



State Auto Financial Corporation

STFC

Financial Strength • Reputation • Relationships • Reliability • Responsiveness

Participants

Robert P. Restrepo, Jr.
Chairman, President and CEO



Forward-Looking Statements

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “anticipate,” “estimate,” “target,” and similar expressions, among others, identify forward-looking statements. All forward-looking statements are based on assumptions, expectations and other information currently available to management. Such forward-looking statements are subject to certain risks and uncertainties that could cause events and the Company’s actual results to differ materially from those expressed or implied. Please see risks and uncertainties disclosures regarding forward-looking statements in the Company’s quarterly and annual filings with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.



Presentation Outline



Profile

Performance

Plans

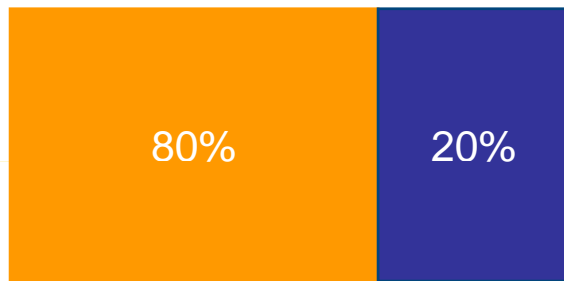
Company Profile

- Super Regional Property & Casualty (“P&C”) insurance
 - Over \$1.2 billion in annual premiums; 59% Personal and 41% Business
 - 3,400 independent insurance agencies
 - 33 states of operation
- Insurance holding company (IPO in 1991)
 - 64% owned by State Automobile Mutual (formed in 1921)
 - Consists of 5 insurance and 3 non-insurance subsidiaries
 - Receives 80% of State Auto Ins Companies pool results
- State Auto Ins Cos. rated A+ (Superior) by A.M. Best since 1954



Flexible Corporate Structure

Pooling Participation



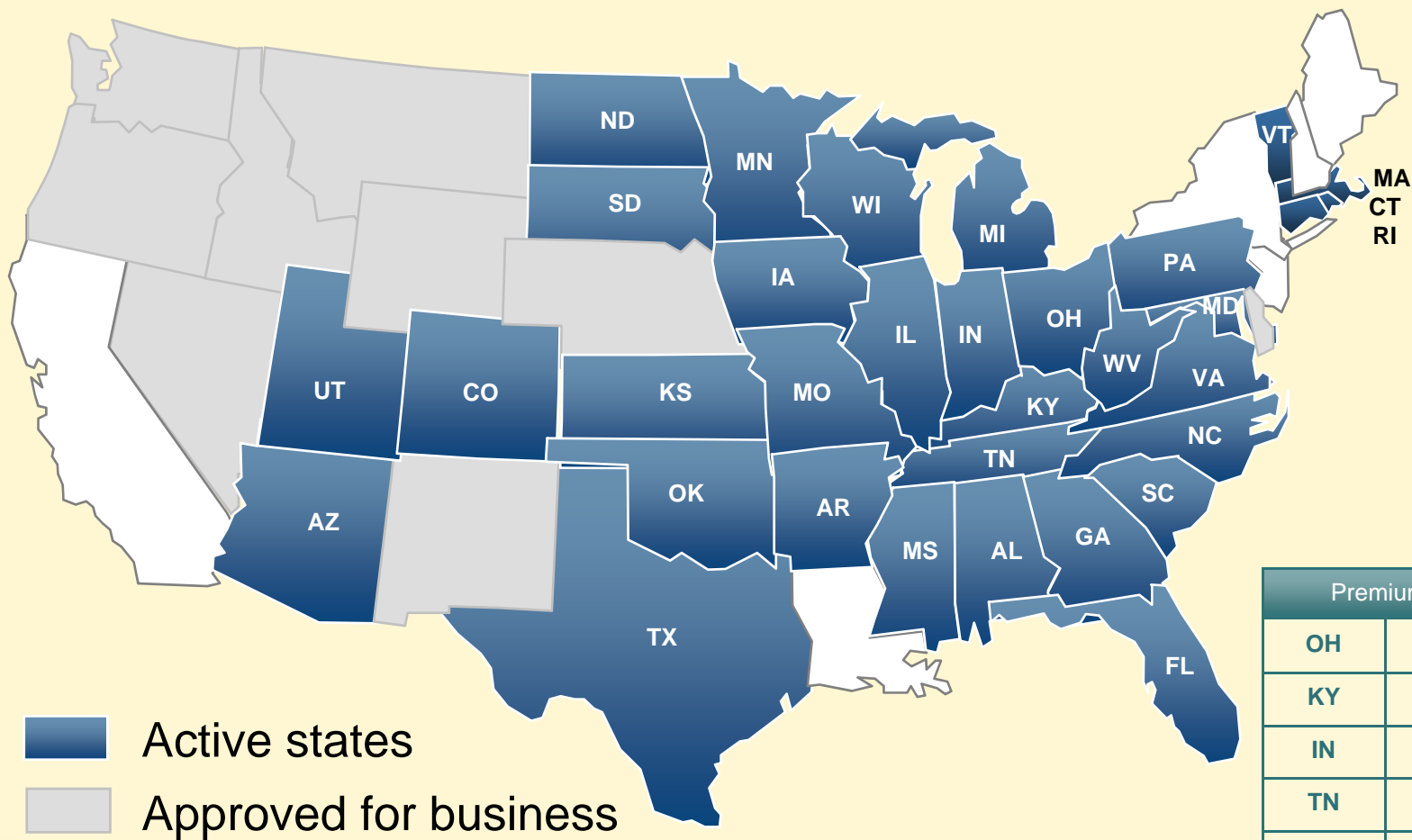
STFC



State Auto Mutual

- Access to capital markets
- Risk sharing
- Acquire mutual and stock companies
- Incubation of new businesses

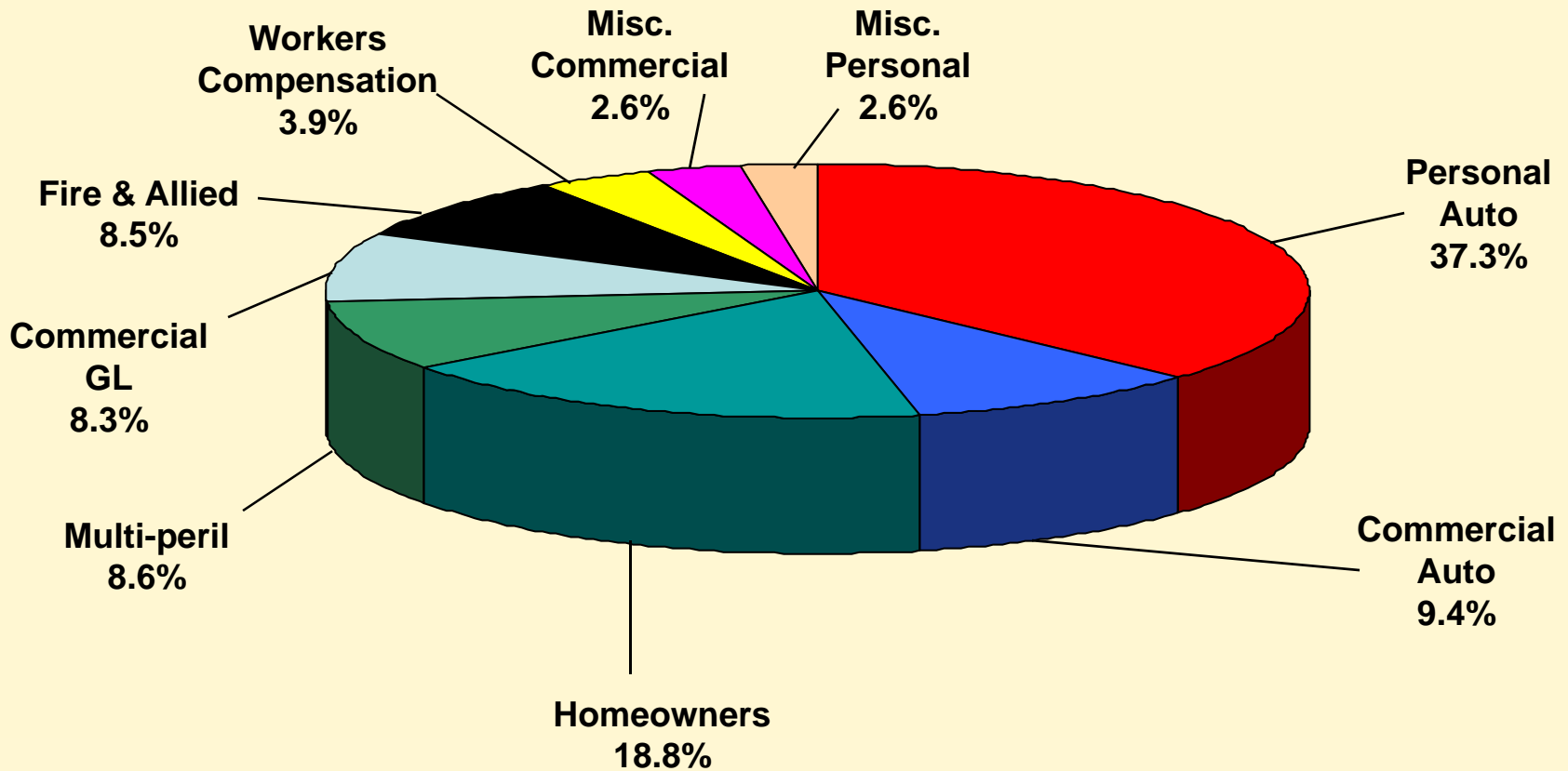
Geographic Dispersion



Premiums	
OH	16.7%
KY	9.9%
IN	6.6%
TN	6.2%
PA	4.7%
MD	4.4%
As of 12/31/08	



Product Mix



STFC Annualized Direct Premiums Written = \$1.2 Billion
Personal Insurance = 59% Business Insurance = 41%



Performance

- **First Quarter--2009**

- Reported Earnings $-\$0.35$ vs. $-\$0.31$
- Operational Earnings $-\$0.18$ vs. $-\$0.28$
- GAAP combined ratio of 112.0 vs. 111.3 for 2007
- Net premiums earned increased 2.2%

- **Annual Results--2008**

- Reported Earnings $-\$0.78$ vs. $\$2.90$
- Operational Earnings $-\$0.18$ vs. $\$2.67$
- GAAP combined ratio of 109.8 vs. 92.8 for 2007
- Net premiums increased 18.2%
- LTM Return on Equity of -3.7%

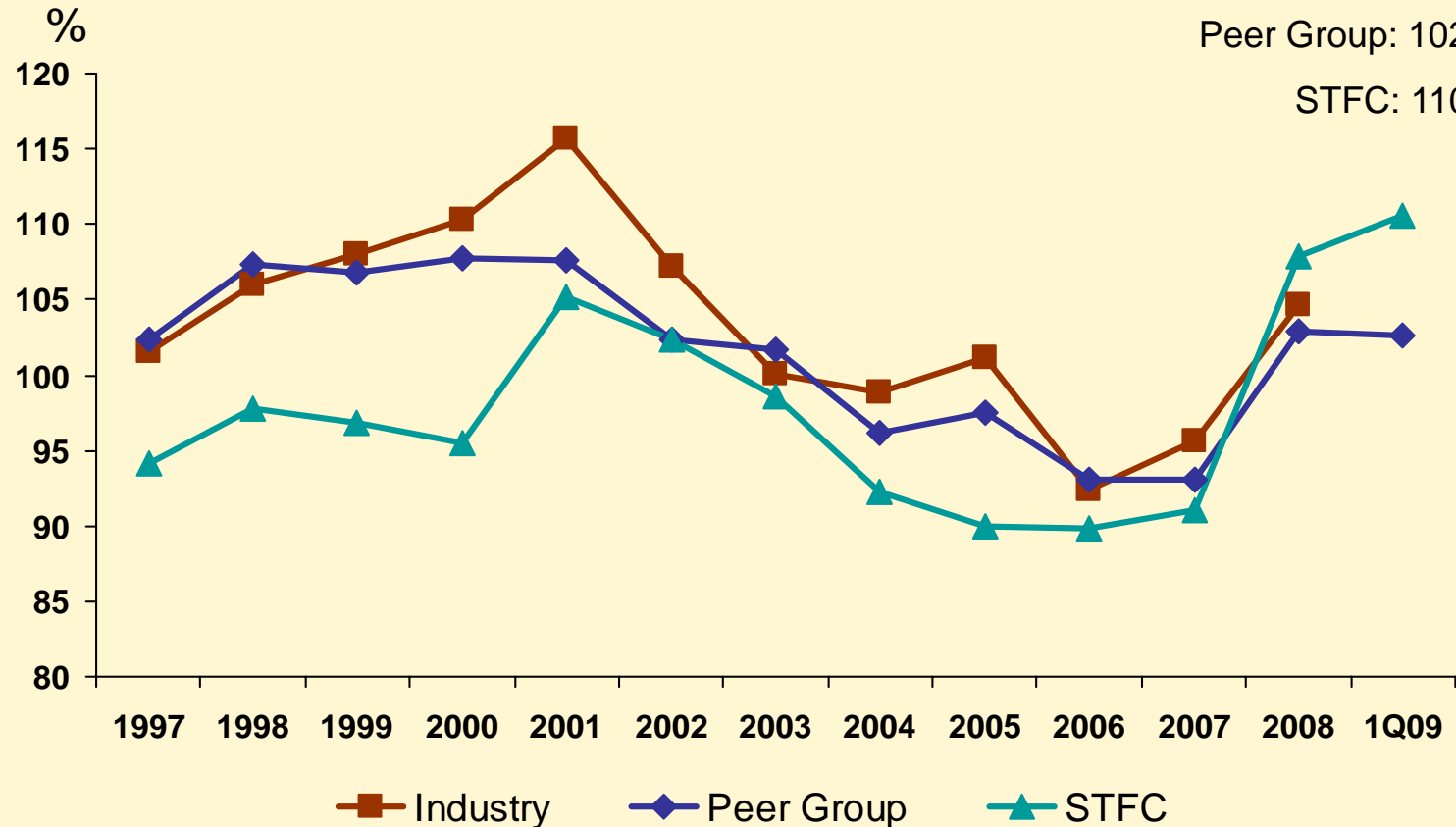


Statutory Combined Ratio

1st Quarter 2009 Results:

Peer Group: 102.6

STFC: 110.6

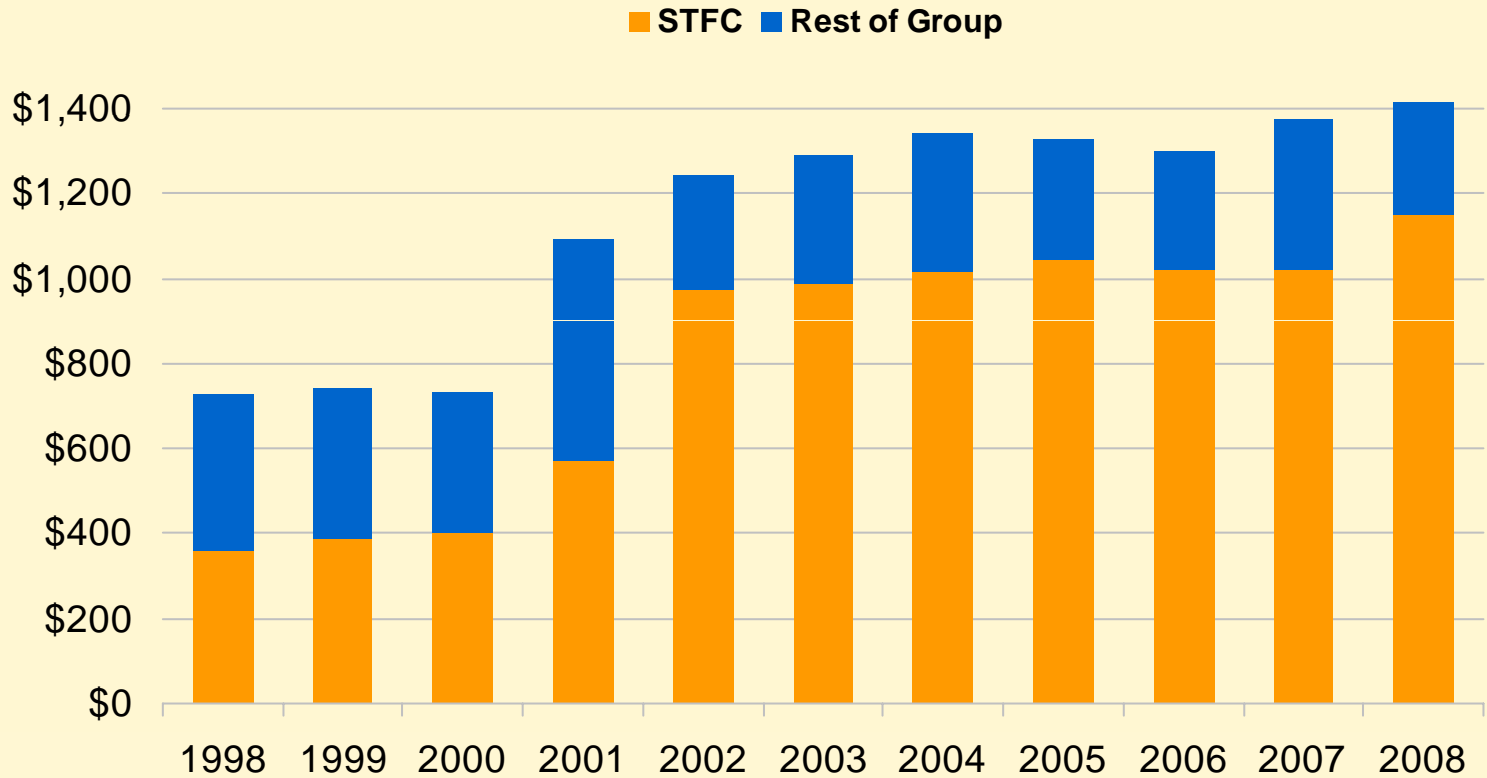


Peer group: CINF, DGICA, EMCI, HGIC, SIGI, THG, UFCS

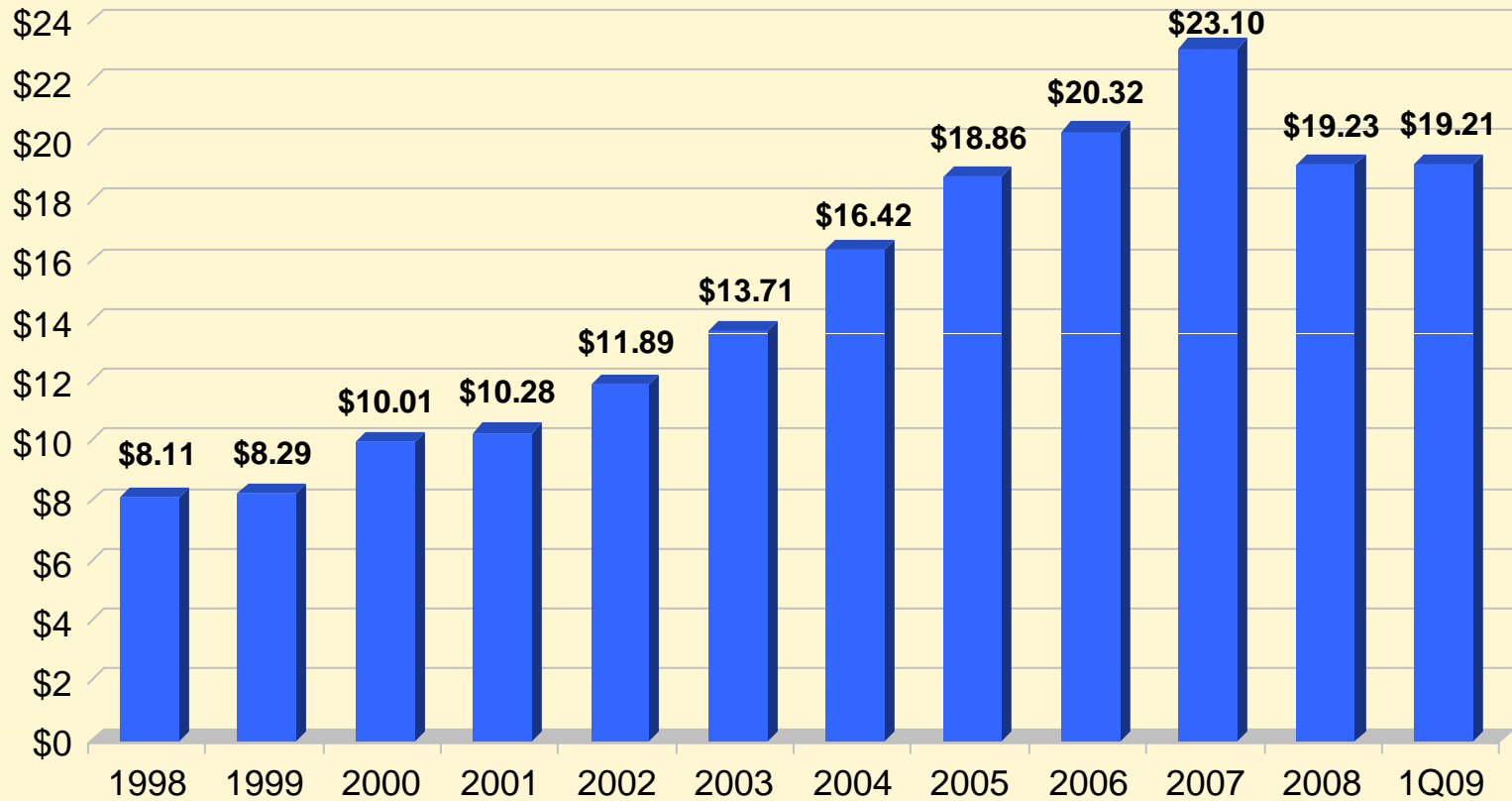
Industry data from A.M. Best



Total Net Premiums



Book Value Per Share



Compound Average Growth Rate, IPO through 12/31/08 = 12.0%



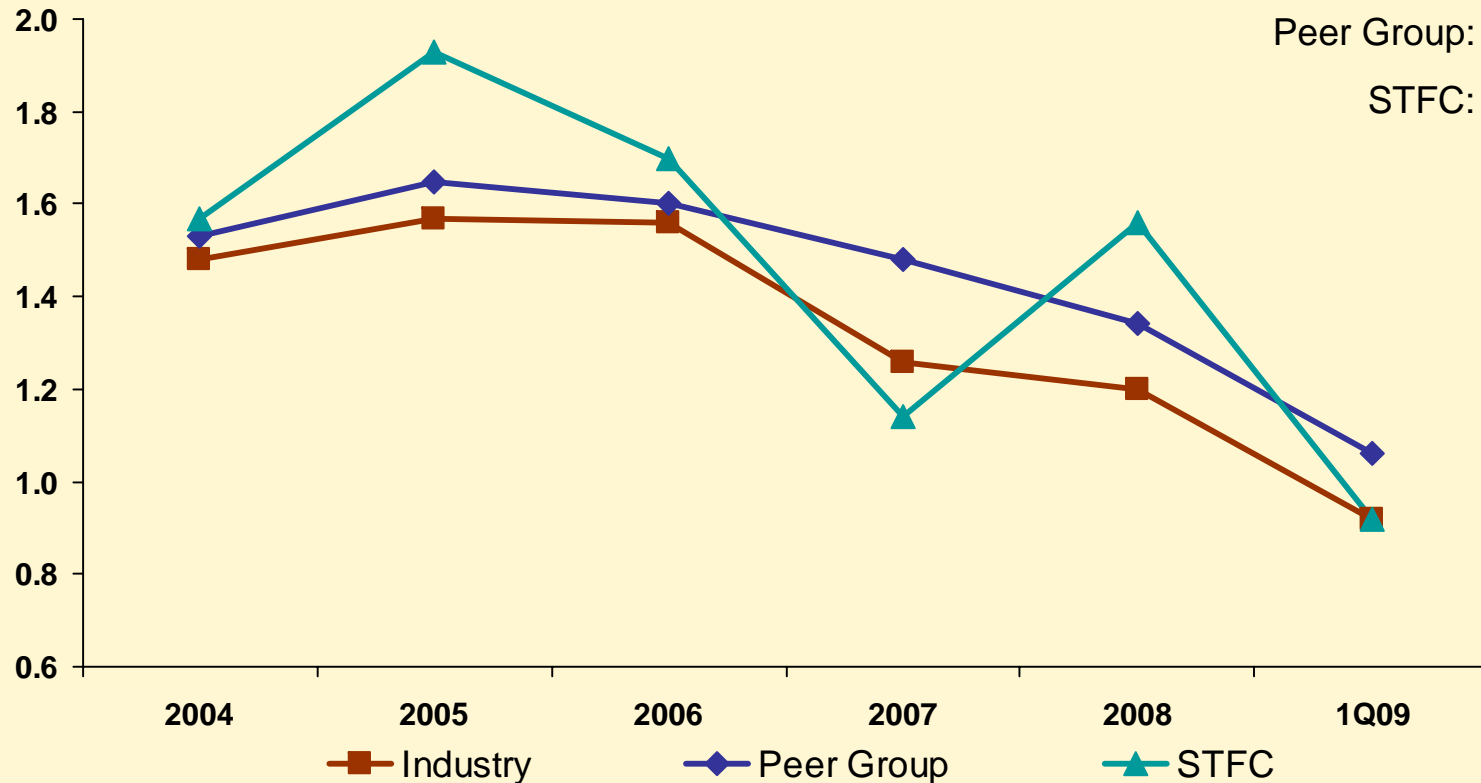
Price to Book Ratio

1st Quarter 2009 Results:

Industry: 0.92

Peer Group: 1.06

STFC: 0.92

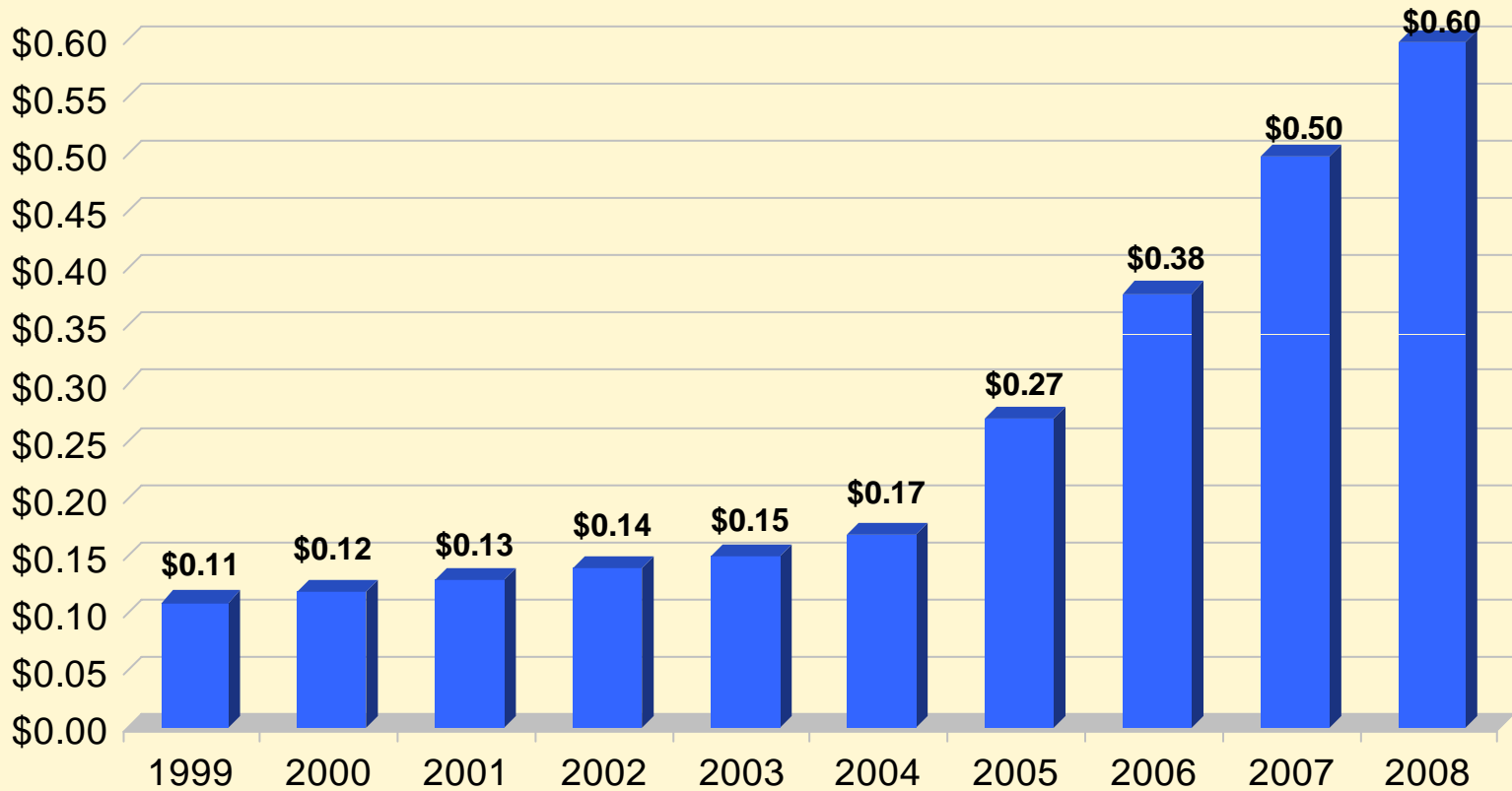


Industry: Public small/mid cap P&C insurers between \$200MM and \$2B in market cap, excluding reinsurers. Source: SNL Financial

Peer Group: CINP, DGICA, EMCI, HGIC, SIGI, THG, UFCS



Dividend History – Calendar Year



Compound Average Growth Rate, IPO through 12/31/08 = 16.2%

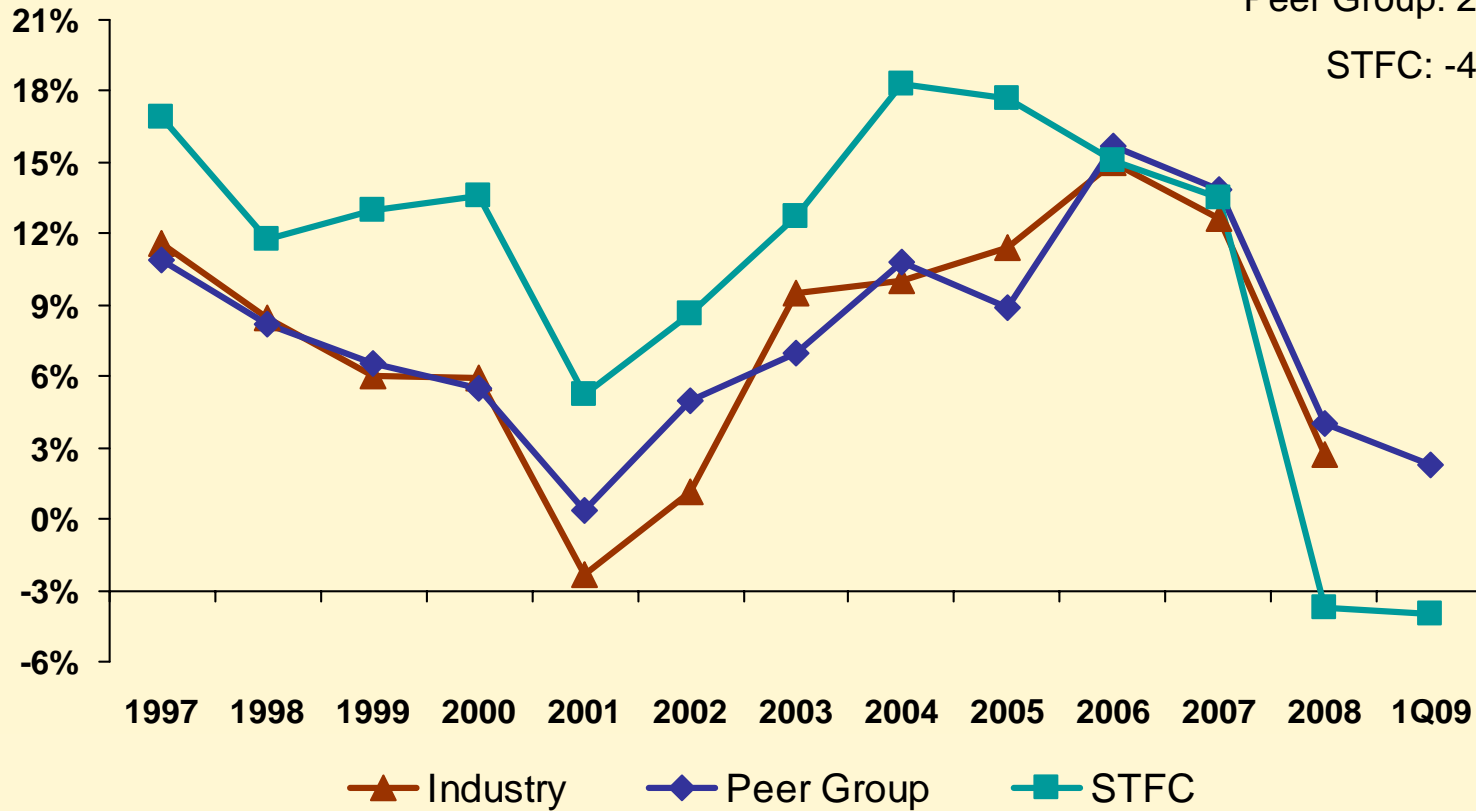


Return On Equity

1st Quarter 2009 Results:

Peer Group: 2.3%

STFC: -4.0%

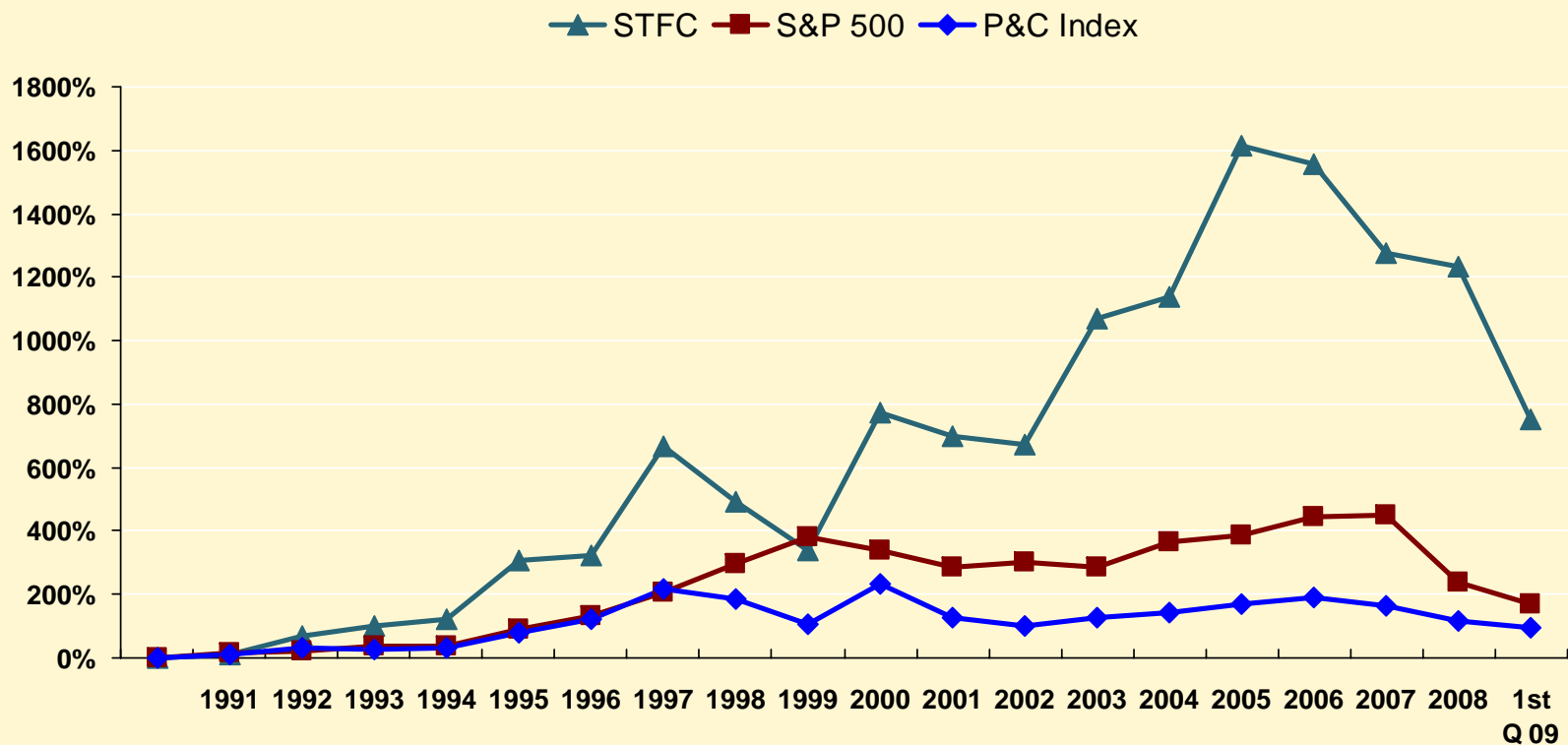


Peer group: CINF, DGICA, EMCI, HGIC, SIGI, THG, UFCS

Industry data from AM Best



Comparative Returns



Total Return: 752% from IPO to 03/31/09

Compound Average Growth Rate = 12.3%

Source: Bloomberg Professional / Assumes reinvestment of dividends



Plans

Vision

State Auto is the property and casualty insurance company of choice.

Goal

Grow surplus and book value by doubling our premium by 2015.

Mission

The State Auto group provides property and casualty products and services, through independent agents, that enhance the financial interests of our policyholders and shareholders.

Vision (who we'll be)

Goal

Culture/Values (what makes us unique)

Pillars (our key business drivers)

Rational
Growth

Underwriting
Profit

Risk
Management

Capital
Management

Technology (the Enabler)

People (our Foundation)

Mission (why we exist)



People

Invest in our people to preserve and enhance our performance

Focus

- Selection and development
- Education and training
- Performance management
- Performance-based compensation



Targeted Outcomes

- Execution that produces superior shareholder value
- Empowered people
- Highly satisfied customers

Organic Growth

Improve yield from agency plant by increasing *Ease of Doing Business*

Focus

- “Easy to sell” products
- “Easy to use” technology
- Superior service
- Focused sales management



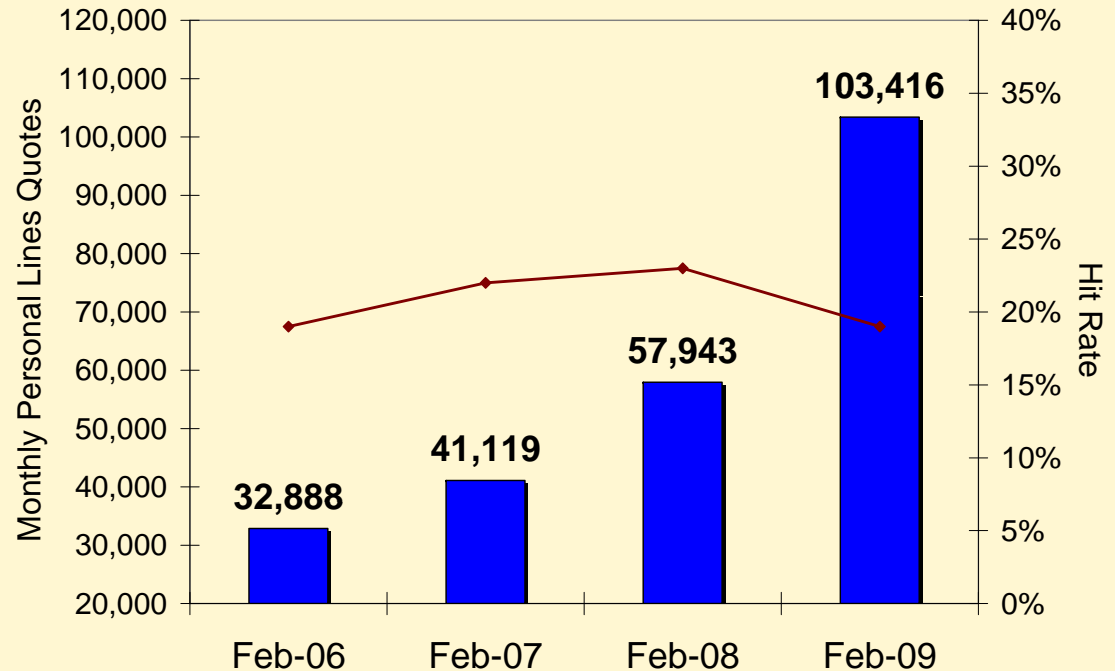
Targeted Outcomes

- 50% of total growth
- Competitive and diverse product portfolio
- Improved yield per agency
- Increased “at bats”

Personal Insurance



Personal Insurance Quote Activity



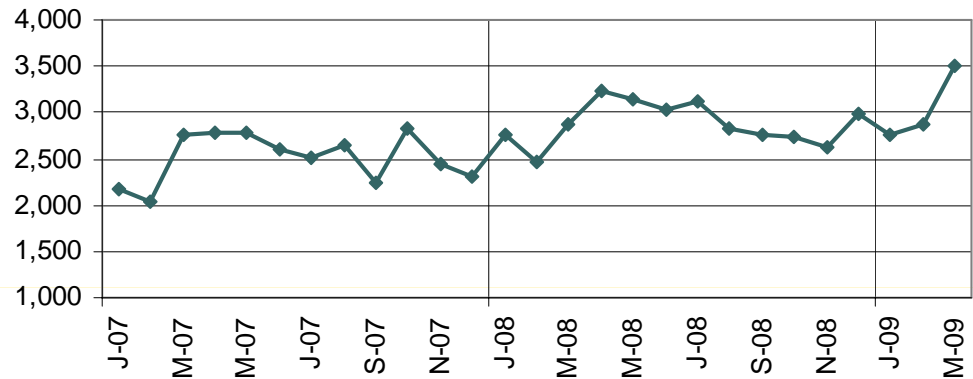
- **Key Drivers**

- Improved Automation Through Bridging
- New Products – CustomFit Auto
- Emphasis on “Ease of Business” for Agencies
- Shortened rate implementation process is providing better decisions closer to the implementation time

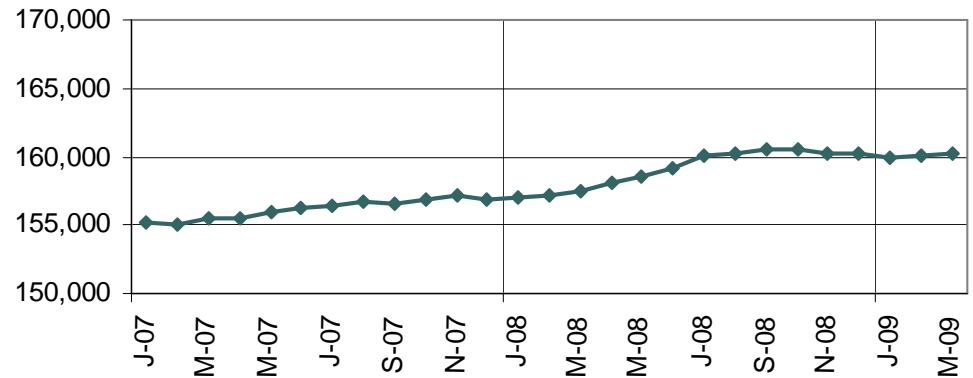
Business Insurance

- **Ease of doing business**
 - Web portal
 - Underwriting workstation
 - Automated rules
- **Pricing granularity**
 - Expanded price points through rating tiers and factors
 - Model results applied to property, liability and auto renewal policies
 - Development continues for workers comp and new business
- **Empowered underwriters close to the customer**
- **Middle markets penetration**

Business Insurance New Business Policy Count



Business Insurance Policies in Force



Growth by Acquisition

Increase scale and reduce volatility through diversification

Focus

- Geographic diversity
- Product diversity
- Targets that have strategic challenges



Targeted Outcomes

- 50% of growth
- Accretive to earnings through pool additions
- Reduce volatility

Acquisition History

Acquisition	Date	Type	Premium Size	Rationale
Rockhill	2009	Cash	\$120 million	• Product diversification
Patrons Group	2007	Mutual Affiliation	\$54 million	• Expand into CT, RI, VT & MA
Beacon Group	2007	Cash	\$49 million	• Expand into TX
Meridian Group	2001	Mutual Merger and Cash	\$320 million	• Increase scale
Farmers Casualty	1998	Demutualization	\$33 million	• Expand into IA, KS
Midwest Security	1997	Cash	\$25 million	• Expand into WI
Milbank	1993	Stock	\$48 million	• Expand into ND, SD, MN & UT



Underwriting Profitability

Produce underwriting profits by emphasizing disciplined underwriting, pricing and claim processes

Focus

- Review every line, every state, every year
- Automation
- Operational effectiveness
- Vendor management



Targeted Outcomes

- 15% Return on Required Capital
- Underwriting Expense Ratio < 10%
- Loss Adjustment Expense Ratio < 10%

Innovate SA

- Successful execution of our strategy: underwriting profit
- Effective but inefficient
- Expense ratio: cost and revenue
- Associate participation
- Investments in future: products, systems and services
- Goal: Reduce combined ratio by four percentage points over the next three years



Risk Management

Increase book value by disciplined risk management

Focus

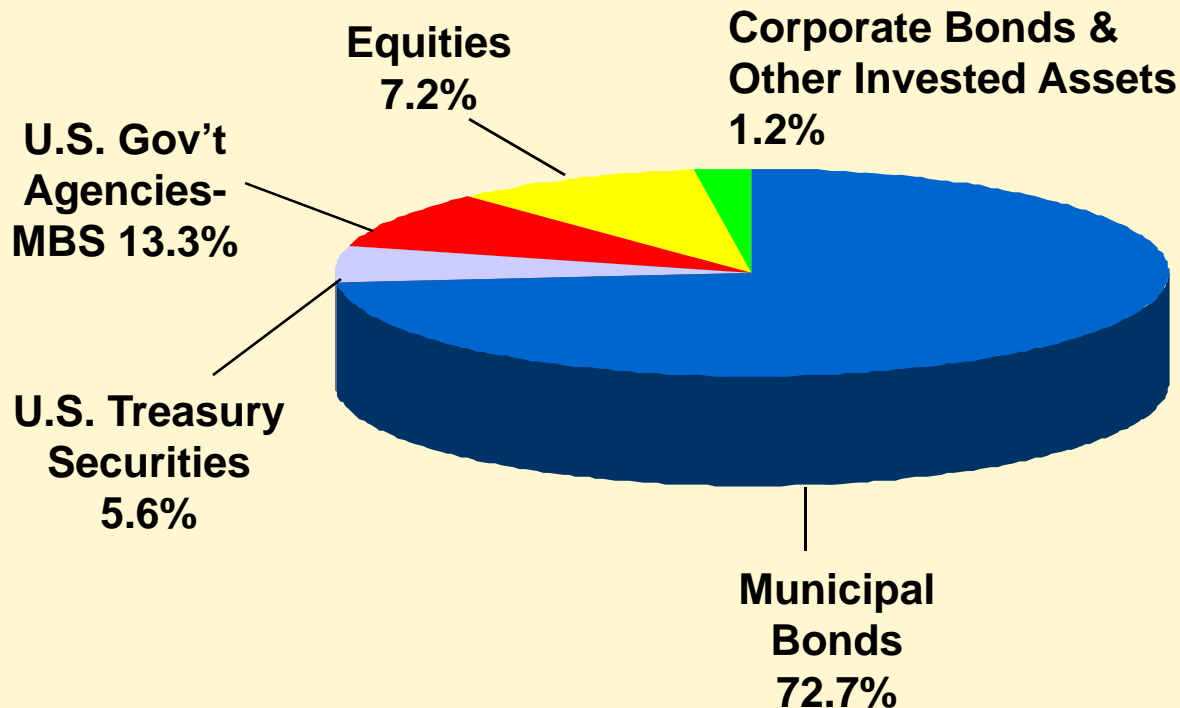
- Risk/rate balance
- Reinsurance and other capital resources efficiency
- Conservative reserving and investment policies
- Integrated risk management philosophy



Targeted Outcomes

- High confidence level around increasing surplus and book value
- Maintain A M Best A+ rating

Investment Portfolio⁽¹⁾



Bond Ratings by Moody's

Aaa	55.6%
Aa	38.9%
A	2.6%
Other	2.9%
Total	100.0%

Total	\$1.91 billion
Average Maturity	8.9 years
Duration	6.6
Pre-Tax Yield	4.2%

(1) As of 03/31/2009



Capital Management

Increase total returns to shareholders

Focus

- Proactive capital management
- Leverage flexible corporate structure



Targeted Outcomes

- Increase total shareholder return
- 10-15% ROE target
- Maintain adequate liquidity to grow surplus and fund acquisitions

Summary

- **Proven ability to deliver returns to investors**
 - Disciplined underwriter
 - Conservative risk and capital management
 - Consistent book value growth
 - Successful integration of acquisitions
- **Focus future on organic and acquisition growth to increase profitability and reduce volatility**
 - Ease of Doing Business: People, products, processes
 - Effective sales management
 - Sophisticated pricing and underwriting
 - Acquisitions





State Auto Financial Corporation



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