 407.4
	$ 11.5	$ 10.8	$ 7.9	$ 13.9	$ 8.8	$ 14.2	$ 25.9	$ 17.4	$ 13.5	$ 11.2	$ 21.2

Net reinsurance recoverable	

Reinsurance

Members of the State Auto Group follow the customary industry practice of reinsuring a portion of their exposures and paying to the reinsurers a portion of the premiums received. Insurance is ceded principally to reduce net liability on individual risks or for individual loss occurrences, including catastrophic losses. Although

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reinsurance does not legally discharge the individual members of the State Auto Group from primary liability for the full amount of limits applicable under their policies, it does make the assuming reinsurer liable to the extent of the reinsurance ceded. See the detailed discussion of our reinsurance arrangements at Item 7 of this Form 10-K, Management, Discussion and Analysis of Financial Condition and Liquidity and Capital Resources Reinsurance Arrangements.

See Narrative Description of Business Regulation of this Item 1 for a discussion of the Terrorism Risk Insurance Act of 2002, and its successor, the Terrorism Risk Insurance Extension Act of 2005.

Regulation

Most states, including all the domiciliary states of the State Auto Group, have enacted legislation that regulates insurance holding company systems. Each insurance company in our holding company system is required to register with the insurance supervisory agency of its state of domicile and furnish information concerning the operations of companies within our holding company system that may materially affect the operations, management or financial condition of the insurers within the system. Pursuant to these laws, the respective insurance departments may examine any members of the State Auto Group, at any time, require disclosure of material transactions involving insurer members of our holding company system, and require prior notice and an opportunity to disapprove of certain extraordinary transactions, including, but not limited to, extraordinary dividends to stockholders. Pursuant to these laws, all transactions within our holding company system affecting any insurance subsidiary within the State Auto Group must be fair and equitable. In addition, approval of the applicable Insurance Commissioner is required prior to the consummation of transactions affecting the control of an insurer. The insurance laws of all the domiciliary states of the State Auto Group provide that no person may acquire direct or indirect control of a domestic insurer without obtaining the prior written approval of the state insurance commissioner for such acquisition.

In addition to being regulated by the insurance department of its state of domicile, each of our insurance companies is subject to supervision and regulation in the states in which we transact business. Such supervision and regulation relate to numerous aspects of an insurance company s business operations and financial condition. The primary purpose of such supervision and regulation is to ensure financial stability of insurance companies for the protection of policyholders. The laws of the various states establish insurance departments with broad regulatory powers relative to granting and revoking licenses to transact business, regulating trade practices, licensing agents, approving policy forms, setting reserve requirements, determining the form and content of required statutory financial statements, prescribing the types and amount of investments permitted and requiring minimum levels of statutory capital and surplus. Although premium rate regulation varies among states and lines of insurance, such regulations generally require approval of the regulatory authority prior to any changes in rates. In addition, all of the states in which the State Auto Group transacts business have enacted laws which restrict these companies underwriting discretion. Examples of these laws include restrictions on policy terminations, restrictions on agency terminations and laws requiring companies to accept any applicant for automobile insurance. These laws may adversely affect the ability of the insurers in the State Auto Group to earn a profit on their underwriting operations.

We are required to file detailed annual reports with the supervisory agencies in each of the states in which we do business, and our business and accounts are subject to examination by such agencies at any time.

There can be no assurance that such regulatory requirements will not become more stringent in the future and have an adverse effect on the operations of the State Auto Group.

Dividends. Our insurance subsidiaries generally are restricted by the insurance laws of our respective states of domicile as to the amount of dividends we may pay without the prior approval of our respective state regulatory authorities. Generally, the maximum dividend that may be paid by an insurance subsidiary during any year without prior regulatory approval is limited to the greater of a stated percentage of that subsidiary s statutory surplus as of a certain date, or adjusted net income of the subsidiary for the preceding year. Under current law at

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December 31, 2008, adjusted for dividend payments made in the previous twelve-month period, a total of $34.8 million is available in 2009 for payment as a dividend from our insurance subsidiaries to STFC without prior approval from our respective domiciliary state insurance departments. STFC received dividends of $39.0 million, $50.0 million, and $0.0 million in 2008, 2007, and 2006, respectively, from its insurance subsidiaries.

Rates and Related Regulation. Except as discussed below, we are not aware of the adoption of any adverse legislation or regulation in any state in which we conducted business during 2008 which would materially impact our business.

In January 2007, the Florida legislature enacted new legislation which made fundamental changes to the property and casualty insurance business in Florida. This legislation was intended to address the cost of residential property insurance in Florida. After careful analysis of this legislation, we concluded that we could no longer operate our personal lines on a profitable basis in that state. Accordingly, during the second quarter 2007, we filed an application with the Florida Department of Insurance to withdraw from this state s personal lines insurance market effective January 1, 2008. As of January 1, 2009, all of our personal lines policies in Florida have not been renewed. We continue to write commercial lines business in Florida. In 2007, we wrote $26.9 million of premium in Florida compared to $9.0 million in 2008, nearly all of which was business insurance.

Many of the states in which we operate have passed or are considering legislation restricting or banning the use of credit scoring in the rating and risk selection process. The Fair and Accurate Credit Transactions Act, passed by the U.S. Congress in 2003, directed the Federal Trade Commission (FTC) to consult with the Office of Fair Housing and Equal Opportunity on, among other things, how the use of credit information may affect the availability and affordability of property/casualty insurance, and whether the use of certain factors by credit scoring systems could have a disparate impact on minorities. In July of 2007, the FTC released a report on credit scoring and its impact on automobile insurance. The FTC concluded that credit-based scoring is an effective predictor of risk with respect to the issuance of automobile insurance policies to consumers, but has little effect as an indicator of racial or ethnic status of consumers. Despite the FTC s conclusions, some consumer groups and certain regulatory and legislative entities continue to resist the use of credit scoring in the rating and risk selection process. In 2008, the FTC asked nine of the nation s largest homeowners insurance companies to provide information that the FTC says will allow it to determine how consumer credit data are used by the companies in underwriting and rate setting in this line of business. The results of this study are not expected until late in 2009 or early 2010, and its results could affect the future use of credit scoring. Banning or restricting this practice or data mining would limit our ability, and the ability of other carriers, to take advantage of the predictive value of this information.

In an attempt to make capital and surplus requirements more accurately reflect the underwriting risk of different lines of insurance, as well as investment risks that attend insurers operations, the National Association of Insurance Commissioners (NAIC) annually tests insurers risk-based capital requirements. As of December 31, 2008, each insurer affiliated with us was in compliance with its respective risk-based capital requirements.

The property and casualty insurance industry is also affected by court decisions. In general, premium rates are actuarially determined to enable an insurance company to generate an underwriting profit. These rates contemplate a certain level of risk. The courts may modify, in a number of ways, the level of risk which insurers had expected to assume, including eliminating exclusions, expanding the terms of the contract, multiplying limits of coverage, creating rights for policyholders not intended to be included in the contract and interpreting applicable statutes expansively to create obligations on insurers not originally considered when the statute was passed. Courts have also undone legal reforms passed by legislatures, which reforms were intended to reduce a litigant s rights of action or amounts recoverable and so reduce the costs borne by the insurance mechanism. These court decisions can adversely affect an insurer s profitability. They also create pressure on rates charged for coverages adversely affected, and this can cause a legislative response resulting in rate suppression that can unfavorably impact an insurer.

The Terrorism Risk Insurance Act of 2002 and its successor, the Terrorism Risk Insurance Extension Act of 2005 (collectively, the Terrorism Acts) require the federal government and the insurance industry to share in

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insured losses up to $100 billion per year resulting from future terrorist attacks within the United States. Under the Terrorism Acts, commercial property and casualty insurers must offer their commercial policyholders coverage against certified acts of terrorism, but the policyholders may choose to reject this coverage. If the policyholder rejects coverage for certified acts of terrorism, we intend, subject to the approval of the state regulators, to cover only such acts of terrorism that are not certified acts under the Terrorism Acts and that do not arise out of nuclear, biological or chemical agents. In December 2007, The United States Congress extended the Terrorism Acts through December 31, 2014. At the same time, Congress made modest changes to the Terrorism Acts for example, deleting the distinction between certified and non-certified (essentially foreign and domestic) acts of terrorism. Lines of business covered, as well as certain important coverage features (such as loss triggers, company deductibles and industry retentions) were not changed. We are evaluating these recent changes to the Terrorism Acts and are taking actions to comply. Our current property reinsurance treaties exclude certified acts of terrorism.

Investments

Our investment portfolio is managed to provide growth of statutory surplus to facilitate increased premium writings over the long term while maintaining the ability to fund current insurance operations. The primary objectives are to generate income, preserve capital and maintain liquidity. Our investment portfolio is managed separately from that of our parent company and its subsidiaries, and investment results are not shared by our Pooled Companies through the Pooling Arrangement. Stateco performs investment management services for us and our parent company and its subsidiaries, although investment policies implemented by Stateco continue to be set for each company through the Investment Committee of its respective Board of Directors.

Our decision to make a specific investment is influenced primarily by the following factors: (a) investment risks; (b) general market conditions; (c) relative valuations of investment vehicles; (d) general market interest rates; (e) our liquidity requirements at any given time; and (f) our current federal income tax position and relative spread between after tax yields on tax-exempt and taxable fixed maturity investments. We have investment policy guidelines with respect to purchasing fixed maturity investments for our insurance subsidiaries which preclude investments in bonds that are rated below investment grade by a recognized rating service. Our fixed maturities portfolio is composed of high quality, investment grade issues, comprised almost entirely of debt issues rated AAA or AA. As of December 31, 2008 and 2007, our bond portfolio had a fair value that totaled $1,770.7 million and $1,745.4 million, respectively.

Our fixed maturity investments are classified as available-for-sale and carried at fair value, according to the Financial Accounting Standards Board (FASB) Statement 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). Our maximum investment in any single note or bond is limited to 5.0% of statutory assets, other than obligations of the U.S. government or government agencies, for which there is no limit. Generally, investments in equity securities are selected based on their potential for appreciation as well as ability to continue paying dividends. See Item 7 of this Form 10-K, Management s Discussion and Analysis of Financial Condition and Results of Operations 2008 Compared to 2007 Investment Operations Segment Market Risks, for a discussion regarding the market risks related to our investment portfolio.

At December 31, 2008 and 2007, our equity portfolio was classified as available-for-sale and carried at fair value totaling $137.5 million and $254.2 million, respectively.

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The following table sets forth our investment results for the periods indicated:

($ millions)	Year ended December 31		
	2008	2007	2006
Average Invested Assets[(1)]	**$ 2,127.6**	$ 1,987.1	$ 1,891.6
Net Investment Income[(2)]	**87.4**	84.7	83.1
Average Yield	**4.1%**	4.3%	4.4%

(1) Average of the aggregate invested assets at the beginning and end of each period, including interim quarter ends. Invested assets include fixed maturities at amortized cost, equity securities and other invested assets at cost and cash equivalents.

(2) Net investment income is net of investment expenses and does not include realized or unrealized investment gains or losses or provision for income taxes.

For additional discussion regarding our investments, see Item 7 of this Form 10-K, Management s Discussion and Analysis of Financial Condition and Results of Operations Investment Operations Segment.

Competition

The property and casualty insurance industry is highly competitive. We compete with numerous insurance companies, many of which are substantially larger and have considerably greater financial resources. In addition, because our products are marketed exclusively through independent insurance agencies, most of which represent more than one company, we face competition within each agency. See Narrative Description of Business Marketing in Item 1 and Distribution System and Competition in Item 1A of this Form 10-K. We compete through underwriting criteria, appropriate pricing, quality service to our policyholders and our agents, and a fully developed agency relations program.

Employees

As of February 28, 2009, we had 2,165 employees. Our employees are not covered by any collective bargaining agreement. We consider the relationship with our employees to be excellent.

Available Information

Our website address is www.StateAuto.com. Through this website (found by clicking the Investors link, then the All SEC Filings link), we make available, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy and information statements and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission (the SEC). Also available on our website is information pertaining to our corporate governance, including the charters of each of our standing committees of our Board of Directors, our corporate governance guidelines, our employees code of business conduct and our directors ethical principles.

Any of the materials we file with the SEC may also be read and copied at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the SEC s Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

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Executive Officers of the Registrant

Name of Executive Officer and Position(s) with Company	Age[1]	Principal Occupation(s) During the Past Five Years	An Executive Officer of the Company Since[2]
Robert P. Restrepo, Jr., Chairman, President and Chief Executive Officer	58	Chairman of the Board and Chief Executive Officer of STFC and State Auto Mutual, 2/06 to present; President of STFC and State Auto Mutual, 3/06 to present; Senior Vice President, Insurance Operations, of Main Street America Group, a property and casualty insurance company, 4/05 2/06; President and Chief Executive Officer for two property and casualty insurance subsidiaries of Allmerica Financial Corporation (now known as Hanover Insurance Group), 1998 2003.	2006
Mark A. Blackburn, Executive Vice President and Chief Operating Officer	57	Executive Vice President and Chief Operating Officer of STFC and State Auto Mutual, 11/06 to present; Senior Vice President of STFC and State Auto Mutual, 03/01 to 11/06.	1999
Steven E. English, Vice President and Chief Financial Officer	48	Vice President of STFC and State Auto Mutual, 05/06 to present; Chief Financial Officer of STFC and State Auto Mutual, 12/06 to present; Assistant Vice President of State Auto Mutual, 06/01 to 05/06.	2006
James E. Duemey, Vice President and Investment Officer	62	Vice President and Investment Officer of State Auto Mutual, 5/91 to present.	1991
Clyde H. Fitch, Jr. Senior Vice President and Chief Sales Officer	58	Senior Vice President and Chief Sales Officer of STFC and State Auto Mutual, 11/07 to present. Senior Vice President of Travelers Companies, Inc. for more than five years prior to 11/07.	2007
Cynthia A. Powell, Vice President and Treasurer	48	Treasurer of STFC and State Auto Mutual, 06/06 to present; Vice President of State Auto Mutual, 3/00 to present; Vice President of STFC, 5/00 to present.	2000
Lorraine M. Siegworth, Vice President	41	Vice President of STFC and State Auto Mutual, 11/06 to present; Vice President of Nationwide Insurance or its affiliates, 09/00 to 03/06, most recently serving as Vice President of Corporate HR of Nationwide Insurance.	2006
James A. Yano, Vice President, Secretary and General Counsel	57	Vice President, Secretary and General Counsel of STFC and State Auto Mutual 4/07 to present; Senior Vice President, Secretary and General Counsel of Abercrombie & Fitch Co. 5/05 to 3/07; Partner, law firm of Vorys, Sater, Seymour and Pease LLP for more than five years prior.	2007

(1) Age is as of March 5, 2009.
(2) Each of the foregoing officers has been designated by our Board of Directors as an executive officer for purposes of Section 16 of the Exchange Act.

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Item 1A. Risk Factors

Statements contained in this Form 10-K may be forward-looking within the meaning of the Section 21E of the Exchange Act. Such forward-looking statements are subject to certain risks and uncertainties that could cause our operating results to differ materially from those projected. The following factors, among others, in some cases have affected, and in the future could affect, our actual financial performance.

RESERVES

If our estimated liability for losses and loss expenses is incorrect, our reserves may be inadequate to cover our ultimate liability for losses and loss expenses and may have to be increased.

We establish and carry, as a liability, reserves based on actuarial estimates of the amount to be paid in the future to settle all claims incurred as of the end of the accounting period. We maintain loss reserves to cover our estimated ultimate unpaid liability for losses and loss expenses with respect to reported and unreported claims incurred as of the end of each accounting period. Reserves do not represent an exact calculation of liability, but instead represent estimates, generally using actuarial projection techniques at a given accounting date. These reserve estimates are expectations of what the ultimate settlement and administration of claims will cost based on our assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, trends in loss costs, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be a significant reporting lag between the occurrence of an insured event and the time a claim is actually reported to the insurer. We refine reserve estimates in a regular ongoing process as historical loss experience develops and additional claims are reported and settled. We record adjustments to reserves in the results of operations for the periods in which the estimates are changed. In establishing reserves, we take into account estimated recoveries for reinsurance and salvage and subrogation.

Because estimating reserves is an inherently uncertain process, currently established reserves may not be adequate. If we conclude the estimates are incorrect and our reserves are inadequate, we are obligated to increase our reserves. An increase in reserves results in an increase in losses and a reduction in our net income for the period in which the deficiency in reserves is identified. Accordingly, an increase in reserves could have a material adverse effect on our results of operations, liquidity and financial condition.

CATASTROPHE LOSSES AND GEOGRAPHIC CONCENTRATIONS

The occurrence of catastrophic events could materially reduce our profitability.

Our insurance operations expose us to claims arising out of catastrophic events. We have experienced, and will in the future experience, catastrophe losses that may cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition. Our ability to write new business also could be affected. Catastrophes can be caused by various natural events, including hurricanes, hailstorms, tornadoes, windstorms, earthquakes, severe winter weather and fires, none of which are within our control. Catastrophe losses can vary widely and could significantly impact our results. The frequency and severity of catastrophes are inherently unpredictable. Additionally, catastrophe losses incurred by residual markets or pooling mechanisms (such as wind pools) in certain states could trigger assessments to the Company. Such assessments could be material and may not be recoupable, depending on the applicable state mechanism.

The magnitude of loss from a catastrophe is a function of the severity of the event and the total amount of insured exposure in the affected area. Catastrophes to which we are exposed, including hurricanes, earthquakes and other perils, may be severe and produce significant loss. We are also exposed to significant loss from less

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severe catastrophes when they affect large geographic areas or areas that are heavily populated. Although catastrophes can cause losses in a variety of our property and casualty lines, most of our catastrophe claims in the past have related to homeowners, allied lines and commercial multi-peril coverages. The geographic distribution of our business subjects us to catastrophe exposure from tornadoes, hailstorms and earthquakes in the Midwest as well as catastrophe exposure from hurricanes affecting the Gulf Coast and Atlantic coast areas, including the Southeast, Mid-Atlantic and Northeast regions. See Narrative Description of Business Regulation in Item 1 of this Form 10-K for a discussion regarding our recent personal lines action with respect to Florida. In the last three years, the largest catastrophe or series of catastrophes to affect STFC s results of operations in any one year were as follows: 2008 with losses from Hurricane Ike as it travelled through the Midwest resulting in approximately $44.1 million in pre-tax losses; 2007 with losses from a hail storm in early June causing $10.8 million in pre-tax losses; and 2006 with losses from hurricanes Katrina and Wilma resulting in approximately $42.8 million in pre-tax losses.

We believe that increases in the value and geographic concentration of insured properties and the effects of inflation could increase the severity of claims from catastrophic events in the future. In addition, states have from time to time passed legislation that limits the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from withdrawing from catastrophe-prone areas. Although we attempt to reduce the impact of catastrophes on our business by controlling concentrations of exposures in catastrophe prone areas and through the purchase of reinsurance covering various categories of catastrophes, reinsurance may prove inadequate if a major catastrophic loss exceeds the reinsurance limit, or an insurance subsidiary incurs a number of smaller catastrophes that, individually, fall below the reinsurance retention level.

UNDERWRITING AND PRICING

Our financial results depend primarily on our ability to underwrite risks effectively and to charge adequate rates to policyholders.

Our financial condition, cash flows and results of operations depend on our ability to underwrite and set rates accurately for a full spectrum of risks, across a number of lines of insurance. Rate adequacy is necessary to generate sufficient premium to pay losses, loss adjustment expenses and underwriting expenses and to earn a profit.

Our ability to underwrite and set rates effectively is subject to a number of risks and uncertainties, including, without limitation:

- the availability of sufficient, reliable data;
- our ability to conduct a complete and accurate analysis of available data;
- our ability to timely recognize changes in trends and to project both the severity and frequency of losses with reasonable accuracy;
- uncertainties which are generally inherent in estimates and assumptions;
- our ability to project changes in certain operating expense levels with reasonable certainty;
- the development, selection and application of appropriate rating formulae or other pricing methodologies;
- our use of modeling tools to assist with correctly and consistently achieving the intended results in underwriting and pricing ;
- our ability to innovate with new pricing strategies, and the success of those innovations on implementation;

our ability to secure regulatory approval of premium rates on an adequate and timely basis;

our ability to predict policyholder retention accurately;

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- unanticipated court decisions, legislation or regulatory action;
- unanticipated changes in our claim settlement practices;
- changing driving patterns for auto exposures; changing weather patterns for property exposures;
- changes in the medical sector of the economy;
- unanticipated changes in auto repair costs, auto parts prices and used car prices;
- impact of inflation and other factors on cost of construction materials and labor;
- our ability to monitor property concentration in catastrophe prone areas, such as hurricane, earthquake and wind/hail regions; and
- the general state of the economy in the states in which we operate.

Such risks may result in our rates being based on inadequate or inaccurate data or inappropriate assumptions or methodologies, and may cause our estimates of future changes in the frequency or severity of claims to be incorrect. As a result, we could under price risks, which would negatively affect our margins, or we could overprice risks, which could reduce our volume and competitiveness. In either event, our operating results, financial condition and cash flows could be materially adversely affected.

REINSURANCE

Reinsurance may not be available or adequate to protect us against losses.

We use reinsurance to help manage our exposure to insurance risks. The availability and cost of reinsurance are subject to prevailing market conditions, which can affect our business volume and profitability. Although the reinsurer is liable to us to the extent of the ceded reinsurance, we remain liable as the direct insurer on all risks reinsured. Ceded reinsurance arrangements do not eliminate our obligation to pay claims. As a result, we are subject to counterparty risk with respect to our ability to recover amounts due from reinsurers. Reinsurance may not be adequate to protect us against losses and may not be available to us in the future at commercially reasonable rates. In addition, the magnitude of losses in the reinsurance industry resulting from catastrophes may adversely affect the financial strength of certain reinsurers, which may result in our inability to collect or recover reinsurance. Reinsurers also may reserve their right to dispute coverage with respect to specific claims. With respect to catastrophic or other loss, if we experience difficulty collecting from reinsurers or obtaining additional reinsurance in the future, we will bear a greater portion of the total financial responsibility for such loss, which could materially reduce our profitability or harm our financial condition.

CYCLICAL NATURE OF THE INDUSTRY

The property and casualty insurance industry is highly cyclical, which may cause fluctuations in our operating results.

The property and casualty insurance industry, particularly business insurance, has been historically characterized by periods of intense price competition due to excess underwriting capacity, as well as periods of shortages of underwriting capacity that result in higher prices and more restrictive contract and/or coverage terms. The periods of intense price competition may adversely affect our operating results, and the overall cyclicality of the industry may cause fluctuations in our operating results. While we may adjust prices during periods of intense competition, it remains our strategy to allow for acceptable profit levels and to decline coverage in situations where pricing or risk would not result in acceptable returns. Accordingly, our commercial lines business tends to contract during periods of severe competition and price declines and expand when market pricing allows an acceptable return.

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The personal lines businesses are characterized by an auto underwriting cycle of loss cost trends. Driving patterns, inflation in the cost of auto repairs and medical care and increasing litigation of liability claims are some of the more important factors that affect loss cost trends. Inflation in the cost of building materials and labor costs and demand caused by weather-related catastrophic events affect personal lines homeowners loss cost trends. Our Company and other personal lines insurers may be unable to increase premiums at the same pace as coverage costs increase. Accordingly, profit margins generally decline in periods of increasing loss costs.

CURRENT ECONOMIC CONDITIONS

The current and future difficult economic conditions can adversely affect our business, results of operations and financial condition.

The current economic slowdown and any further economic decline in future reporting periods could adversely impact our business and results of operations. While the volatility of the current economic climate makes it difficult for us to predict the complete impact of this slowdown on our business and results of operations, our business may be impacted in a variety of ways.

The economy is causing consumers and businesses to decrease their spending, which may impact the demand for our insurance products. For example, declining automotive sales and weaknesses in the housing market generally impact the purchase of our personal auto and homeowners insurance products by consumers and business insurance products by businesses involved in these industries. As unemployment rates rise, there may be a tendency for the number of workers compensation claims to increase, as laid-off and unemployed workers may seek workers compensation benefits to replace their lost health care benefits. Similarly, uninsured and underinsured motorist claims may rise.

The volatility and weakness in the financial and capital markets have negatively impacted, and may continue to negatively impact, the value of our investment portfolio.

We may be adversely affected by business difficulties, bankruptcies and impairments of other parties with whom we do business, such as independent agents, reinsurers or banks, which increases our credit risk and other counterparty risks.

In addition, departments of insurance, taxing authorities and other state and local agencies may seek to impose or increase taxes, assessments and other revenue-generating fees in response to funding reductions caused by the current economic downturn. These actions may increase the cost of doing business in these states.

In response to the current economic conditions, the United States federal government and other governmental and regulatory bodies have taken or are considering taking action to address such conditions including, among other things, purchasing mortgage-backed and other securities from financial institutions, investing directly in banks, thrifts and bank and savings and loan holding companies and increasing federal spending to stimulate the economy. There can be no assurance as to what impact such actions will have on the financial markets, current economic conditions or our Company.

Adverse capital and credit market conditions may negatively affect our ability to meet unexpected liquidity needs or to obtain credit on acceptable terms.

The capital and credit markets have been experiencing significant volatility and disruption. In some cases, the markets have negatively affected the availability of liquidity and credit capacity. In the event that we need access to additional capital to pay our operating expenses, make payments on our indebtedness, pay for capital expenditures or fund acquisitions, our ability to obtain such capital may be constrained and the cost of any such capital may be significant. Our ability to obtain additional financing will depend on numerous factors, such as market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity, as well as lenders perception of our long- or short-term financial prospects. Our access to funds may also be constrained if regulatory authorities or rating agencies take negative actions. If certain factors were to occur, our internal sources of liquidity may prove to be insufficient and we may not be able to successfully obtain additional financing on satisfactory terms.

DISTRIBUTION SYSTEM

The independent agency system is the distribution system for our products. Use of this distribution system may constrain our ability to grow at a comparable pace to our competitors that utilize multiple distribution channels. In addition, consumers may prefer to purchase insurance products through alternative channels, such as through the internet, rather than through agents.

We market our insurance products through independent, non-exclusive insurance agents, whereas some of our competitors sell their insurance products through direct marketing techniques, the internet or captive insurance agents who sell products exclusively for one insurance company. The State Auto Group has supported the independent agency system as our sole distribution channel for the past 87 years. However, we recognize that although the number of distribution locations has expanded, the number of independent agencies in the industry has dramatically shrunk over the past several years due to agency purchases, consolidations, bankruptcies and agent retirements. We also recognize that it will be progressively more difficult to expand the number of independent agencies representing us. If we are unsuccessful in maintaining and increasing the number of agencies in our independent agency distribution system, our sales and results of operations could be adversely affected.

The agents that market and sell our products also sell products of our competitors. These agents may recommend our competitors products over our products or may stop selling our products altogether. Our strategy of not pursuing market share at prices that are not expected to produce an underwriting profit can have the effect of making top line growth more difficult. When price competition is intense, this effect is exaggerated by the fact our independent agent distribution force has products to sell from other carriers that may be more willing to lower prices to grow top line sales. Consequently, we must remain focused on attracting and retaining productive agents to market and sell our products. We compete for productive agents primarily on the basis of our financial position, support services, ease of doing business, compensation and product features. Although we make efforts to ensure we have strong relationships with our independent agents and to persuade them to promote and sell our products, we may not be successful in these efforts. If we are unsuccessful in attracting and retaining these agents, our sales and results of operations could be adversely affected.

In addition, consumers are increasingly using the internet and other alternative channels to purchase insurance products. While our website provides a significant amount of information about our insurance products, consumers cannot purchase insurance through our website. Instead, consumers must contact one of our independent agents in order to purchase any of our insurance products or make changes to their existing policies. This sole distribution system may place us at a disadvantage with consumers who prefer to purchase insurance products online or through other alternative distributions channels.

REGULATION

Our business is heavily regulated, and changes in regulation may reduce our profitability and limit our growth.

We are subject to extensive regulation in the states in which we conduct business. This regulation is generally designed to protect the interests of policyholders, as opposed to stockholders and other investors, and relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations (see Narrative Description of Business-Regulation-Dividends in Item 1) changes in control, premium rates and a variety of other financial and non-financial components of an insurance company s business. The NAIC and state insurance regulators are constantly reexamining existing laws and regulations, generally focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws.

From time to time, some states in which we conduct business have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. In other situations, states in which we conduct business have considered or enacted laws that impact the competitive environment and marketplace for property and casualty insurance. For example, in 2007, Florida enacted legislation that required us to charge rates for homeowners insurance that we believed were inadequate to cover the related underwriting risk. After careful analysis of this legislation, we concluded that we could no longer operate our personal lines on a profitable basis in that state. Accordingly, during the second quarter 2007, we filed an application with the Florida Department of Insurance to withdraw from this state s personal lines insurance market effective January 1, 2008. Non-renewals on our personal lines business occurred throughout 2008. We continue to write commercial lines business in Florida.

Nearly all states require licensed insurers to participate in guaranty funds through assessments covering a portion of insurance claims against impaired or insolvent insurers. An increase in the magnitude of impaired companies could result in an increase in our share of such assessments. Residual market or pooling arrangements exist in many states to provide certain types of insurance coverage to those that are otherwise unable to find private insurers willing to insure them. Licensed insurers voluntarily writing such coverage are required to participate in these residual markets or pooling mechanisms. Such participation exposes the Company to possible assessments, some of which could be material to our results of operations. The potential availability of recoupments or premium rate increases, if applicable, may not offset such assessments in the financial statements nor do so in the same fiscal periods.

Many of the states in which we operate have passed or are considering legislation restricting or banning the use of credit scoring in rating and/or risk selection in personal lines of business. Similarly, several states are considering restricting insurers rights to use loss history information maintained in various databases by insurance support organizations. These tools help us price our products more fairly and enhance our ability to compete for business that we believe will be profitable. Such regulations would limit our ability, as well as the ability of all other insurance carriers operating in any affected jurisdiction, to take advantage of these tools.

Currently the federal government does not directly regulate the insurance business. However, in recent years the state insurance regulatory framework has come under increased federal scrutiny. Congress and some federal agencies from time to time investigate the current condition of insurance regulation in the United States to determine whether to impose federal regulation or to allow an optional federal charter, similar to banks. In addition, changes in federal legislation and administrative policies in several areas, including changes in the Gramm-Leach-Bliley Act, financial services regulation and federal taxation, can significantly impact the insurance industry and us.

We cannot predict with certainty the effect any enacted, proposed or future state or federal legislation or NAIC initiatives may have on the conduct of our business. Furthermore, there can be no assurance that the regulatory requirements applicable to our business will not become more stringent in the future or result in materially higher costs than current requirements. Changes in the regulation of our business may reduce our profitability, limit our growth or otherwise adversely affect our operations.

We could be adversely affected if our controls designed to assure compliance with guidelines, policies, and legal and regulatory standards are ineffective. Our business is dependent on our ability to regularly engage in a large number of insurance underwriting, claim processing and investment activities, many of which are complex. These activities often are subject to internal guidelines and policies, as well as legal and regulatory requirements. No matter how well designed and executed, control systems provide only reasonable assurance that the system objectives will be met. If our controls are not effective, it could lead to financial loss, unexpected risk exposures or damage to our reputation.

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CLAIM AND COVERAGE DEVELOPMENTS

Developing claim and coverage issues in our industry are uncertain and may adversely affect our insurance operations.

As industry practices and legislative, judicial and regulatory conditions change, unexpected and unintended issues related to claims and coverage may develop. These issues could have an adverse effect on our business by either extending coverage beyond our underwriting intent or by increasing the frequency or severity of claims. The premiums we charge for our insurance products are based upon certain risk expectations. When legislative, judicial or regulatory authorities expand the burden of risk beyond our expectations, the premiums we previously charged or collected may no longer be sufficient to cover the risk, and we do not have the ability to retroactively modify premium amounts. Furthermore, our reserve estimates do not take into consideration a major retroactive expansion of coverage through legislative or regulatory actions or judicial interpretations.

In particular, court decisions have had, and are expected to continue to have, significant impact on the property and casualty insurance industry. Court decisions may increase the level of risk which insurers are expected to assume in a number of ways, such as by eliminating exclusions, increasing limits of coverage, creating rights in claimants not intended by the insurer and interpreting applicable statutes expansively to create obligations on insurers not originally considered when the statute was passed. In some cases, court decisions have been applied retroactively. Court decisions have also negated legal reforms passed by state legislatures.

There is also a growing trend of plaintiffs targeting property and casualty insurers, including us, in purported class action litigation relating to claim-handling and other practices, particularly with respect to the handling of personal lines auto and homeowners claims.

Many of these issues are beyond our control. The effects of these and other unforeseen claims and coverage issues are extremely hard to predict and could materially harm our business and results of operations.

TERRORISM

Terrorist attacks, and the threat of terrorist attacks, and ensuing events could have an adverse effect on us.

Terrorism, both within the United States and abroad, and military and other actions and heightened security measures in response to these types of threats, may cause loss of life, property damage, reduced economic activity, and additional disruptions to commerce. Actual terrorist attacks could cause losses from insurance claims related to the property and casualty insurance operations of the State Auto Group, as well as a decrease in our stockholders equity, net income and/or revenue. The Terrorism Acts require the federal government and the insurance industry to share in insured losses up to $100 billion per year resulting from certain future terrorist attacks within the United States. Under the Terrorism Acts, we must offer our commercial policyholders coverage against certified acts of terrorism. In December 2007, the United States Congress extended the Terrorism Acts through December 31, 2014, and made some modest changes to the Terrorism Acts. We are evaluating these changes to the Terrorism Act and are taking actions to comply. See Narrative Description of Business-Regulation of this Item 1 for a discussion of the Terrorism Acts.

In addition, some of the assets in our investment portfolio may be adversely affected by declines in the equity markets and economic activity caused by the continued threat of terrorism, ongoing military and other actions and heightened security measures. We cannot predict at this time whether and the extent to which industry sectors in which we maintain investments may suffer losses as a result of potentially decreased commercial and economic activity, or how any such decrease might impact the ability of companies within the affected industry sectors to pay interest or principal on their securities, or how the value of any underlying collateral might be affected.

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TECHNOLOGY AND AUTOMATION

Our development of business insurance lines automated underwriting tools may not be successful or the benefits may not be realized. In addition our business success and profitability depend, in part, on effective information technology systems and facilities. If we are unable to keep pace with the rapidly developing technological advancements in the insurance industry, our ability to compete effectively could be impaired.

We are developing a business insurance agency portal (bizXpress^{SM}) that will build upon the success we believe we have achieved through our personal insurance agency portal (netXpress^{SM}). Our bizXpress allows agents to obtain business insurance quotes for applicants via the internet in real time. This technology enables our agents to prepare a quote proposal and applications for their prospective customer at the point of sale.

While this represents a significant commitment of resources, we believe it is vitally important to our ability to maintain our prospects in business insurance lines. Such automation was successfully put into production for the business auto product during the first half of 2008. In 2009, we expect to complete work on an enhanced Businessowners product and begin automation for workers compensation products. We cannot be sure that the development of this technology will be completed within the projected 12-18 month timeframe, or that it will be successful upon implementation. Additionally, because some of our competitors have already implemented or may be implementing similar types of technology, we may be competitively disadvantaged. A challenge during this development phase will be the utilization of today s technology in face of a constantly changing technological landscape. There can be no assurance that the development of today s technology for tomorrow s use will not result in our being competitively disadvantaged, especially among the larger national carriers that have greater financial and human resources than we.

We depend in large part on our technology systems and facilities for conducting business and processing claims. Our business success is dependent on maintaining the effectiveness of existing technology systems and facilities and on continuing to develop and enhance technology systems and facilities that support our business processes and strategic initiatives in a cost effective manner. If we are unable to keep pace with the advancements being made in technology, our ability to compete with other insurance companies who have advanced technological capabilities will be negatively affected. Further, if we are unable to update or replace our key legacy systems and facilities as they become obsolete or as emerging technology renders them competitively inefficient, our competitive position and/or cost structure could be adversely affected.

INVESTMENTS

The performance of our investment portfolios is subject to investment risks.

Like other property and casualty insurance companies, we depend on income from our investment portfolio for a portion of our revenues and earnings and are therefore subject to market risk and the risk that we will incur losses due to adverse changes in equity, interest, commodity or foreign currency exchange rates and prices. Our primary market risk exposures are to changes in interest rates and equity prices. Individual securities in our fixed-income portfolio are subject to credit risk. Downgrades in the credit ratings of fixed maturities can have a significant negative effect on the market valuation of such securities.

If the fixed-income or equity portfolios, or both, were to be impaired by market, sector or issuer-specific conditions to a substantial degree, our liquidity, financial position and financial results could be materially adversely affected. Under these circumstances, our income from these investments could be materially reduced, and declines in the value of certain securities could further reduce our reported earnings and capital levels. A decrease in value of our investment portfolio could also put our insurance subsidiaries at risk of failing to satisfy regulatory minimum capital requirements. If we were not at that time able to supplement our subsidiaries capital from STFC or by issuing debt or equity securities on acceptable terms, our business could be materially adversely affected. Also, a decline in market rates could cause the investments in our pension plans to decrease below the accumulated benefit obligation, resulting in additional expense and increasing required contributions to the pension plan.

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In addition, our investments are subject to risks inherent in the nation s and world s capital markets. The functioning of those markets, the values of the investments held by us and our ability to liquidate investments on favorable terms or short notice may be adversely affected if those markets are disrupted or otherwise affected by local, national or international events, such as power outages, system failures, wars or terrorist attacks or by recessions or depressions, a significant change in inflation expectations, a significant devaluation of governmental or private sector credit, currencies or financial markets and other factors or events.

Changes in tax laws impacting marginal tax rates and/or the preferred tax treatment of municipal obligations under current law, could adversely affect the market value of municipal obligations. Since 74.8%, at fair value, of our investment portfolio at December 31, 2008 is invested in tax-exempt municipal obligations, any such changes in tax law could adversely affect the value of the investment portfolio. Additionally, any such changes in tax law could reduce the difference between tax-exempt interest rates and taxable rates.

EMPLOYEES

Our ability to attract, develop and retain talented employees, managers and executives, and to maintain appropriate staffing levels, is critical to our success.

Our success depends on our ability to attract, develop and retain talented employees, including executives and other key managers in a specialized industry. Our loss of certain key officers and employees or the failure to attract and develop talented new executives and managers could have a materially adverse effect on our business.

In addition, we must forecast the changing business environments (for multiple business units and in many geographic markets) with reasonable accuracy and adjust hiring programs and/or employment levels accordingly. Our failure to recognize the need for such adjustments, or the failure or inability to react appropriately on a timely basis, could lead either to over-staffing (which would adversely affect our cost structure) or under-staffing (impairing our ability to service our ongoing and new business) in one or more business units or locations. In either event, our financial results could be materially adversely affected.

BUSINESS CONTINUITY

Our business depends on the uninterrupted operation of our facilities, systems and business functions, including our information technology and other business systems.

Our business is highly dependent upon our ability to perform, in an efficient and uninterrupted fashion, necessary business functions, such as Internet support and 24-hour claims contact centers, processing new and renewal business, and processing and paying claims. A shut-down of or inability to access one or more of our facilities, a power outage, a pandemic, or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. In addition, because our information technology and telecommunications systems interface with and depend on third party systems, we could experience service denials if demand for such service exceeds capacity or a third party system fails or experiences an interruption. If sustained or repeated, such a business interruption, systems failure or service denial could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary corporate functions. This could result in a materially adverse effect on our business results and liquidity.

A security breach of our computer systems could also interrupt or damage our operations or harm our reputation. In addition, we could be subject to liability if confidential customer information is misappropriated from our computer systems. Despite the implementation of security measures, including hiring an independent firm to perform intrusion vulnerability testing of our computer infrastructure, these systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Any well-publicized compromise of security could deter people from entering into transactions that involve transmitting confidential information to our systems, which could have a material adverse effect on our business.

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We have established a business continuity plan in an effort to ensure the continuation of core business operations in the event that normal business operations could not be performed due to a catastrophic event. While we continue to test and assess our business continuity plan to ensure it meets the needs of our core business operations and addresses multiple business interruption events, there is no assurance that core business operations could be performed upon the occurrence of such an event.

ACQUISITIONS

Acquisitions subject us to a number of financial and operational risks.

Since going public in 1991, we and State Auto Mutual have acquired or affiliated with other insurance companies, such as the MIGI Insurers, Milbank, Farmers, SA Wisconsin, and most recently the Beacon Insurance Group and Patrons Insurance Group. It is anticipated that we and State Auto Mutual will continue to pursue acquisitions or affiliations of other insurance companies in the future.

Acquisitions and affiliations involve numerous risks and uncertainties, such as:

- obtaining necessary regulatory approvals may prove to be more difficult than anticipated;
- integrating the business may prove to be more costly than anticipated;
- integrating the business without material disruption to existing operations may prove to be more difficult than anticipated;
- anticipated cost savings may not be fully realized (or not realized within the anticipated time frame);
- loss results of the acquired or affiliated company or business may be worse than expected;
- losses may develop differently than what we expected them to; and
- retaining key employees of the acquired company or business may prove to be more difficult than anticipated.

In addition, other companies in the insurance industry have similar acquisition and affiliation strategies. Competition for target companies or businesses may intensify or we may not be able to complete such acquisitions or affiliations on terms and conditions acceptable to us. Additionally, the costs of unsuccessful acquisition and affiliation efforts may adversely affect our financial performance.

FINANCIAL STRENGTH RATINGS

A downgrade in our financial strength ratings may negatively affect our business.

Insurance companies are subject to financial strength ratings produced by external rating agencies. Higher ratings generally indicate financial stability and a strong ability to pay claims. Ratings are assigned by rating agencies to insurers based upon factors that they believe are relevant to policyholders and creditors. Ratings are important to maintaining public confidence in our Company and in our ability to market our products. A downgrade in our financial strength ratings could, among other things, negatively affect our ability to sell certain insurance products, our relationships with agents, new sales and our ability to compete.

Although other agencies cover the property and casualty industry, we believe our ability to write business is most influenced by our rating from A.M. Best. According to A.M. Best, its ratings are designed to assess an insurer s financial strength and ability to meet ongoing obligations to policyholders. Our Pooled Companies and SA National currently have a rating from A.M. Best Company of A+ (Superior) (the second highest of A.M. Best s 15 ratings). We may not be able to maintain our current A.M. Best ratings.

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CONTROL BY OUR PARENT COMPANY

Our parent company owns a significant interest in us and may exercise its control in a manner detrimental to your interests.

As of December 31, 2008, our parent company owned approximately 64% of the voting power of our Company. Therefore, State Auto Mutual has the power to direct our affairs and is able to determine the outcome of substantially all matters required to be submitted to stockholders for approval, including the election of all our directors. State Auto Mutual could exercise its control over us in a manner detrimental to the interests of other STFC stockholders.

COMPETITION

Our industry is highly competitive, which could adversely affect our sales and profitability.

The property and casualty insurance business is highly competitive, and we compete with a large number of other insurers. Many of our competitors have well-established national reputations, and substantially greater financial, technical and operating resources and market share than we. We may not be able to effectively compete, which could adversely affect our sales or profitability. We believe that competition in our lines of business is based primarily on price, service, commission structure, product features, financial strength ratings, reputation and name or brand recognition. Our competitors sell through various distribution channels, including independent agents, captive agents and directly to the consumer. We compete not only for business insurance customers and personal insurance customers, but also for independent agents to market and sell our products. Some of our competitors offer a broader array of products, have more competitive pricing or have higher claims paying ability ratings. In addition, other financial institutions are now able to offer services similar to our own as a result of the Gramm-Leach-Bliley Act.

The increased transparency that arises from information available from the use of tools such as comparative rater software, could work to our disadvantage. We may have difficulty differentiating our products or becoming among the lowest cost providers. Expense efficiencies are important to maintaining and increasing our growth and profitability. If we are unable to realize future expense efficiencies, it could affect our ability to establish competitive pricing and could have a negative effect on new business growth and retention of existing policyholders.

VOLATILITY OF OUR COMMON STOCK

The price of our common stock could be volatile.

The trading price of our common stock may fluctuate substantially due to a variety of factors, certain of which may not be related to our operating performance and are beyond our control. Such factors include, but are not limited to, the following: variations in our actual or anticipated operating results or changes in the expectations of financial market analysts; investor perceptions of our Company and/or the property and casualty industry; market conditions in the insurance industry and any significant volatility in the market; and major catastrophic events.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We share our operating facilities with State Auto Mutual pursuant to the terms of the 2005 Management Agreement. Our corporate headquarters are located in Columbus, Ohio, in buildings owned by State Auto Mutual

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that contain approximately 280,000 square feet of office space. Our Company and State Auto Mutual also own and lease other office facilities in numerous locations throughout the State Auto Group s geographical areas of operation.

Item 3. Legal Proceedings

We are a party to a number of legal proceedings arising in the ordinary course of our insurance business. Our Management believes that the ultimate resolution of these proceedings will not, individually or in the aggregate, have a material, adverse effect on our financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

Market Information; Holders of Record

Our common shares are traded on the NASDAQ Global Select Market under the symbol STFC. As of February 25, 2009, there were 1,448 stockholders of record of our common shares.

Market Price Ranges and Dividends Declared on Common Shares

Initial Public Offering June 28, 1991 $2.25[1] The following table provides information with respect to the high and low sale prices of our common shares for each quarterly period for the past two years as reported by NASDAQ, along with the amount of cash dividends declared by us with respect to our common shares for each quarterly period for the past two years:

2008	**High**	**Low**	**Dividend**
First Quarter	**$ 30.08**	**$ 23.29**	**$0.15**
Second Quarter	**30.00**	**23.91**	**0.15**
Third Quarter	**37.08**	**21.83**	**0.15**
Fourth Quarter	**32.00**	**17.38**	**0.15**

2007	High	Low	Dividend
First Quarter	$ 35.22	$ 30.61	$ 0.10
Second Quarter	34.00	28.67	0.10
Third Quarter	32.25	23.99	0.15
Fourth Quarter	32.38	25.39	0.15

(1) Adjusted for stock splits.

Additionally, see Item 7 of this Form 10-K, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Considerations, for additional information regarding regulatory restrictions on the payment of dividends to State Auto Financial by its insurance subsidiaries.

Purchases of Common Shares by the Company

On August 17, 2007, State Auto Financial announced that its board of directors had authorized the repurchase, from time to time, of up to 4.0 million of its common shares, or approximately 10% of State Auto Financial s outstanding shares, over a period extending until December 31, 2009. State Auto Financial will repurchase shares from State Auto Mutual in amounts that are proportional to the respective current ownership percentages of State Auto Mutual, which is approximately 64%, and other shareholders.

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Performance Graph

The line graph below compares the total return on $100 invested on December 31, 2003, in STFC s shares, the CRSP Total Return Index for the NASDAQ Stock Market (NASDAQ Index), and the CRSP Total Return Index for NASDAQ insurance stocks (NASDAQ Ins. Index), with dividends reinvested.

	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007	**12/31/2008**
STFC	100.000	111.482	158.404	152.322	117.711	**137.225**
NASDAQ Index	100.000	109.101	111.381	122.892	135.954	**81.846**
NASDAQ Ins. Index	100.000	121.489	134.699	153.188	154.533	**139.740**

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Item 6. Selected Consolidated Financial Data

(dollars and shares in millions, except per share data)	Year ended December 31:				
	2008*	2007	2006	2005*	2004
Statement of Income Data					
GAAP Basis:					
Earned premiums	**$ 1,126.0**	1,011.6	1,023.8	1,050.3	1,006.8
Net investment income	**$ 87.4**	84.7	83.1	78.7	71.8
Total revenues	**$ 1,181.9**	1,113.4	1,117.4	1,139.5	1,092.4
Net (loss) income	**$ (31.1)**	119.1	120.4	125.9	110.0
Earned premium growth	**11.3%**	(1.2)	(2.5)	4.3	4.8
Return on average invested assets[(1)]	**4.1%**	4.3	4.4	4.3	4.5
Balance Sheet Data					
GAAP Basis:					
Total investments	**$ 1,941.3**	2,021.2	1,937.9	1,879.9	1,699.1
Total assets	**$ 2,443.6**	2,337.9	2,255.1	2,274.9	2,168.4
Total notes payable	**$ 117.6**	118.0	118.4	118.7	164.5
Total stockholders equity	**$ 761.0**	935.5	834.2	763.5	658.2
Common shares outstanding	**39.6**	40.5	41.0	40.5	40.1
Return on average equity[(2)]	**(3.7)%**	13.5	15.1	17.7	18.3
Debt to capital ratio	**13.4%**	11.2	12.4	13.5	20.0
Per Common Share Data					
GAAP Basis:					
Basic EPS	**$ (0.78)**	2.90	2.95	3.12	2.76
Diluted EPS	**$ (0.78)**	2.86	2.90	3.06	2.70
Cash dividends per share	**$ 0.60**	0.50	0.38	0.27	0.17
Book value per share	**$ 19.23**	23.10	20.32	18.86	16.42
Common Share Price:					
High	**$ 37.08**	35.22	39.94	38.15	31.83
Low	**$ 17.38**	23.99	28.40	24.30	22.12
Close at December 31	**$ 30.06**	26.30	34.68	36.46	25.85
Close price to basic EPS	**(38.54)**	9.07	11.76	11.69	9.37
Close price to book value per share	**1.56**	1.14	1.71	1.93	1.57
GAAP Ratios:[(3)]					
Loss and LAE ratio	**75.2%**	58.4	57.4	58.4	61.5
Expense ratio	**34.6%**	34.4	34.0	31.7	30.2
Combined ratio	**109.8%**	92.8	91.4	90.1	91.7
Statutory Ratios:[(3)]					
Loss and LAE ratio	**74.8%**	57.9	56.8	58.4	61.6
Expense ratio	**33.1%**	33.2	32.9	31.6	30.6
Combined ratio	**107.9%**	91.1	89.7	90.0	92.2
Industry combined ratio[(4)]	**104.7%**	95.6	92.4	101.2	98.9
Net premiums written to surplus[(5)]	**1.6**	1.1	1.2	1.5	1.6

(1) Invested assets include investments and cash equivalents.

(2) Net income (loss) divided by average common stockholders equity.

(3) GAAP ratios are computed using earned premiums for both the loss and LAE ratio and the expense ratio, and include the effect of eliminations in consolidation. The statutory expense ratio is computed using net written premiums. We use the statutory combined ratio to compare our results to the industry statutory combined ratio as there is no industry GAAP combined ratio available.

(4) The industry combined ratios are from A.M. Best. The 2008 industry combined ratio is an estimate.

(5) We use the statutory net premiums written to surplus ratio as there is no comparable GAAP measure. This ratio, also called the leverage ratio, measures our statutory surplus available to absorb losses.

* Reflects changes in Pooling Arrangements, effective January 1, 2008 and 2005.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Capitalized terms used in this Item 7 and not otherwise defined have the meanings ascribed to such terms under the caption Important Defined Terms Used in this Form 10-K which immediately precedes Part I of this Form 10-K.

OVERVIEW

State Auto Financial is a property and casualty insurance holding company primarily engaged in writing both personal and business lines of insurance. The State Auto Group markets a broad line of property and casualty insurance products through independent agencies in 33 states.

State Auto Financial s subsidiaries are State Auto P&C, Milbank, Farmers, SA Ohio and SA National, each of which is a property and casualty insurance company; Stateco, which provides investment management services to affiliated insurance companies; S.I.S., a developer and seller of insurance-related software; and 518 PML, which owns and leases property to affiliated companies. S.I.S. and 518 PML are not material to our total operations.

State Auto Mutual owns approximately 64% of State Auto Financial s outstanding common shares.

State Auto P&C, Milbank, Farmers and SA Ohio (STFC Pooled Companies) participate in a quota share reinsurance pooling arrangement (the Pooling Arrangement) with State Auto Mutual, SA Florida, SA Wisconsin, Meridian Security, Meridian Citizens Mutual, Beacon National, Patrons Mutual and Litchfield, which together with STFC Pooled Companies are referred to as the Pooled Companies. The Pooled Companies provide a broad line of property and casualty insurance, such as standard personal and commercial automobile, homeowners and farmowners, commercial multi-peril, workers compensation, general liability and property insurance. SA National, which is not included in the Pooling Arrangement, provides nonstandard personal automobile insurance. Our Pooled Companies and SA National are rated A+ (Superior) by the A.M. Best Company.

Under the Pooling Arrangement, State Auto Mutual assumes premiums, losses and expenses from each of the remaining Pooled Companies and in turn cedes to each of the Pooled Companies a specified portion of premiums, losses and expenses based on each of the Pooled Companies respective pooling percentages. State Auto Mutual then retains the balance of the pooled business. The participation percentage for the STFC Pooled Companies has remained at 80% since 2001. In general, the Pooling Arrangement covers all the property and casualty insurance written by the Pooled Companies except State Auto Mutual s voluntary assumed reinsurance.

As of January 1, 2008, the Pooling Arrangement was changed (the Pooling Change) to add Beacon National, Patrons Mutual and Litchfield as participants and the middle market business written by companies in the State Auto Group to the Pooling Arrangement (collectively referred to as the New Pool Business). Concurrently with the addition of Patrons Mutual, Litchfield and Beacon National, the participating percentages of certain participants were adjusted as presented in the table below; however the STFC Pooled Companies continue to maintain an overall share of the pool at 80% and State Auto Mutual and its subsidiaries and affiliates continue to maintain 20%. In conjunction with this modification, the STFC Pooled Companies received approximately $92.0 million in cash from State Auto Mutual and its subsidiaries and affiliates for net liabilities assumed on this date.

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The following table presents the impact on our balance sheet on January 1, 2008, relating to the Pooling Change:

($ millions)	
Losses and loss expenses payable	$ 51.3
Unearned premiums	53.6
Deferred policy acquisition costs	(12.9)
Net cash received	$ 92.0

The following table sets forth a chronology of the participants and participation percentages for the Pooling Arrangement:

	2008	2007 & 2006
STFC Pooled Companies:		
State Auto P&C	**59.0%**	59.0%
Milbank	**17.0**	17.0
Farmers	**3.0**	3.0
SA Ohio	**1.0**	1.0
Subtotal	**80.0**	80.0
Mutual Pooled Companies:		
State Auto Mutual	**19.0**	19.5
SA Wisconsin	**0.0**	0.0
SA Florida	**0.0**	0.0
Meridian Security	**0.0**	0.0
Meridian Citizens Mutual	**0.5**	0.5
Beacon National	**0.0**	N/A
Patrons Mutual	**0.4**	N/A
Litchfield	**0.1**	N/A
Subtotal	**20.0**	20.0

Reflecting the manner in which we manage our business and report our results internally to our principal operating decision makers, our significant reportable segments are personal insurance, business insurance (collectively the insurance segments or our insurance segments) and investment operations. The insurance segments distribute their products through the independent agency system across 33 states. Each is managed separately based on the type of customers served, products provided or services offered. The personal insurance segment provides primarily personal auto (standard and nonstandard) and homeowners to the personal insurance market. The business insurance segment provides primarily commercial auto, commercial multi-peril, fire and allied lines, other and product liability and workers compensation insurance to small to medium sized businesses within the commercial insurance market. The investment operations segment, managed by Stateco, provides investment services for our Company s invested assets.

We evaluate the performance of our insurance segments using industry financial measurements determined based on Statutory Accounting Principles (SAP), and certain measures determined under Generally Accepted Accounting Principles (GAAP). We evaluate our investment operations segment based on investment returns of assets managed. Financial information about our segments is set forth in this Item 7 and in Note 15 to our Consolidated Financial Statements included in Item 8 of this Form 10-K.

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EXECUTIVE SUMMARY

The results of our operations from year-to-year and quarter-to-quarter are primarily driven by our ability to generate revenue through selecting and pricing risks in a manner that permits premium growth without adversely affecting underwriting profits, and disciplined investment strategy. We also recognize that our results will be periodically impacted, sometimes significantly, by the occurrence of catastrophic events, which are generally beyond our control.

Premium Growth/Underwriting Profitability: The property and casualty insurance industry is highly cyclical. Our industry has been historically characterized by periods of intense price competition due to excess underwriting capacity, as well as periods of shortages of underwriting capacity that result in increased prices and more favorable underwriting terms. During periods of excess underwriting capacity, some property and casualty insurers attempt to generate additional top line growth by setting their prices at levels inappropriate for the risk underwritten. While in the short term this may result in additional revenues, this action compromises their long term underwriting profitability. Our strategy is to insure personal and small-to-medium business risks while adhering to disciplined and consistent underwriting principles through all market cycles. Over the last several months the industry has been moving from soft market conditions in which insurer competition has been intense and there has been pressure to lower rates toward hard market conditions in which insurers tend to raise prices. We have been monitoring this situation and have responded in ways consistent with our goals not to compromise underwriting profitability and to protect the interests of our stakeholders.

Our underwriting principles include insistence on selecting and retaining business based on the merits of each account and a dedication to cost-based pricing, where each line of business is priced to generate a profit. It is our intention to set pricing levels so that no line of business, or classification within major lines, subsidizes another line or classification. We are committed to achieving an underwriting profit through all market cycles, even at the expense of periodic slowdowns in written and earned premiums. We will not compromise underwriting profitability for top line growth. We believe that we can implement periodic rate changes in most states and remain an attractive market to our policyholders and independent agents by stressing the strengths we bring to the marketplace. These strengths include stability, financial soundness, prompt and fair claims service, and technology which make it easier for the agent to do business with the State Auto Group and provide substantial value to our customers. We carefully monitor writing insurance in states that we believe present difficult legislative, judicial and/or regulatory environments for the insurance industry.

Investment Strategy: We have a disciplined approach to our investment strategy that emphasizes the quality of our fixed maturity portfolio, which comprised 91.3% of our total portfolio at fair value at December 31, 2008, and includes primarily investment grade securities. The majority of our fixed maturity portfolio is invested in municipal bonds to recognize the tax advantages available from municipal bond income. In addition, we believe that our credit risk exposure is reduced by investing in high quality municipal bonds that are diversified by issuer and state. Our internally managed equity portfolio, which comprised 6.7% of our total portfolio at fair value at December 31, 2008, emphasizes large-cap, dividend-paying companies selected based upon their potential for appreciation as well as ability to continue paying dividends. During 2007, we began to diversify our equity portfolio and utilize outside managers to invest in U.S. small-cap equities and international funds. Diversifying our portfolio into small-cap equities and international funds was designed to achieve a greater total return with reduced volatility. In 2008 almost all of the asset classes experienced a decline in fair value, and our portfolio was not immune to this broad-based decline. We believe that in most market cycles diversification of our portfolio will be beneficial to us and we plan to continue to maintain a diversified portfolio.

Loss Reserves: We maintain reserves for the eventual payment of losses and loss expenses for both reported claims and incurred claims that have not yet been reported. Loss reserves are management s best estimate at a given point in time of what we expect to pay to settle all claims incurred as of the end of the accounting period, based on facts, circumstances and historical trends then known. Although management uses many resources to calculate reserves, there is no precise method for determining the ultimate liability. We do not discount loss reserves for financial statement purposes. Our objective is to set reserves that are adequate such that the amounts originally recorded as reserves reasonably approximate the ultimate liability for insured losses and loss expenses. We regularly review and adjust loss reserves as appropriate.

Catastrophic Events: We are exposed to claims arising out of catastrophic events. Catastrophe losses can and do cause substantial volatility in our financial results for any fiscal quarter or year. Catastrophes can be caused by various natural events, including hurricanes, hailstorms, tornadoes, windstorms, earthquakes, severe winter weather and fires, none of which are within our control. The frequency and severity of catastrophes are inherently unpredictable. The magnitude of loss from a catastrophe is a function of the severity of the event and the total amount of insured exposure in the affected area. Catastrophes, to which we are exposed, including hurricanes, earthquakes and other perils, may be severe and produce significant loss. We are also exposed to significant loss from less severe catastrophes when they affect large geographic areas or areas that are heavily populated Although catastrophes can cause losses in a variety of our property and casualty lines, most of our catastrophe claims in the past have related to homeowners, allied lines and commercial multiple peril coverages. We deploy specific strategies designed to mitigate our exposure to catastrophe losses, which include obtaining reinsurance. We continually seek to diversify our business on a geographic basis. The number of states we actively operate in has increased from 27 states in 2003 to 33 states as of December 31, 2008. As we begin 2009, the concentration of our direct written premiums for our property and casualty operations in our largest five states has decreased from 48% for the year ended December 31, 2003, to approximately 44% at December 31, 2008. Our catastrophe management strategies are designed to mitigate our exposure to earthquakes and hurricanes.

In addition to our adherence to our cost-based pricing, investment and catastrophe risk mitigation strategies discussed above, our management focuses on several other key areas with the intention of continually improving the results of our operations and financial results, including the following:

Claims Service: We believe an important element of our success is our focus on claims service. We expect our claim service to be fair, fast and friendly. The role of the claims division is to deliver the promise that we and the independent agent made to the insured. We have the capability of receiving claims 24 hours a day, seven days a week. Claims may be reported to our Claims Contact Center, to the policyholder s independent agent or via the Internet at www.StateAuto.com. We make a pledge to our policyholders to try and make contact with them within two hours of a claim being assigned to a claims handler (except in catastrophe loss situations). In addition, we established internal claims catastrophe teams to enhance our response to policyholders in these loss situations.

Independent Insurance Agent Network: We offer our products through over 3,330 agencies in 33 states. We believe the success of our independent insurance agent network, which is our only distribution channel, grows out of our commitment to promote and foster close working relationships with our agents. We seek relationships with agencies where we will be one of their top three insurers, measured on the basis of direct premiums written, for the type of business we desire. Our agents compensation package includes competitive commission rates and other sales inducements designed to maintain and enhance relationships with existing independent agents as well as to attract new independent agents. We provide our agents with a co-operative advertising program, sales training programs, contingent commissions, travel incentives and agency recognition. We continually monitor our agencies for compatibility with us, taking into account factors such as loss ratio, premium volume, business profiles and relationship history. This allows us to be proactive in helping our agents grow their book of business with us profitably and, thus, enhance the long-term value of our relationship. Our senior management meets frequently with agents to encourage mutual growth and demonstrate our commitment. We believe each of these elements creates a relationship that has resulted in our independent insurance agents placing quality insurance business with us.

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Technology: Our technology efforts are focused on making us as efficient and effective as possible. Our personal insurance segment technology has leveraged past successes with our netXpress^{SM} agency portal by providing more integration with the systems our independent agents commonly use in their offices. This integration of data directly into our netXpress portal eliminates the re-keying effort for our agents and at the same time increases the quality of that data. We have also streamlined the way we acquire outside information like motor vehicle reports and address-based information so that our technology can provide fast and accurate quotes. Our independent agents have welcomed this functionality and rewarded us with increased quote opportunities and submissions.

In 2008, our business insurance segment increased the functionality of our bizXpress^{SM} portal, by adding support for another line of business. Our independent agents who issue business auto policies can now accurately quote and produce proposals for their clients. In addition, during 2008 our independent agents benefited from the addition of more robust reports to analyze claims data for their insureds. These reports are easily requested via the agent s portal.

During the course of 2008, improvements in our project management, quality assurance, and IT governance all improved our technology efficiency and effectiveness. These improvements help us maximize the business results we ultimately receive from our technology investments.

Innovate SA: In the last two quarters of 2008, we launched a formal company-wide plan called Innovate SA, which is intended to reduce expenses, enhance revenues and improve margins. Innovate SA is comprised of various initiatives, including changes to our field structure, business processes and product changes. Innovate SA began with an idea generation phase that involved our 2000+ associates and was followed by an evaluation phase that was led by senior managers in our business units. The idea generation and evaluation phases were completed for the most part in the fourth quarter of 2008, and 480 separate actions have been approved for implementation. Our expectation is that implementation will take place over the next three fiscal years.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are more fully described in Note 1 of the Notes to our Consolidated Financial Statements included in Item 8 of this Form 10-K. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, revenues and expenses for the period then ended and the financial entries in the accompanying notes to the financial statements. Such estimates and assumptions could change in the future, as more information becomes known which could impact the amounts reported and disclosed in this Item 7. We have identified the policies and estimates described below as critical to our business operations and the understanding of the results of our operations.

Investments

Our fixed maturity, equity security and certain other invested asset investments are classified as available-for-sale and carried at fair value. The unrealized holding gains or losses, net of applicable deferred taxes, are shown as a separate component of stockholders equity as accumulated other comprehensive loss, and as such are not included in the determination of net income. Investment income is recognized when earned, and capital gains and losses are recognized when investments are sold.

We regularly monitor our investment portfolio for declines in value that are other-than-temporary impaired (OTTI), an assessment which requires significant management judgment regarding the evidence known. Such judgments could change in the future as more information becomes known which could negatively impact the amounts reported herein. We consider many factors when assessing our investments for OTTI which include: (1) the financial condition and near-term prospects of the issuer, including any specific events that may influence the issuer s operations; (2) the length of time and/or the depth of decline below cost; (3) our ability and intent to hold the security through its near term recovery period; and (4) the ability of the fair value to recover to cost in

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the near term. When a security in our investment portfolio has been determined to have a decline in fair value that is other-than-temporary we adjust the cost basis of the security to fair value. This results in a charge to earnings as a realized loss, which is not reversed for subsequent recoveries in fair value. Future increases or decreases in fair value, if not other-than-temporary, are included in other comprehensive income or loss.

Fair Value Measurements

On January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements (SFAS 157), which was issued by the Financial Accounting Standards Board (FASB) in September 2006. For financial statement elements currently required to be measured at fair value, SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability (exit price) regardless of whether an observable liquid market price exists. An exit price valuation includes margins for risk even if the margins are not observable.

SFAS 157 establishes a fair value hierarchy that categorizes the inputs to valuation techniques which are used to measure fair value into three broad levels as defined below:

Level 1 includes observable inputs which reflect quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 includes observable inputs for assets or liabilities other than quoted prices included in Level 1 and it includes valuation techniques which use prices for similar assets and liabilities.

Level 3 includes unobservable inputs which reflect the reporting entity s estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Deferred Acquisition Costs

Acquisition costs, consisting of commissions, premium taxes and certain underwriting expenses relating to the production of property and casualty business, are deferred and amortized over the same period in which the related premiums are earned. The method followed for computing the acquisition costs limits the amount of such deferred costs to their estimated realizable value. In determining estimated realizable value, the computation gives effect to the premium to be earned, losses and loss expenses expected to be incurred, and certain other costs expected to be incurred as premium is earned. These amounts are based on estimates, and accordingly, the actual realizable value may vary from the estimated realizable value.

Losses and Loss Expenses Payable

Losses and loss expenses payable are management s best estimates at a given point in time of what we expect to pay to settle all claims incurred as of the end of the accounting period, based on known facts, circumstances and historical trends. Reserves for reported losses are established on either a case-by-case or formula basis depending on the type and circumstances of the loss. The case-by-case reserve amounts are determined by claims adjusters based on our reserving practices, which take into account the type of risk, the circumstances surrounding each claim and applicable policy provisions. The formula reserves are based on historical data for similar claims with provision for trend changes caused by inflation. Case and formula basis loss reserves are reviewed on a regular basis, and as new data becomes available, estimates are updated resulting in adjustments to loss reserves. Generally, reported losses initially reserved on a formula basis and not settled after six months are case reserved at that time.

Loss and loss expense reserves for incurred claims that have not yet been reported (IBNR) are estimated based on many variables including historical and statistical information, inflation, legal developments, storm loss estimates, and economic conditions. The process for calculating IBNR is to develop an estimate of the ultimate

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losses incurred, and subtract all amounts already paid or held as formula or case reserves. Although we use many internal and external resources, as well as multiple established methodologies to calculate IBNR, there is no method for determining the exact ultimate liability. For a further discussion regarding our losses and loss expense reserves and our reserving methods see Other Loss and Loss Expense Reserves included in this Item 7.

Pension and Postretirement Benefit Obligations

Pension and postretirement benefit obligations are long term in nature and require management s judgment in estimating the factors used to determine these amounts. We review these factors annually, including the discount rate and expected long term rate of return on plan assets. Because these obligations are based on estimates which could change, the ultimate benefit obligation could be different from the amount estimated. For a further discussion regarding our pension and postretirement benefit obligations see Other Employee Benefit Plans included in this Item 7.

Share-Based Compensation

We have share-based compensation plans which authorize the granting of various equity-based incentives including stock options, restricted stock and restricted share units to employees and non-employee directors. The expense for these equity-based incentives is based on their fair value at date of grant or each reporting date and amortized over their vesting period. The fair value of each stock option granted is estimated on the date of grant or each reporting date using the Black-Scholes closed-form pricing model. The pricing model requires assumptions such as the expected life of the option and expected volatility of our stock over the expected life of the option, which significantly impacts the assumed fair value. We use historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future periods.

Other

Other items that could have a significant impact on the financial statements include the risks and uncertainties listed in Item 1A of this Form 10-K under Risk Factors. Actual results could differ materially using different estimates and assumptions, or if conditions are significantly different in the future.

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RESULTS OF OPERATIONS

Summary

The following table summarizes certain key performance indicators used to manage our operations for the years ended December 31, 2008, 2007 and 2006, respectively:

($ millions, except per share data)	**2008**	2007	2006
GAAP Basis:			
Total revenues	**$ 1,181.9**	1,113.4	1,117.4
Net (loss) income	**$ (31.1)**	119.1	120.4
Stockholders equity	**$ 761.0**	935.5	834.2
Book value per share	**$ 19.23**	23.10	20.32
Debt to capital ratio	**13.4**	11.2	12.4
Loss and LAE ratio(1)	**75.2**	58.4	57.4
Expense ratio(1)	**34.6**	34.4	34.0
Combined ratio	**109.8**	92.8	91.4
Catastrophe Loss and LAE points(1)	**13.9%**	3.7	8.9
Premium written growth(2)	**18.2%**	0.0	(2.5)
Premium earned growth	**11.3%**	(1.2)	(2.5)
Investment yield	**4.1%**	4.3	4.4
SAP Basis:			
Loss and LAE ratio(3)	**74.8**	57.9	56.8
Expense ratio(3)	**33.1**	33.2	32.9
Combined ratio(3)	**107.9**	91.1	89.7
Net premiums written to surplus(4)	**1.6**	1.1	1.2

(1) See 2008 Compared to 2007 section below for definitions.

(2) 5.3 points of the increase for 2008 is related to the one-time $53.6 million transfer of unearned premium to us on January 1, 2008, in conjunction with the Pooling Change.

(3) The SAP Loss and LAE Ratio is losses and loss expenses as a percentage of net earned premiums. The SAP Expense Ratio is statutory underwriting expenses and miscellaneous expenses offset by miscellaneous income (underwriting expenses) as a percentage of net written premiums. The SAP Combined Ratio is the sum of the SAP Loss and LAE Ratio and the SAP Expense Ratio.

(4) We use the statutory net premiums written to surplus ratio because there is no comparable GAAP measure. This ratio, also called the leverage ratio, measures our statutory surplus available to absorb losses.

2008 Compared to 2007

For 2008, we reported a pre-tax loss of $75.1 million compared to pre-tax income of $155.3 million for 2007. Our 2008 pre-tax loss was primarily driven by the following factors:

Catastrophe losses for 2008 were $156.1 million or 13.9 loss ratio points compared to $37.1 million or 3.7 loss ratio points for the same 2007 period. Hurricane Ike delivered tropical storm force winds to Texas and three of our largest states-Ohio, Kentucky and Indiana, accounting for $44.1 million of catastrophe losses or 3.9 loss ratio points. See the Loss and Expenses section included in this Item 7.

Our non-catastrophe losses for 2008 were $686.3 or 60.9 loss ratio points compared to $548.5 or 54.2 loss ratio points for the same 2007 period. All of our lines of business have contributed to this increase. See the Loss and LAE section included in this Item 7.

During 2008, we recognized $39.3 million of OTTI on our investment portfolio compared to $1.9 million in 2007. See the Investment Operations Segment section included in this Item 7.

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Insurance Segments

Insurance industry regulators require our insurance subsidiaries to report their financial condition and results of operations using SAP. We use SAP financial results, along with industry standard financial measures determined on a SAP basis and certain measures determined on a GAAP basis, to internally monitor the performance of our insurance segments and reward our employees. The more common financial measures used are Loss and LAE ratio, underwriting expense ratio, combined ratio, net premiums written and net premiums earned. The combined ratio is the sum of the Loss and LAE ratio and the underwriting expense ratio. When the combined ratio is less than 100%, the insurer is operating at an underwriting gain and when it is greater than 100%, the insurer is operating at an underwriting loss. Underwriting gain (loss) is determined by subtracting from net earned premiums, losses and loss expenses and underwriting expenses.

One of the more significant differences between GAAP and SAP is that SAP requires all underwriting expenses to be expensed immediately and not deferred over the same period that the premium is earned. In converting SAP underwriting results to GAAP underwriting results, acquisition costs are deferred and amortized over the periods the related written premiums are earned. For a discussion of deferred policy acquisition costs see Critical Accounting Policies Deferred Acquisition Costs section included in this Item 7. The GAAP combined ratio is defined as the sum of the GAAP Loss and LAE ratio (loss and loss expenses as a percentage of earned premiums) plus GAAP expense ratio (acquisition and operating expenses as a percentage of earned premiums). All references to financial measures or components thereof in this discussion are calculated on a GAAP basis, unless otherwise noted.

The following tables provide a summary of our insurance segments SAP underwriting (loss) gain and SAP combined ratio for the years ended December 31, 2008 and 2007:

($ millions)	**2008**					
	Personal	**% Ratio**	**Business**	**% Ratio**	**Total**	**% Ratio**
Written premiums	**$ 715.6**		**$ 489.3**		**$ 1,204.9**	
Earned premiums	**670.9**		**455.1**		**1,126.0**	
Losses and loss expenses	**520.3**	**77.6**	**322.1**	**70.8**	**842.4**	**74.8**
Underwriting expenses	**206.8**	**28.9**	**191.5**	**39.1**	**398.3**	**33.1**
SAP underwriting loss and SAP combined ratio	**$ (56.2)**	**106.5**	**$ (58.5)**	**109.9**	**$ (114.7)**	**107.9**

($ millions)	2007					
	Personal	% Ratio	Business	% Ratio	Total	% Ratio
Written premiums	$ 615.1		$ 404.7		$ 1,019.8	
Earned premiums	609.6		402.0		1,011.6	
Losses and loss expenses	378.4	62.1	207.2	51.5	585.6	57.9
Underwriting expenses	183.9	29.9	154.2	38.1	338.1	33.2
SAP underwriting gain and SAP combined ratio	$ 47.3	92.0	$ 40.6	89.6	$ 87.9	91.1

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Revenue

We measure our top-line growth for our insurance segments based on net written premiums, which represent the premiums on the policies we have issued for a period, net of reinsurance. Net written premiums provide us with an indication of how well we are doing in terms of revenue growth before it is actually earned. Our policies provide a fixed amount of coverage for a stated period of time, often referred to as the policy term. As such, our written premiums are recognized as earned ratably over the policy term. The unearned portion of written premiums, called unearned premiums, is reflected on our balance sheet as a liability and represents our obligation to provide coverage for the unexpired terms of the policies.

The following table shows the reconciliation of the one-time impact on net written premiums for the year ended December 31, 2008 with respect to the unearned premiums transferred to us on January 1, 2008, in conjunction with the Pooling Change.

($ millions)	Net Written Premiums Reconciliation Table		
	Including Pooling Change	Pooling Change Impact	Excluding Pooling Change
Personal insurance segment:			
Standard auto	$ 406.7	$ 7.9	$ 398.8
Nonstandard auto	42.2		42.2
Homeowners	234.2	14.4	219.8
Other personal	32.5	2.5	30.0
Total personal	715.6	24.8	690.8
Business insurance segment:			
Commercial auto	120.0	10.0	110.0
Commercial multi-peril	105.1	6.1	99.0
Fire & allied lines	102.5	5.7	96.8
Product & other liability	84.4	3.9	80.5
Workers compensation	47.5	2.0	45.5
Other business	29.8	1.1	28.7
Total business	489.3	28.8	460.5
Total personal & business	$ 1,204.9	$ 53.6	$ 1,151.3

Impacting both our written and earned premiums in 2008 were the following:

As of July 1, 2008, we terminated our State Auto P&C intercompany catastrophe reinsurance agreement, which resulted in $1.4 million less net written and earned premiums within our property lines for 2008 when compared to the same 2007 period.

Our third party excess of loss catastrophe reinsurance program, which renewed July 1, 2008 (coverage period July 1, 2008 through June 30, 2009), incorporates a reinstatement provision should a loss occurrence exceed our retention. Under this provision, our original reinsurance coverage limits are automatically restored in consideration of an additional reinstatement premium (Reinstatement Premium). The estimated direct ultimate loss resulting from Hurricane Ike exceeded our retention, thereby causing two premium transactions to occur: 1) an acceleration of the recognition of the original annual premium to the date of loss occurrence in proportion to the reinsurance coverage exhausted and 2) the recognition of the Reinstatement Premium from the date of the loss occurrence to the end of the coverage period (June 30, 2009). Additionally, during the 2008 fourth quarter we entered into a separate property catastrophe excess of loss reinsurance agreement (Third Event Agreement), which provides additional coverage in excess of our retention through our remaining coverage period

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(June 30, 2009). The incremental impact of the acceleration of the original annual premium plus the recognition Reinstatement Premium plus the premium paid in connection with the Third Event Agreement resulted in $3.5 million less net written and earned premiums within our property lines when compared to the same 2007 period. The incremental impact has the most significant effect on our property lines. See detailed discussion of our reinsurance programs in the Liquidity and Capital Resources Reinsurance Arrangements section included in this Item 7.

Personal Insurance Segment Revenue

Our personal insurance segment consists primarily of auto (standard and nonstandard) and homeowners products, with personal auto representing 38.3% of our total consolidated net written premium in 2008 and 2007. Our strategy to grow our personal lines business includes introducing our products, enhanced systems and easier-to-use technologies into new states. During 2008, we began introducing our personal lines products and technologies into Texas through the independent agent distribution channel as a result of State Auto Mutual s acquisition of the Beacon Insurance Group in early 2007. In addition, future plans include leveraging our relationship with the Patrons Insurance Group distribution channel to add upgraded product lines and technologies into Connecticut.

During 2008, we continued to enhance our personal lines point of sale portal, netXpress. The additional integration with the systems commonly used by our independent agents has resulted in an increase in the number of quotes for personal auto and homeowners. In 2008, for the State Auto Group 840,000 quotes were handled on netXpress with 196,000 of those quotes initiated from the integration mentioned above. In 2007, a total of 542,000 quotes were handled on netXpress.

We have also focused on improving our policyholders ease of doing business with respect to bill payment and claim reporting and settlement. Utilization of the electronic Pay Now functionality via www.StateAuto.com increased significantly. During 2008 for the State Auto Group, 310,000 payments representing $117.0 million of premiums were made as compared to 189,000 payments and $76.0 million of premium payments recorded in 2007.

The following table provides a summary of written and earned premium, net of reinsurance, by major product line of business for our personal insurance segment for the years ended December 31, 2008 and 2007. The one-time impact of the Pooling Change has been excluded from 2008 to present net written premiums on a comparative basis (see Net Written Premium Reconciliation Table above):

($ millions)	**2008**	2007	% Change
Personal Insurance Segment:			
Net Written Premium			
Standard auto	**$ 398.8**	$ 361.5	10.3
Nonstandard auto	**42.2**	42.7	(1.2)
Homeowners	**219.8**	187.7	17.1
Other personal	**30.0**	23.2	29.3
Total personal	**$ 690.8**	$ 615.1	12.3
Net Earned Premium			
Standard auto	**$ 384.3**	$ 357.3	7.6
Nonstandard auto	**42.6**	42.9	(0.7)
Homeowners	**215.4**	186.5	15.5
Other personal	**28.6**	22.9	24.9
Total personal	**$ 670.9**	$ 609.6	10.1

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In total, the personal insurance segment net written premium increased from 2007 by 12.3%, with 6.8% of this increase attributed to the New Pool Business and 5.5% of this attributed to Organic Growth. We define Organic Growth in this Form 10-K as premium growth excluding premium growth related to the New Pool Business. Our Organic Growth for net written premiums has been impacted by our decision in 2007 to withdraw our personal insurance products from Florida beginning January 1, 2008. The net written premium loss from this action was $12.5 million for 2008.

Standard personal auto net written premiums increased 10.3% from 2007. The New Pool Business contributed 3.9% for 2008, while Organic Growth increased 6.4% from 2007. The primary product contributing to our increase in Organic Growth in standard personal auto is our CustomFit[SM] product which uses a multivariate rating approach that broadens the underwriting and eligibility guidelines for new and existing customers. Since introducing the first generation of the CustomFit product in 2005, we now offer this product in most of our operating states and have seen significant improvement in our net written premiums production trends for new business in these states. In late 2007, we began introducing the second generation of CustomFit and during 2008 we continued migrating CustomFit states to the second generation product which increases the number of pricing points significantly.

We believe independent agents value ease of doing business and make it an important factor in their choice of insurance companies when quoting personal auto products to their customers. To assist in this area, in early 2007, we began implementing comparative rating tools which allow agents to receive rate quotes from multiple insurance companies by entering the rating information only one time. To date, we have implemented 65 different integration points to our personal lines rating engine thus eliminating duplicate entry for agents. We believe agents will quote and write more personal standard and nonstandard auto and homeowners insurance with us as a result of a more efficient quoting process combined with more competitive rates resulting from the ongoing introduction of CustomFit for standard auto and refined pricing for nonstandard auto.

Nonstandard auto net written premium decreased 1.2% from 2007. This decrease was due to tightening underwriting controls and aggressive rate actions which contributed to a decline in our new business writings. These actions were taken to drive an improvement in our underwriting results. See SAP Loss and LAE Ratios Table in the Losses and Expenses section included in this Item 7.

Homeowners net written premium increased 17.1% from 2007. The New Pool Business contributed 12.4% while Organic Growth increased 4.7% from 2007. We have undertaken new homeowners pricing and product initiatives, such as various new home discounts that complement our CustomFit automobile rollout, in order to improve our premium growth. During 2008, we experienced premium growth in most of our states.

Other personal net written premium increased 29.3% from 2007, with 11.2% coming from Organic Growth and 18.1% from New Pool Business. Other personal includes primarily our farmowners line of business where we expanded into four new states, which accounts for much of the Organic Growth in this line.

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Business Insurance Segment Revenue

We focus our business insurance sales on small to medium sized exposures and offer a broad range of both property and liability coverages such as commercial auto, commercial multi-peril, fire and allied lines, products liability and workers compensation. The following table provides a summary of written and earned premium, net of reinsurance, by major product line of business for our business insurance segment for the years ended December 31, 2008 and 2007. The one-time impact of the Pooling Change has been excluded from 2008 to present net written premiums on a comparative basis (see Net Written Premium Reconciliation Table above):

($ millions)	**2008**	2007	% Change
Business Insurance Segment:			
Net Written Premium			
Commercial auto	**$ 110.0**	$ 95.8	14.8
Commercial multi-peril	**99.0**	86.6	14.3
Fire & allied lines	**96.8**	84.0	15.2
Other & product liability	**80.5**	75.6	6.5
Workers compensation	**45.5**	36.1	26.0
Other commercial	**28.7**	26.6	7.9
Total business	**$ 460.5**	$ 404.7	13.8
Net Earned Premium			
Commercial auto	**$ 110.5**	$ 96.9	14.0
Commercial multi-peril	**97.9**	86.8	12.8
Fire & allied lines	**94.7**	83.4	13.5
Other & product liability	**79.9**	75.5	5.8
Workers compensation	**43.4**	33.4	29.9
Other commercial	**28.7**	26.0	10.4
Total business	**$ 455.1**	$ 402.0	13.2

The business insurance segment net written premium increased 13.8% from 2007. The New Pool Business contributed 12.8%, while Organic Growth increased 1.0% from 2007. Business insurance continues to be impacted by rate competition as well as ease of doing business issues. We are seeking to balance our traditional underwriting discipline with new products and pricing tools that support the production of profitable new business.

We continue to invest in products, processes and systems that we believe will increase our business insurance writings. We have expanded our marketability by introducing new products, enhancing existing products and broadening eligibility. For our property and liability business, we have also implemented a more granular pricing process that we believe will help us price risks more accurately and improve account retention. We are pursuing the same for our commercial auto and workers compensation lines of business. In addition, we have broadened our property, liability, auto and workers compensation pricing ranges to better recognize the spectrum of risks within our markets. This year, we introduced an enhanced Employment Practices Liability product to agents in all states and added enhanced functionality for agents to perform more detailed loss analysis on their existing book of business insurance policies. In addition, we introduced our workers compensation products into West Virginia, which opened this market to private insurers after operating for years as a monopolistic workers compensation state.

We also continue to improve our back office systems, such as enhancements to our insurance policy administration system, to make it easier for agents to quote and submit business insurance policies to us. Our system now allows transactions to be processed throughout the day using real-time and straight through processing rather than in a large batch at night. In addition to the efficiency gains we have achieved for internal employees, we have leveraged this real-time and straight through processing functionality with bizXpress. In 2008, we expanded our bizXpress functionality by giving agents the ability to quote business auto policies as well as businessowners policies, a capability which we introduced to them in 2007.

We are working to expand the scope of this technology for new products and additional lines of business including workers compensation. We believe this technology investment should better position us for revenue growth opportunities in the future and start to drive efficiencies into our business model much like we have seen in personal insurance. The majority of all transactions in business insurance utilize the straight through processing technology. This has resulted in faster delivery of policies to our agents and their insureds for new business and endorsements.

Similar to our personal lines segment, we are leveraging our relationship with the agency distribution channel as a result of State Auto Mutual s acquisition of Beacon National in early 2007. During the fourth quarter of 2007 we introduced our business product portfolio in Texas. In the fourth quarter of 2008, we began to leverage our relationship with the Patrons Mutual and Litchfield agency distribution channel by completing all filing and systems work to support the introduction of commercial property, liability, auto and workers compensation products, which we introduced to Connecticut agents early in 2009.

Loss and LAE

Our GAAP Loss and LAE ratio was 75.2% in 2008 compared to 58.4% in 2007. The increase in the GAAP Loss and LAE Ratio was largely due to an increase in catastrophe storm losses. Our catastrophe losses, which primarily impacted our property lines of business, accounted for 13.9 points of the Loss and LAE ratio in 2008 compared to only 3.7 points in 2007. Our non-catastrophe Loss and LAE ratio was 60.9% in 2008 compared to 54.2% in 2007. The increase in our non-catastrophe Loss and LAE ratio was driven mostly by bodily injury claim severity in the personal and commercial auto lines. With auto lines representing a significant portion of our earned premiums, this line of business contributed roughly 50% of the increase in our non-catastrophe ratio.

Losses and loss expenses for a calendar year represent the combined estimated ultimate liability for claims occurring in the current calendar year along with any change in estimated ultimate liability for claims occurring in prior years. The following table presents the provision for losses and loss expenses for those claims occurring in 2008 and prior years, along with the GAAP Loss and LAE ratio for the years 2008 and 2007, respectively:

($ millions)	**2008**	**% GAAP Loss and LAE**	2007	% GAAP Loss and LAE
Provision for losses and loss expenses occurring:				
Current year	**$ 874.0**	**77.6**	$ 645.5	62.7
Prior years	**(27.3)**	**(2.4)**	(54.7)	(4.3)
Total losses and loss expenses	**$ 846.7**	**75.2**	$ 590.8	58.4

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As shown above, the 2008 loss and loss expenses attributable to prior years totaled ($27.3) million. This corresponded to a decrease, or favorable development, in the estimated ultimate liability for prior years claims. A tabular presentation of the $27.3 million favorable development in 2008 by accident year is shown below.

($ millions) Accident Year	Current year development of ultimate liability *Redundancy / (Deficiency)*	
1998 and prior	$	0.7
1999		0.3
2000		0.5
2001		(0.1)
2002		0.7
2003		2.6
2004		(0.2)
2005		0.8
2006		3.1
2007		18.9
Total	$	27.3

Emergence by accident year includes normal fluctuations due to the uncertainty associated with loss reserve development and claim settlement. The favorable development of $27.3 million in 2008 came primarily from accident year 2007. The more notable items contributing to the 2008 favorable development were:

Unallocated loss adjustment expenses (ULAE) were $13.7 million lower than anticipated in the reserves at December 31, 2007. ULAE are those expenses or costs incurred in settling claims, such as in-house processing costs, which cannot be associated with a specific claim.

Favorable catastrophe loss development of $6.4 million was primarily associated with the 2007 accident year. This development occurred primarily within our homeowners, fire & allied and commercial multi-peril lines of business.

Non-catastrophe homeowners reserves developed $4.9 million lower than anticipated. Current loss projections using more mature claim data resulted in lower expected average claim severity than prior projections, primarily from losses occurring in 2007.

See discussion regarding the 2007 calendar year development at 2007 Compared to 2006 Losses and Expenses section included in this Item 7. See additional discussion regarding loss and loss expense reserves at the Other Loss and Loss Expense Reserves section included in this Item 7.

Catastrophe losses for 2008 totaled $156.1 million (13.9 loss ratio points) compared to $37.1 million (3.7 loss ratio points) for 2007. The discussion of catastrophe losses includes those which have been designated as such by ISO s Property Claim Services (PCS) unit, a nationally recognized industry service. PCS defines catastrophes as events resulting in $25.0 million or more in insured losses industry wide and affecting significant numbers of insureds and insurers. During 2008, we were impacted by losses from 35 of the 37 storms that were classified as numbered catastrophes by PCS as compared to 18 of the 26 PCS 2007 classified storms. The losses from these catastrophes have had a significant impact on both our personal and business insurance property lines.

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The following tables provide our insurance segments SAP Loss and LAE ratios (loss ratios) by major lines of business for 2008 and 2007 with the catastrophe (cat) and non-catastrophe (non-cat) impact shown separately:

($ millions)

2008 Statutory Loss and LAE Ratios	Earned Premium	Cat Loss & LAE	Non-Cat Loss & LAE	Statutory Loss & LAE	Cat Ratio	Non-Cat Ratio	Total Loss and LAE Ratio
Personal insurance segment:							
Standard auto	**$384.3**	**$8.2**	**$254.4**	**$262.6**	**2.1**	**66.2**	**68.3**
Nonstandard auto	**42.6**	**0.3**	**31.5**	**31.8**	**0.7**	**74.0**	**74.7**
Homeowners	**215.4**	**91.5**	**113.0**	**204.5**	**42.5**	**52.5**	**95.0**
Other personal	**28.6**	**5.8**	**15.6**	**21.4**	**20.6**	**54.1**	**74.7**
Total personal	**670.9**	**105.8**	**414.5**	**520.3**	**15.8**	**61.7**	**77.5**
Business insurance segment:							
Commercial auto	**110.5**	**0.8**	**67.6**	**68.4**	**0.7**	**61.2**	**61.9**
Commercial multi-peril	**97.9**	**16.5**	**56.5**	**73.0**	**16.8**	**57.8**	**74.6**
Fire & allied lines	**94.7**	**32.0**	**52.7**	**84.7**	**33.8**	**55.7**	**89.5**
Other & product liability	**79.9**		**51.6**	**51.6**		**64.6**	**64.6**
Workers compensation	**43.4**		**35.0**	**35.0**		**80.7**	**80.7**
Other commercial	**28.7**	**1.0**	**8.4**	**9.4**	**3.4**	**29.3**	**32.7**
Total business	**455.1**	**50.3**	**271.8**	**322.1**	**11.0**	**59.8**	**70.8**