



State Auto Financial Corporation

Profitable Growth Driving Shareholder Value

Participants



- **Bob Restrepo**
Chairman & Chief Executive Officer



- **Steve English**
VP, Chief Financial Officer



- **Larry Adeleye**
AVP, Director – Treasury and Finance

Safe Harbor

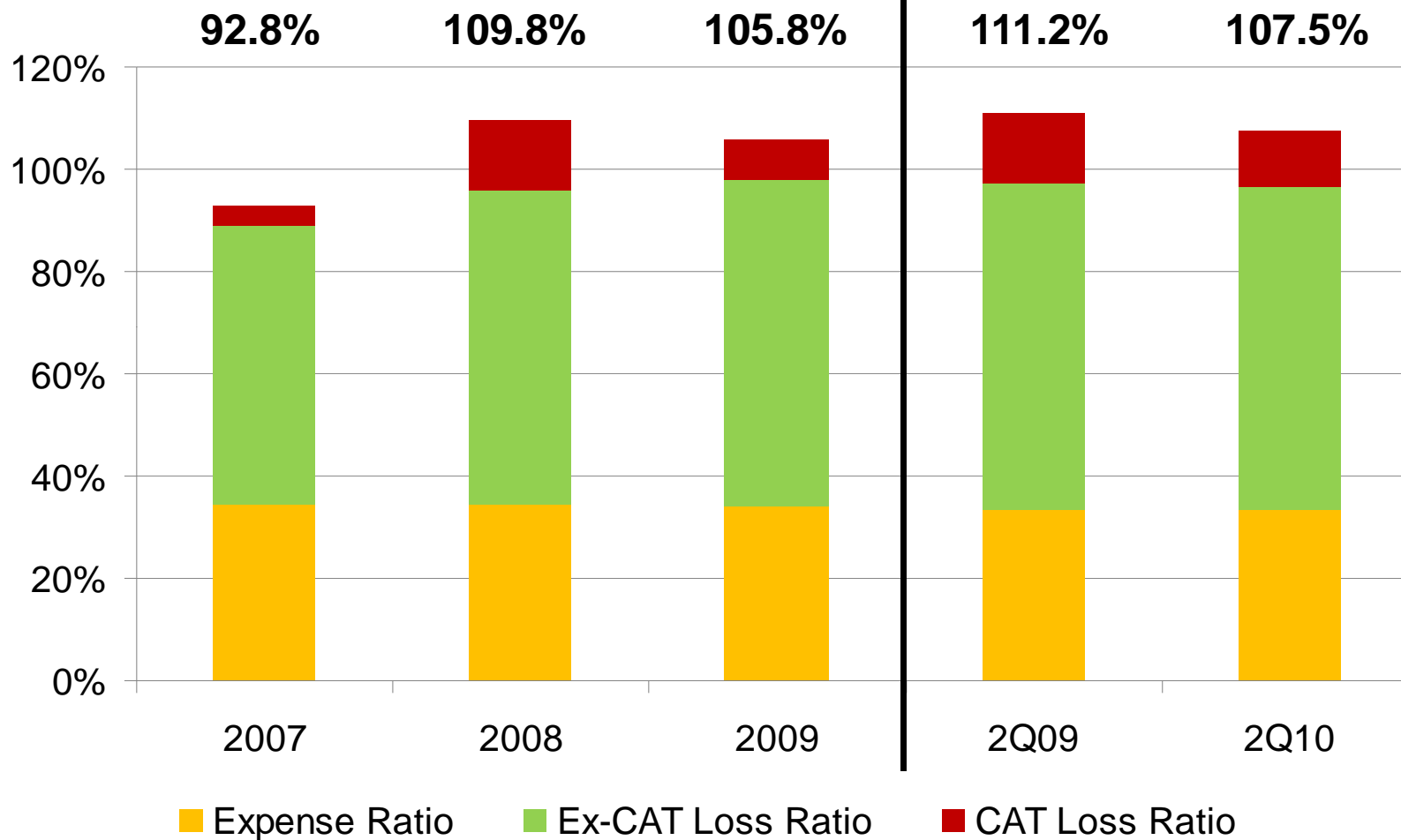
Forward-Looking Statements

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 the disclosure regarding forward-looking statements immediately preceding Part I of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The Company assumes no obligation to update any forward-looking statements.

NASDAQ: STFC

- \$700 million market capitalization
- Super regional property and casualty insurer
 - Over \$1.2 billion in annual premiums; 64% personal, 36% business
- 64% owned by State Automobile Mutual (SAM)
 - Group premiums of \$1.6 billion in 2009
 - STFC and SAM companies pooled approximately \$1.5 billion in insurance premiums in 2009, 80% ceded to STFC
- Rated A+ (Superior) by A.M. Best since 1954

Underwriting Overview



Underwriting STFC Catastrophe History

Loss Ratio Points

Year	1Q	2Q	3Q *	4Q	Total
2008	12.5	27.3	19.5	(3.7)	13.9
2009	15.3	12.6	3.6	(0.4)	7.7
2010	3.3	18.5	-	-	-
1998-2007 Average	3.2	11.0	8.2	1.5	6.0

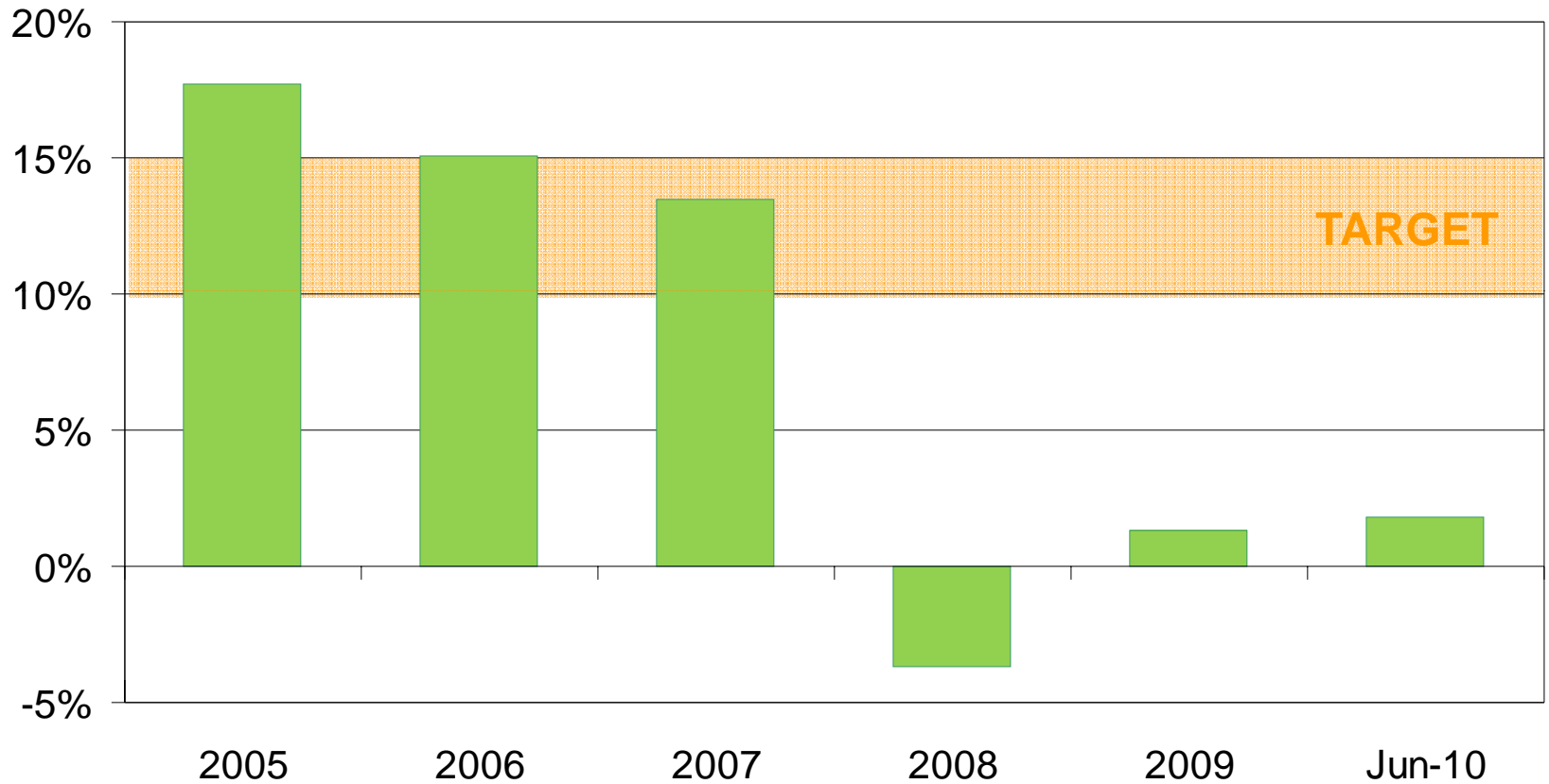
* 5-year (2005 – 2009) third quarter average excluding hurricane losses = 5.3 points

Return on Equity

Deliver 10% to 15% return on equity

- Ensure profitable growth with strategies to:
 - Enhance profitability
 - Refine risk management
 - Effectively use capital
- Reduce volatility
- Drive higher book value and surplus

Return on Equity



Opportunities and Strategies

Driving Profitable Growth

Growth Opportunities

- Top Priorities
 - Products/Technology
 - State Expansion
 - Specialty Integration
 - Sales Management

Driving Profitable Growth

Products/Technology

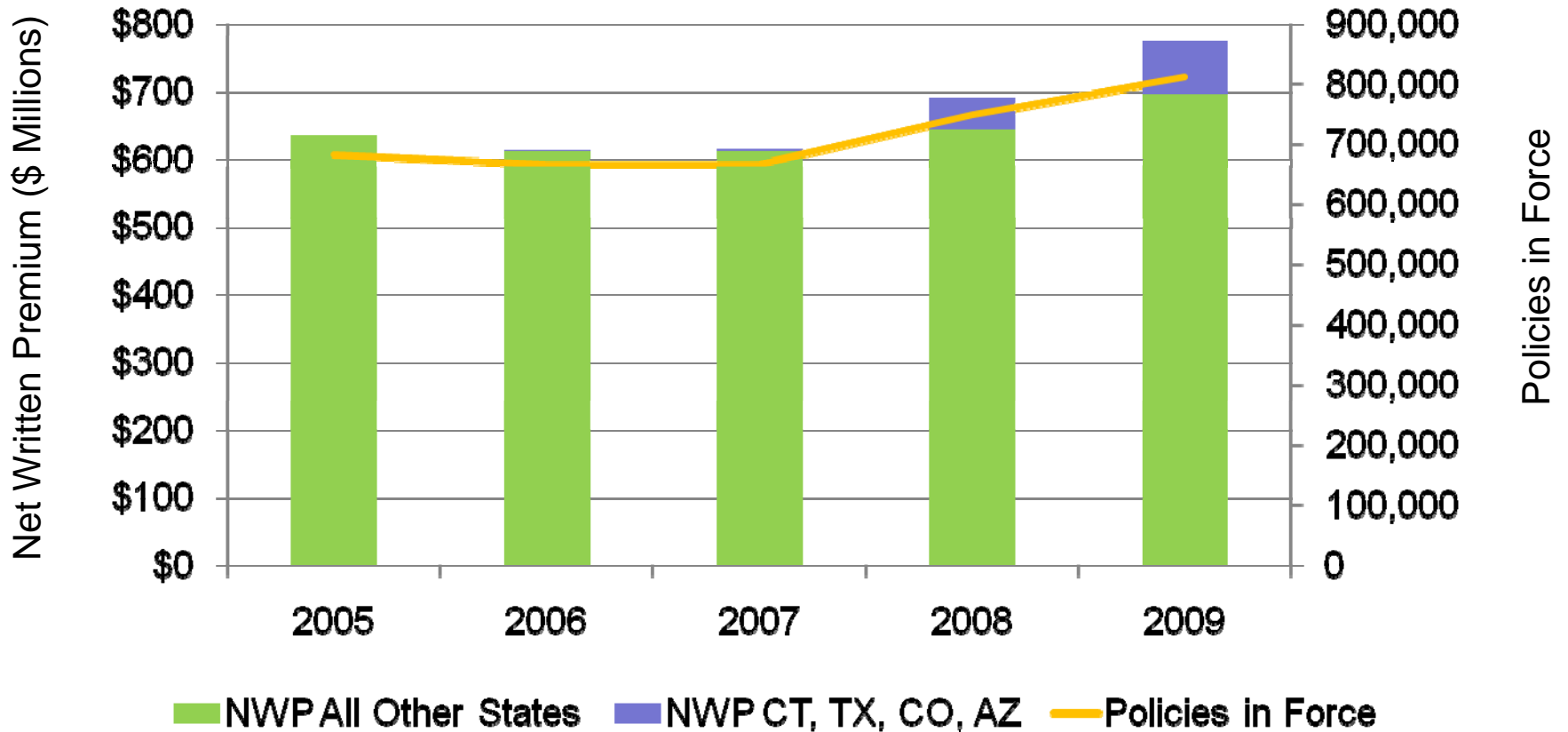
- CustomFit®
- By peril homeowners
- BOPChoiceSM
- netXpressSM
- bizXpressSM



Driving Profitable Growth

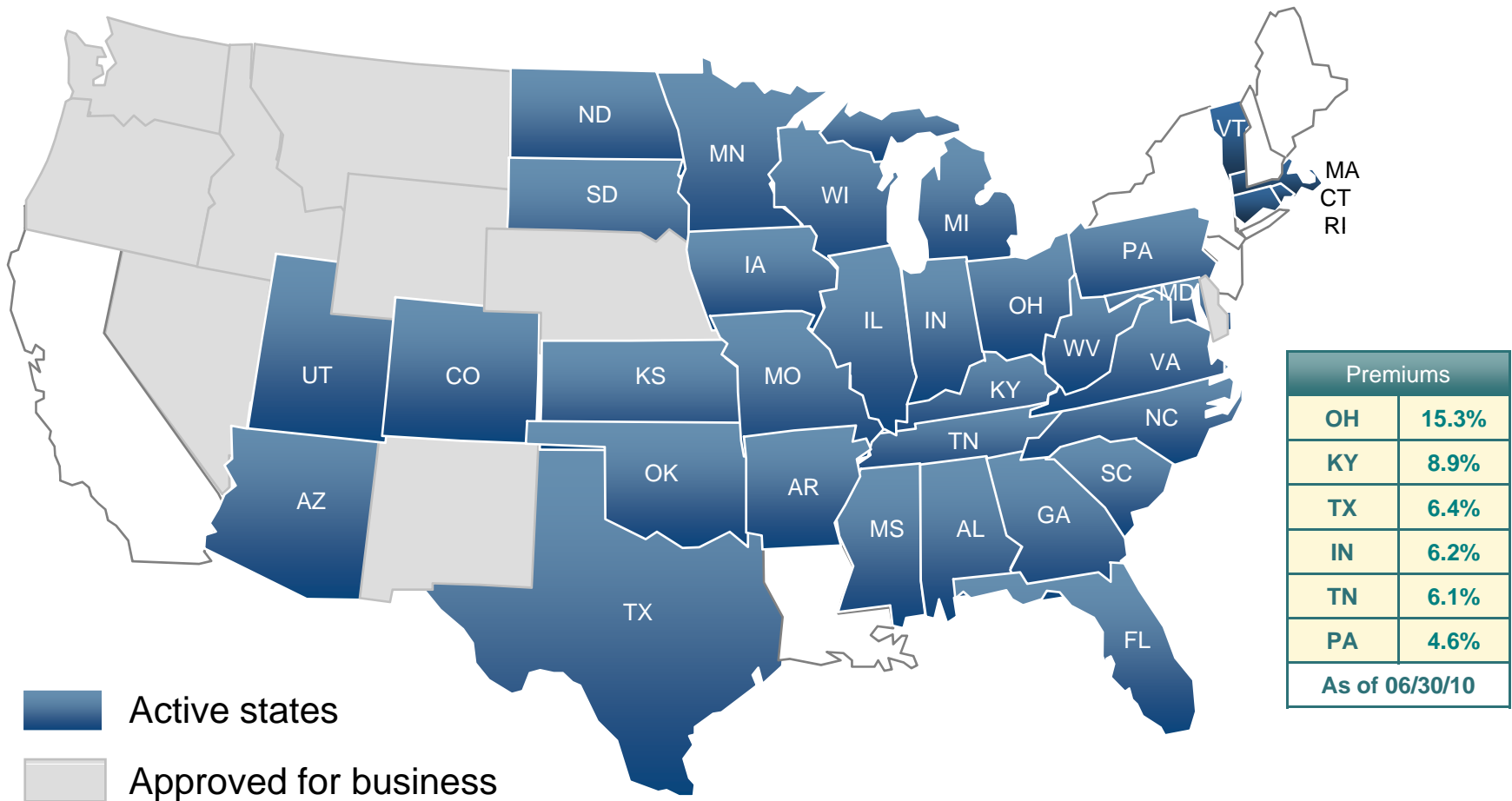
State Expansion

Personal Lines Only



Driving Profitable Growth

Geographic Dispersion



Driving Profitable Growth

Specialty Integration

- Rockhill
- RTW
- Risk Evaluation and Design (RED)

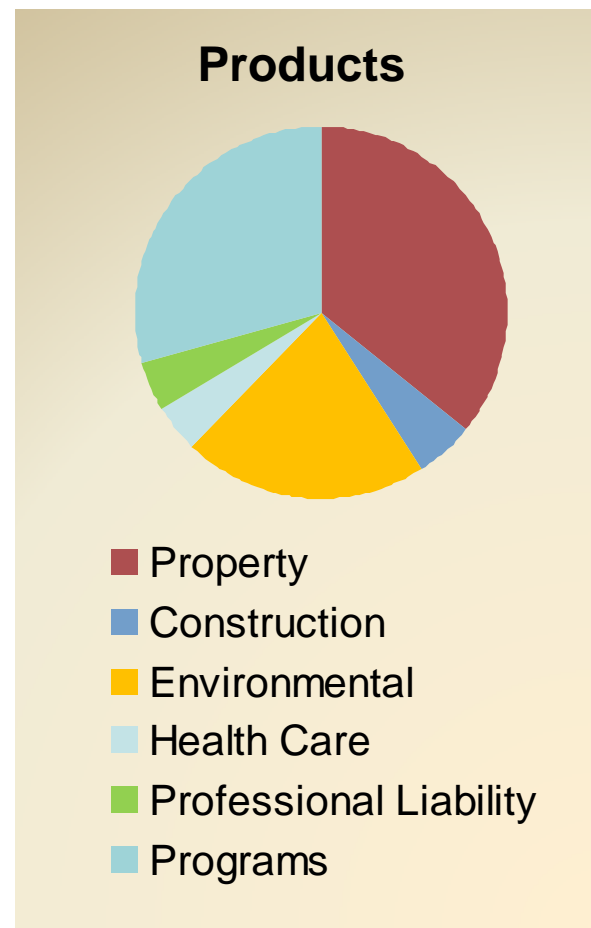
Driving Profitable Growth

Specialty Integration

Rockhill



- Distribution:
Wholesale brokers and
program managers



Driving Profitable Growth

Specialty Integration

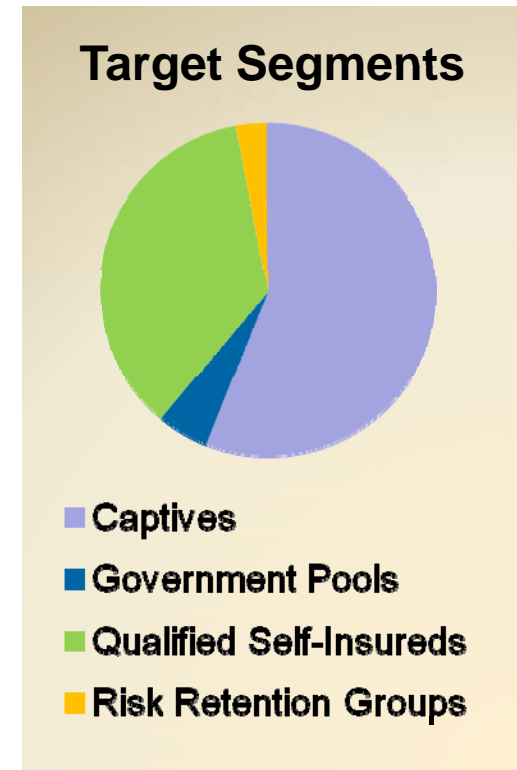
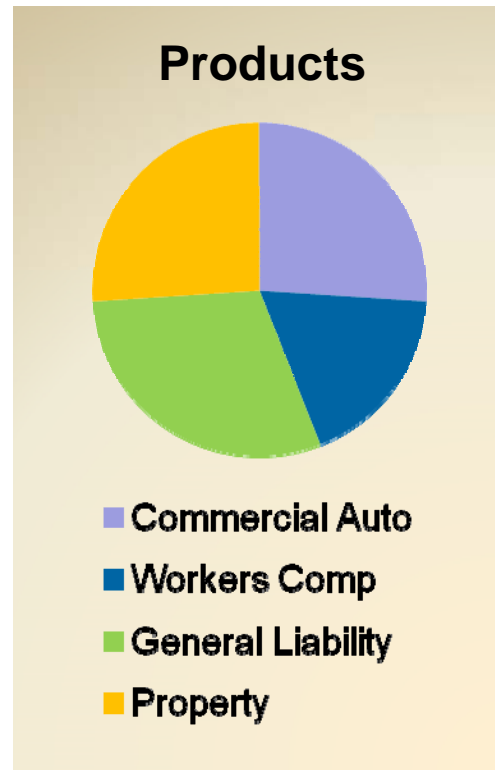
RTW

- Workers Compensation
 - Debit mod
 - Small account
- Distribution
 - Retail brokers
 - MGAs

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Specialty Integration

Risk Evaluation and Design (RED)



- Distribution: Brokers and specialty sources

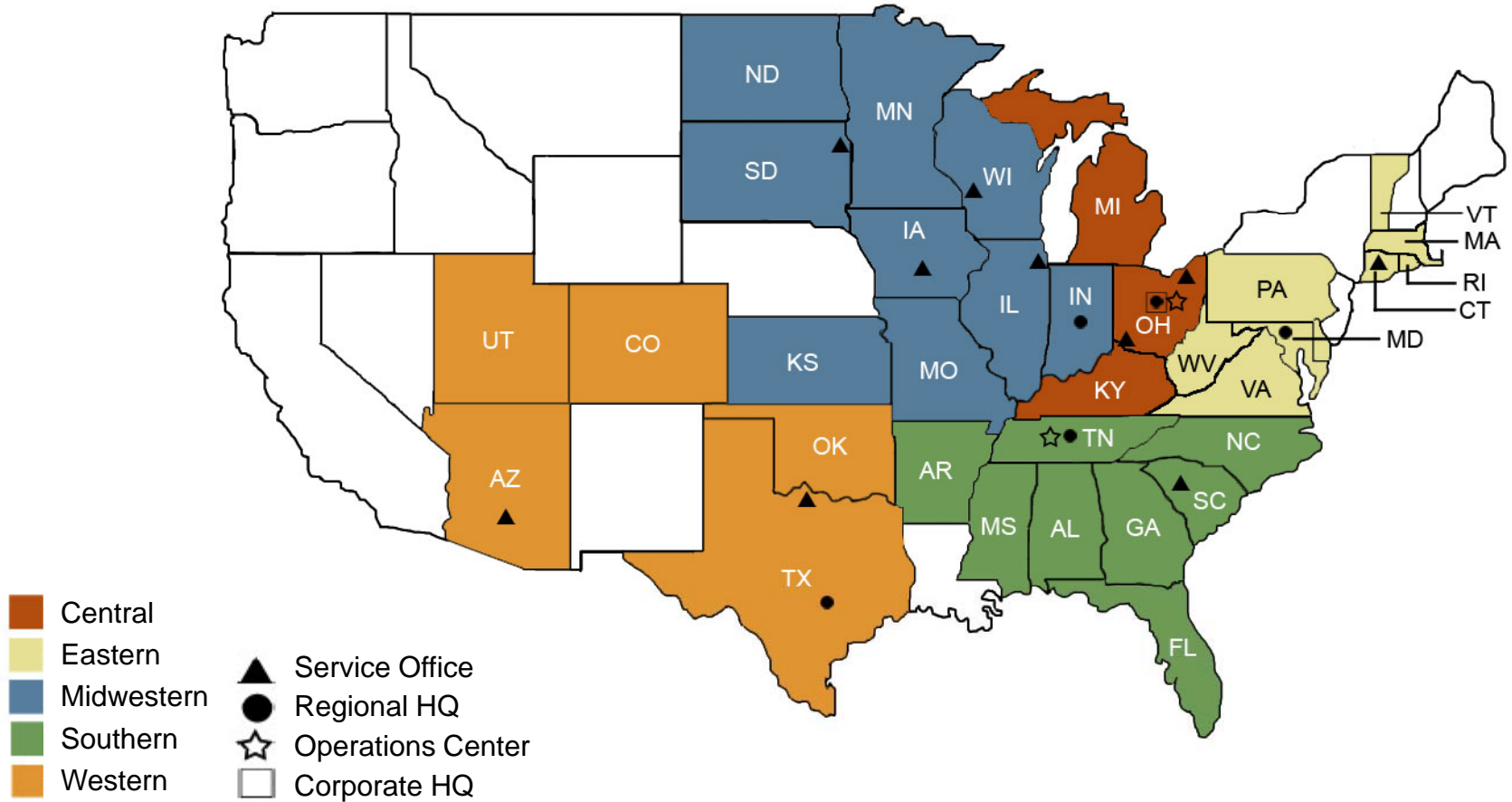
Driving Profitable Growth

Sales Management

- Distribution
 - State Auto's standard products exclusively marketed through the Independent Agent Distribution Channel
 - 3,400 Independent Agents represent State Auto in 34 states
 - Developing synergies across business units

Driving Profitable Growth

Field Management



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 and 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 and UT

Underwriting, Risk and Capital Management

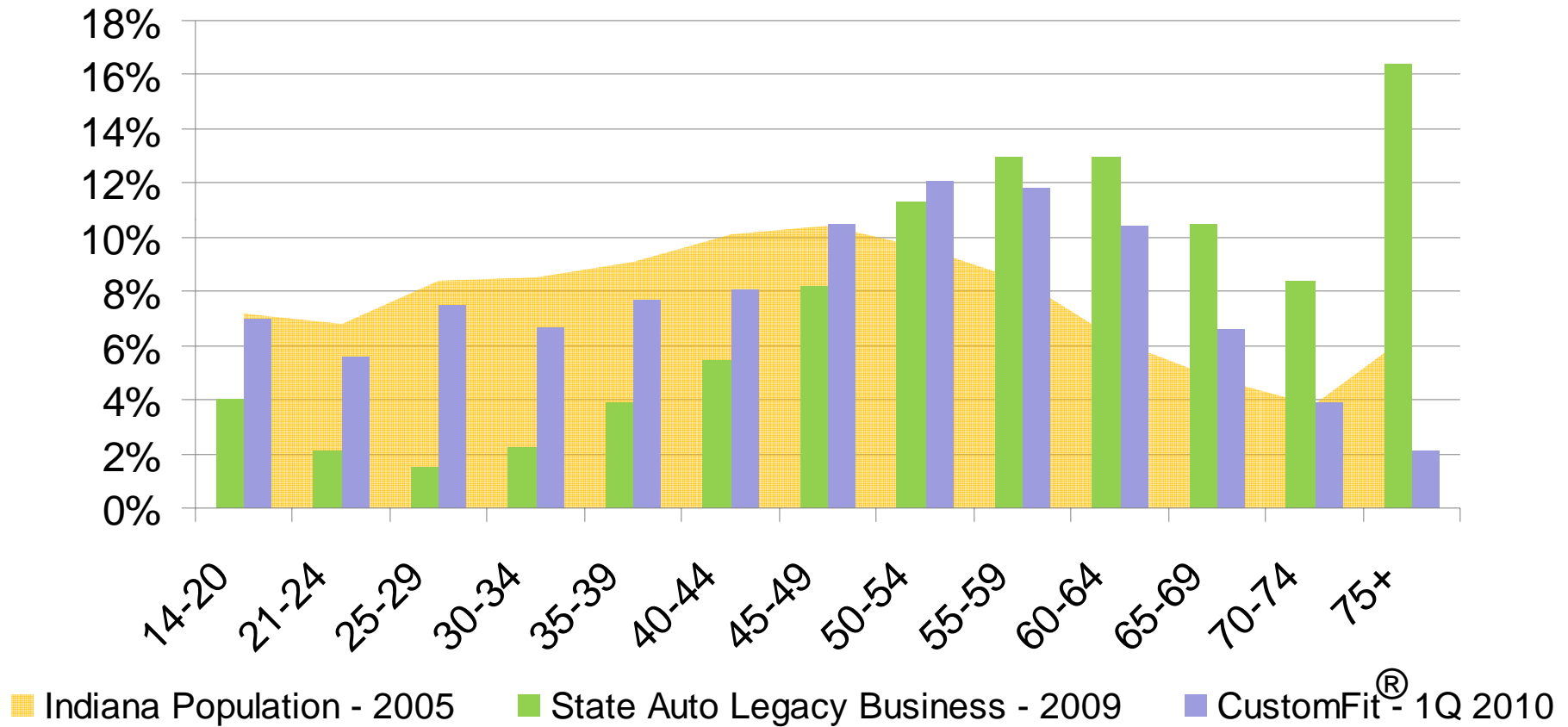
Ensure Profitable Growth

Disciplined Underwriting, Pricing and Claim Processes

- CustomFit®
- Quest
- Homeowner Profit Improvement
- Claims Initiatives

Ensure Profitable Growth

CustomFit[®] – Indiana Age Of Distribution



Ensure Profitable Growth

Quest

- Predictive modeling – granular pricing that positions us for profit and growth in business insurance market
- Supports broader price points that help us compete for better risks, while giving us price adequacy for more marginal risks
- Model results currently integrated into our property and liability pricing for new and renewal business

Ensure Profitable Growth

Homeowners Profit Improvement

- Price increases
- Commission changes
- Insurance to Value (ITV)
- Aggregate reinsurance treaty
- Wind/hail deductibles
- By peril product

Ensure Profitable Growth

Claims Initiatives

- CAT teams
- Large property adjusters
- APD unit
- Staff counsel
- Inside vs. outside adjusters
- Metrics
- Workers compensation

Ensure Profitable Growth

Risk Management

- Wind/hail
- Coastal
- CAT modeling
- DFA modeling

Ensure Profitable Growth

Capital Management

- Strong capital ratios (BCAR)
- Prudent reinsurance
- Modest debt/capital ratio
- Conservative investments
- Adequate reserves

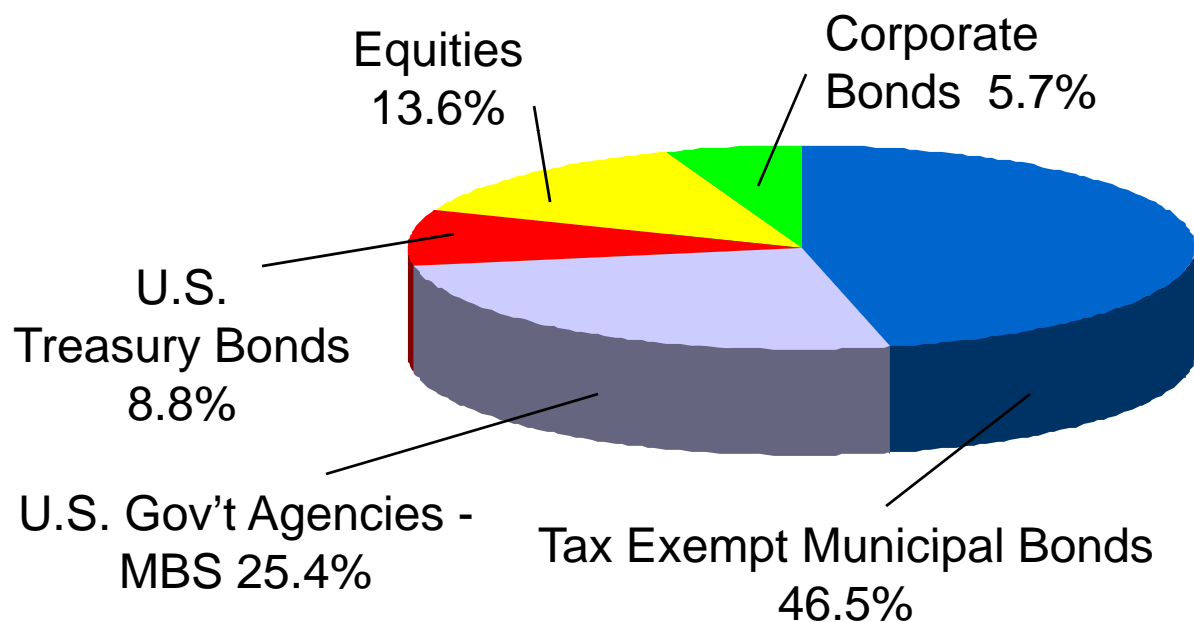
Ensure Profitable Growth

STFC Investment Portfolio – June 30, 2010

Fixed Income	86.4%
Equities	13.6%
Total	100.0%

Total: **\$2.14 billion**

Bond Ratings	
Aaa	54.7%
Aa	39.5%
A	5.1%
Not Rated	0.7%
Total	100.0%



Average Maturity: **7.22 years**

Duration: **4.5**

Pre-Tax Yield: **4.1%**

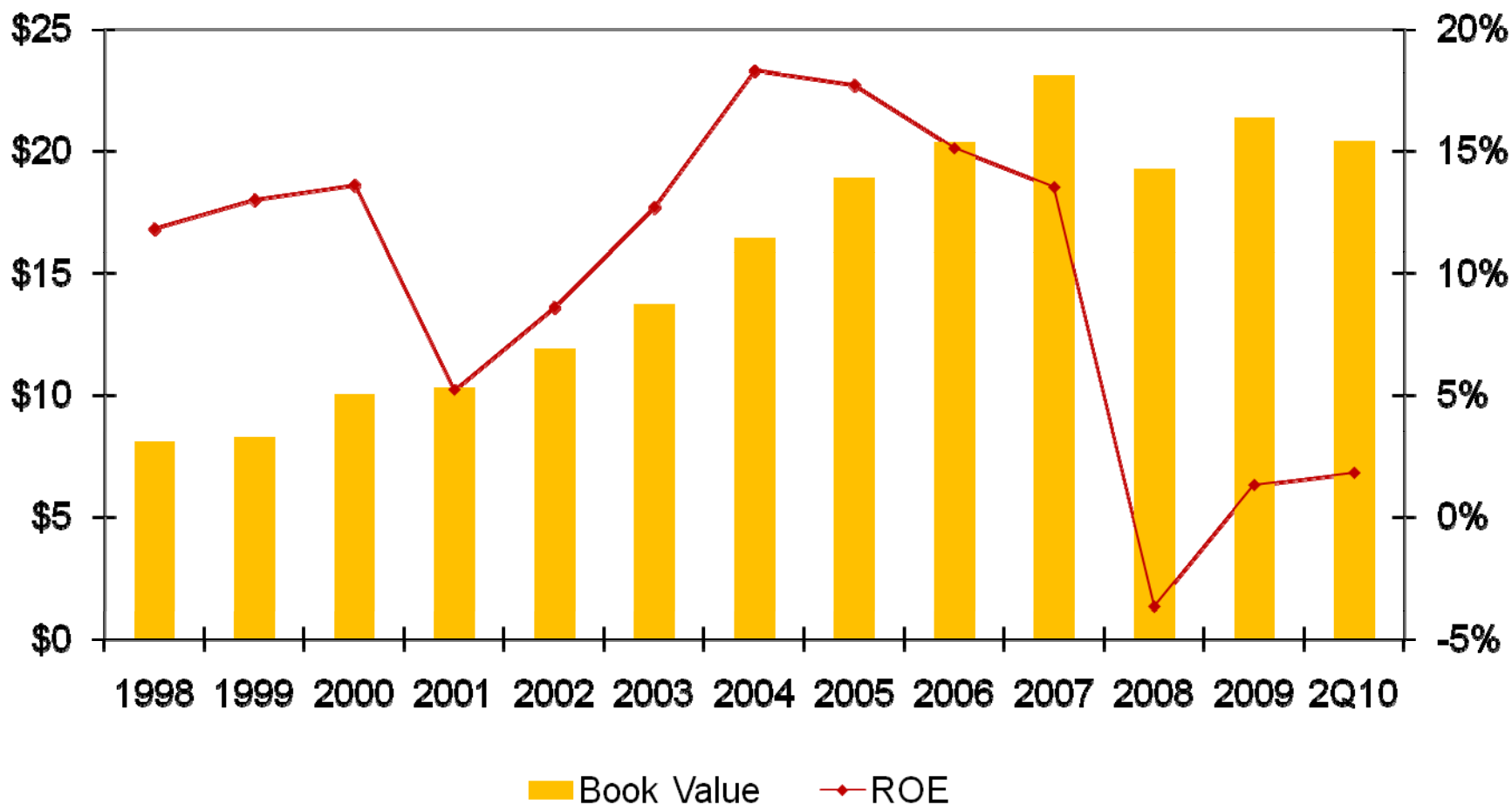
Strong Results

Profitable growth leading to long-term BV expansion.

State Auto is prepared to deliver strong results.

Strong Results

Book Value Per Share vs. ROE



Strong Results

Deliver 10% to 15% ROE

	2009	Target Range	
<i>CAT Loss Ratio</i>	7.7%	5.0%	5.0%
<i>Ex-CAT Loss Ratio</i>	64.0%	59.5%	57.0%
<i>Expense Ratio</i>	34.1%	32.5%	32.0%
Combined Ratio	105.8%	97.0%	94.0%
Underwriting Profit	(5.8)%	3.0%	6.0%
Operating Leverage	1.5	1.5	1.7
ROAE from Underwriting, after tax	(5.5)%	2.9%	6.6%
Investment Yield	3.9%	3.8%	4.1%
Investment Leverage	2.6	2.5	2.7
ROAE Investments, after tax	8.8%	8.1%	9.4%
ROAE, Other including debt	(2.0)%	(1.0)%	(1.0)%
	1.3%	10.0%	15.0%

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

Questions and Answers



State Auto Financial Corporation

Profitable Growth Driving Shareholder Value