

Report
of the
Examination of
State Auto Insurance Company of Wisconsin
Oshkosh, Wisconsin
As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

May 7, 2015

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

STATE AUTO INSURANCE COMPANY OF WISCONSIN
Onalaska, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of State Auto Insurance Company of Wisconsin (State Auto Wisconsin or the company) was conducted in 2009 as of December 31, 2008. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of State Automobile Mutual Insurance Company. The Ohio Department of Insurance acted in the capacity as the lead state for the coordinated exams. Work performed by the Ohio Department of Insurance was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1974 as a dual-charter life/health and property/casualty insurance company under the name of Midwestern National Insurance Corporation. In November 1992, the name of the company was changed to Midwest Security Insurance Company, and in July 2002, the name of the company was changed to State Auto Insurance Company of Wisconsin, the name currently used by the company.

Effective December 31, 1986, the company established an assignment and assumption reinsurance agreement whereby all of the company's life and annuity business was transferred to Midwest Security Life Insurance Company, a former affiliate. Concurrent with the transfer of the company's life and annuity risks, the company's certificate of authority was amended to limit its authorized lines of business to the following, as defined in s. Ins 6.75, Wis. Adm. Code:

- (2) (a) Fire, Inland Marine and Other Property Insurance
- (c) Disability Insurance
- (d) Liability and Incidental Medical Expense (other than Automobile Insurance)
- (e) Automobile and Aircraft Insurance
- (n) Miscellaneous

Commencing January 1, 1993, the company's accident and health block of business was renewed to Midwest Security Life Insurance Company under a separate assumption reinsurance agreement.

Ownership and control of the company was acquired by State Automobile Mutual Insurance Company (State Auto Mutual) on January 1, 1997. The company became a participant in the State Auto Mutual affiliated reinsurance pooling agreement effective January 1, 1998, and had a 1% reinsurance assumption participation in the pooled risks through December 31, 2004. Effective January 1, 2005, the affiliated reinsurance pooling agreement was amended and the company ceased to have any portion of assumption participation in the pool. Effective January 1, 2008, the affiliated reinsurance pooling agreement was amended, adding participants which resulted in changes in member percentages. Effective January 1, 2011, a new reinsurance pooling agreement was put into effect which eliminated and added participants, and which further resulted in changes in member percentages. Additional amendments to the affiliated reinsurance

pooling agreement were also made later in 2011, 2013, and 2014. Further discussion of the company's reinsurance agreements is included in the section of this report captioned "Reinsurance."

State Auto Wisconsin has no employees and most of its business operations are conducted by the affiliate State Auto Property & Casualty Insurance Company (State Auto P&C). State Auto P&C also provides insurance management and operations services to the company. The affiliate Stateco Financial Services, Inc., manages the company's investment operations, subject to the supervision of the State Auto Wisconsin board of directors.

Most of the expenses incurred for business operations within the State Auto holding company system are initially paid by State Auto Mutual on behalf of the respective operating companies in the group. Expenses including management service fees and investment management fees are allocated from State Auto Mutual to participating holding company insurers, including the company. Expenses are allocated in proportion to each respective insurer's participation in pooled premiums and losses in accordance with the affiliated reinsurance pooling agreement. Federal income taxes are allocated among the members of the State Auto Mutual consolidated filing group in accordance with the State Auto Insurance Companies Agreement Respecting the Filing of Consolidated Federal Income Taxes dated July 1, 1991, as amended. Further discussion of the company's holding company system, its significant affiliated companies, and its affiliated agreements is included in the section of this report captioned "Affiliated Companies."

The company is licensed to write in Illinois, Indiana, Nebraska, and Wisconsin; however, the company currently writes business solely in Wisconsin. The company wrote \$27,992,971 of direct premiums in Wisconsin in 2013.

The company's major products, which are marketed by independent agents, include: homeowner's multiple peril, private passenger auto liability, auto physical damage, other liability – occurrence, inland marine, allied lines, fire and earthquake.

The following table is a summary of the net insurance premiums written by the company in 2013. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 230,163	\$ 4,919	\$ 235,073	\$0
Allied lines	370,183	1,689	371,872	0
Homeowner's multiple peril	10,080,545	9,680	10,090,225	0
Ocean marine	(216)	0	(216)	0
Inland marine	383,318	0	383,318	0
Earthquake	2,601	0	2,601	0
Other liability – occurrence	849,274	0	849,274	0
Private passenger auto liability	9,225,830	0	9,225,830	0
Auto physical damage	<u>6,851,273</u>	<u>0</u>	<u>6,851,273</u>	<u>0</u>
Total All Lines	<u>\$27,992,971</u>	<u>\$16,279</u>	<u>\$28,009,250</u>	<u>\$0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. The members of the company's board of directors are also members of other boards of directors in the holding company group. The board members currently receive a retainer of \$88,450 and long-term deferred compensation of \$56,550 for service on all group boards. Supplemental annual retainers are \$15,000 to the State Auto Mutual Lead Director, \$12,500 to the Audit Committee chair, and \$7,500 paid to other committee chairs and for special assignments.

The board of directors, as of December 31, 2013, consisted of the following persons:

Name and Residence	Principal Occupation	Term Expires
Alison Coolbrith Bloomfield, Connecticut	Director Heffernan Group	2014
Michael Joseph Fiorile Columbus, Ohio	President and Chief Operating Officer The Dispatch Printing Company	2014
James Edward Kunk Dublin, Ohio	Regional President Huntington National Bank	2014
Paul John Otte Westerville, Ohio	President Emeritus Franklin University	2014
Robert Paul Restrepo, Jr. Columbus, Ohio	President, Chairman and CEO State Automobile Mutual Insurance Co.	2014
Marsha Pasquinely Ryan New Albany, Ohio	Former CEO and Administrator Ohio Bureau of Workers' Compensation	2014
Edwin Jesse Simcox Fishers, Indiana	President Indiana Energy Association	2014
Dwight Eric Smith New Albany, Ohio	Chief Executive Officer Sophisticated Systems, Inc.	2014
Roger Philip Sugarman Columbus, Ohio	Director/Attorney Kegler, Brown, Hill & Ritter	2014

Officers of the Company

The principal and senior officers serving as of December 31, 2013, are as follows:

Name	Office	2013 Compensation
Robert P. Restrepo, Jr.	President, Chairman and Chief Executive Officer	\$1,518,185
Jessica E. Buss	Senior Vice President, Specialty Lines	755,187
Steven E. English	Senior Vice President and Chief Financial Officer	670,646
Clyde H. Fitch	Senior Vice President, Chief Sales Officer	598,346
Joel E. Brown	Senior Vice President, Standard Lines	429,052
Cynthia A. Powell	Senior Vice President, Chief Risk Officer	335,757
Stephen P. Hunckler	Senior Vice President, Chief Claims Officer	411,430
Lori M. Siegworth	Senior Vice President, Chief Strategy and Organizational Effectiveness Leader	399,072
James A. Yano	Senior Vice President, Secretary and General Counsel	476,870
Lyle D. Rhodebeck	Senior Vice President, Director of Operations	317,124
Matthew R. Pollak	Treasurer	253,560

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Investment and Finance Committee

James E. Kunk, Chair
Robert P. Restrepo, Jr.
Dwight E. Smith

Audit Committee

Paul J. Otte, Chair
James E. Kunk
Marsha P. Ryan
Dwight E. Smith

IV. AFFILIATED COMPANIES

State Auto Insurance Company of Wisconsin is a member of a holding company system (hereinafter also State Auto Insurance Companies) under the control of State Auto Mutual. The State Auto Insurance Companies group is comprised of 12 insurance companies that provide property/casualty products through more than 3,100 independent agencies in 33 states, primarily in the Midwest and Eastern United States. State Auto Insurance Company of Wisconsin, together with 11 affiliates, participated in an affiliated pooling arrangement (hereinafter also the State Auto Pool) as of December 31, 2013.

The following is an abbreviated holding company chart outlining the relationships among affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Abbreviated Organizational Chart As of December 31, 2013

State Automobile Mutual Insurance Company (Ohio insurer)
 Patrons Mutual Insurance Company of Connecticut (Connecticut insurer) #
 State Auto Financial Corporation (Ohio holding company) **
 Milbank Insurance Company (Iowa insurer)
 State Auto Insurance Company of Ohio (Ohio insurer)
 State Auto Property & Casualty Insurance Company (Iowa insurer)
 State Auto Insurance Company of Wisconsin (Wisconsin insurer)
 Meridian Insurance Group, Inc. (Indiana holding company)
 Meridian Security Insurance Company (Indiana insurer)
 Meridian Citizens Mutual Insurance Company (Indiana insurer) # @
 Rockhill Holding Company (Delaware)
 RTW, Inc. (Minnesota holding company)
 American Compensation Insurance Company (Minnesota insurer)
 Bloomington Compensation Insurance Company (Minnesota insurer)
 Rockhill Insurance Company (Arizona insurer)
 Plaza Insurance Company (Iowa insurer)

Control exercised through affiliation rather than ownership

** State Auto Financial Corporation is a publicly traded corporation, with the majority of shares (approximately 62%) owned by State Automobile Mutual Insurance Company

@ Meridian Citizens Mutual Insurance Company was merged into State Automobile Mutual Insurance Company on July 2, 2014.

State Automobile Mutual Insurance Company

State Auto Mutual was incorporated under the laws of the state of Ohio on August 15, 1921, and commenced business on September 1, 1921. State Auto Mutual writes a diverse range of commercial and personal lines coverage in 36 of the 51 jurisdictions in which it is licensed. In 2013, State Auto Mutual is the Lead Company in the State Auto Pool, had a 34% net participation in the State Auto Pool and accounted for 22.7% of the direct and nonaffiliated assumed premiums written by the 12-member State Auto Pool. As of December 31, 2013, the audited financial statements of State Auto Mutual reported assets of \$2,196,073,212, liabilities of \$1,337,988,395, and policyholders' surplus of \$858,084,817. Operations for 2013 produced a net loss of \$3,037,570.

Subsidiaries and Affiliates of State Automobile Mutual Insurance Company

American Compensation Insurance Company

American Compensation Insurance Company (American Compensation) was incorporated in Minnesota on December 6, 1991, and commenced business on April 17, 1992. It is an indirect wholly owned subsidiary of Rockhill Holding Company, which was acquired by State Auto Mutual in February 2009. In 2013, American Compensation had a 0% net participation in the State Auto Pool and accounted for 2.4% of the direct and nonaffiliated assumed premiums written by the 12-member State Auto Pool. As of December 31, 2013, the statutory financial statement of American Compensation reported assets of \$66,752,125, liabilities of \$15,511,471, and policyholders' surplus of \$51,240,654. Operations for 2013 resulted in net income of \$446,070.

Bloomington Compensation Insurance Company

Bloomington Compensation Insurance Company (Bloomington Compensation) was incorporated in Minnesota on December 12, 2000, and commenced business on October 1, 2005. It is an indirect wholly owned subsidiary of Rockhill Holding Company, which was acquired by State Auto Mutual in February 2009. In 2013, Bloomington Compensation had a 0% net participation in the State Auto Pool and accounted for 0.2% of the direct and nonaffiliated assumed premiums written by the 12-member State Auto Pool. As of December 31, 2013, the

statutory financial statement of Bloomington Compensation reported assets of \$15,260,500, liabilities of \$2,045,976, and policyholders' surplus of \$13,214,524. Operations for 2013 resulted in net income of \$207,105.

Plaza Insurance Company

Plaza Insurance Company (Plaza) was incorporated as a Georgia domestic insurer known as Integon Mortgage Guaranty Corporation on July 20, 1972, and it commenced business on December 26, 1972. During 1991, Plaza redomesticated from Georgia to Missouri and changed its name to INGC Nation Insurance Company. After a series of ownership and name changes, the name currently used was adopted on July 2, 2007. It is an indirect wholly owned subsidiary of Rockhill Holding Company, which was acquired by State Auto Mutual in February 2009. In 2013, Plaza had a 0% net participation in the State Auto Pool and accounted for 4.5% of the direct and nonaffiliated assumed premiums written by the 12-member State Auto Pool. As of December 31, 2013, the statutory financial statement of Plaza reported assets of \$49,920,771, liabilities of \$24,837,997, and policyholders' surplus of \$25,082,774. Operations for 2013 resulted in net income of \$293,426.

Meridian Citizens Mutual Insurance Company

Meridian Citizens Mutual Insurance Company (Meridian Citizens) was incorporated under the laws of Minnesota on March 20, 1914, and commenced business on September 1, 1914. It redomesticated to Indiana effective October 19, 2000. Meridian Citizens is a mutual property and casualty insurer that is party to an affiliation agreement with Meridian Insurance Group, Inc. (MIGI), an insurance holding company wholly owned by State Auto Mutual. MIGI was acquired in 2001 by State Automobile Mutual Insurance Company. In 2013, Meridian Citizens had a 0.5% net participation in the State Auto Pool and accounted for 2.4% of the direct and nonaffiliated assumed premiums written by the 12-member pool. As of December 31, 2013, the audited financial statements of Meridian Citizens reported assets of \$31,961,104, liabilities of \$22,793,690, policyholder's surplus of \$9,167,414, and net income of \$233,180.

Meridian Security Insurance Company

Meridian Security Insurance Company (Meridian Security) was incorporated July 27, 1967, under the laws of Indiana and commenced business on October 2, 1967. Meridian Security is wholly owned by Meridian Insurance Group, Inc., which was acquired by State Auto Mutual in 2001. As of December 31, 2013, Meridian Security had a 0% net participation in the State Auto Pool and accounted for 9.6% of the direct and nonaffiliated assumed premiums written by the 12-member pool. As of December 31, 2013, the audited financial statements of Meridian Security reported assets of \$114,197,498 liabilities of \$47,224,346, and policyholder's surplus of \$66,973,152. Operations for 2013 produced net income of \$2,172,273.

Patrons Mutual Insurance Company of Connecticut

Patrons Mutual Insurance Company of Connecticut (Patrons Mutual) was incorporated under the laws of Connecticut on March 1, 1887, and commenced business April 6, 1887. Patrons Mutual entered into an affiliation agreement with State Auto Mutual in September 2007. In December of 2007, State Auto Mutual assumed operational authority of the Patrons Group, which also included Patrons Mutual. As of January 1, 2008, Patrons Mutual was added to the affiliated pooling agreement. In 2013, Patrons Mutual had a 0.5% net participation in the State Auto Pool and accounted for 3.6% of the direct and nonaffiliated assumed premiums written by the 12-member pool. As of December 31, 2013, the audited financial statements of Patrons Mutual reported assets of \$49,269,455, liabilities of \$29,312,903, policyholder's surplus of \$19,956,552, and net income of \$534,348.

Rockhill Insurance Company

Rockhill Insurance Company (RIC) was incorporated in Arizona on September 4, 1985, and commenced business on October 22, 1985. It writes specialty property and casualty insurance on a nonadmitted basis. RIC is wholly owned by Rockhill Holding Company, which was acquired by State Auto Mutual in 2009. In 2013, RIC had a 0% net participation in the State Auto Pool and accounted for 9% of the direct and nonaffiliated assumed premiums written by the 12-member pool. As of December 31, 2013, the audited financial statements of RIC reported

assets of \$136,136,891, liabilities of \$40,277,465, and policyholder's surplus of \$95,859,427.

Operations for 2013 produced net income of \$1,999,949.

State Auto Financial Corporation

State Auto Financial Corporation (STFC), which was incorporated in 1990, is a regional property and casualty insurance holding company located in Columbus, Ohio. STFC and its subsidiaries are affiliated with State Auto Mutual, which owns approximately 62% of STFC's common shares outstanding.

Subsidiaries and Affiliates of State Auto Financial Corporation

Milbank Insurance Company

Milbank Insurance Company (Milbank) was incorporated under the laws of South Dakota on October 21, 1982, commenced business on January 18, 1983, and was redomesticated to Iowa on December 9, 2011. In 2013, Milbank had a 14% net participation in the State Auto Pool and accounted for 4.7% of the direct and nonaffiliated assumed premiums written by the 12-member pool. As of December 31, 2013, the audited financial statements of Milbank reported assets of \$516,568,533, liabilities of \$386,971,647, policyholders' surplus of \$129,596,886. Operations for 2013 produced net income of \$10,840,693.

State Auto Property & Casualty Insurance Company

State Auto Property & Casualty Insurance Company (State Auto P&C) was incorporated under the laws of South Carolina on January 25, 1950, commenced business on April 1, 1950, and was redomesticated to Iowa on November 14, 2006. State Auto P&C has a 51% participation in the affiliated pooling agreement as of the examination date. In 2013, State Auto P&C accounted for 36% of the direct premiums written by the 12-member pool. As of December 31, 2013, the audited financial statements of State Auto P&C reported assets of \$2,066,548,240, liabilities of \$1,458,848,195, and policyholders' surplus of \$607,700,045. Operations for 2013 produced net income of \$39,631,240.

State Auto Insurance Company of Ohio

State Auto Insurance Company of Ohio (State Auto Ohio) was incorporated under the laws of Ohio on May 17, 1999, and commenced business on January 1, 2000. In 2013, State

Auto Ohio had a 0% net participation in the State Auto Pool and accounted for 3.4% of the direct and nonaffiliated assumed premiums written by the 12-member pool. As of December 31, 2013, the audited financial statements of State Auto Ohio reported assets of \$32,329,873, liabilities of \$16,390,946, and policyholder's surplus of \$15,938,927. Operations for 2013 produced net income of \$635,049.

Recent Changes in the State Auto Group

At the close of business on March 31, 2013, Litchfield Mutual Fire Insurance Company was merged into Patrons Mutual. At the close of business on December 31, 2012, State Auto Florida Insurance Company and Beacon National Insurance Company were merged into Meridian Security. In addition, Farmers Casualty Insurance Company was merged into State Auto P&C at the close of business on December 31, 2012.

On February 10, 2009, State Auto Mutual acquired the Rockhill Holding Company and subsidiaries, which includes the following insurance companies: Rockhill Insurance Company, Plaza Insurance Company, American Compensation Insurance Company, and Bloomington Compensation Insurance Company. Modifications were made to the State Auto Pool to reflect the mergers and acquisitions that occurred.

Agreements with Affiliates

Management Agreement

State Auto P&C provides insurance management and operations services to State Auto Wisconsin. State Auto Mutual provides State Auto Wisconsin with data processing equipment and services, including the use of its equipment supplies, communication, and other facilities. The company pays a fee equal to 0.75% of its direct premium written.

Investment Management Agreement

Stateco Financial Services, Inc., a wholly owned subsidiary of State Auto Financial Corporation, provides investment management services to the company for a fee based on the fair value of the investment portfolio. The annual fee shall be paid quarterly. For fixed instruments, including bonds (taxable and tax-free), invested cash, and preferred stock, the annual fee shall be 20 basis points or 0.002 times the average asset value; common stock

portfolios shall be 50 basis points or 0.005 times the average asset value. In the event the total return on any common stock portfolio exceeds for a particular quarter the total return for the S&P 500 for the same quarter, Stateco Financial Services, Inc., shall be paid an annual bonus of 10 basis points or 0.001 times the portion of the average asset value which exceeds the asset value of the same portfolio based on the actual total performance of the S&P 500 for the quarter in question.

Federal Income Tax Allocation Agreement

The company is party to a consolidated federal income tax agreement with certain affiliates. Under this contract, allocation is made primarily on a separate return basis with credit of or any net operating losses or other items utilized in the consolidated tax return.

V. REINSURANCE

The company's reinsurance treaties in force at the time of the examination are summarized below. The contracts contained the proper insolvency provisions. Unless otherwise noted, the summaries reflect terms of the contracts as of December 31, 2013.

Affiliated Pooling Agreement

The companies in the State Auto Pool pool substantially all their net written business, net of any business ceded to and assumed from nonaffiliates, under an Intercompany Pooling Agreement. All companies in the State Auto Pool cede 100% of their net premiums, losses, loss adjustment expenses, and underwriting and administrative expenses to State Auto Mutual Insurance Company.

State Auto Mutual is responsible for collecting premiums and paying losses, loss expenses and other underwriting expenses of the pooled companies. Unpaid balances for these items are recorded through intercompany balances and are settled quarterly. At year-end, catastrophe (CAT) reinsurance recoverable on paid losses are allocated to each company based on an allocation that results in each company properly stating its portion of outstanding CAT billings. For non-CAT reinsurance recoverable on losses, the underlying policy (and so the company) carries the outstanding recoverable. State Auto Mutual administers all aspects of the pooled business, including the placement of unaffiliated reinsurance. The net pooled business is then distributed according to the participations listed below. Income and expenses related to investment operations and federal income taxes are not included in the pooling.

The insurers in the State Auto Pool are party to the same reinsurance agreements as every other member of the State Auto Pool. Cessions to reinsurers are arranged through a reinsurance intermediary. Additional terms of significant reinsurance contracts are outlined below.

The reinsurance participants and their respective participation percentages are as follows:

Name of Company	2013
State Automobile Mutual Insurance Company (OH)	34.0%
State Auto Property & Casualty (IA)	51.0
Milbank Insurance Company (IA)	14.0
Meridian Citizens Mutual Insurance Company (IN)	0.5
Patrons Mutual Insurance Company of Connecticut (CT)	0.5
American Compensation Insurance Company (MN)	0.0
Bloomington Compensation Insurance Company (MN)	0.0
Meridian Security Insurance Company (IN)	0.0
Plaza Insurance Company (IA)	0.0
Rockhill Insurance Company (AZ)	0.0
State Auto Insurance Company of Ohio (OH)	0.0
State Auto Insurance Company of Wisconsin (WI)	<u>0.0</u>
Total State Auto Pool	<u>100.0%</u>

Lines covered: All

Items included: Losses, loss adjustment expenses, unearned premium and all underwriting and administrative expenses (not including liabilities related to investments, federal income taxes or stockholder dividends)

Termination: Until canceled by agreement of the parties, or with 12 months' notice by any party

Reinsurance Ceded

1. Type: Casualty Combined Excess and Quota Share

Reinsurers:	Munich Reinsurance America, Inc.	50%
	Lloyd's Underwriter Syndicate No. 2003 SJC	25
	SCOR Reinsurance Company	<u>15</u>
	Total	<u>90%</u>

Scope: Specialty Business classified as Casualty, including but not limited to General Liability, Environmental Liability, Commercial Umbrella and Excess Liability, the liability portion of Homeowner's Multiple Peril, Automobile, Professional Liability, Healthcare, Directors and Officers, Errors and Omissions, and Employment Practices Liability in respect of 1) policies written or renewed during the term of this contract and 2) in respect of the Supermarket Insurance Group business, policies in force at the inception date of the contract

Section A reinsures primary policies and excess policies written directly excess of a primary policy. As respects Professional Liability (other than Healthcare), Directors and Officers, Errors and Omissions, and Employment Practices Liability, Section A applies to primary policies only.

Section B reinsures only excess policies other than those covered by Section A

Retention: Section A: \$1,000,000 each policy, each location, each project, each loss occurrence

Section B: \$1,000,000 each policy, each location, each project, each loss occurrence in respect of insureds that are not covered by a policy ceded under Section A

Coverage: Section A: Up to \$10,000,000 each policy, each location, each project, each loss occurrence in excess of the company's retention

Section B: Surplus Share up to \$10,000,000 each policy, each location, each project, each loss occurrence in excess of the company's retention (Policy Limit - \$1,000,000/Policy Limit)

Premium: Section A: Premium rate varies according to a fixed chart based on the program and net occurrence limit per insured.

Section B: Premium is the reinsurer's proportionate share of gross net written premium allocated by the company to the limits ceded under this contract.

Commissions: 31% on gross net written premium ceded hereunder to Munich Reinsurance America, Inc., and SCOR Reinsurance Company and 25% of gross net written premium ceded hereunder to Lloyd's Underwriter Syndicate No. 2003 SJC

Intermediary: Guy Carpenter & Company, LLC, is the intermediary for Lloyd's Underwriter Syndicate No. 2003 SJC and SCOR Reinsurance Company. Payments by the company to the intermediary shall be deemed payment to the reinsurers. Payments by the reinsurers to the intermediary shall be deemed payment to the company only to the extent that such payments are actually received by the company.

Effective date: July 1, 2013

Termination: June 30, 2014

2. Type: Casualty Excess of Loss

Reinsurers:	1st Layer	2nd Layer	3rd Layer
Allied World Insurance Company	10.0%	0.0%	0.0%
Arch Reinsurance Company	0.0	5.0	7.0
Aspen Insurance UK Limited	0.0	15.0	12.5
AXIS Reinsurance Company	10.0	0.0	0.0
Endurance Reinsurance Corp. of America	10.0	0.0	0.0
Hannover Rück SE	10.0	5.0	7.0
Underwriters at Lloyd's, London	0.0	48.5	37.0
Munich Reinsurance America, Inc.	10.0	10.0	10.0

Reinsurers: (cont.)	1st Layer	2nd Layer	3rd Layer
Partner Reinsurance Co. of the U.S.	10.0%	0.0%	0.0%
QBE Reinsurance Corporation	0.0	6.5	6.5
Safety National Casualty Corp.	0.0	0.0	10.0
SCOR Reinsurance Company	10.0	0.0	0.0
The TOA Reinsurance Co. of America	10.0	0.0	0.0
Tokio Millenium Reinsurance Ltd.	10.0	0.0	0.0
Transatlantic Reinsurance Company	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Scope: Policies classified by the company as Third Party Liability, including Personal Injury, Uninsured Motorists, Underinsured Motorists, coverage under statutory no-fault provisions, Worker's Compensation, Employers' Liability, and Umbrella coverage

Retention: First Layer – Section A: \$2,000,000 each and every loss occurrence
 Second Layer – \$10,000,000 each and every loss occurrence
 Third Layer – \$20,000,000 each and every loss occurrence

Coverage: First Layer – Section A: \$8,000,000 each and every loss occurrence in excess of the company's retention
 First Layer – Section B: 100% Quota Share of \$5,000,000 excess of \$5,000,000 each and every loss occurrence
 Second Layer – \$10,000,000 each and every loss occurrence in excess of the company's retention, subject to an aggregate limit of \$30,000,000
 Third Layer – \$10,000,000 each and every loss occurrence in excess of the company's retention, subject to an aggregate limit of \$20,000,000

Premium: First Layer – Section A: 1.065% of subject gross net earned premium income, with \$8,280,500 in deposit premium and a minimum premium of \$6,624,400
 First Layer – Section B: Exact proportion of the company's subject net premium written for Umbrella policies exposing \$5,000,000 excess of \$5,000,000
 Second Layer – 0.0738% of subject gross net earned premium income, with \$575,000 in deposit premium and a minimum premium of \$460,000. Reinstatement premium shall be paid as respects aggregate losses in excess of \$10,000,000.
 Third Layer – 0.0482% of subject gross net earned premium income, with \$375,000 in deposit premium and a minimum premium of \$300,000. Reinstatement premium shall be paid as respects aggregate losses in excess of \$10,000,000.

Commissions:	First Layer – Section B: 31% of gross net premium income		
Intermediary:	Guy Carpenter & Company, LLC, is the intermediary. Payments by the company to the intermediary shall be deemed payment to the reinsurers. Payments by the reinsurers to the intermediary shall be deemed payment to the company only to the extent that such payments are actually received by the company.		
Effective date:	July 1, 2013		
Termination:	June 30, 2014		
3. Type:	Worker's Compensation Excess of Loss		
Reinsurer:	Safety National Casualty Corporation		
Scope:	Worker's Compensation and Employers' Liability		
Retention:	\$1,000,000 each loss occurrence, plus a \$1,000,000 aggregate excess loss retention		
Coverage:	\$1,000,000 each loss occurrence in excess of the company's retention, subject to a \$6,000,000 aggregate limit of loss		
Premium:	1.048% of subject gross net earned premium income, with \$1,011,000 in deposit premium and a minimum premium of \$808,000		
Commissions:	None		
Intermediary:	Guy Carpenter & Company, LLC, is the intermediary. Payments by the company to the intermediary shall be deemed payment to the reinsurers. Payments by the reinsurers to the intermediary shall be deemed payment to the company only to the extent that such payments are actually received by the company.		
Effective date:	July 1, 2013		
Termination:	June 30, 2014		
4. Type:	Worker's Compensation Catastrophe Excess of Loss		
Reinsurers:		1st Layer	2nd Layer
	Alterra Bermuda Limited	2.5%	2.5%
	Arch Reinsurance Company	12.5	12.5
	Hannover Rück SE	7.5	7.5
	Underwriters at Lloyd's, London	37.5	37.5
	Montpelier Reinsurance Ltd.	7.5	7.5
	Munich Reinsurance America, Inc.	12.5	12.5
	Partner Reinsurance Co. of the U.S.	10.0	10.0
	Safety National Casualty Corp.	<u>10.0</u>	<u>10.0</u>
	Total	<u>100.0%</u>	<u>100.0%</u>

Scope:	Worker's Compensation and Employers' Liability		
Retention:	First Layer – \$10,000,000 each loss occurrence		
	Second Layer – \$20,000,000 each loss occurrence		
Coverage:	First Layer – \$10,000,000 each loss occurrence in excess of the company's retention, subject to an aggregate limit of \$20,000,000		
	Second Layer – \$20,000,000 each loss occurrence in excess of the company's retention, subject to an aggregate limit of \$20,000,000		
Premium:	First Layer – 0.418% of subject gross net earned premium income, with \$403,300 in deposit premium and a minimum premium of \$322,640. Reinstatement premium shall be paid as respects aggregate losses in excess of \$10,000,000.		
	Second Layer – 0.224% of subject gross net earned premium income, with \$216,120 in deposit premium and a minimum premium of \$172,896. Reinstatement premium shall be paid as respects aggregate losses in excess of \$10,000,000.		
Commissions:	None		
Intermediary:	Guy Carpenter & Company, LLC, is the intermediary. Payments by the company to the intermediary shall be deemed payment to the reinsurers. Payments by the reinsurers to the intermediary shall be deemed payment to the company only to the extent that such payments are actually received by the company. Munich Reinsurance America, Inc., is a direct reinsurer.		
Effective date:	July 1, 2013		
Termination:	June 30, 2014		
5. Type:	Excess Property Catastrophe – Specialty		
Reinsurers:		1st Layer	2nd Layer
	Amlin AG (Bermuda Branch)	0.0%	5.0%
	Arch Reinsurance Ltd.	0.0	4.5
	Argo Re Ltd.	3.0	3.0
	AXIS Specialty Limited	0.0	3.7
	Everest Reinsurance Company	15.0	8.0
	Hannover Re (Bermuda), Ltd.	2.5	2.5
	Munich Reinsurance America, Inc.	25.0	25.0
	Partner Reinsurance Company Ltd.	7.5	7.5
	Underwriters at Lloyd's, London	4.5	4.3
	Validus Reinsurance Ltd.	35.0	29.0
	XL Re Ltd.	<u>7.5</u>	<u>7.5</u>
	Total	<u>100.0%</u>	<u>100.0%</u>

Scope:	Specialty Property business, excluding business written by Risk Evaluation and Design, LLC			
Retention:	First Layer – \$15,000,000 each loss occurrence			
	Second Layer – \$30,000,000 each loss occurrence			
Coverage:	First Layer – \$15,000,000 each loss occurrence in excess of the company’s retention, subject to an aggregate limit of \$30,000,000			
	Second Layer – \$25,000,000 each loss occurrence in excess of the company’s retention, subject to an aggregate limit of \$50,000,000			
Premium:	For all layers, the actual premium is based on the percentage change between contractually specified averages of single event attachment return time and exhaustion return time probable maximum losses. Deposit premium is subject to pro rata reduction in the event that the term of the contract is less than 12 months. Minimum premium shall be waived in the event that the term of the contract is less than 12 months.			
	First Layer – \$4,650,000 in deposit premium and a minimum premium of \$3,720,000. Reinstatement premium shall be paid on a pro rata basis as respects aggregate losses in excess of \$15,000,000.			
	Second Layer – \$5,250,000 in deposit premium and a minimum premium of \$4,200,000. Reinstatement premium shall be paid on a pro rata basis as respects aggregate losses in excess of \$15,000,000.			
Commissions:	None			
Intermediary:	Aon Benfield Inc. is the intermediary. Payments by the company to the intermediary shall be deemed payment to the reinsurers. Payments by the reinsurers to the intermediary shall be deemed payment to the company only to the extent that such payments are actually received by the company. Munich Reinsurance America, Inc., is a direct reinsurer.			
Effective date:	June 1, 2013			
Termination:	June 1, 2014			
6. Type:	Excess Property Catastrophe			
Reinsurers:	1st Layer	2nd Layer	3rd Layer	
	Allied World Assurance Company, Ltd.	6.50%	4.50%	1.50%
	Amlin AG (Bermuda Branch)	0.00	2.25	2.25
	Argo Re Ltd.	3.00	2.25	2.50
	Aspen Bermuda Limited	3.00	3.00	2.50

Reinsurers: (cont.)	1st Layer	2nd Layer	3rd Layer
AXIS Specialty Limited	0.00%	4.50%	3.50%
Employers Mutual Casualty Company	0.50	0.50	0.50
Everest Reinsurance Company	11.00	0.00	3.00
Hannover Re (Bermuda), Ltd.	5.00	5.00	4.50
Mapfre Re, Compañía De Reaseguros, S.A.	3.00	2.00	2.00
MS Frontier Reinsurance Limited	0.00	0.00	9.10
Munich Reinsurance America, Inc.	12.00	8.00	5.00
Odyssey Reinsurance Company	0.00	2.50	5.00
Partner Reinsurance Company Ltd.	0.00	2.50	0.00
QBE Reinsurance Corporation	0.00	2.00	4.00
R+V Versicherung A.G.	10.00	7.50	0.00
Transatlantic Reinsurance Company	5.00	11.00	18.45
Underwriters at Lloyd's, London	11.00	16.50	15.20
Validus Reinsurance, Ltd.	15.00	12.50	12.50
XL Re Ltd.	<u>10.00</u>	<u>8.50</u>	<u>3.50</u>
Total	<u>95.00%</u>	<u>95.00%</u>	<u>95.00%</u>

Scope: Property business

Retention: First Layer – \$55,000,000 each loss occurrence
 Second Layer – \$75,000,000 each loss occurrence
 Third Layer – \$195,000,000 each loss occurrence

Coverage: First Layer – \$20,000,000 each loss occurrence in excess of the company's retention, subject to an aggregate limit of \$40,000,000
 Second Layer – \$120,000,000 each loss occurrence in excess of the company's retention, subject to an aggregate limit of \$240,000,000
 Third Layer – \$125,000,000 each loss occurrence in excess of the company's retention, subject to an aggregate limit of \$250,000,000

Premium: For all layers, the actual premium is based on the percentage change between contractually specified averages of single event attachment return time and exhaustion return time probable maximum losses. Deposit premium is subject to pro rata reduction in the event that the term of the contract is less than 12 months. Minimum premium shall be waived in the event that the term of the contract is less than 12 months.
 First Layer – \$6,200,000 in deposit premium and a minimum premium of \$4,960,000. Reinstatement premium shall be paid on a pro rata basis as respects aggregate losses in excess of \$20,000,000.

Second Layer – \$19,200,000 in deposit premium and a minimum premium of \$15,360,000. Reinstatement premium shall be paid on a pro rata basis as respects aggregate losses in excess of \$120,000,000.

Third Layer – \$9,375,000 in deposit premium and a minimum premium of \$7,500,000. Reinstatement premium shall be paid on a pro rata basis as respects aggregate losses in excess of \$125,000,000.

Commissions:	None
Intermediary:	Aon Benfield Inc. is the intermediary. Payments by the company to the intermediary shall be deemed payment to the reinsurers. Payments by the reinsurers to the intermediary shall be deemed payment to the company only to the extent that such payments are actually received by the company. Munich Reinsurance America, Inc., is a direct reinsurer.
Effective date:	June 1, 2013
Termination:	June 1, 2014
7. Type:	Wind Property First Surplus
Reinsurer:	Arch Reinsurance Ltd.
Scope:	Primary Wind policies, with certain specific exclusions, but with allowance for special acceptances
Retention:	Net liability on each policy of not less than \$5,000,000 for coastal areas and \$10,000,000 for non-coastal areas, and any net liability in excess of first surplus coverage under this contract
Coverage:	First surplus liability in excess of the company's retention of up to \$5,000,000 on each policy, subject to an aggregate limit of liability of the lesser of \$16,000,000 or 175% of the ceded net written premium for the term of this contract
Premium:	Premium is in proportion that each risk bears to the total liability of the company
Commissions:	None
Intermediary:	Aon Benfield Inc. is the intermediary. Payments by the company to the intermediary shall be deemed payment to the reinsurers. Payments by the reinsurers to the intermediary shall be deemed payment to the company only to the extent that such payments are actually received by the company.
Effective date:	July 2, 2013
Termination:	July 2, 2014

8. Type: Property Per Risk Excess of Loss

Reinsurers:

	Underlying Layer	1st Layer	2nd Layer	3rd Layer
Allied World Reinsurance Company	7.50%	10.00%	4.00%	10.00%
Amlin AG (Bermuda Branch)	2.50	2.25	1.50	4.00
Argo Re Ltd.	0.00	0.00	5.00	7.50
AXIS Reinsurance Company	17.50	6.00	7.50	0.00
Catlin Insurance Company Ltd.	0.00	5.00	2.50	2.50
Employers Mutual Casualty Company	2.50	3.00	2.00	2.00
Endurance Reinsurance Corporation of America	7.50	10.00	6.00	0.00
Hannover Rück SE	25.00	10.00	7.50	10.00
Mapfre Re, Compañía De Reaseguros, S.A.	0.00	5.00	5.00	5.00
Munich Reinsurance America, Inc.	2.50	12.50	10.00	10.00
Partner Reinsurance Co. of the U.S.	0.00	0.00	10.00	5.00
QBE Reinsurance Corporation	0.00	5.00	5.00	0.00
Underwriters at Lloyd's, London	20.00	31.25	24.00	34.00
Validus Reinsurance, Ltd.	<u>15.00</u>	<u>0.00</u>	<u>10.00</u>	<u>10.00</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Scope: Property business with stated exclusions, but allowance for special acceptances. The Underlying Excess Layer only covers business underwritten by the company's Specialty Division, while the First, Second, and Third Excess Layers cover the company's property business generally.

Coverage:

	<u>Underlying Excess</u>	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
Retention	\$1,000,000	\$3,000,000	\$ 5,000,000	\$10,000,000
Limit	2,000,000	2,000,000	5,000,000	10,000,000
Aggregate Limit	6,000,000	8,000,000	10,000,000	20,000,000

Premium: Gross Net Written Premium Income times a factor, with required minimum premium. Deposit premiums are required and must be paid in quarterly installments.

	<u>Underlying Excess</u>	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
Premium Factor	4.000%	0.200%	0.235%	0.090%
Minimum Premium	\$1,156,000	\$1,063,200	\$1,249,600	\$478,400
Deposit Premium	924,800	1,329,000	1,562,000	598,000

Commissions: None

Intermediary: Aon Benfield Inc. is the intermediary. Payments by the company to the intermediary shall be deemed payment to the reinsurers. Payments by the reinsurers to the intermediary shall be deemed payment to the company only to the extent that such payments are actually received by the company. Munich Reinsurance America, Inc., is a direct reinsurer.

Effective date: June 1, 2013

Termination:	June 1, 2014								
9. Type:	Homeowner's Quota Share								
Reinsurers:	<table border="0"> <tr> <td>Swiss Reinsurance America Corporation</td> <td>37.5%</td> </tr> <tr> <td>Everest Reinsurance Company</td> <td>22.5</td> </tr> <tr> <td>SCOR Reinsurance Company</td> <td><u>15.0</u></td> </tr> <tr> <td>Total</td> <td><u>75.0%</u></td> </tr> </table>	Swiss Reinsurance America Corporation	37.5%	Everest Reinsurance Company	22.5	SCOR Reinsurance Company	<u>15.0</u>	Total	<u>75.0%</u>
Swiss Reinsurance America Corporation	37.5%								
Everest Reinsurance Company	22.5								
SCOR Reinsurance Company	<u>15.0</u>								
Total	<u>75.0%</u>								
Scope:	Homeowner's business								
Retention:	25% quota share								
Coverage:	<p>75% quota share. The aggregate liability of the reinsurers shall not exceed as respects all losses, including losses in excess of policy limits, extra contractual obligations, and loss adjustment expenses, arising from all catastrophic loss occurrences, is limited to:</p> <ul style="list-style-type: none"> • The lesser of 50% of ceded net earned premium or \$181,000,000 for the first contract year • The lesser of 40% of ceded net earned premium or \$150,000,000 for the second contract year • The lesser of 30% of ceded net earned premium or \$117,000,000 for the third contract year • The lesser of 34% of ceded net earned premium or \$380,000,000 for the term of the contract • \$55,000,000 arising from an accident or occurrence or a series of accidents or occurrences arising out of or caused by one event 								
Premium:	75% of net written premium and a 75% share of unearned premium applicable to subject business in force on the effective date								
Commissions:	<p>29% on net written premium and the initial 75% share of unearned premium applicable to subject business in force on the effective date remitted to the reinsurers, subject to adjustment in the second and third contract years in the event of any "Material Adverse Change" to the reinsurers as defined by the contract.</p> <p>The company is entitled to a profit commission equal to 100% of the net profit, if any, accruing to the reinsurers during the term of the contract. The reinsurers' net profit shall be calculated as:</p> <ol style="list-style-type: none"> 1. Premiums earned for the term of the contract; less 2. Ceding commission allowed the company on premiums earned for the term of this contract; less 3. Expenses incurred by the reinsurers at 9% of premiums earned for the term of this contract; less 4. Losses incurred for the term of this contract. 								
Commutation:	Subject to mutual agreement after the date of termination or expiration, and up to December 31, 2017, the company and any								

reinsurer may commute all present and future liabilities. If this contract is not commuted prior to December 31, 2017, commutation of all present and future liabilities under the contract shall be commuted as of December 31, 2017.

Intermediary: Aon Benfield Inc. is the intermediary. Payments by the company to the intermediary shall be deemed payment to the reinsurers. Payments by the reinsurers to the intermediary shall be deemed payment to the company only to the extent that such payments are actually received by the company.

Effective date: December 31, 2011

Termination: December 31, 2014

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2013, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

State Auto Insurance Company of Wisconsin
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$10,345,450	\$	\$10,345,450
Stocks:			
Common stocks	540,218		540,218
Cash, cash equivalents, and short-term investments	809,124		809,124
Investment income due and accrued	83,251		83,251
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	44		44
Reinsurance:			
Amounts recoverable from reinsurers	4,764,613		4,764,613
Receivable from parent, subsidiaries, and affiliates	1,840,932		1,840,932
Write-ins for other than invested assets:			
Equities and deposits in pools and associations	<u>12,051</u>	<u> </u>	<u>12,051</u>
Total Assets	<u>\$18,395,683</u>	<u>\$</u>	<u>\$18,395,683</u>

State Auto Insurance Company of Wisconsin
Liabilities, Surplus, and Other Funds
As of December 31, 2013

Reinsurance payable on paid loss and loss adjustment expenses		\$	28
Current federal and foreign income taxes			29,375
Net deferred tax liability			44,997
Ceded reinsurance premiums payable (net of ceding commissions)			6,616,977
Payable to parent, subsidiaries, and affiliates			<u>56,000</u>
Total liabilities			6,747,377
Common capital stock	\$2,080,000		
Gross paid in and contributed surplus	225,000		
Unassigned funds (surplus)	<u>9,343,306</u>		
Surplus as regards policyholders			<u>11,648,306</u>
Total Liabilities and Surplus			<u>\$18,395,683</u>

**State Auto Insurance Company of Wisconsin
Summary of Operations
For the Year 2013**

Underwriting Income

Premiums earned		\$
Deductions:		
Loss adjustment expenses incurred	\$ 62,227	
Other underwriting expenses incurred	<u>147,056</u>	
Total underwriting deductions		<u>209,283</u>
Net underwriting gain (loss)		(209,283)

Investment Income

Net investment income earned	271,553	
Net realized capital gains (losses)	<u>166,074</u>	
Net investment gain (loss)		<u>437,627</u>

Net income (loss) after dividends to policyholders but before federal and foreign income taxes		228,344
Federal and foreign income taxes incurred		<u>27,301</u>

Net Income		<u>\$ 201,043</u>
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**State Auto Insurance Company of Wisconsin
Cash Flow
For the Year 2013**

Premiums collected net of reinsurance		\$ (948,564)
Net investment income		<u>361,769</u>
Total		(586,795)
Benefit and loss-related payments	\$(1,404,404)	
Commissions, expenses paid, and aggregate write-ins for deductions	209,283	
Federal and foreign income taxes paid (recovered)	<u>(2,136)</u>	
Total deductions		<u>(1,197,257)</u>
Net cash from operations		610,462
Proceeds from investments sold, matured, or repaid:		
Bonds	\$2,652,500	
Stocks	<u>350,544</u>	
Total investment proceeds		3,003,044
Cost of investments acquired (long-term only):		
Bonds	<u>2,914,943</u>	
Total investments acquired	<u>2,914,943</u>	
Net cash from investments		88,101
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(253,970)</u>	
Net cash from financing and miscellaneous sources		<u>(253,970)</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		444,593
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>364,531</u>
End of Year		<u>\$ 809,124</u>

**State Auto Insurance Company of Wisconsin
Compulsory and Security Surplus Calculation
December 31, 2013**

Assets		\$18,395,683
Less liabilities		<u>6,747,377</u>
Adjusted surplus		11,648,306
Annual premium:		
Lines other than accident and health	\$ 0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)		<u>\$ 9,648,306</u>
Adjusted surplus (from above)		\$11,648,306
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security Surplus Excess (or Deficit)		<u>\$ 8,848,306</u>

**State Auto Insurance Company of Wisconsin
Analysis of Surplus
For the Five-Year Period Ending December 31, 2013**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2013	2012	2011	2010	2009
Surplus, beginning of year	\$11,450,992	\$11,270,870	\$11,163,878	\$11,075,368	\$10,838,750
Net income	201,043	94,101	85,268	20,088	95,535
Change in net unrealized capital gains/losses	15,693	67,821	(7,391)	64,114	92,800
Change in nonadmitted assets					73,365
Write-ins for gains and (losses) in surplus:					
Change in net deferred income tax	<u>(19,422)</u>	<u>18,200</u>	<u>29,115</u>	<u>4,308</u>	<u>(25,082)</u>
Surplus, End of Year	<u>\$11,648,306</u>	<u>\$11,450,992</u>	<u>\$11,270,870</u>	<u>\$11,163,878</u>	<u>\$11,075,368</u>

**State Auto Insurance Company of Wisconsin
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2013**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below this table.

Ratio	2013	2012	2011	2010	2009
#1 Gross Premium to Surplus	240%	278%	318%	349%	345%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	0	0	0	1.0
#5 Two-Year Overall Operating Ratio	0	0	999*	999*	0
#6 Investment Yield	2.4*	2.4*	2.5*	2.2*	2.5*
#7 Gross Change in Surplus	2	2	1	1	2
#8 Change in Adjusted Surplus	2	2	1	1	2
#9 Liabilities to Liquid Assets	57	68	74	86	88
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

The exceptional results for Ratio No. 5, "Two-Year Overall Operating Ratio," in 2010 and 2011 were due to the company's 0% net participation in the affiliated pooling arrangement managed by State Automobile Mutual Insurance Company.

The exceptional results for Ratio No. 6, "Investment Yield," from 2009 to 2013 can be attributed to the low interest rate environment of recent years and the company's conservative investment strategy.

Growth of State Auto Insurance Company of Wisconsin

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2013	\$18,395,683	\$ 6,747,377	\$11,648,306	\$ 201,043
2012	19,103,917	7,652,925	11,450,992	94,101
2011	19,925,624	8,654,754	11,270,870	85,268
2010	21,106,756	9,942,878	11,163,878	20,088
2009	21,159,053	10,083,685	11,075,368	95,535
2008	20,089,077	9,250,327	10,838,750	(417,296)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	\$28,009,250	\$ 0	\$ 0	0.0%	0.0%	0.0%
2012	31,785,564	0	0	0.0	0.0	0.0
2011	35,841,728	0	0	0.0	0.0	0.0
2010	38,974,929	0	0	0.0	0.0	0.0
2009	38,234,118	0	0	0.0	0.0	0.0
2008	34,035,560	(72,980)	(72,980)	(118.7)	(229.9)	(348.6)

During the period under examination, the company has not experienced changes that would significantly impact its financial position. Gross premium written declined in three of the last six years. Assets and liabilities have declined in five of the last six years, while surplus has increased by a cumulative 7.5% over the last five years. The company reported positive net income in five of the last six years.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2013, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

Summary of Current Examination Results

There were no adverse or material findings as a result of the current examination of the company.

VIII. CONCLUSION

Policyholders' surplus has increased from \$10,838,750 as of year-end 2008, when policyholders' surplus was last verified by examination, to \$11,648,306 as of year-end 2013, as determined by this examination. This represents an increase of 7.5% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2008, the date as of which the company was last examined, to December 31, 2013:

Policyholders' surplus, December 31, 2008	\$10,838,750
Net income	496,035
Change in net unrealized capital gain or (loss)	233,037
Change in nonadmitted assets	73,365
Change in net deferred income tax	<u>7,119</u>
Policyholders' Surplus, December 31, 2013	<u>\$11,648,306</u>

As previously noted, the company is a member of the State Auto Pool. All companies in the State Auto Pool cede 100% of their net premiums, losses, loss adjustment expenses, and underwriting and administrative expenses to State Auto Mutual. The company does not have any portion of assumption participation in the pool.

The examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet. There were no adverse or material findings as a result of the current examination of the company.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination did not result in any findings of material exception and did not result in any recommendations requiring company action or compliance.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
David Jensen	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Richard A. Onasch	Insurance Financial Examiner – Journey

Respectfully submitted,

Satinderjit K. Basra
Examiner-in-Charge