

EXAMINATION REPORT OF
STATE AUTO PROPERTY & CASUALTY INSURANCE COMPANY
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2018

West Des Moines, Iowa
February 25, 2020

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

STATE AUTO PROPERTY & CASUALTY INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 1300 Woodland Avenue, West Des Moines, Iowa. The report of such examination, containing applicable comments, explanations and financial data, is presented herein.

INTRODUCTION

State Auto Property & Casualty Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2013 by the Iowa Department of Insurance. The examination reported herein was conducted by the Iowa Insurance Division. In conjunction with this examination, the Ohio Insurance Department conducted an examination of the Company's ultimate parent, State Automobile Mutual Insurance Company. The Company is a participant in a pooling arrangement with the Parent and various members of the State Auto Group. As a result, reliance has been placed on the Ohio Insurance Department's examination of the pooling balances.

SCOPE OF THE EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2014 to the close of business on December 31, 2018, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial

statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was organized on January 25, 1950 under the laws of South Carolina as the Dixie Fire and Casualty Company. It was licensed and commenced business on April 1, 1950. State Automobile Mutual Insurance Company (SAM) acquired the Company in 1958. The Company merged with an affiliated company, The Southern Home Insurance Company on December 31, 1963. The surviving company simultaneously changed its name to The Southern Home Insurance Company. The Company adopted its current name on January 1, 1988. The Company redomesticated to the State of Iowa with an effective date of November 14, 2006. Farmers Casualty Insurance Company merged into State Auto Property & Casualty Insurance Company on December 31, 2012.

On May 16, 1991, SAM re-activated a stock company, State Auto Financial Corporation (STFC) as a downstream holding company. All of the outstanding stock of the Company, as well as the stock of certain other subsidiaries of the parent, were contributed to STFC, as part of its initial capitalization. SAM offered 34% of the stock of STFC in an initial public offering and retained the remaining 66%. Currently, approximately 60% of STFC's outstanding shares are owned by SAM.

CAPITAL STOCK

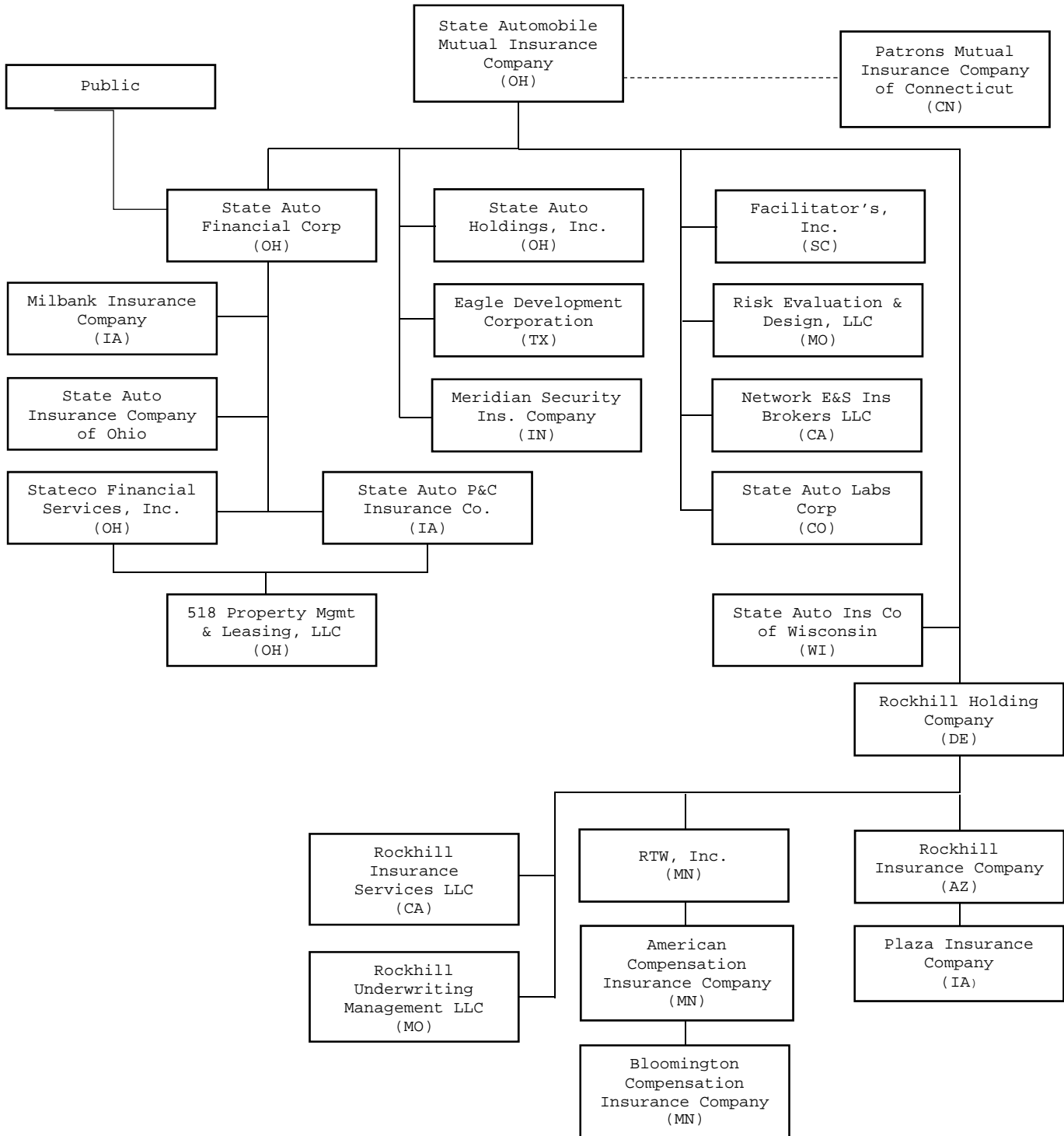
The Company has 550,000 shares of \$20 par value common stock authorized and 253,860 shares issued and outstanding. The Company has no preferred stock authorized, issued or outstanding.

Dividends on common stock are paid as declared by the Board of Directors of the Company. On January 3, 2014, the Board of Directors of the Company declared a \$19,000,000 ordinary stockholders dividend to be paid to State Auto Financial. This dividend was paid in cash on January 30, 2014. On March 6, 2015, the Board of Directors of the Company declared a \$15,000,000 ordinary stockholders dividend to be paid to State Auto Financial. This dividend was paid in cash on April 3, 2015. On March 4, 2016, the Board of Directors of the Company declared a \$10,000,000 ordinary stockholders dividend to be paid to State Auto Financial. This dividend was paid in cash on April 1, 2016. On March 3, 2017, the Board of Directors of the Company declared a \$15,000,000 ordinary stockholders dividend to be paid to State Auto Financial. This dividend was paid in cash on March, 24, 2017. On March 2, 2018, the Board of Directors of the Company declared a \$10,000,000 ordinary stockholders dividend to be paid to State Auto Financial. This dividend was paid in cash on March 27, 2018.

In accordance with Iowa Code section 521A.5(3), 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 Division 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 dividend payout to shareholders that may be made without prior approval of the Division in 2019 is \$69,615,439.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. For each year during the examination period, and in accordance with statutory requirements, the Company filed holding company statements with the Iowa Insurance Division. The ultimate controlling person is State Automobile Mutual Insurance Company, an Ohio domiciled insurer. The following displays the chain of ownership of the insurance companies within the holding company organization as of December 31, 2018:



MANAGEMENT AND CONTROL

STOCKHOLDERS

The annual meeting of shareholders for the election of directors and the transaction of such other business as may be brought before the meeting shall be held within a period of six months after the close of each fiscal year of the corporation, on such day in such period as shall be designated by the Board of Directors, and at such time and at such place in or out of the State of Iowa as shall be fixed in the notice of the meeting. Special meetings of the shareholders may be held at any time and at any place in or out of the State of Iowa upon call by the President or Secretary or by a majority of the members of the Board of Directors acting with or without a meeting.

BOARD OF DIRECTORS

The Bylaws provide that the business and affairs of the Company shall be managed by a Board of Directors. The number of directors which shall constitute the whole Board shall not be less than five nor more than 21, the exact number to be specified from time to time by the Bylaws or by resolution of the Board of Directors or by the shareholders at their annual meeting. Directors shall be elected for a one-year term.

The elected and qualified individuals serving as directors at December 31, 2018 are as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Robert E. Baker Mableton, GA	Executive Vice President DHR International	2019
Thomas E. Markert New York, NY	CEO ORC International	2019
Kym M. Hubbard Chicago, IL	Retired Chief Investment Officer Ernst & Young, LLC	2019
David R. Meuse Lancaster, OH	Principal Stonehenge Financial Holdings, Inc	2020
S. Elaine Roberts Columbus, OH	President and Chief Executive Officer John Glenn Columbus International Airport	2020
Setareh Pouraghabagher San Luis Obispo, CA	Faculty and Financial Consultant California Polytechnic State University	2020
Michael J. Fiorile Columbus, Ohio	President and CEO Dispatch Printing Company	2021
Eileen A. Mallesch Gahanna, OH	Retired Chief Financial Officer Nationwide Property & Casualty Insurance Company	2021
Michael E. LaRocco Columbus, OH	President and Chief Executive Officer State Automobile Mutual Insurance Company	2021

All directors fees are paid by the ultimate parent with an amount allocated to the Company in accordance with a management agreement.

COMMITTEES

The following committees were appointed by the Board of Directors and serving as of December 31, 2018:

Investment Committee
David R. Meuse, Chair
Michael E. LaRocca
Kym M. Hubbard

Audit Committee
Eileen A. Mallesch, Chair
Robert E. Baker
David R. Meuse
Kym M. Hubbard
Setareh Pouraghabagher

Independent Committee
Thomas Markert, Chair
Kym M. Hubbard
Eileen A. Mallesch
Setareh Pouraghabagher
Elaine Roberts
David R. Meuse

OFFICERS

The Bylaws provide that the officers of the corporation shall consist of a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers and assistant officers as shall be elected by the Board of Directors. Any person may hold two or more offices at the same time, subject to approval of the Board of Directors, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity if such instrument is required by law to be executed, acknowledged, or verified by two or more officers.

Duly elected officers serving as of December 31, 2018 were as follows:

<u>Name</u>	<u>Title</u>
Michael E. LaRocco	Chairman, President and CEO
Jason E. Berkey	Senior Vice President, Personal Lines
Melissa A. Centers	Senior Vice President, Secretary, General Counsel
Steve E. English	Senior Vice President, Chief Financial Officer
Kim B. Garland	Senior Vice President, Commercial Lines
Scott A. Jones	Vice President, Chief Investment Officer
Matthew S. Mrozek	Vice President, Chief Actuarial Officer
Matthew R. Pollak	Vice President, Treasurer, Chief Accounting Officer
John M. Petrucci	Senior Vice President, Customer Service
Elise d. Spriggs	Senior Vice President, Associate & External Relations
Paul M. Stachura	Senior Vice President, Chief CARE Officer
Gregory A. Tacchetti	Senior Vice President, Chief Information & Strategy

The salaries of these officers are shown in Exhibit A to be found immediately following the signature page of this report.

CONFLICT OF INTEREST

The Company has an established procedure for the annual disclosure to its Board of Directors of any material interest, or affiliation on the part of its officers, directors or key employees, which is in, or is likely to, conflict with the official duties of such person. While conflicts were disclosed on the signed conflict of interest statements, none were identified that would materially impact the Company.

CORPORATE RECORDS

There were no amendments to the Articles of Incorporation and By-Laws during the examination period.

The recorded minutes of the stockholders and Board of Directors were read and noted. The minutes appeared to be complete and were properly attested.

RELATED PARTY AGREEMENTS

Management Agreement

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

During 2018 and 2017, the following management and/or cost sharing agreements were effective:

- 1) "2015 Management and Operations Agreement" to which State Auto Mutual, State Auto Property & Casualty Insurance Company Milbank, SA Ohio, Meridian Security, Patrons Mutual, State Auto Financial, Stateco, 518 Property Management and Leasing LLC, State Auto Holdings, Facilitators, Network, and SA Labs are parties;
- 2) "Midwest Management Agreement" to which SAM, State Auto Property & Casualty Insurance Company, and State Auto Insurance Company of Wisconsin are parties;
- 3) "RTW Consulting Services Agreement" to which SAM, State Auto Property & Casualty Insurance Company, Meridian Security Insurance Company, and Milbank Insurance Company entered into an agreement with RTW, Inc. an affiliate for overall claims case management for the workers' compensation program;
- 4) "Rockhill Management & Operations Agreement" to which SAM, State Auto Property & Casualty Insurance Company, Rockhill Insurance Company, Plaza Insurance Company, American Compensation Insurance Company, Bloomington Compensation Insurance Company, Rockhill Holding company, National Environmental Coverage Corporation, RTW, Inc., Rockhill Insurance Services, LLC., and Rockhill Underwriting Management, LLC. are parties;
- 5) "Rockhill-RUM Administrative Services Agreement" to which Rockhill Insurance Company and Rockhill Underwriting Management, LLC are parties;
- 6) "Rockhill-RIS Surplus Lines Broker Agreement" to which Rockhill Insurance Company and Rockhill Insurance Services, LLC are parties;
- 7) "Rockhill Cost Sharing Agreement" to which Rockhill Insurance Company, Rockhill Holding Company, and Rockhill Underwriting Management, LLC are parties;
- 8) "Rockhill-ACI Intercompany Management Agreement" to which American Compensation Insurance Company and RTW, Inc. are parties;
- 9) "Rockhill-BCI Intercompany Management Agreement" to which Bloomington Compensation Insurance Company and RTW, Inc. are parties;
- 10) "RUM Administrative Services Agreement" to which SAM and Rockhill Underwriting Management, LLC are parties;
- 11) "Stateco Investment Management Agreement" to which Stateco, a wholly owned subsidiary of STFC, provides investment management services to the Company for a fee based on the average fair value of the investment portfolio of the Company;
- 12) "RUM-ACI Intercompany Management Agreement" to which Rockhill Underwriting Management, LLC and American Compensation Insurance Company are parties;
- 13) "RUM Underwriting Services Agreement" to which Rockhill Underwriting Management, LLC

and Plaza Insurance Company are parties;

14) "RTM Management Services Agreement" to which RTW, Inc. and Plaza Insurance Company are parties;

Each of the foregoing management and/or cost sharing agreements apportion or apportioned among the parties the actual cost of the services provided. With the exception of the "2015 Management & Operations Agreement", the "RTW Consulting Services Agreement", the "Rockhill Management & Operations Agreement", the "Rockhill Cost Sharing Agreement", the "RTW Administrative Services Agreement", the "RTW-ACI Intercompany Management Agreement", and the "RTW-BCI Intercompany Management", which provide for a management fee for services provided.

Federal Income Tax Allocation Agreement

The Company is party to a Tax Allocation Agreement with its parent, STFC and other named affiliates. The agreement provides for the allocation of federal income taxes based upon the taxes that each company would have paid if separate returns were filed.

Investment Agreement

The Company has an Investment Agreement with its affiliate, Stateco Financial Services, Inc. (Stateco) whereby Stateco has been designated as the investment manager. The agreement grants the investment manager the ability to select investments to purchase, allocate funds between tax free and taxable securities, and to make decisions with respect to the sale of investments and the timing of such sales. Expenses for these services are disclosed in a fee schedule contained in the agreement.

FIDELITY BONDS AND OTHER INSURANCE

SAM and its subsidiaries, including the Company, are protected by a fidelity bond with a coverage limit of \$5,000,000.

Other insurable interests of the Company were protected by policies or insurance in force at December 31, 2018.

EMPLOYEES' WELFARE

All personnel services are provided by employees of the Company through the Management Agreement. Employees receive group insurance coverage such as medical, life, and accidental death and dismemberment. In addition, retirement coverage is available through a pension plan, capital accumulation plan, and an employee stock purchase plan.

REINSURANCE

The Company participates in an intercompany quota share reinsurance pooling agreement with SAM and its subsidiaries and affiliates. Under the arrangement SAM assumes net premiums, losses, and expenses from each of the pooled companies and then cedes a portion of premiums, losses, and expenses to the pooled companies in specific percentages, with SAM retaining the balance of the pooled business. Below is a table listing the pooling percentages as of December 31, 2018:

<u>Name of Company</u>	<u>State of Domicile</u>	<u>Pool %</u>
State Automobile Mutual Insurance Company	Ohio	34.5%
State Auto Property & Casualty Insurance Company	Iowa	51.0%

<u>Name of Company</u>	<u>State of Domicile</u>	<u>Pool %</u>
Milbank Insurance Company	Iowa	14.0%
State Auto Ins. Company of WI	Wisconsin	0.0%
State Auto Ins Co. of OH	Ohio	0.0%
Meridian Security Ins. Co	Indiana	0.0%
Patrons Mutual Ins. Company	Connecticut	0.5%
Rockhill Ins. Company	Missouri	0.0%
Plaza Ins. Company	Iowa	0.0%
American Compensation Ins. Co.	Minnesota	0.0%
Bloomington Compensation Ins Co	Minnesota	0.0%

Assumed Reinsurance

The State Auto Group also participates in state insurance pools and associations. In general, these pools and associations are state sponsored and/or operated, impose mandatory participation by insurers doing business in that state, and offer coverage for hard to place risks at premium rates established by the state sponsor or operator, thereby transferring risk of loss to the participating insurers in exchange for premiums which may not be commensurate with the risk assumed. The Company assumes an insignificant amount of reinsurance from mandatory pools.

In 2017, the Company entered into a quota share reinsurance agreement with Home State County Mutual Insurance Company for the purpose of underwriting private passenger automobile insurance in the state of Texas. In accordance with the quota share agreement with Home State Mutual, State Auto underwrites Texas PPA business on Home State paper and State Auto assumes 100% of the premiums, losses, and commissions from Home State. State Auto pays Home State a fronting fee and a ceding commission for associated commission. Balances are ceded to SAM and included with other balances pooled.

Ceded Reinsurance

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

Homeowners Quota Share State

SAM entered into a 75% quota share reinsurance agreement with three reinsurers for the pooled homeowners business, effective December 31, 2011 and terminated on December 31, 2014. The quota share agreement was intended to deleverage the ratio of premiums written to surplus as well as to provide additional downside protection for homeowners catastrophe losses. Certain material adverse change clauses were incorporated into the agreement to ensure that the State Auto Group is implementing the necessary steps in order to become profitable in its homeowners line of business. There is also a cap on profitability to ensure that the reinsurers do not benefit excessively from the agreement.

Other Reinsurance Arrangements

Each member of the State Auto Group is party to working reinsurance treaties for casualty, workers' compensation and property lines with several reinsurers arranged through reinsurance intermediaries. These agreements are described in more detail below. The State Auto Group has also secured other reinsurance to limit the net cost of large loss events for certain types of coverage. The State Auto Group also makes use of

facultative reinsurance for unique risk situations. The State Auto Group also participates in state insurance pools and associations. In general, these pools and associations are state sponsored and/or operated, impose mandatory participation by insurers doing business in that state, and offer coverage for hard-to-place risks at premium rates established by the state sponsor or operator, thereby transferring risk of loss to the participating insurers in exchange for premiums which may not be commensurate with the risk assumed.

Property Catastrophe

Members of the State Auto Group maintain a property catastrophe excess of loss reinsurance agreement, covering property catastrophe related events affecting at least two risks. This property catastrophe reinsurance agreement renewed as of July 1, 2018. Under this reinsurance agreement, the Group retains the first \$75.0 million of catastrophe loss, each occurrence, with a 5.0% co-participation on the next \$125.0 million of covered loss, each occurrence. The reinsurers are responsible for 95.0% of the catastrophe losses excess of \$75.0 million up to \$200.0 million, each occurrence. The State Auto Group is responsible for catastrophe losses above \$200.0 million.

Property Per Risk

As of July 1, 2018, the State Auto Group renewed the property per risk excess of loss reinsurance agreement. This reinsurance agreement provides individual property risk coverage for the State Auto Group for losses exceeding \$4.0 million. Claims arising from named storms and earthquake for Excess & Surplus property (currently in runoff) are excluded from this treaty. The reinsurers are responsible for 100.0% of the loss excess of the \$4.0 million retention for property business up to \$20.0 million of covered loss.

Casualty and Workers' Compensation

As of July 1, 2018, the State Auto Group renewed the casualty excess of loss reinsurance agreement. Under this reinsurance agreement, the State Auto Group is responsible for the first \$3.0 million of losses that involve workers' compensation, auto liability, other liability and umbrella liability policies. This reinsurance agreement provides coverage up to \$10.0 million, except for commercial umbrella policies, which are covered for limits up to \$15.0 million. Excess & Surplus casualty and programs risks are not subject to this casualty excess of loss reinsurance agreement.

Also, certain unusual claim situations involving extra contractual obligations, excess of policy limits, LAE coverage and multiple policy or coverage loss occurrences arising from bodily injury liability, property damage, uninsured motorist and personal injury protection are covered by a Clash reinsurance agreement that provides for \$30.0 million of coverage in excess of \$10.0 million retention for each loss occurrence. This Clash reinsurance coverage sits above the \$7.0 million excess of \$3.0 million arrangement. Policies underwritten by the Excess & Surplus casualty and programs units are not subject to this casualty excess of loss reinsurance agreement.

In addition, each company in the State Auto Group is party to a workers' compensation catastrophe insurance agreement that provides additional reinsurance coverage for workers' compensation losses involving multiple workers. Subject to \$10.0 million of retention, reinsurers are responsible for 100.0% of the excess over \$10.0 million up to \$30.0 million of covered loss. For loss amounts over \$30.0 million, the casualty excess of loss reinsurance agreement provides \$20.0 million coverage in excess of \$30.0 million. Workers' compensation catastrophe coverage is subject to a "Maximum Any One Life" limitation of \$10.0 million. This limitation means that losses associated with each worker may contribute no more than \$10.0 million to covered loss under these agreements. As of July 1, 2018, the State Auto Group terminated its reinsurance coverage

for Excess & Surplus casualty and program casualty risks on a run-off basis, meaning treaty coverage remains in place only for those Excess & Surplus casualty and program casualty policies with effective dates prior to July 1, 2018, until the expiration of these policies.

The State Auto Group also utilized ceded reinsurance as part of an exit strategy involving their Oil & Gas business. This product line, which was previously written through Plaza Insurance Company ("Plaza") was discontinued in 2017 and, as part of an exit strategy, State Auto agreed to provide a temporary "fronting facility" for the buyer for a limited period of time. This accounts for a cession of \$54 million in premiums by Plaza in 2018.

STATUTORY DEPOSIT

The statement value of securities held in a custodial account and vested in the Insurance Commissioner of Iowa for the benefit of all policyholders totaled \$2,800,931. The statement value of securities held in a custodial account and vested in the Insurance Commissioner of Ohio for the benefit of all policyholders totaled \$80,057. Various other special deposits totaling \$1,947,714 are held in custodial accounts for other states, of which \$853,263 are held for the protection of all policyholders of the Company.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in the states:

Alabama	Illinois	Missouri	Rhode Island
Alaska	Indiana	Montana	South Carolina
Arizona	Iowa	Nebraska	South Dakota
Arkansas	Kansas	Nevada	Tennessee
Colorado	Kentucky	New Jersey	Texas
Connecticut	Louisiana	New York	Utah
Delaware	Maine	North Carolina	Vermont
Dist. Columbia	Maryland	North Dakota	Virginia
Florida	Massachusetts	Ohio	West Virginia
Georgia	Michigan	Oklahoma	Wisconsin
Hawaii	Minnesota	Oregon	Wyoming
Idaho	Mississippi	Pennsylvania	

The Company offers personal and commercial automobile and homeowners, workers' compensation, fire & allied, commercial multi-peril, inland marine, earthquake, other & products liability, fidelity and boiler & machinery. The State Auto companies market their insurance products through approximately 3,000 retail agencies in 33 states.

GROWTH OF COMPANY

The following is historical financial data, as taken from the Company's annual statements for the years indicated:

<u>Year</u>	<u>Admitted Assets</u>	<u>Policyholders Surplus</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income Earned</u>
2014	2,291,463,865	628,895,417	842,757,686	487,575,555	51,199,690
2015	2,355,609,984	655,349,787	996,834,519	554,249,880	51,214,794
2016	2,482,632,411	682,524,170	1,013,625,848	609,076,544	51,839,521
2017	2,518,869,395	687,041,509	1,000,481,417	595,297,503	53,963,580
2018	2,448,250,432	696,154,386	971,349,932	506,837,066	57,959,075

ACCOUNTS AND RECORDS

A trial balance was taken of the general ledger for the year 2018. The amounts were in agreement with, or reconciled to, the filed annual statement.

During the course of the examination no statutory violations or material differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2018, were identified.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2018.

STATEMENT OF ASSETS AND LIABILITIES
EXAMINATION PERIOD ENDING DECEMBER 31, 2018

	<u>ASSETS</u>		
	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 1,699,450,844	\$ -	\$ 1,699,450,844
Common stocks	257,581,524		257,581,524
Cash and short-term investments	65,108,780		65,108,780
Other invested assets	182,654,266	2,318,609	180,335,657
Investment income due and accrued	12,386,765		12,386,765
Uncollected premiums and agents' balances in course of collection	51,244,901		51,244,901
Premiums booked but deferred and not yet due	4,144,448	414,445	3,730,003
Amounts recoverable from reinsurers	113,748,653		113,748,653
Current federal and foreign income tax recoverable and interest thereon	4,699,954		4,699,954
Net deferred tax asset	67,769,025	15,114,547	52,654,478
Guaranty funds receivable or on deposit	189,901		189,901
Receivable from parent and affiliates	3,324,397		3,324,397
Aggregate write-ins other than invested assets			
Equities and deposits in pools and associations	3,789,864		3,789,864
Prepaid pension asset	57,591,900	57,591,900	-
Overfunded pension plan asset	(57,591,900)	(57,591,900)	-
Accounts Receivable	4,711		4,711
Prepaid expenses	7,546,484	7,546,484	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ 2,473,644,517	\$ 25,394,085	\$ 2,448,250,432

Losses	\$ 710,586,570
Reinsurance payable on paid losses	164,295,700
Loss adjustment expenses	194,546,681
Commissions payable, contingent and other	31,855,421
Other expenses	33,677,444
Taxes, licenses and fees	11,702,955
Borrowed money and interest thereon	106,817,470
Unearned premiums	453,253,059
Dividends declared and unpaid - Policyholders	130,343
Ceded reinsurance premiums payable	3,749,556
Funds held by company under reinsurance treaties	8,400
Amounts withheld or retained for account of others	6,769,790
Payable to parent and affiliates	1,196,951
Aggregate write-ins:	
Miscellaneous liabilities	475,838
Equities and deposits in pools and associations	369,087
Excess ceding commissions	9,623
Retroactive reinsurance reserves - ceded	(9,690,000)
Pension benefits liability	29,281,262
Retiree medical benefits liability	13,059,896
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Total liabilities	\$ 1,752,096,046
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Common capital stock	\$ 5,077,200
Gross paid in and contributed capital	152,186,853
Unassigned funds (surplus)	538,890,333
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Surplus as regards policyholders	\$ 696,154,386
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Total liabilities and surplus	\$ 2,448,250,432
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UNDERWRITING AND INVESTMENT EXHIBIT
ONE-YEAR PERIOD ENDING DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 971,349,932

Deductions

Losses Incurred	\$ 506,837,066	
Loss expenses incurred	119,294,215	
Other underwriting expenses incurred	348,578,294	
Total underwriting deductions		<u>974,709,575</u>
Net underwriting gain (loss)		\$ (3,359,643)

Investment Income

Net investment income earned	\$ 57,959,075	
Net realized capital gains (losses)	(9,210,995)	
Net investment income		<u>48,748,080</u>

Other Income

Net gain or (loss) from agents' balances charged off	\$ (3,088,805)	
Finance and service charges not included in premiums	2,749,208	
Miscellaneous income (expense)	55,966	
Operating service fee income	105,155	
Govermental fines and penalties	(83,909)	
Total other income		<u>\$ (262,385)</u>

Net income before dividends to policyholders		\$ 45,126,052
Dividends to policyholders		269,668
Net income before Federal income tax		\$ 44,856,384
Federal and foreign income taxes incurred		<u>(4,146,389)</u>
Net income		<u>\$ 49,002,773</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017	\$ 687,041,509
Net income	49,002,773
Change in net unrealized capital gains or (losses)	(24,891,923)
Change in net deferred income tax	(8,255,611)
Change in nonadmitted assets	(8,606,121)
Change in provision for reinsurance	91,657
Surplus adjustments paid in	13,569,724
Dividend to stockholders	(10,000,000)
Aggregate write-ins for gains and losses in surplus	
Deferred compensation fair value adjustment	(4,499,153)
Unrecognized pension, net	3,167,845
Unrecognized retiree medical, net	(466,313)
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Change in surplus as regard policyholders for the exam period	\$ 9,112,878
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Surplus as regards policyholders, December 31, 2018	\$ 696,154,386
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STATE AUTO PROPERTY & CASUALTY INSURANCE COMPANY
CASH FLOW STATEMENT
EXAMINATION PERIOD ENDING DECEMBER 31, 2018

Cash from Operations

Premiums collected net of reinsurance	\$ 962,406,620	
Net investment income	69,050,536	
Miscellaneous income	(262,384)	
Total		\$ 1,031,194,772
Benefit and loss related payments	609,443,548	
Commissions, expenses paid and aggregate write-ins for deductions	437,626,699	
Dividends to policyholders	544,380	
Federal income taxes (paid) recovered	4,208,980	
Total		1,051,823,607
Net cash from operations		\$ (20,628,835)

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 256,840,365	
Stocks	72,261,461	
Other invested assets	1,223,769	
Total investment proceeds		\$ 330,325,595
Cost of investments acquired (long-term only):		
Bonds	\$ 250,687,577	
Stocks	66,030,106	
Other invested assets	1,334,598	
Total investments acquired		318,052,281
Net cash from investments		\$ 12,273,314

Cash from Financing and Miscellaneous Sources

Cash provided:		
Capital and paid in surplus, less treasury stock	\$ 13,569,724	
Dividends to stockholders	10,000,000	
Other cash provided (applied)	(3,402,714)	
Net cash from financing and miscellaneous sources		\$ 167,010

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$ (8,188,511)
Cash and short-term investments:	
Beginning of year	73,297,291
End of year	\$ 65,108,780

UNDERWRITING AND INVESTMENT EXHIBIT
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 4,825,049,402
<u>Deductions</u>		
Losses Incurred	\$ 2,753,036,548	
Loss expenses incurred	621,536,661	
Other underwriting expenses incurred	1,705,718,393	
Premium deficiency reserve	(43,860)	
Total underwriting deductions	<u>5,080,247,742</u>	
Net underwriting gain (loss)		\$ (255,198,340)
<u>Investment Income</u>		
Net investment income earned	\$ 266,176,660	
Net realized capital gains (losses)	118,599,972	
Net investment income		<u>384,776,632</u>
<u>Other Income</u>		
Net gain or (loss) from agents' balances charged off	\$ (8,534,583)	
Finance and service charges not included in premiums	17,468,659	
Miscellaneous income (expense)	1,784,477	
Operating service fee income	765,859	
Govvermental fines and penalties	(304,197)	
Retroactive reinsurance gain (loss)	135,760	
Total other income	<u>11,315,975</u>	
Net income before dividends to policyholders		\$ 140,894,267
Dividends to policyholders		1,312,057
Net income before Federal income tax		\$ 139,582,210
Federal and foreign income taxes incurred		<u>(5,487,915)</u>
Net income		<u>\$ 145,070,125</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	\$ 607,700,045
Net income	145,070,125
Change in net unrealized capital gains or (losses)	(26,250,678)
Change in net deferred income tax	49,830,294
Change in nonadmitted assets	(16,446,321)
Change in provision for reinsurance	310,648
Surplus adjustments paid in	29,011,444
Dividend to stockholders	(69,000,000)
Deferred compensation fair value adjustment	(7,314,024)
Unrecognized pension, net	(15,572,594)
Unrecognized retiree medical, net	(1,184,552)
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Change in surplus as regard policyholders for the exam period	\$ 88,454,342
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Surplus as regards policyholders, December 31, 2018	\$ 696,154,386
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CONCLUSION

The cooperation and assistance extended by officers and employees of the Company is hereby acknowledged.

Respectfully submitted,

/s/ Daniel Mathis
Daniel Mathis, CFE
Assistant Chief Examiner
Iowa Insurance Division