# AMENDED FILING EXPLANATION

The Company's Notes to Financial Statements have been amended to correct Note 30 Premium Deficiency Reserve at the request of the Ohio Department of Insurance due to incomplete disclosure. The data previously disclosed in the Note was correct and this amendment is only adding to the previous disclosure.

* 1 1 0 1 7 2 0 1 1 2 0 1 0 0 1 0 5 *

# ANNUAL STATEMENT

**For the Year Ended December 31, 2011**

of the Condition and Affairs of the

# STATE AUTO INSURANCE COMPANY OF OHIO

NAIC Group Code.....175, 175 (Current Period) (Prior Period)  NAIC Company Code..... 11017  Employer's ID Number..... 31-1651026

Organized under the Laws of OHIO  State of Domicile or Port of Entry OHIO  Country of Domicile US

Incorporated/Organized..... May 17, 1999  Commenced Business..... January 1, 2000

Statutory Home Office: 518 EAST BROAD STREET….. COLUMBUS ..... OH ..... 43215
*(Street and Number) (City or Town, State and Zip Code)*

Main Administrative Office: 518 EAST BROAD STREET….. COLUMBUS ..... OH ..... 43215 — 614-464-5000
*(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)*

Mail Address: 518 EAST BROAD STREET….. COLUMBUS ..... OH ..... 43215
*(Street and Number or P. O. Box) (City or Town, State and Zip Code)*

Primary Location of Books and Records: 518 EAST BROAD STREET….. COLUMBUS ..... OH ..... 43215 — 614-464-5000
*(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)*

Internet Web Site Address: STATEAUTO.COM

Statutory Statement Contact: TINA MARIE STILLABOWER — 317-931-7473
*(Name) (Area Code) (Telephone Number) (Extension)*

corporateaccounting@stateauto.com — 317-931-6558
*(E-Mail Address) (Fax Number)*

## OFFICERS

| Name | Title | Name | Title |
|---|---|---|---|
| 1. ROBERT PAUL RESTREPO, JR. | PRESIDENT | 2. JAMES ANDREW YANO | SECRETARY |
| 3. CYNTHIA ANN POWELL | TREASURER | 4. | |

## OTHER

| | | | |
|---|---|---|---|
| CLYDE HOWARD FITCH, JR. | SENIOR VICE PRESIDENT | DOUGLAS EDWARD ALLEN | VICE PRESIDENT |
| JOEL EDWARD BROWN | VICE PRESIDENT | JESSICA ELIZABETH BUSS # | VICE PRESIDENT |
| JOYCE ANN DALLESSIO # | VICE PRESIDENT | DAVID WILLIAM DALTON | VICE PRESIDENT |
| JAMES ELIAS DUEMEY | VICE PRESIDENT | NANCY DUFFEY EDWARDS | VICE PRESIDENT |
| STEVEN EUGENE ENGLISH | VICE PRESIDENT | STEVEN RAY HAZELBAKER | VICE PRESIDENT |
| RICKY LEE HOLBEIN | VICE PRESIDENT | DAVID JOHN HOSLER # | VICE PRESIDENT |
| STEPHEN PETER HUNCKLER | VICE PRESIDENT | KEITH ROBERT ILER # | VICE PRESIDENT |
| CATHY BERNATH MILEY | VICE PRESIDENT | MATTHEW STANLEY MROZEK | VICE PRESIDENT |
| PAUL EDWARD NORDMAN | VICE PRESIDENT | JOHN MICHAEL PETRUCCI | VICE PRESIDENT |
| TIMOTHY GERARD REIK # | VICE PRESIDENT | MARY JEAN REYNOLDS | VICE PRESIDENT |
| LYLE DEAN RHODEBECK | VICE PRESIDENT | LORRAINE MARGARET SIEGWORTH | VICE PRESIDENT |
| LARRY EMMETT WILLEFORD | VICE PRESIDENT | | |

## DIRECTORS OR TRUSTEES

| | | | |
|---|---|---|---|
| ROBERT ELLISON BAKER | DAVID JAMES D'ANTONI | EILEEN ANN MALLESCH | THOMAS EDWARD MARKERT |
| DAVID RUSSELL MEUSE | ROBERT PAUL RESTREPO, JR. | SHARON ELAINE ROBERTS | ALEXANDER BRUEN TREVOR |
| PAUL STRATTON WILLIAMS | | | |

State of........ OHIO
County of..... FRANKLIN

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions* and *Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

| | | |
|---|---|---|
| (Signature) | (Signature) | (Signature) |
| ROBERT PAUL RESTREPO, JR. | JAMES ANDREW YANO | CYNTHIA ANN POWELL |
| 1. (Printed Name) | 2. (Printed Name) | 3. (Printed Name) |
| PRESIDENT | SECRETARY | TREASURER |
| (Title) | (Title) | (Title) |

Subscribed and sworn to before me
This 21ST day of JUNE 2012

a. Is this an original filing? Yes [ ] No [ X ]
b. If no
1. State the amendment number 1
2. Date filed JUNE 21, 2012
3. Number of pages attached 1

# NOTES TO FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies:**

A. Accounting Practices:

The accompanying financial statements of State Auto Insurance Company of Ohio (the "Company" or "SA Ohio") are presented on the basis of accounting practices prescribed or permitted by the Ohio Department of Insurance (the "Department"), which has adopted the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP).

The Company is a member of the State Auto Holding Company System ("State Auto Group") that is defined at Schedule Y – Information Concerning Activities of Insurer Members of a Holding Company Group. See Schedule Y Part 1 – Organizational Chart. The following member companies of the State Auto Group referred to throughout these notes are defined as follows: State Automobile Mutual Insurance Company ("State Auto Mutual"), State Auto Insurance Company of Wisconsin ("SA Wisconsin"), State Auto Financial Corporation ("State Auto Financial"), SA Software Shelf, Inc. ("SA Software"), State Auto Property & Casualty Insurance Company ("State Auto P&C"), Stateco Financial Services, Inc. ("Stateco"), Milbank Insurance Company ("Milbank"), Farmers Casualty Insurance Company ("Farmers"), State Auto Insurance Company of Ohio ("SA Ohio"), Meridian Citizens Mutual Insurance Company ("Meridian Citizens Mutual"), State Auto Florida Insurance Company ("SA Florida"), BroadStreet Capital Partners, Inc. ("BroadStreet Capital"), Meridian Insurance Group, Inc. ("MIGI"), Meridian Security Insurance Company ("Meridian Security"), Beacon National Insurance Company ("Beacon National"), Beacon Lloyds, Inc., a Texas corporation which is the attorney-in-fact for Beacon Lloyds Insurance Company ("Beacon Lloyds"), a Lloyds insurer formed under Texas Insurance Code, Patrons Mutual Insurance Company of Connecticut ("Patrons Mutual"), Litchfield Mutual Fire Insurance Company ("Litchfield"), Rockhill Holding Company ("RHC"), Rockhill Insurance Company ("Rockhill"), Plaza Insurance Company ("Plaza"), American Compensation Insurance Company ("American Compensation"), and Bloomington Compensation Insurance Company ("Bloomington Compensation"). State Auto National Insurance Company ("SA National") was a member of the State Auto Group during 2010. SA National was sold on December 31, 2010, as described in Note 10.

B. Use of Estimates in the Preparation of the Financial Statements:

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and of revenue and expense for the period then ended. It also requires estimates in the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

C. Accounting Policy:

Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro rata methods for direct business and are based on reports received from ceding companies for reinsurance assumed.

Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred.

In addition, the Company uses the following accounting policies:

1. Money market investments are reflected at cost.
2. Bonds not backed by other loans are stated at amortized cost using the scientific interest method.
3. Common stocks are stated at fair value.
4. Preferred stocks: Not applicable.
5. Mortgage loans: Not applicable.
6. Loan-backed securities are valued at amortized cost using the scientific interest method. The retrospective adjustment method is used to determine the fair value of all loan-backed securities.
7. Investments in subsidiaries and affiliated companies: Not applicable.
8. Investments in joint ventures, partnerships and limited liability companies: Not applicable.
9. Derivatives: Not applicable.
10. The Company anticipates investment income as a factor in the premium deficiency calculation, except accident and health business, in accordance with SSAP No. 53 - *Property-Casualty Contracts - Premiums.*
11. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and, while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the period determined.
12. The Company has not modified its capitalization policy from the prior period.
13. Pharmaceutical rebate receivables: Not applicable.

**2. Accounting Changes and Corrections of Errors:** Not applicable.

**3. Business Combinations and Goodwill:** Not applicable.

**4. Discontinued Operations:** Not applicable.

**5. Investments:**

A. Mortgage Loans: Not applicable.

B. Debt Restructuring: Not applicable.

C. Reverse Mortgages: Not applicable.

D. Loan-Backed Securities:

1. Prepayment assumptions for mortgage-backed securities, asset-backed securities and collateralized mortgage obligations were generated using a purchased prepayment model. The prepayment model uses a number of factors to estimate prepayment activity including the time of year (seasonality), current levels of interest rates (refinancing incentive), economic activity (including housing turnover) and term and age of the underlying collateral (burnout, seasoning).
2. The Company has not recognized any other than temporary impairments on its loan-backed securities.
3. The Company has not recognized any other than temporary impairments on its loan-backed securities.
4. The Company has loan-backed securities in which the fair value is less than cost or amortized cost for which an other than temporary impairment has not been recognized.

| | Amount ($) | | | |
|---|---|---|---|---|
| | Less than 12 months | | More than 12 months | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Loan-backed securities: | | | | |
| Pools | 466,803 | (8,480) | - | - |
| Commercial mortgage-backed securities | - | - | - | - |
| Asset-backed securities | - | - | - | - |
| Total loan-backed securities | 466,803 | (8,480) | - | - |

5. The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other than temporary. The Company considers various factors, such as the duration and extent the security has been below cost, underlying credit rating of the issuer, receipt of scheduled principal and interest cash flows, and the Company's ability and intent to hold the security until recovery.

E. Repurchase Agreements: Not applicable.

**5. Investments (continued):**

F. Real Estate: Not applicable.

G. Low Income Housing Tax Credits: Not applicable.

**6. Joint Ventures, Partnerships and Limited Liability Companies:** Not applicable.

**7. Investment Income:**

A. Accrued Investment Income: The Company nonadmits investment income due and accrued if amounts are over 90 days past due.

B. Amounts Nonadmitted: Not applicable.

**8. Derivative Instruments:** Not applicable.

**9. Income Taxes:**

A. The components of the net deferred tax asset/(liability) at December 31, 2011 and 2010 are as follows:

| | **Amount ($)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2011** | | | **2010** | | | **Change** | | |
| 1. | **Ordinary** | **Capital** | **Total** | **Ordinary** | **Capital** | **Total** | **Ordinary** | **Capital** | **Total** |
| a. Gross deferred tax assets | 853,468 | 222,020 | 1,075,488 | 1,450,925 | 221,517 | 1,672,442 | (597,457) | 503 | (596,954) |
| b. Statutory valuation allowance adjustment | - | - | - | - | - | - | - | - | - |
| c. Adjusted gross deferred tax assets | 853,468 | 222,020 | 1,075,488 | 1,450,925 | 221,517 | 1,672,442 | (597,457) | 503 | (596,954) |
| d. Deferred tax liabilities | 5,661 | 288,817 | 294,478 | 15,890 | 282,138 | 298,028 | (10,229) | 6,679 | (3,550) |
| e. Subtotal (net deferred tax assets/(liability)) | 847,807 | (66,797) | 781,010 | 1,435,035 | (60,621) | 1,374,414 | (587,228) | (6,176) | (593,404) |
| f. Deferred tax assets nonadmitted | 847,807 | (88,999) | 758,808 | 592,470 | (82,773) | 509,697 | 255,337 | (6,226) | 249,111 |
| g. Net admitted deferred tax assets/(liability) | - | 22,202 | 22,202 | 842,565 | 22,152 | 864,717 | (842,565) | 50 | (842,515) |

2. The Company has not elected to admit additional DTA's pursuant to SSAP 10R, paragraph e. The current period election does not differ from the prior reporting period.
3. Not applicable.

| | **Amount ($)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2011** | | | **2010** | | | **Change** | | |
| 4. | **Ordinary** | **Capital** | **Total** | **Ordinary** | **Capital** | **Total** | **Ordinary** | **Capital** | **Total** |
| **Admission calculation components SSAP No. 10R, paragraphs 10.a., 10.b., and 10.c.:** | | | | | | | | | |
| a. SSAP No. 10R, paragraph 10.a. | - | - | - | 75,366 | - | 75,366 | (75,366) | - | (75,366) |
| b. SSAP No. 10R, paragraph 10.b. | - | 22,202 | 22,202 | 767,200 | 22,152 | 789,352 | (767,200) | 50 | (767,150) |
| c. SSAP No. 10R, paragraph 10.b.i. | - | 22,202 | 22,202 | 767,200 | 22,152 | 789,352 | (767,200) | 50 | (767,150) |
| d. SSAP No. 10R, paragraph 10.b.ii. | NA | NA | 1,041,116 | NA | NA | 1,241,870 | NA | NA | (200,754) |
| e. SSAP No. 10R, paragraph 10.c. | 5,661 | 288,817 | 294,478 | 15,889 | 282,138 | 298,027 | (10,228) | 6,679 | (3,549) |
| f. Total | 5,661 | 311,019 | 316,680 | 858,455 | 304,290 | 1,162,745 | (852,794) | 6,729 | (846,065) |
| **Admission calculation components: SSAP No. 10R, paragraph 10.e.:** | | | | | | | | | |
| g. SSAP No. 10R, paragraph 10.e.i. | - | - | - | - | - | - | - | - | - |
| h. SSAP No. 10R, paragraph 10.e.ii. | - | - | - | - | - | - | - | - | - |
| i. SSAP No. 10R, paragraph 10.e.ii.a. | - | - | - | - | - | - | - | - | - |
| j. SSAP No. 10R, paragraph 10.e.ii.b. | NA | NA | - | NA | NA | - | NA | NA | - |
| k. SSAP No. 10R, paragraph 10.e.iii. | - | - | - | - | - | - | - | - | - |
| l. Total | - | - | - | - | - | - | - | - | - |
| **Used in SSAP No. 10R, paragraph 10.d.** | | | | | | | | | |
| m. Total adjusted capital | NA | NA | 13,645,988 | NA | NA | 13,875,187 | NA | NA | (229,199) |
| n. Authorized control level | NA | NA | 1,115,549 | NA | NA | 1,395,395 | NA | NA | (279,846) |

5. Impact of Tax Planning Strategies: Not applicable.

| | **Amount ($)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2011** | | | **2010** | | | **Change** | | |
| 6. | **Ordinary** | **Capital** | **Total** | **Ordinary** | **Capital** | **Total** | **Ordinary** | **Capital** | **Total** |
| **SSAP No. 10R, paragraph 10.a, 10b., and 10.c:** | | | | | | | | | |
| a. Admitted deferred tax assets | 5,661 | 311,019 | 316,680 | 858,455 | 304,290 | 1,162,745 | (852,794) | 6,729 | (846,065) |
| b. Admitted assets | NA | NA | 46,617,977 | NA | NA | 49,580,613 | NA | NA | (2,962,636) |
| c. Adjusted statutory surplus* | NA | NA | 10,411,160 | NA | NA | 12,418,700 | NA | NA | (2,007,540) |
| d. Total adjusted capital from DTAs | NA | NA | 22,202 | NA | NA | 864,718 | NA | NA | (842,516) |
| e. Admitted deferred tax assets | - | - | - | - | - | - | - | - | - |
| f. Admitted assets | - | - | - | - | - | - | - | - | - |
| g. Statutory surplus | - | - | - | - | - | - | - | - | - |

* As reported on the statutory balance sheet for the most recently filed statement with the domiciliary state commissioner adjusted in accordance with SSAP No. 10R, Paragraph 10bii.

B. Unrecognized Deferred Tax Liabilities: None.

**9. Income Taxes (continued):**

C. Current income taxes incurred consist of the following major components:

| | Amount ($) (1) 2011 | (2) 2010 | (3) Change |
|---|---|---|---|
| 1. Current Income Tax | | | |
| a. Federal | (127,614) | 77,337 | (204,951) |
| b. Foreign | - | - | - |
| c. Subtotal | (127,614) | 77,337 | (204,951) |
| d. Federal Income tax on net capital gains | (53,061) | 3,954 | (57,015) |
| e. Utilization of capital loss carry-forwards | - | - | - |
| f. Other | - | - | - |
| g. Federal and foreign income taxes incurred | (180,675) | 81,291 | (261,966) |

| | Amount ($) (1) 2011 | (2) 2010 | (3) Change |
|---|---|---|---|
| 2. Deferred Tax Assets | | | |
| a. Ordinary | | | |
| 1. Discounting of unpaid losses | - | 325,731 | (325,731) |
| 2. Unearned premium reserve | - | 531,123 | (531,123) |
| 3. Policyholder reserves | - | - | - |
| 4. Investments | - | - | - |
| 5. Deferred acquisition costs | - | - | - |
| 6. Policyholder dividends accrual | - | - | - |
| 7. Fixed Assets | - | - | - |
| 8. Compensation & benefits accrual | - | 402,011 | (402,011) |
| 9. Pension accrual | - | - | - |
| 10. Receivables - nonadmitted | - | - | - |
| 11. Net operating loss carry-forward | 840,777 | 22,803 | 817,974 |
| 12. Tax credit carry-forward | 6,841 | 87,236 | (80,395) |
| 13. Other | 5,850 | 82,021 | (76,171) |
| Subtotal | 853,468 | 1,450,925 | (597,457) |
| b. Statutory valuation allowance adjustment | - | - | - |
| c. Nonadmitted | 847,807 | 592,470 | 255,337 |
| d. Admitted ordinary deferred tax assets | 5,661 | 858,455 | (852,794) |
| e. Capital: | | | |
| 1. Investments | 222,020 | 221,517 | 503 |
| 2. Net capital loss carry-forward | - | - | - |
| 3. Real estate | - | - | - |
| 4. Other | - | - | - |
| Subtotal | 222,020 | 221,517 | 503 |
| f. Statutory valuation allowance adjustment | - | - | - |
| g. Nonadmitted | (88,999) | (82,773) | (6,226) |
| h. Admitted capital deferred tax assets | 311,019 | 304,290 | 6,729 |
| i. Admitted deferred tax assets | 316,680 | 1,162,745 | (846,065) |

| | Amount ($) (1) 2011 | (2) 2010 | (3) Change |
|---|---|---|---|
| 3. Deferred Tax Liabilities | | | |
| a. Ordinary | | | |
| 1. Investments | 5,661 | 5,255 | 406 |
| 2. Fixed assets | - | - | - |
| 3. Deferred and uncollected premium | - | - | - |
| 4. Policyholder reserves | - | - | - |
| 5. Other | - | 6,818 | (6,818) |
| 6. Salvage & subrogation reserves | - | 3,817 | (3,817) |
| Subtotal | 5,661 | 15,890 | (10,229) |
| b. Capital: | | | |
| 1. Investments | 288,817 | 282,138 | 6,678 |
| 2. Real estate | - | - | - |
| 3. Other | - | - | - |
| Subtotal | 288,817 | 282,138 | 6,678 |
| c. Deferred tax liabilities | 294,477 | 298,028 | (3,550) |
| 4. Deferred tax assets/liabilities | 22,203 | 864,717 | (842,514) |

D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate:

The significant book to tax adjustments were as follows:

| Description | Amount ($) Tax Effect @ 35% | Effective Tax Rate |
|---|---|---|
| Tax Reconciliation by Effective Rate: | | |
| Income before tax | 160,361 | 35.0% |
| Tax exempt interest and dividends received income deduction | (92,286) | -20.1% |
| Permanent difference on nonadmitted taxable assets | (31,142) | -6.8% |
| STAT minimum pension liability | - | 0.0% |
| Change in valuation allowance | - | 0.0% |
| Other | 419,220 | 91.5% |
| Total | 456,153 | 99.6% |
| Tax Reconciliation by Statement of Income: | | |
| Federal & foreign tax incurred | (180,675) | -39.4% |
| Current taxes on realized gains | 53,061 | 11.6% |
| Change in net deferred income taxes | 583,767 | 127.4% |
| Total | 456,153 | 99.6% |

E. Operating Loss and Tax Credit Carry-forwards:

1. At December 31, 2011, the Company had $2,402,219 of operating loss carry-forwards beginning in 2010 through 2011, which expire, if unused, beginning in 2030 through 2031.
2. For 2011 and 2010, there is no income tax expense that is available for recoupment in the event of future net losses.
3. Not applicable.

**9. Income Taxes (continued):**

F. Consolidated Federal Income Tax Return:

1. The Company's federal income tax return is consolidated with the following entities:
   State Auto Financial
   State Auto P&C
   Milbank
   Farmers
   Stateco
   SA Software
2. The method of allocation among the companies is subject to a written agreement, approved by the Board of Directors, whereby allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return.

**10. Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties:**

A. Nature of the Relationships:

See Schedule Y - Information Concerning Activities of Insurer Members of a Holding Company Group, Part 1 Organizational Chart.

B. Detail of Transactions Greater than ½% of Admitted Assets:

SA National became party to the Pooling Arrangement (defined in Note 26) effective January 1, 2010, and terminated its participation effective December 31, 2010, when it was sold to a third party. Rockhill, Plaza, American Compensation and Bloomington Compensation became party to the Pooling Arrangement effective January 1, 2011. Effective December 31, 2011, the Pooling Arrangement was amended, effectively changing the pooling participation percentages of certain participants and including in the State Auto Pool certain balance sheet accounts related to underwriting expenses. See Note 26 for additional disclosure.

C. Change in Terms of Intercompany Agreements:

SA National became party to the Pooling Arrangement (defined in Note 26) effective January 1, 2010, and terminated its participation effective December 31, 2010, when it was sold to a third party. Rockhill, Plaza, American Compensation and Bloomington Compensation became party to the Pooling Arrangement effective January 1, 2011. Effective December 31, 2011, the Pooling Arrangement was amended, effectively changing the pooling participation percentages of certain participants and including in the State Auto Pool certain balance sheet accounts related to underwriting expenses. See Note 26 for additional disclosure.

D. Amounts Due to or from Related Parties:

The terms of settlement require that these amounts settle within 60 days after the end of each calendar quarter:

| | Amount ($) | | | |
|---|---|---|---|---|
| | December 31, 2011 | | December 31, 2010 | |
| | Due To: | Due From: | Due To: | Due From: |
| State Auto Mutual | 16,172,028 | - | - | 4,413,215 |
| Stateco | 36,739 | - | 34,323 | - |

E. Guarantee or Contingencies for Related Parties: Not applicable.

F. Management, Service Contracts, Cost Sharing Agreements:

Through contractual agreements with affiliated companies within the State Auto Group, State Auto P&C provides employees, while State Auto Mutual provides data processing and certain other data equipment and facilities as needed.

During 2011 and 2010, the following management and/or cost sharing agreements were effective: 1) the "2005 Management and Operations Agreement" to which State Auto Mutual, State Auto P&C, Milbank, SA Ohio, Farmers, SA National, MIGI, Meridian Security, Meridian Citizens Mutual, SA Florida, Beacon National, Beacon Lloyds, Patrons Mutual, Litchfield, State Auto Financial, SA Software, Stateco, Beacon Lloyds Inc., and 518 Property Management and Leasing LLC are parties; 2) the "Midwest Management Agreement" to which State Auto Mutual, State Auto P&C, and SA Wisconsin are parties; 3) the "BroadStreet Capital Partners, Inc. Cost Sharing Agreement" to which State Auto Mutual, State Auto P&C, and BroadStreet Capital are parties; 4) State Auto Mutual, State Auto P&C, Meridian Security, Meridian Citizens Mutual, Farmers, and Milbank entered into an agreement with RTW, Inc., an affiliate for overall claims case management for the workers' compensation program; 5) State Auto Mutual along with affiliates Rockhill, Plaza, American Compensation, Bloomington Compensation, State Auto P&C, Meridian Security, Milbank and Farmers entered into an Underwriting Management Agreement with RED to act as underwriting manager to underwrite insurance and reinsurance coverages for the alternative risk and program market. Each of the foregoing management and/or cost sharing agreements apportions or apportioned among the parties the actual costs of the services provided. The "Midwest Management Agreement" also provides for a management fee based on a percentage of SA Wisconsin's direct written premiums for the services State Auto P&C provides. As of December 31, 2010, SA National ceased to be affiliated with the State Auto Group and was removed as a party to the "2005 Management and Operations Agreement".

Effective January 1, 2010, State Auto Mutual and State Auto P&C became parties to a management and cost sharing agreement with the following insurance companies: Rockhill, Plaza, American Compensation, Bloomington Compensation, as well as the following companies: RHC, National Environmental Coverage Corporation of the South, LLC, National Environmental Coverage Corporation, RTW, Inc., Rockhill Insurance Services, LLC, Rockhill Underwriting Management, LLC, and RED. Under this agreement, State Auto P&C provides services to supplement the services provided by the companies' own employees and State Auto Mutual provides facilities and equipment as a supplement to the companies' own facilities and equipment. RHC may provide certain services to State Auto Mutual and State Auto P&C. Effective January 1, 2011, this agreement was amended to state that substantially all employee services required by the companies will be provided by employees of State Auto P&C. The amended agreement deleted RED as a party.

Stateco, a wholly owned subsidiary of State Auto Financial, provided investment management services to the Company for a fee based on the average fair value of the investment portfolio of the Company.

G. Nature of Relationships that Could Affect Operations:

The Company is a member of the State Auto Group that is defined at Schedule Y – Information Concerning Activities of Insurer Members of a Holding Company Group. See Schedule Y Part 1 – Organizational Chart. The Company is a wholly owned subsidiary of State Auto Financial, a publicly traded holding company, domiciled in the state of Ohio. State Auto Mutual, an Ohio domiciled property and casualty mutual insurance company, owns approximately 62.6% of the common shares outstanding of State Auto Financial at December 31, 2011.

Effective December 31, 2010, State Auto Financial sold all outstanding shares of stock of its wholly owned subsidiary SA National to Hallmark Insurance Company.

H. Amount Deducted for Investment in Upstream Company: Not applicable

I. Detail of Investments in Affiliates Greater than 10% of Admitted Assets: Not applicable.

J. Write-down for Impairments of Investments in Subsidiary, Controlled or Affiliated Companies: Not applicable.

K. Investments in Foreign Insurance Subsidiary: Not applicable.

L. Investments in Downstream Noninsurance Holding Company: Not applicable.

**11. Debt:** Not applicable.

**12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans:**

All employees of the State Auto Group are employees of State Auto P&C, which holds assets and liabilities related to the employee benefit plans of the State Auto Group, and is the plan sponsor of the employee benefit plans.

A. Defined Benefit Plan:

State Auto P&C sponsors a defined benefit plan and a postretirement health care benefit plan. See Note 12(D).

B. Defined Contribution Plans:

State Auto P&C sponsors a defined contribution plan. See Note 12(D).

C. Multiemployer Plans: Not applicable.

D. Consolidated/Holding Company Plans:

State Auto P&C sponsors a defined benefit pension plan covering substantially all State Auto Group employees hired prior to January 1, 2010. Participants are eligible to receive pension benefits upon reaching age 65, or early retirement if certain age and length of service requirements are met prior to age 65. Benefits are determined by applying factors specified in the Plan to a participant's defined average annual compensation and are recognized when paid. The Company is charged for its allocable share of net periodic pension cost based on the Company's pooling percentage. Pension costs allocated to the Company were $51,768 in 2011. The Company has no legal obligation for benefits under this plan.

State Auto P&C sponsors a postretirement health care benefit plan covering substantially all State Auto Group employees hired prior to January 1, 2010, and their beneficiaries if they retire from the State Auto Group upon reaching an age at which each such employee is eligible to retire. On November 4, 2011, the postretirement benefit plan was amended to change eligibility requirements for participation of employees and certain retirees, which resulted in a curtailment on this date. The Company's portion of this curtailment gain was $96,128. The Company's share of health care plan expenses amounted to $65,877 and $50,599 in 2011 and 2010, respectively.

State Auto P&C maintains a defined contribution plan that covers substantially all of the State Auto Group's employees. State Auto P&C's matching contributions for Safe Harbor contributions are 100% of the first 1% of compensation and 50% of the contributions from 2% to 6%. In addition, State Auto P&C contributes a percentage of the employee's annual income for those employees hired on or after January 1, 2010, and for those employees hired prior to January 1, 2010 who chose to freeze their existing accrued pension benefit effective June 30, 2010. The Company's share of the expense under this plan was $59,982 and $41,463 for 2011 and 2010, respectively.

E. Postemployment Benefits and Compensated Absences:

The Company has no obligations for postemployment benefits. A liability for earned but unused vacation has been accrued.

F. Impact of Medicare Modernization Act on Postemployment Benefits (INT 04-17): Not applicable.

**13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations:**

A. Capital Stock Authorized, Issued and Outstanding as of the Balance Sheet Date:

The Company has 100,000 shares of $40 par value common stock authorized and 57,500 shares issued and outstanding. The Company has no preferred stock authorized, issued or outstanding.

B. Dividend Rate of Preferred Stock: Not applicable.

C. Dividend Restrictions:

Dividends on common stock are paid as declared by the Board of Directors of the Company. Under the insurance regulations of Ohio, the maximum amount of dividends that the Company may pay out of earned surplus to shareholders within a twelve month period without prior approval of the Department is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income for the twelve-month period ending the 31st day of December of the previous year-end. Accordingly, the maximum amount of dividends that the Company may pay to shareholders without prior approval of the Department in 2012 is $1,364,599.

D. Dates and Amounts of Dividends Paid: Not applicable.

E. Portion of the Company's Profits that may be paid as Ordinary Dividends to Stockholders:

Within the limitations of (C) above, there are no restrictions placed on the portion of Company profits that may be paid as ordinary dividends to shareholders.

F. Restrictions Placed on the Unassigned Funds, Including for Whom the Surplus is Being Held: Not applicable.

G. Mutual Surplus Advances: Not applicable.

H. Company Stock Held for Special Purposes: Not applicable.

I. Changes in Special Surplus Funds: Not applicable.

J. Changes in Unassigned Funds:

The portion of unassigned funds (surplus) represented by cumulative net unrealized gains is $816,651. This excludes any applicable deferred taxes.

K. Surplus Notes: Not applicable.

L. Impact of Restatement Due to Quasi Reorganizations: Not applicable.

M. Effective Date of Quasi Reorganizations: Not applicable.

**14. Contingencies:**

A. Contingent Commitments:

The Company has no commitments or contingent commitments to affiliates or other entities. The Company has made no guarantees on behalf of affiliates.

B. Guaranty Fund and Other Assessments:

The Company is subject to guaranty fund and other assessments by the states in which it writes business. Guaranty fund assessments should be accrued at the time of insolvencies. On a direct basis, the Company currently has no liability for guaranty fund assessments. This represents management's best estimate based on information received from the states in which the Company writes business and may change due to many factors, including the Company's share of the ultimate cost of current insolvencies.

C. Gain Contingencies: Not applicable.

D. Claims-Related Extra Contractual Obligation and Bad-Faith Losses Stemming from Lawsuits: Not applicable.

E. Product Warranties: Not applicable.

**14. Contingencies (continued):**

F. All Other Contingencies:

The Company is involved in litigation and may become involved in potential litigation arising in the ordinary course of business. Additionally, the Company may be impacted by adverse regulatory actions and adverse court decisions where insurance coverages are expanded beyond the scope originally contemplated in the policies. In the opinion of management, the effects, if any, of such litigation and published court decisions are not expected to be material to the financial statements.

**15. Leases:** Not applicable.

**16. Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk:** Not applicable.

**17. Sale, Transfer and Servicing of Financial Instruments and Extinguishments of Liabilities:**

A. Transfers of Receivables Reported as Sales: Not applicable.

B. Transfers and Servicing of Financial Assets: Not applicable.

C. Wash Sales: None.

**18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans**: Not applicable.

**19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators:** Not applicable.

**20. Fair Value Measurement:**

A. Inputs Used for Assets and Liabilities Measured at Fair Value:

The fair value of each equity security is provided by the Securities Valuation Office ("SVO"). All equity securities are recorded using unadjusted market prices provided by the SVO and have been disclosed in Level 1 in Item 1 below.

The Company utilizes information provided by the SVO to estimate fair value measurements for the majority of its fixed maturities. If market data is not provided by the SVO, fair value is determined by using data provided by a nationally recognized pricing service. See Item B below for fair value disclosures related to fixed maturities.

1. The Company has categorized its assets that are measured and reported at fair value into the three-level fair value hierarchy as reflected in the following table. The Company has no liabilities that are measured and reported at fair value. See Item 3 below for a discussion of the Company's transfer policy. See Item 4 below for a discussion of Level 2 and Level 3 assets.

| | Amount ($) | | | |
|---|---|---|---|---|
| | December 31, 2011 | | | |
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets, at fair value | | | | |
| Common stocks | | | | |
| Industrial and misc. | 2,365,500 | - | - | 2,365,500 |
| Total assets, at fair value | 2,365,500 | - | - | 2,365,500 |

| | Amount ($) | | | |
|---|---|---|---|---|
| | December 31, 2010 | | | |
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets, at fair value | | | | |
| Common stocks | | | | |
| Industrial and misc. | 2,892,250 | - | - | 2,892,250 |
| Total assets, at fair value | 2,892,250 | - | - | 2,892,250 |

2. The Company has no assets or liabilities measured at fair value in Level 3.
3. Transfers between level categorizations may occur due to changes in the availability of market observable inputs. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. There were no transfers between level categorizations during 2011 and 2010.
4. The Company has no assets or liabilities measured at fair value in Level 2 or Level 3.
5. The Company has no derivative assets or liabilities.

B. Other Fair Value Disclosures:

See Item A for a discussion on valuation techniques.

| | Amount ($) | | | |
|---|---|---|---|---|
| | December 31, 2011 | | December 31, 2010 | |
| **Description** | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Assets | | | | |
| Long-term bonds | | | | |
| U.S. governments | 8,812,069 | 9,384,592 | 10,073,166 | 10,415,672 |
| U.S. states, territories and possessions | 1,801,597 | 1,929,611 | 1,812,400 | 1,771,505 |
| U.S. political subdivisions of states, territories and possessions | 4,208,558 | 4,549,316 | 3,789,845 | 3,913,574 |
| U.S. special revenue and special assessment obligations | 4,489,812 | 4,785,798 | 8,703,309 | 8,942,005 |
| Industrial and misc. | 6,068,865 | 6,671,074 | 4,264,151 | 4,515,280 |
| Total long-term bonds | 25,380,901 | 27,320,391 | 28,642,871 | 29,558,036 |
| Short-term bonds | | | | |
| Industrial and misc. | 6,458,690 | 6,458,690 | 1,145,191 | 1,145,191 |
| Total short-term bonds | 6,458,690 | 6,458,690 | 1,145,191 | 1,145,191 |
| Total assets | 31,839,591 | 28,779,081 | 29,788,062 | 30,703,227 |

C. Reasons Not Practical to Estimate Fair Value: Not applicable.

**21. Other Items:**

A. Extraordinary Items: Not applicable.

B. Troubled Debt Restructuring: Not applicable.

**21. Other Items (continued):**

C. Other Disclosures:

The Company elected to use rounding in reporting amounts in this Annual Statement. The Company also set a tolerance for rounding errors at 10 for validation purposes.

Under the terms of the Pooling Arrangement, State Auto Mutual receives all premiums and pays all losses and expenses associated with the insurance business produced by the pool participants, and then settles the intercompany balances generated by these transactions with the participating companies on a quarterly basis within 60 days following each quarter end. When settling the intercompany balances, State Auto Mutual provides the pool participants with full credit for the premiums written and net losses paid during the quarter and retains all receivable amounts from insureds and agents and reinsurance recoverables on paid losses from unaffiliated reinsurers. Any receivable amounts that are ultimately deemed to be uncollectible are charged-off by State Auto Mutual and allocated to the pool member on the basis of pool participation. As a result, each pool participant has an off-balance sheet credit risk based on the participant's pooling percentage related to the balances due to State Auto Mutual, which is collateralized by the unearned premium from the respective policies. The Company had off-balance sheet credit risk of approximately $0 and $4,133,672 at December 31, 2011 and 2010, respectively, due to Pooling Arrangement changes as described in Note 26.

Assets in the amount of $246,805 and $239,201 at December 31, 2011 and 2010, respectively, were on deposit with government authorities or other regulatory bodies as required by law.

D. Uncollectible Premiums Receivable:

See related discussion at Note 21C.

E. Business Interruption Insurance Recoveries: Not applicable.

F. State Transferable Tax Credits: Not applicable.

G. Subprime Mortgage Related Risk Exposure:

1. The Company has reviewed and considered possible exposure to subprime mortgage related risk through (1) direct investments in subprime mortgage loans; (2) direct investments in securities with underlying subprime exposure, such as residential mortgage backed securities, commercial mortgage backed securities, collateralized debt obligations, structured securities, hedge funds, credit default swaps, and special investment vehicles; (3) equity investments in subsidiary, controlled or affiliated entities with significant subprime related risk exposure; or (4) underwriting risk on policies issued for Mortgage Guaranty or Financial Guaranty insurance coverage and determined that the Company does not have direct exposure to subprime mortgage related risk.
2. The Company does not have direct exposure through investments in subprime mortgage loans.
3. The Company does not have direct exposure through other investments.
4. The Company does not write Mortgage Guaranty or Financial Guaranty insurance coverage and, therefore, does not have underwriting exposure to subprime mortgage risk related to these.

**22. Events Subsequent:**

Subsequent events have been considered through February 24, 2012 for the statutory statement issued on February 24, 2012.

**23. Reinsurance:**

A. Unsecured Reinsurance Recoverable:

The following table provides a listing of unsecured reinsurance recoverables that exceed 3% of the Company's policyholders' surplus:

| NAIC Code | Federal ID# | Name of Reinsurer | Amount ($) |
|---|---|---|---|
| 25135 | 31-4316080 | State Auto Mutual | 68,023,033 |
| 22039 | 13-2673100 | General Reinsurance | 1,094,009 |
| 10227 | 13-4924125 | Munich Reins Amer Inc | 599,565 |
| | | Total | 69,716,607 |

B. Reinsurance Recoverable in Dispute: Not applicable.

C. Reinsurance Assumed and Ceded:

1. The following table summarizes assumed and ceded unearned premiums and the related commission equity at December 31, 2011, stated in dollars:

| | Amount ($) | | | | | |
|---|---|---|---|---|---|---|
| | Assumed | | Ceded | | Assumed Less Ceded | |
| | Unearned Premiums | Commission Equity | Unearned Premiums | Commission Equity | Unearned Premiums | Commission Equity |
| Affiliates | - | - | 30,651,988 | - | (30,651,988) | - |
| All other | - | - | 372,491 | 115,368 | (372,491) | (115,368) |
| Totals | - | - | 31,024,479 | 115,368 | (31,024,479) | (115,368) |
| Direct Unearned Premium Reserve: 31,024,479 | | | | | | |

2. The additional or return commission, predicated on loss experience or on any other form of profit sharing arrangements in this annual statement as a result of existing contractual arrangements: Not applicable.
3. Protected Cells: Not applicable.

D. Uncollectible Reinsurance: Not applicable.

E. Commutation of Ceded Reinsurance: Not applicable.

F. Retroactive Reinsurance: Not applicable.

G. Reinsurance Accounted for as a Deposit: Not applicable.

H. Run-off Agreements: Not applicable.

**24. Retrospectively Rated Contracts and Contracts Subject to Redetermination:** Not applicable.

**25. Changes in Incurred Losses and Loss Adjustment Expenses:**

| Per Schedule P Part 1 -Summary | Amount ($) All Accident Years | 2011 Accident Year | Prior Accident Years |
|---|---|---|---|
| Loss & LAE reserves at 12/31/10 | 10,756,655 | - | 10,756,655 |
| Impact of Pooling Change 1/1/11 | 1,557,109 | - | 1,557,109 |
| Loss & LAE incurred in 2011 | 14,721,465 | 15,124,847 | (403,382) |
| Loss & LAE paid in 2011 | 13,517,990 | 9,010,837 | 4,507,153 |
| Impact of Pooling Change 12/31/11 | (13,517,239) | (6,114,010) | (7,403,229) |
| Loss & LAE reserves at 12/31/11 | - | - | - |

Incurred losses and loss adjustment expenses attributable to prior accident years decreased approximately $403.4 thousand during 2011. This decrease is the result of subsequent reserve review using more mature claim data. Favorable development of loss adjustment expense contributed roughly 23% of the total. Remaining favorable development is attributable primarily to the Homeowners, Commercial Multi-Peril and Fire/Allied lines of business, driven by emergence of lower than anticipated claim severity, largely from accident year 2010 and, to a lesser extent, the past five accident years in the Commercial Multi-Peril line. Somewhat offsetting the favorable development in those lines was adverse development in the Commercial Auto Liability line, driven by an increase in large losses, and the Workers Compensation line, driven by reserve increases on certain life time disability claims.

**26. Intercompany Pooling Arrangements:**

The Company participates in a quota share reinsurance pooling arrangement with the following affiliated companies (the “Pooling Arrangement”):

| Pool Participant (the “State Auto Pool”) | NAIC Co. Code | Pooling Participation Percentages 2010 | Effective 1/1/11 | Effective 12/31/11 |
|---|---|---|---|---|
| State Auto Mutual – lead reinsurer | 25135 | 19.0% | 19.0% | 34.0% |
| State Auto P&C | 25127 | 59.0% | 59.0% | 51.0% |
| Milbank | 41653 | 17.0% | 17.0% | 14.0% |
| SA Wisconsin | 31755 | 0.0% | 0.0% | 0.0% |
| Farmers | 13811 | 3.0% | 3.0% | 0.0% |
| SA Ohio | 11017 | 1.0% | 1.0% | 0.0% |
| SA Florida | 11502 | 0.0% | 0.0% | 0.0% |
| Meridian Security | 23353 | 0.0% | 0.0% | 0.0% |
| Meridian Citizens Mutual | 10502 | 0.5% | 0.5% | 0.5% |
| Beacon National | 20028 | 0.0% | 0.0% | 0.0% |
| Patrons Mutual | 14923 | 0.4% | 0.4% | 0.4% |
| Litchfield | 32085 | 0.1% | 0.1% | 0.1% |
| SA National | 19530 | 0.0% | N/A | N/A |
| Rockhill | 28053 | N/A | 0.0% | 0.0% |
| Plaza | 30945 | N/A | 0.0% | 0.0% |
| American Compensation | 45934 | N/A | 0.0% | 0.0% |
| Bloomington Compensation | 12311 | N/A | 0.0% | 0.0% |

Under the terms of the arrangement, the participants cede to State Auto Mutual all of their insurance business, net of assumed and ceded reinsurance, and assume from State Auto Mutual an amount equal to their respective participation percentages outlined in the Pooling Arrangement. All business written by each pool participant, except for State Auto Mutual’s unaffiliated voluntary assumed reinsurance program with policies effective prior to January 1, 2009, is subject to the Pooling Arrangement. All premiums, losses, loss adjustment expenses and underwriting expenses are allocated among the participants on the basis of each company’s respective participation percentage outlined in the Pooling Arrangement. The Pooling Arrangement provides indemnification against loss or liability relating to insurance risk and has been accounted for as reinsurance.

Effective January 1, 2010, the Pooling Arrangement was amended, effectively adding SA National to the Pooling Arrangement as a zero percentage participant and including unaffiliated voluntary assumed reinsurance programs for policies effective January 1, 2009 and thereafter. In conjunction with the January 1, 2010 amendment, the Company received cash, net of a ceding commission, of $286,014, which relates to the net insurance liabilities assumed by the Company as shown in the table below.

| | Amount ($) January 1, 2010 |
|---|---|
| Loss and loss adjustment expense reserves | 202,395 |
| Unearned premium | 113,309 |
| Total net liabilities received | 315,704 |
| Ceding commission paid | (29,690) |
| Net cash received | 286,014 |

On December 31, 2010, concurrent with the sale of SA National, SA National’s participation in the Pooling Arrangement was terminated, and State Auto P&C entered into a 100% quota share and loss portfolio transfer reinsurance agreement (“LPT”) with SA National on December 31, 2010 to assume liability for the pre and post closing book of business of SA National until all policies were renewed by SA National on third party systems. This assumed business by State Auto P&C is subject to the Pooling Arrangement. The table below shows the net insurance liabilities assumed by the Company as a result of these transactions after pooling.

| | Amount ($) Pooling Arrangement | Quota Share & LPT | Net |
|---|---|---|---|
| Loss and loss adjustment expense reserves | (170,723) | - | (170,723) |
| Unearned premiums | (96,473) | 96,473 | - |
| LPT reinsurance reserves | - | 170,723 | 170,723 |
| Total net liabilities (transferred) received | (267,196) | 267,196 | - |

Effective January 1, 2011, the Pooling Arrangement was amended, effectively adding Rockhill, Plaza, American Compensation and Bloomington Compensation to the Pooling Arrangement as zero percentage participants. In conjunction with the January 1, 2011 amendment, the Company received cash, net of a ceding commission, of $1,872,819, which relates to the net insurance assets and liabilities received by the Company as shown in the table below.

| | Amount ($) January 1, 2011 |
|---|---|
| Loss and loss adjustment expense reserves | 1,557,109 |
| Unearned premiums | 427,599 |
| Earned but unbilled reserve | (1,790) |
| Miscellaneous assets and liabilities | (5,820) |
| Total net liabilities received | 1,977,098 |
| Ceding commission paid | (104,279) |
| Net cash received | 1,872,819 |

**26. Intercompany Pooling Arrangements (continued):**

Effective December 31, 2011, the Pooling Arrangement was amended, effectively changing the pooling participation percentages of certain participants and including in the State Auto Pool certain balance sheet accounts related to underwriting expenses. In conjunction with the December 31, 2011 amendment, the Company will make a cash payment, net of a ceding commission, of $20,570,265, which relates to the net insurance assets and liabilities transferred by the Company. The table below shows the balance sheet effect to the Company.

| | Amount ($) | | |
|---|---|---|---|
| | Cash ($) | Net Insurance Liabilities | Surplus |
| | December 31, 2011 | December 31, 2011 | December 31, 2011 |
| Loss and loss adjustment expense reserves | (13,517,239) | (13,517,239) | - |
| Unearned premiums | (7,113,177) | (7,113,177) | - |
| Earned but unbilled reserve | (6,999) | (6,999) | - |
| Miscellaneous assets and liabilities | (1,749,557) | (1,749,557) | - |
| Net change | (22,386,971) | (22,386,971) | - |
| Ceding commission | 1,816,706 | - | 1,816,706 |
| Net change, including ceding commission | (20,570,265) | (22,386,971) | 1,816,706 |

Per SSAP No. 62 – *Property and Casualty Reinsurance*, ceded reinsurance written premiums payable may be deducted from amounts due from the reinsurer when a legal right of offset exists. As the Pooling Arrangement provides for the right of offset, the Company has netted within the Statement of Assets and Liabilities the amount due to State Auto Mutual under ceded reinsurance written premiums payable with the amount due from State Auto Mutual on assumed reinsurance written premiums receivable for transactions under the Pooling Arrangement. The following tabular presentation reflects the ceded reinsurance written premiums payable and assumed reinsurance written premiums receivable at December 31, 2011, between each State Auto Pool participant and State Auto Mutual resulting in the net amount due to or due from State Auto Mutual:

| | Amount ($) | | |
|---|---|---|---|
| | Assumed Reinsurance Written Premiums Receivable from State Auto Mutual | Ceded Reinsurance Written Premiums Payable to State Auto Mutual | Net Assumed Reinsurance Written Premiums Receivable/(Net Ceded Reinsurance Written Premiums Payable) |
| State Auto P&C | 185,969,639 | 145,691,482 | 40,278,157 |
| Milbank | 53,584,472 | 19,341,523 | 34,242,949 |
| SA Wisconsin | - | 8,504,289 | (8,504,289) |
| Farmers | 9,456,084 | 3,405,819 | 6,050,265 |
| SA Ohio | 3,152,028 | 16,914,493 | (13,762,465) |
| SA Florida | - | 43,238 | (43,238) |
| Meridian Security | - | 44,555,316 | (44,555,316) |
| Meridian Citizens Mutual | 1,576,014 | 9,986,449 | (8,410,435) |
| Beacon National | - | 1,976,209 | (1,976,209) |
| Patrons Mutual | 1,260,811 | 14,723,303 | (13,462,492) |
| Litchfield | 315,203 | 657,289 | (342,086) |
| Rockhill | - | 18,233,653 | (18,233,653) |
| Plaza | - | 11,795,393 | (11,795,393) |
| American Compensation | - | 8,271,992 | (8,271,992) |
| Bloomington Compensation | - | 367,382 | (367,382) |

The following tabular presentation reflects the reinsurance receivable and payable on loss and loss adjustment expense paid at December 31, 2011, between each State Auto Pool participant and State Auto Mutual:

| | Amount ($) | |
|---|---|---|
| | Assumed Reinsurance Loss and Loss Adjustment Expense Paid from State Auto Mutual | Ceded Reinsurance Loss and Loss Adjustment Expense Paid to State Auto Mutual |
| State Auto P&C | 166,364,860 | 108,114,981 |
| Milbank | 47,935,638 | 13,174,412 |
| SA Wisconsin | - | 5,253,645 |
| Farmers | 8,459,230 | 2,678,888 |
| SA Ohio | 2,819,743 | 11,643,597 |
| SA Florida | - | 800,572 |
| Meridian Security | - | 31,721,105 |
| Meridian Citizens Mutual | 1,409,872 | 6,149,946 |
| Beacon National | - | 2,136,895 |
| Patrons Mutual | 1,127,897 | 11,558,041 |
| Litchfield | 281,974 | 660,386 |
| Rockhill | - | 2,814,840 |
| Plaza | - | 3,082,828 |
| American Compensation | - | 6,087,622 |
| Bloomington Compensation | - | 1,609,300 |

The following tabular presentation reflects all other intercompany amounts due from and due to State Auto Mutual from entities participating in the Pooling Arrangement at December 31, 2011:

| | Amount ($) | |
|---|---|---|
| | Intercompany Amounts Due from State Auto Mutual | Intercompany Amounts Due to State Auto Mutual |
| State Auto P&C | - | 193,202,619 |
| Milbank | - | 64,424,033 |
| SA Wisconsin | 3,010,842 | - |
| Farmers | - | 59,878,400 |
| SA Ohio | - | 16,172,028 |
| SA Florida | - | 698,564 |
| Meridian Security | 9,665,106 | - |
| Meridian Citizens Mutual | 3,100,052 | - |
| Beacon National | - | 1,387,752 |
| Patrons Mutual | 1,323,880 | - |
| Litchfield | 233,140 | - |
| Rockhill | 2,309,856 | - |
| Plaza | 3,121,545 | - |
| American Compensation | 1,218,560 | - |
| Bloomington Compensation | 277,178 | - |

Additionally, SA Wisconsin owes State Auto P&C $65,549, Patrons Mutual owes Litchfield $527,321, State Auto P&C owes Meridian Citizens Mutual $60, Meridian Security owes Meridian Citizens Mutual $470, Rockhill owes Plaza $65,189, American Compensation owes Plaza $527,720, American Compensation owes Bloomington Compensation $210,206, and Bloomington Compensation owes Plaza $712.

**27. Structured Settlements:** Not applicable.

**28. Health Care Receivables:** Not applicable.

**29. Participating Policies**: Not applicable.

**30. Premium Deficiency Reserves:**

The Company has not recorded a liability related to premium deficiency reserves. The evaluation was completed as of December 31, 2011. The Company considered anticipated investment income when calculating this liability.

**31. High Deductibles:** Not applicable.

**32. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses:** Not applicable.

**33. Asbestos/Environmental Reserves:**

A. Does the Company have on the books, or has it ever written an insured for which you have identified a potential for the existence of, a liability due to asbestos losses? Yes.

The Company's exposure to asbestos losses arises from the sale of general liability insurance. The Company tries to estimate the full impact of the asbestos exposure by establishing full case basis reserves on all known losses and estimating incurred but not reported losses based on previous experience. As a result of the Company's participation in the Pooling Agreement (see Note 26), the Company cedes all insurance business to State Auto Mutual and assumes 0% from the pool participants. This results in the balance sheet and income statement reflecting no direct, assumed, or ceded reserves, incurred losses and loss adjustment expenses, or payments.

B. State the amount of the ending reserves for Bulk + IBNR included in A (Loss & LAE): None

C. State the amount of the ending reserves for loss adjustment expenses included in A (Case, Bulk + IBNR): None

D. Does the Company have on the books, or has it ever written an insured for which you have identified a potential for the existence of, a liability due to environmental losses? Yes. See Note 33(A) for explanation of direct, assumed, and ceded amounts.

E. State the amount of the ending reserves for Bulk + IBNR included in D (Loss & LAE): None

F. State the amount of the ending reserves for loss adjustment expenses included in D (Case, Bulk + IBNR): None

**34. Subscriber Savings Accounts:** Not applicable.

**35. Multiple Peril Crop Insurance:** Not applicable.

**36. Financial Guaranty Insurance:** Not applicable.