

State Auto Financial CORP
Form DEF 14A
March 24, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

STATE AUTO FINANCIAL CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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STATE AUTO FINANCIAL CORPORATION
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of

STATE AUTO FINANCIAL CORPORATION:

Notice is hereby given that the Annual Meeting of Shareholders of State Auto Financial Corporation (the Company or STFC) will be held at the Company's principal executive offices located at 518 East Broad Street, Columbus, Ohio, on May 6, 2016, at 11:00 a.m., local time, for the following purposes:

1. To elect two Class I directors, each to hold office for a three-year term and until a successor is elected and qualified;
2. To consider and vote upon a proposal to amend the Company's Code of Regulations to provide an exclusive forum for the adjudication of certain legal actions;
3. To consider and vote upon a proposal to amend the Company's 2009 Equity Incentive Compensation Plan;
4. To consider and vote upon a proposal to adopt the Company's Outside Directors Restricted Share Unit Plan;
5. To consider and vote upon a proposal to adopt the Company's One Team Incentive Plan;
6. To ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2016;
7. To consider and vote upon, on a non-binding and advisory basis, the compensation of the Company's Named Executive Officers as disclosed in the Proxy Statement for the 2016 Annual Meeting of Shareholders; and
8. To transact such other business as may properly come before the meeting or any adjournment thereof.

The close of business on March 8, 2016, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting and any adjournment thereof.

In order that your shares may be represented at this meeting and to assure a quorum, please indicate your voting instructions by telephone, via the Internet or by signing and returning the enclosed proxy promptly. Instructions for indicating your voting instructions by telephone or via the Internet are included on the enclosed proxy. A return addressed envelope, which requires no postage, is enclosed if you choose to submit your voting instructions by mail. In the event you are able to attend and wish to vote in person, at your request we will cancel your proxy.

By Order of the Board of Directors

MELISSA A. CENTERS

Secretary

Dated: March 24, 2016

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STATE AUTO FINANCIAL CORPORATION

PROXY STATEMENT SUMMARY

You have received this Proxy Statement because the Board of Directors of STFC is soliciting your proxy to vote your Common Shares at the 2016 Annual Meeting of Shareholders. This summary highlights information contained elsewhere in this Proxy Statement. Defined terms used in this summary have the meanings given to such terms elsewhere in this Proxy Statement. This summary does not contain all of the information that you should consider in voting your Common Shares, and you should read the entire Proxy Statement carefully before voting. Page references are supplied to help you find more detailed information in this Proxy Statement. The date this Proxy Statement and the related proxy materials are first being sent or given to shareholders and being made available on the internet is approximately March 24, 2016.

2016 ANNUAL MEETING OF SHAREHOLDERS

Time: May 6, 2016, 11:00 a.m., local time

Place: 518 East Broad Street, Columbus, Ohio 43215

Record Date: You may vote if you were a shareholder of record at the close of business on March 8, 2016 (page 1).

VOTING MATTERS AND BOARD RECOMMENDATIONS

	Board Vote	Page Reference
	Recommendation	(for more detail)
Election of Directors	FOR each Director Nominee	4
Vote on Proposed Amendment to Company's Code of Regulations to provide an exclusive forum for the adjudication of certain legal actions	FOR	10
Vote on Proposed Amendment to Company's 2009 Equity Incentive Compensation Plan	FOR	12
Vote on Proposed Adoption of Company's Outside Directors Restricted Share Unit Plan	FOR	19
Vote on Proposed Adoption of the Company's One Team Incentive Plan	FOR	23
Ratification of Ernst & Young LLP as Independent Registered Public Accounting Firm	FOR	26
Advisory Vote to Approve Compensation of STFC's Named Executive Officers	FOR	27

Our Board of Directors is not aware of any matter that will be presented for a vote at the 2016 Annual Meeting of Shareholders other than those shown above.

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State Automobile Mutual Insurance Company (State Auto Mutual) owns approximately 62.6% of the outstanding Common Shares of STFC. State Auto Mutual has expressed an intention to vote FOR each of the voting matters listed above.

How to Cast Your Vote (as discussed on the proxy card)

You can vote by any of the following methods:

via the internet (www.proxyvote.com) until 11:59 p.m. Eastern time on May 5, 2016;

via telephone by calling 1-800-690-6903 until 11:59 p.m. Eastern time on May 5, 2016;

if you received a proxy card or voting instruction form in the mail, by completing, signing, dating, and returning your proxy card or voting instruction form in the return envelope provided to you in accordance with the instructions provided with the proxy card or voting instruction form; or

in person at the 2016 Annual Meeting of Shareholders.

Director Nominees (pages 4 and 5)

Name	Age	Director	Principal	<u>Independent</u>		Current	Other Public Company Boards
		Since	Occupation	Yes	No	Committee	
Robert E. Baker	69	2007	Executive VP of DHR International, Inc.	X		Audit, Comp	Memberships*
Thomas E. Markert	58	2007	Executive	X		Comp, Indep, N&G, Risk	

Directors Continuing in Office (pages 5-7)

Name	Age	Director	Principal	<u>Independent</u>		Current	Other Public Company Boards
		Since	Occupation	Yes	No	Committee	
David J. D Antoni	71	1995	Retired	X		Comp, Indep, I&F, N&G	2
Michael J. Fiorile	61	2015	President and CEO of Dispatch Printing Co.	X		N&G, Risk	
Michael E. Fiorile	59	2015	Chairman, President and CEO of STFC		X	I&F	

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LaRocco						
Eileen A.	60	2010	Retired		X	Audit, Comp, 1 Indep
Mallesch						
David R.	70	2006	Principal of Stonehenge Partners Corp.		X	Audit, Indep, I&F
Meuse						
S. Elaine	63	2002	President and CEO of Columbus Regional Airport Authority		X	Comp, Indep, N&G, Risk
Roberts						

*Audit = Audit Committee; Comp = Compensation Committee; Indep = Independent Committee;

I&F = Investment and Finance Committee; N&G = Nominating and Governance Committee; Risk = Risk Committee

Table of Contents**INFORMATION ABOUT OUR BOARD AND BOARD COMMITTEES (pages 31-33)**

	Number of Members	Percent Independent	Number of Meetings During Fiscal 2015
Full Board	8*	87%	5
Audit Committee	4	100%	9
Compensation Committee	5	100%	7
Independent Committee	6	100%	1
Investment and Finance Committee	4	75%	4
Nominating and Governance Committee	4	100%	6
Risk Committee	4	100%	4

During 2015, five incumbent Board members attended 100% of the meetings of the Board and Board committees on which they served. Our other three incumbent Board members attended 90% or more of the meetings of the Board and Board committees on which they served.

GOVERNANCE FACTS

Size of Board	8*
Number of Independent Directors	7
Audit Committee Comprised Entirely of Independent Directors	YES
Compensation Committee Comprised Entirely of Independent Directors	YES
Nominating and Governance Committee Comprised Entirely of Independent Directors	YES
Risk Committee Comprised Entirely of Independent Directors	YES
Independent Lead Director	YES
Majority Voting for Election of Directors	NO
Annual Advisory Vote on Executive Compensation	YES
Annual Board and Committee Self-Evaluations	YES
Stock Ownership Guidelines for Directors and Executive Officers	YES
All Current Directors Own Company Stock	YES
Restrictions on Pledging of Company Shares by Directors and Executive Officers	YES
Clawback Obligations Imposed on Named Executive Officers	YES
Directors and Executive Officers Permitted to Hedge Company Shares	NO
Directors Involved in Related Party Transactions	NO
Super Majority Vote to Approve Amendments to Charter or Bylaws	NO
Shareholder Rights Plan (Poison Pill)	NO

*The size of the Board is fixed at nine. Currently, there are eight incumbent directors. If both nominees are elected directors on May 6, 2016, there will be eight directors on the Board and one vacancy. Our Board of Directors believes it is desirable to have a vacancy available which could be filled by our Board without the time and expense involved in holding a special meeting of shareholders should a person who could make a valuable contribution as a director become available.

Table of Contents**2015 BUSINESS RESULTS**

Our 2015 results (on a GAAP basis) include:

combined ratio of 101.5%, which represented a 4.0% improvement compared to 2014;

net income of \$51.2 million, which represented a decrease of \$56.2 million from 2014; (*Our 2014 net income included a non-cash income tax benefit of \$82.6 million related to the reversal of a valuation allowance against our net deferred tax assets.*)

earnings per diluted share of \$1.23, which represented a decrease of \$1.37 per share from 2014;

non-cat loss and loss adjustment expense (LAE) ratio of 63.9%, which represented a 4.9% improvement compared to 2014;

return on average equity of 5.8%, which represented a 7.2% decrease compared to 2014;

our stock price decreased approximately 7.3% from December 31, 2014 to December 31, 2015; and

book value per share of \$21.40 at December 31, 2015, which represented an increase of \$0.08 per share from December 31, 2014.

The portion of the performance-based compensation awarded to our Named Executive Officers (NEOs) for 2015 performance is determined by the results that we and the State Auto Group achieve with respect to certain of these and other financial measures. See the Compensation Discussion and Analysis section of this Proxy Statement for more information regarding our executive compensation program and the performance-based compensation awarded to our NEOs in 2015.

PRIMARY COMPONENTS OF OUR 2015 EXECUTIVE COMPENSATION PROGRAM (page 49)

Component	Form	Key Features
<i>Base Salary</i>	Cash	Intended to attract and retain top-caliber executives. Generally based on the median level of base salary for the executive in our competitive market, but may vary based on the executive's scope of responsibility or unique skills or expertise.
<i>Short-Term Incentive</i>	Cash	Intended to focus our executives on achieving the objectives of our annual operating plan and balance the focus of our long-term incentive plans. Consists of a Company performance component (65%-75% weighting in 2015) and an individual performance component (25%-35% weighting in 2015). Payouts range from 10% of target payout to 200% of target payout depending on performance.
<i>Performance Award Units</i>	Cash	Intended to encourage business behaviors that drive appreciation in the price of our Common Shares over the long term, align the interests of our executives with the interests of our shareholders and balance the focus of our annual operating plan.

Payouts determined based on the performance of the State Auto Group compared to a peer group over a three-year performance period.

Payouts range from 40% of target payout to 200% of target payout depending on performance.

Represented 65% of the total long-term incentive opportunity awarded to each NEO in 2015, except for Mr. Garland whose long-term incentive opportunity was independently negotiated and determined in connection with his hiring.

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Component	Form	Key Features
<i>Stock Options</i>	Equity	<p>Intended to encourage business behaviors that drive appreciation in the price of our Common Shares over the long term, align the interests of our executives with the interests of our shareholders and build appropriate levels of Common Share ownership among our executive team.</p> <p>One-third of the total options granted vests on each anniversary of the grant date.</p> <p>Represented 20% of the total long-term incentive opportunity awarded to each NEO in 2015, except for Mr. Garland whose long-term incentive opportunity was independently negotiated and determined in connection with his hiring.</p>
<i>Restricted Common Shares</i>	Equity	<p>Intended to reduce our usage of Common Shares under our equity compensation plans, align the interests of the NEOs with the interests of our shareholders and encourage associate retention.</p> <p>Vest on the third anniversary of the grant date.</p> <p>Represented 15% of the total long-term incentive opportunity awarded to each NEO in 2015, except for Mr. Garland whose long-term incentive opportunity was independently negotiated and determined in connection with his hiring.</p>
<i>Perquisites</i>	Cash; Benefits	<p>Intended to attract and retain top-caliber executives.</p> <p>Are limited in value and participation.</p>

IMPACT OF STATE AUTO GROUP ON 2015 COMPENSATION OF NEOs (page 42)

Because our NEOs perform services for the Company, State Auto Mutual and other members of the State Auto Group, we generally allocated the compensation expenses in 2015 for such services 65% to the Company and its subsidiaries and 35% to State Auto Mutual and certain of its subsidiaries and affiliates.

2015 EXECUTIVE COMPENSATION HIGHLIGHTS (page 40)

Base Salary. The base salaries of our NEOs increased by approximately 3% in 2015, except for Ms. Clark whose 17% increase was designed to move her compensation closer to the 75th percentile of the competitive market for similar executives to reward her for the results of her business unit and her strategic value to the Company. The increases were based on: (i) each NEO's performance; (ii) increases in the median base salaries for individuals in similar roles at peer companies and other insurers comparable in size to the State Auto Group; and (iii) the Company's overall merit increase budget and policies.

Short-Term Incentive Company Performance Goals. The payout on the Company performance goals for 2015 as a percentage of the target payout was 27.1%. Mr. LaRocco's Company performance LBP bonus was prorated to reflect the portion of the year during which he was employed by the Company. Mr. Garland's Company performance LBP bonus was paid at target in accordance with the terms of his hiring arrangement. In February 2016, the Compensation Committee adjusted the LBP Combined Ratio and return on equity performance measures originally selected for the Company performance component of the LBP for 2015. The adjustments excluded from the LBP Combined Ratio and return on equity performance measure calculations \$15.3 million in severance and retirement expenses (see Short-Term Incentive Compensation Leadership Bonus Plan Bonuses LBP Award Process for more information regarding these adjustments). Accordingly, the payouts on the Company performance goals for 2015 reflected the Adjusted LBP Combined Ratio, Adjusted Return on Equity and Non-Catastrophe Loss Ratio we achieved in 2015.

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Short-Term Incentive Individual Performance Goals. The payout on the individual performance goals under the LBP as a percentage of the target individual performance LBP bonus for 2015 (where the target percentage equals 100%) was 140% for Mr. LaRocco, 115% for Mr. English, 150% for Ms. Clark and 90% for Mr. Fitch. Mr. LaRocco's individual performance LBP bonus was prorated to reflect the portion of the year during which he was employed by the Company. Mr. Garland's individual performance LBP bonus was paid at target in accordance with the terms of his hiring arrangement. The payouts on the individual performance goals reflected the individual contributions of each NEO to our results.

Long-Term Incentive Performance Award Units. Based on preliminary performance information (final information is not yet available) indicating that the State Auto Group's overall performance for the 2013-2015 performance period relative to a peer group fell within the 30th percentile, we currently expect that the performance award units awarded to our NEOs (except for Ms. Clark) for the 2013-2015 performance period will be valued significantly below target. We currently expect that the PAUs awarded to Ms. Clark for the 2013-2015 performance period will be valued significantly above target as a result of the differences in the NEO Peer Group and performance measures applicable to her PAU award. The anticipated payouts on the PAUs awarded to the NEOs other than Ms. Clark for the 2013-2015 performance period reflected the direct statutory combined ratio, net written premium growth (excluding the impact of the quota share reinsurance agreement entered into by the State Auto Group on December 31, 2012 relating to its homeowners book of business (the Quota Share Agreement)) and surplus growth of the State Auto Group during the performance period relative to a peer group (excluding the impact of the Quota Share Agreement). The anticipated payout on the PAUs awarded to Ms. Clark for the 2013-2015 performance period reflected the direct statutory combined ratio, direct written premium growth and surplus growth of the State Auto Group relative to a peer group.

Long-Term Incentive Equity Compensation. In 2015, we awarded stock options and restricted common shares to our NEOs. Based on the approval of the say-on-pay vote at our 2015 Annual Meeting of Shareholders (approximately 99% of the votes cast), the Compensation Committee did not make any changes to our executive compensation program as a result of the 2015 say-on-pay vote.

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STATE AUTO FINANCIAL CORPORATION

PROXY STATEMENT

GENERAL

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of State Auto Financial Corporation (the Company or STFC) to be used at its Annual Meeting of Shareholders to be held May 6, 2016 (the Annual Meeting). Shares represented by properly executed proxies will be voted at the Annual Meeting in accordance with the choices indicated on the proxy. A proxy may be revoked at any time, insofar as it has not been exercised, by delivery to the Company of a subsequently dated proxy or by giving notice of revocation to the Company in writing or in open meeting. A shareholder's presence at the Annual Meeting does not by itself revoke the proxy.

The mailing address of the principal executive offices of the Company is 518 East Broad Street, Columbus, Ohio 43215. The approximate date on which this Proxy Statement and the form of proxy are first being sent or given to shareholders is March 24, 2016.

This Proxy Statement, the form of proxy, and the Company's 2015 Annual Report to Shareholders are available at www.proxyvote.com.

PROXIES AND VOTING

The close of business on March 8, 2016 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. On the record date there were outstanding and entitled to vote 41,500,564 of the Company's common shares, without par value (the Common Shares). Each Common Share is entitled to one vote.

A quorum must be present at the Annual Meeting in order for the transaction of business to occur. A quorum is present if a majority of the outstanding Common Shares is present in person or by proxy at the Annual Meeting. Abstentions and broker non-votes will be considered as Common Shares present at the Annual Meeting for purposes of determining the presence of a quorum.

Broker non-votes and broker discretionary voting refer to the rules governing whether or not banks, brokers and other intermediaries (hereafter referred to collectively as brokers) may vote Common Shares held in street name for the benefit of their customers. In general, brokers have discretionary voting authority on behalf of their customers with respect to routine matters when they do not receive timely voting instructions from their customers. Brokers do not have discretionary voting authority on behalf of their customers with respect to non-routine matters, and a broker non-vote occurs when a broker does not receive voting instructions from its customer on a non-routine matter.

For Proposal One (election of Class I directors), the nominees receiving the highest number of votes will be elected as directors. Shareholders do not have the right to cumulate their votes in the election of directors. Proposal One is considered a non-routine matter under the broker discretionary voting rules, and therefore, brokers may not vote uninstructed Common Shares in the election of directors. Accordingly, if you hold your Common Shares in street name and you do not provide voting instructions to your broker as to how you want

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your Common Shares voted in the election of directors, no vote will be cast on your behalf. Abstentions and broker non-votes will not be counted in determining the votes cast for the election of directors and will not have a positive or negative effect on the outcome of the election. Therefore, it is important that you provide voting instructions to your broker if you want your vote to count in the election of directors.

For Proposal Two (approval of an amendment to the Company's Code of Regulations to provide an exclusive forum for the adjudication of certain legal actions), the vote required to approve this Proposal is the favorable vote of a majority of the outstanding Common Shares. Abstentions on this Proposal will have the same effect as a vote against it. Proposal Two is considered a routine matter, which means that if you hold your Common Shares in street name and do not provide, in a timely manner, voting instructions to your broker as to how you want your Common Shares voted on Proposal Two, your broker may vote your Common Shares on this Proposal at its discretion.

For Proposal Three (approval of an amendment to the 2009 Equity Incentive Compensation Plan), the vote required to approve this Proposal is the favorable vote of a majority of the outstanding Common Shares voted on such Proposal. Abstentions on this Proposal have the same effect as not voting or expressing a preference, as the case may be, and will not have a positive or negative effect on the outcome of this Proposal. Proposal Three is considered a non-routine matter, so if you do not instruct your broker as to how you want your Common Shares voted on this Proposal, no vote will be cast on your behalf, resulting in a broker non-vote. A broker non-vote will not have a positive or negative effect on the outcome of this Proposal. Therefore, it is important that you provide voting instructions to your broker if you want your vote to count regarding Proposal Three.

For Proposal Four (approval of adoption of the Company's Outside Directors Restricted Share Unit Plan), the vote required to approve this Proposal is the favorable vote of a majority of the outstanding Common Shares voted on such Proposal. Abstentions on this Proposal have the same effect as not voting or expressing a preference, as the case may be, and will not have a positive or negative effect on the outcome of this Proposal. Proposal Four is considered a non-routine matter, so if you do not instruct your broker as to how you want your Common Shares voted on this Proposal, no vote will be cast on your behalf, resulting in a broker non-vote. A broker non-vote will not have a positive or negative effect on the outcome of this Proposal. Therefore, it is important that you provide voting instructions to your broker if you want your vote to count regarding Proposal Four.

For Proposal Five (approval of adoption of the Company's One Team Incentive Plan), the vote required to approve this Proposal is the favorable vote of a majority of the outstanding Common Shares voted on such Proposal. Abstentions on this Proposal have the same effect as not voting or expressing a preference, as the case may be, and will not have a positive or negative effect on the outcome of this Proposal. Proposal Five is considered a non-routine matter, so if you do not instruct your broker as to how you want your Common Shares voted on this Proposal, no vote will be cast on your behalf, resulting in a broker non-vote. A broker non-vote will not have a positive or negative effect on the outcome of this Proposal. Therefore, it is important that you provide voting instructions to your broker if you want your vote to count regarding Proposal Five.

For Proposal Six (ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm), the vote required to approve such Proposal is the favorable vote of a majority of the outstanding Common Shares present at the Annual Meeting. Abstentions on this Proposal will have the same effect as a vote against it. Proposal Six is considered a routine matter, which means that if you hold your Common Shares in street name and do not provide, in a timely manner, voting instructions to your broker as to how you want your Common Shares voted on Proposal Six, your broker may vote your Common Shares on this Proposal at its discretion.

Proposal Seven (vote on compensation to the Company's Named Executive Officers as described in this Proxy Statement) is advisory only and therefore is not binding on our Board of Directors. However, the Compensation Committee may take into account the outcome of Proposal Seven when considering future

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executive compensation arrangements. Abstentions on Proposal Seven have the same effect as not voting or expressing a preference, as the case may be, and will not have a positive or negative effect on the outcome of this Proposal. Proposal Seven is considered a non-routine matter, so if you do not instruct your broker as to how you want your Common Shares voted on this Proposal, no vote will be cast on your behalf, resulting in a broker non-vote. A broker non-vote will not have a positive or negative effect on the outcome of this Proposal. Therefore, it is important that you provide voting instructions to your broker if you want your vote to count regarding Proposal Seven.

All Common Shares represented by properly executed proxies will be voted at the Annual Meeting in accordance with the choices indicated on the proxy. If no choices are indicated on a proxy, the Common Shares represented by that proxy will be voted as follows: (1) for the election of the nominees listed in this Proxy Statement as Class I directors; (2) for the approval of an amendment to the Company's Code of Regulations; (3) for the approval of an amendment to the Company's 2009 Equity Incentive Compensation Plan; (4) for the adoption of the Company's Outside Directors Restricted Share Unit Plan; (5) for the adoption of the Company's One Team Incentive Plan; (6) for the ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2016; and (7) for the approval of the compensation of the Company's Named Executive Officers as disclosed in this Proxy Statement. Any proxy may be revoked at any time prior to its exercise by delivering to the Company a subsequently dated proxy or by giving notice of revocation to the Company in writing or in open meeting. A shareholder's presence at the Annual Meeting does not by itself revoke the proxy.

STATE AUTOMOBILE MUTUAL INSURANCE COMPANY (STATE AUTO MUTUAL), WHICH OWNS APPROXIMATELY 62.6% OF THE OUTSTANDING COMMON SHARES, HAS EXPRESSED AN INTENTION TO VOTE FOR THE ELECTION OF THE NOMINEES LISTED IN PROPOSAL ONE OF THIS PROXY STATEMENT AND IN FAVOR OF EACH OF THE OTHER PROPOSALS DESCRIBED IN THIS PROXY STATEMENT.

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PROPOSAL ONE: ELECTION OF DIRECTORS

Nominees for Class I Directors

The number of directors is currently fixed at nine. Our Board of Directors is divided into three classes, Class I, Class II and Class III, with three directors in each Class. The term of office of directors in one Class expires annually at each annual meeting of shareholders at such time as their successors are elected and qualified. Directors in each Class are elected for three-year terms.

The term of office of the Class I directors expires concurrently with the holding of the Annual Meeting. Robert E. Baker and Thomas E. Markert, the two persons recommended by the Nominating and Governance Committee of our Board of Directors, have been nominated for election as Class I directors at the Annual Meeting. Mr. Baker and Mr. Markert are incumbent Class I directors.

Alexander B. Trevor, who is currently the other Class I director, is retiring from the Board concurrently with the holding of the Annual Meeting. Our Nominating and Governance Committee reviewed potential candidates to replace Mr. Trevor but has not made any recommendations to our Board, thereby creating a vacancy in the Class I directors. No decision has been made to fill this vacancy. Our Board of Directors believes that it is desirable to have a vacancy available which could be filled by our Board without the time and expense involved in holding a special meeting of shareholders should a person who could make a valuable contribution as a director become available.

At the Annual Meeting, it is the intention of the persons named in the accompanying form of proxy, unless a contrary position is indicated on such proxy, to vote the proxy for the election of the two nominees named below as Class I directors, each to hold office until the 2019 annual meeting of shareholders and until a successor is elected and qualified. Each of the nominees has consented to being named in this Proxy Statement and to serve if elected. In the event that any nominee named below is unable to serve (which is not anticipated), the persons named in the proxy may vote it for another nominee of their choice.

Proxies cannot be voted at the Annual Meeting for a greater number of persons than the two nominees named in this Proxy Statement.

Board Recommendation

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE TWO NOMINEES NAMED BELOW AS CLASS I DIRECTORS.

Backgrounds of Class I Director Nominees (Terms expiring in 2019)

Robert E. Baker

Robert E. Baker, 69, has been a director since 2007. Mr. Baker has also been a director of State Auto Mutual since March 2015. Mr. Baker has served as Executive Vice President of DHR International, Inc., an executive search firm, since June 2010. Mr. Baker was President of Puroast Coffee Inc., a maker of specialty coffee products, from 2004 until accepting his current position. He served as Vice President of Corporate Marketing for ConAgra Foods, Inc., one of North America's largest packaged food companies, from 1999 to 2004. Mr. Baker was a director of CoolBrands International Inc., a publicly traded Canadian corporation focused on the marketing and selling of ice cream and frozen snack products, from February 2006 to November 2007. He was also a director of Natural Golf Corporation, a publicly traded company offering golf instruction and equipment, from 2004 to 2006.

Mr. Baker has been nominated for election as a director because of his experience as a senior executive of both publicly traded and privately held companies and his former experience as a director of publicly traded

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companies. He also brings racial and geographic diversity to the Board. In addition, Mr. Baker brings significant expertise in compensation, marketing, strategic planning and branding to the Board.

Thomas E. Markert

Thomas E. Markert, 58, has been a director since 2007. Mr. Markert served as Executive Vice President of Research Now Group, Inc., a global online sampling and online data collection company, from August 2014 until November 2015. Mr. Markert was the Chief Executive Officer of Digital Tailwind LLC, a digital marketing agency, from April 2012 until May 2014. Mr. Markert was an officer of the Business Solutions Division of Office Depot, Inc., a global supplier of office products and services, from May 2008 until April 2012. He served as the Chief Executive Officer of Ipsos Loyalty Worldwide, a division of Ipsos, a leading global provider of survey-based research, from May 2007 to May 2008. He also served as Global Chief Marketing and Client Service Officer of ACNielsen, a leading global provider of marketing research and information services, from January 2004 until May 2007. Mr. Market has also served on the board of directors of True Value Company, a retailer-owned wholesaler of hardware and related products, since April 2013.

Mr. Markert has been nominated for election as a director because of his experience as a senior executive of both publicly traded and privately held companies. He also brings geographic diversity to the Board. In addition, Mr. Markert brings significant expertise in traditional and digital marketing, social media, branding and market research to the Board.

Backgrounds of Continuing Class II Directors (Terms expiring in 2017)

David J. D. Antoni

David J. D. Antoni, 71, has been a director since 1995. Mr. D Antoni served as Senior Vice President and Group Operating Officer for Ashland, Inc., a chemical, energy and transportation construction company, from March 1999 until his retirement in September 2004. He also served as President of APAC, Inc., a subsidiary of Ashland, Inc., from July 2003 until January 2004. Mr. D Antoni is also a director of OMNOVA Solutions Inc., a publicly traded producer of decorative and functional surfaces, coatings and specialty chemicals, and Compass Minerals International, Inc., a publicly traded producer and distributor of inorganic minerals.

Mr. D Antoni was last nominated in 2014 to serve as a director because of his experience as a senior executive of a publicly traded company, his experience as a director of publicly traded companies, and his knowledge with general management, acquisitions and divestitures. In addition, Mr. D Antoni brings significant expertise in regulatory and environmental, health and safety matters to the Board.

David R. Meuse

David R. Meuse, 70, has been a director since 2006. Mr. Meuse has served as Principal of Stonehenge Partners Corp., a privately held provider of financial and advisory resources, since September 1999. Prior to that time, Mr. Meuse held executive positions at various investment banking firms, including Banc One Capital Holdings Corporation and Meuse, Rinker, Chapman, Endres & Brooks. Mr. Meuse was a director of Diamond Hill Investment Group, Inc., a publicly traded company providing investment advisory and fund administration services, from August 2000 to April 2011. Mr. Meuse also serves on the board of directors of several privately held companies and non-profit organizations.

Mr. Meuse was last nominated in 2014 to serve as a director because of his experience as a senior executive, his former experience as a director of publicly traded companies, and his knowledge with acquisitions and divestitures. In addition, Mr. Meuse brings significant expertise in investments, investment management, and financial market matters to the Board.

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S. Elaine Roberts

S. Elaine Roberts, 63, has been a director since 2002. Ms. Roberts has served as President and Chief Executive Officer of the Columbus Regional Airport Authority, a public port authority which oversees the operations of Port Columbus International, Rickenbacker International and Bolton Field airports in Ohio, since January 2003.

Ms. Roberts was last nominated in 2014 to serve as a director because of her experience as a senior executive, in particular her senior management experience with the operation of a regulated entity. Ms. Roberts also has a legal background as an attorney, and she brings gender diversity to the Board.

Backgrounds of Continuing Class III Directors (Terms expiring in 2018)

Michael J. Fiorile

Michael J. Fiorile, 61, has been a director since May 2015. Mr. Fiorile has also been a director of State Auto Mutual since 2003. Mr. Fiorile has served as Chief Executive Officer of The Dispatch Printing Company, a privately owned, regional broadcast media company, since January 2013, as its Vice Chairman since September 2015, and as its President since January 2005. He also has served as Vice Chairman and Chief Executive Officer of the company's subsidiary, Dispatch Broadcast Group, which includes television and radio stations, since 1994.

Mr. Fiorile was nominated in 2015 to serve as a director because of his extensive experience as a senior executive of a privately held corporation, in particular his management experience with the operation of regulated entities. Mr. Fiorile also brings his extensive experience and familiarity with the State Auto Group¹.

Michael E. LaRocco

Michael E. LaRocco, 59, has been a director and President and Chief Executive Officer of the Company since May 2015 and Chairman of the Company since January 2016. Mr. LaRocco has also served as President and Chief Executive Officer of State Auto P&C, Milbank and SAOH, each a wholly owned subsidiary of the Company, since May 2015, and as Chairman of State Auto P&C, Milbank and SAOH since January 2016. Mr. LaRocco has served as President, Chief Executive Officer and a director of State Auto Mutual since May 2015. Prior to joining the State Auto Group, Mr. LaRocco was with Business Insurance Direct, LLC (BID), an online seller of general liability and property insurance to small businesses, from December 2011 until April 2015. From January 2013 to July 2014, he was Chief Executive Officer of AssureStart Insurance Agency LLC (AssureStart), an online seller of general liability and property insurance to small businesses. BID had owned a minority interest in AssureStart until selling its interest to the majority owner of AssureStart in December 2014. Mr. LaRocco served as President and Chief Executive Officer of Fireman's Fund Insurance Company, a property and casualty insurance company, from March 2008 to July 2011. Previously, he was an executive for Safeco Insurance Companies, which are property and casualty insurance companies, from July 2001 to July 2006.

Mr. LaRocco was nominated in 2015 to serve as a director of the Company because of his extensive and valuable experience gained over his career in the property and casualty insurance industry, including underwriting, sales, marketing, general management and many years as a senior executive of property and casualty insurance companies. In addition, he brings valuable experience in strategic planning, leadership development, product development and online marketing.

¹ The State Auto Group refers to (1) the insurance subsidiaries of State Auto Financial Corporation: State Auto Property & Casualty Insurance Company (State Auto P&C), Milbank Insurance Company (Milbank) and State Auto Insurance Company of Ohio (SAOH) and to (2) State Automobile Mutual Insurance Company (State Auto Mutual) and its insurance subsidiaries and affiliates: State Auto Insurance Company of Wisconsin (SAWI), Meridian Security Insurance Company (Meridian), Patrons Mutual Insurance Company of Connecticut (Patrons), Rockhill Insurance Company (RIC), Plaza Insurance Company (Plaza), American Compensation Insurance Company (ACIC) and Bloomington Compensation Insurance Company (BCIC).

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Eileen A. Mallesch

Eileen A. Mallesch, 60, has been a director since 2010. Ms. Mallesch served as Senior Vice President and Chief Financial Officer of Nationwide Property and Casualty Insurance Company from November 2005 to December 2009. She served as Senior Vice President and Chief Financial Officer of Genworth Life Insurance Company from April 2003 to November 2005. Prior to that, she was Vice President and Chief Financial Officer of General Electric Financial Employer Services Group from 2000 to 2003. Ms. Mallesch is also a director of Bob Evans Farms, Inc., a publicly traded restaurant and food products company.

Ms. Mallesch was last nominated in 2015 to serve as a director because of her extensive knowledge and experience in the areas of auditing, finance, enterprise risk management, taxation and mergers and acquisitions, in particular in the insurance industry. She also brings gender diversity to the Board.

Majority Voting Policy for Incumbent Directors

Our Board of Directors has adopted a majority voting policy for incumbent directors (the Majority Voting Policy) which is reflected in our Corporate Governance Guidelines. The Majority Voting Policy provides that if a nominee for director who is an incumbent director does not receive the vote of at least the majority of the votes cast at any meeting for the election of directors at which a quorum is present, and no successor has been elected at such meeting, then that incumbent director will promptly tender his or her resignation to the Board of Directors. For purposes of the Majority Voting Policy, a majority of votes cast means that the number of Common Shares voted for a director's election exceeds 50% of the number of votes cast with respect to that director's election or, in the case where the number of nominees exceeds the number of directors to be elected, cast with respect to election of directors generally. Votes cast (i) include votes to withhold authority in each case, and (ii) exclude abstentions with respect to that director's election or, in the case where the number of nominees exceeds the number of directors to be elected, abstentions with respect to election of directors generally. The Nominating and Governance Committee will make a recommendation to our Board of Directors as to whether to accept or reject the tendered resignation, or whether other action should be taken. Our Board of Directors will act on the tendered resignation, taking into account the Nominating and Governance Committee's recommendation, and publicly disclose (by a press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the certification of the election results. The Nominating and Governance Committee, in making its recommendation, and our Board of Directors, in making its decision, may each consider any factors or other information that the Nominating and Governance Committee or Board, as the case may be, considers appropriate and relevant. The director who tenders his or her resignation will not participate in the recommendation of the Nominating and Governance Committee or the decision of our Board of Directors with respect to his or her resignation. If such incumbent director's resignation is not accepted by our Board of Directors, such director will continue to serve until the next annual meeting and until his or her successor is duly elected, or his or her earlier resignation or removal. If a director's resignation is accepted by our Board of Directors, then our Board of Directors, in its sole discretion, may fill any resulting vacancy pursuant to the provisions of our Code of Regulations.

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The following table sets forth information with respect to Common Shares beneficially owned by directors, director nominees and our NEOs (those persons listed in the Summary Compensation Table on page 65 of this Proxy Statement) as of March 8, 2016:

Name	Common Shares Beneficially Owned(1)	Stock Options(2)	Restricted Share Units(3)	Total Beneficial Ownership of Common Shares and RSUs	Percent of Class
Robert E. Baker	2,800	0	27,122	29,922	*
David J. D. Antoni	66,811	0	30,736	97,547	*
Michael J. Fiorile	0	0	3,316	3,316	*
Michael E. LaRocco	26,511(4)(5)	0	N/A	26,511	*
Eileen A. Mallesch	3,800	0	20,437	24,237	*
Thomas E. Markert	500	0	27,122	27,622	*
David R. Meuse	65,000	0	28,921	93,921	*
Robert P. Restrepo, Jr.	(6)				
S. Elaine Roberts	1,000	0	30,736	31,736	*
Alexander B. Trevor	500	0	28,921	29,421	*
Steven E. English	21,300(5)(7)(8)	139,376	N/A	160,676	*
Jessica E. Clark	10,993(5)(7)(8)	56,835	N/A	67,828	*
Kim B. Garland	8,033(5)(9)	0	N/A	8,033	*
Clyde H. Fitch	(6)				
James A. Yano	(6)				
Stephen P. Hunckler	(6)				
Directors and Officers as a group (20 persons)	284,143(4)(5)(7)(8)(9)	369,417		653,560(10)	1.56%(10)

* Less than one (1%) percent.

- (1) Except as indicated in the notes to this table, the persons named in the table and/or their spouses have sole voting and investment power with respect to all Common Shares shown as beneficially owned by them. For Mr. D. Antoni, includes 1,100 Common Shares over which he exercises voting rights through a power of attorney on behalf of his mother.
- (2) With respect to stock options, this table includes only stock options for Common Shares which are currently exercisable or exercisable within 60 days of March 8, 2016.
- (3) Represents Restricted Share Units (RSUs) granted under the Outside Directors Restricted Share Unit Plan. See Corporate Governance and Board of Directors Compensation of Outside Directors and Outside Director Compensation Table for further information regarding this plan which terminated by its own terms on May 31, 2015. Also see Proposal Four for a description of the new Outside Directors Restricted Share Unit Plan being proposed to replace the terminated plan.
- (4) Includes a restricted stock award of 7,902 Common Shares which are subject to a risk of forfeiture if, prior to May 7, 2018, Mr. LaRocco's employment is terminated or he violates any provision of the restricted stock agreement applicable to these Common Shares. However, these Common Shares will not be forfeited, and will automatically vest, if, prior to May 7, 2018, Mr. LaRocco's employment is terminated in connection with a change of control of the Company. These Common Shares are also subject to restrictions on transfer until May 7, 2018.
- (5) Includes restricted stock awards made to the Named Executive Officers and other officers on March 3, 2016. On that date, the Compensation Committee made the following restricted stock awards to the Named Executive Officers: Mr. LaRocco 7,461 Common Shares; Mr. English 2,334 Common Shares; Ms. Clark 2,079 Common Shares; Mr. Garland 2,079 Common Shares; and Officers as a group 22,477 Common Shares. The Common Shares are subject to a risk of forfeiture if, prior to March 3, 2019, the award recipient's employment is terminated or he or she violates any provision of the restricted stock agreement applicable to these Common Shares. However, these Common Shares will not be forfeited, and

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- will automatically vest, if, prior to March 3, 2019, the award recipient's employment is terminated in connection with a change of control of the Company. These Common Shares are also subject to restrictions on transfer until March 3, 2019.
- (6) Messrs. Restrepo, Fitch, Hunckler and Yano are no longer employees of the Company, and the Company does not have beneficial ownership information on any of them as of the record date.
- (7) Includes restricted stock awards made to the Named Executive Officers and other officers on March 5, 2015. On that date, the Compensation Committee made the following restricted stock awards to the Named Executive Officers: Mr. English 2,471 Common Shares; Ms. Clark 2,192 Common Shares; and Officers as a group 8,892 Common Shares. The Common Shares are subject to a risk of forfeiture if, prior to March 5, 2018, the award recipient's employment is terminated or he or she violates any provision of the restricted stock agreement applicable to these Common Shares. However, these Common Shares will not be forfeited, and will automatically vest, if, prior to March 5, 2018, the award recipient's employment is terminated in connection with a change of control of the Company. These Common Shares are also subject to restrictions on transfer until March 5, 2018.
- (8) Includes restricted stock awards made to the Named Executive Officers and other officers on March 6, 2014. On that date, the Compensation Committee made the following restricted stock awards to the Named Executive Officers: Mr. English 2,572 Common Shares; Ms. Clark 1,857 Common Shares; and Officers as a group 8,830 Common Shares. The Common Shares are subject to a risk of forfeiture if, prior to March 6, 2017, the award recipient's employment is terminated or he or she violates any provision of the restricted stock agreement applicable to these Common Shares. However, these Common Shares will not be forfeited, and will automatically vest, if, prior to March 6, 2017, the award recipient's employment is terminated in connection with a change of control of the Company. These Common Shares are also subject to restrictions on transfer until March 6, 2017.
- (9) Includes restricted stock awards of 2,214 and 2,192 Common Shares, which are subject to a risk of forfeiture if, prior to August 24, 2018, Mr. Garland's employment is terminated or he violates any provision of the restricted stock agreement applicable to these Common Shares. However, these Common Shares will not be forfeited, and will automatically vest, if, prior to August 24, 2018, Mr. Garland's employment is terminated in connection with a change of control of the Company. These Common Shares are also subject to restrictions on transfer until August 24, 2018.
- (10) Does not include RSUs.

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PROPOSAL TWO: AMENDMENT TO THE COMPANY S CODE OF REGULATIONS

At the Annual Meeting, shareholders will be asked to consider and vote upon a proposal to approve an amendment to the Amended and Restated Code of Regulations, as amended, of the Company, which we refer to as the Current Regulations. A copy of the proposed amendment to the Current Regulations, which we refer to as the Proposed Amendment, is attached to this Proxy Statement as Exhibit A.

Summary of Proposed Amendment

The Board of Directors approved the Proposed Amendment on November 6, 2015. The Proposed Amendment would add a new provision to the Current Regulations which would provide that, unless the Company consents in writing to the selection of an alternative forum, the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Company, (b) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the Company to the Company or the Company s shareholders, (c) any action asserting a claim against the Company or any director or officer or other employee of the Company arising pursuant to any provision of Chapter 1701 of the Ohio Revised Code or the Company s articles of incorporation or code of regulations, or (d) any action asserting a claim against the Company or any director or officer or other employee of the Company governed by the internal affairs doctrine shall be (i) the Court of Common Pleas of Franklin County, Ohio, or (ii) if that court does not have jurisdiction, then the United States District Court for the Southern District of Ohio, Eastern Division sitting in Columbus, Ohio, in all cases subject to the court s having personal jurisdiction over the indispensable parties named as defendants.

The Board of Directors believes the Proposed Amendment is in the best interests of the Company and its shareholders for the following reasons, among others, as further discussed below: (i) the benefits of allowing the Company to have its internal corporate claims resolved by state and federal courts situated in Columbus, Ohio (the Designated Courts), the courts most familiar with Ohio law; (ii) the cost savings associated with legal fees and other expenses that would otherwise be incurred if the Company was required to defend itself against the same allegations in multiple lawsuits filed in courts in multiple states; and (iii) the risks to the Company of being subjected to conflicting outcomes by courts in multiple states.

The State Auto Group markets its insurance products throughout the United States. Plaintiffs seeking to bring claims against the Company for the matters to which the Proposed Amendment relates could use the Company s diverse operations to bring duplicative suits in multiple jurisdictions, or to choose a forum state that may not apply Ohio law to the Company s internal affairs in the same manner as the Designated Courts would be expected to do so. The Board of Directors believes that the Designated Courts are best suited to address disputes involving the Company, given that the Company is incorporated in Ohio, has its headquarters in Columbus, Ohio, and the Designated Courts have expertise in matters involving Ohio law. Although some plaintiffs might prefer to litigate matters in a forum outside of Ohio because another court may be viewed as being more convenient and/or favorable to them, the Board of Directors believes that the benefits to the Company and its shareholders, including more efficient litigation, outweigh these concerns. In addition, adoption of the Proposed Amendment helps to reduce the risk that the Company could be involved in duplicative litigation in more than one forum, as well as the risk that the outcome of cases in multiple forums could be inconsistent even though each forum purports to follow Ohio law. The Proposed Amendment still gives the Board of Directors the flexibility to consent to an alternative forum in instances when the Board deems it appropriate.

The Board of Directors is aware of certain other potential burdens and disadvantages to shareholders in connection with the adoption of the Proposed Amendment, including that plaintiffs who wish to file actions in multiple jurisdictions against the Company and/or its directors, officers and/or employees to increase the settlement value of their actions by increasing the Company s costs to defend against multiple actions would prefer to be able to file actions in multiple jurisdictions. It is also possible that the Proposed Amendment could reduce the likelihood of litigation against the Company and its directors, officers and employees, which litigation

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may be in pursuit of matters beneficial to the Company and its shareholders if successful. Lastly, the Board of Directors is aware that certain proxy advisors and institutional holders may not support the adoption of the Proposed Amendment unless it can be shown that the Company has already suffered material harm as a result of multiple actions in different jurisdictions regarding the same matter.

However, the Company and the Board of Directors have reviewed these potential burdens and disadvantages and believe that the adoption of the Proposed Amendment is in the best interests of the Company and its shareholders. The Company and the Board of Directors have maintained strong governance standards based on best practices, many of which are described in this Proxy Statement. Accordingly, from a governance perspective, the Board of Directors believes that it is more beneficial to the Company and its shareholders to take preventative action before the Company and shareholders are harmed by the practice of actions being filed in plaintiff's favorite jurisdiction or multiple jurisdictions.

If approved, this provision would require that state courts in which applicable claims are asserted in contravention of the Proposed Amendment be willing to enforce its terms. It cannot be assured that all state courts will determine the Proposed Amendment to be enforceable or will be willing to force the transfer of such proceedings to the Designated Courts.

The Proposed Amendment would amend the Current Regulations to add a new Article 10, the full text of which is attached to this Proxy Statement as Exhibit A. You should read Exhibit A in its entirety before making a decision as to how to vote your Common Shares in connection with Proposal Two.

Reasons for Shareholder Approval; Board Recommendation

The Current Regulations require shareholder approval for an amendment in the nature of the Proposed Amendment. The favorable vote of a majority of the outstanding Common Shares is required to approve Proposal Two. Abstentions on this Proposal will have the same effect as a vote against it. Broker non-votes will be counted for purposes of Proposal Two since this Proposal is considered a routine matter on which a broker or other nominee has discretionary authority to vote.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL TWO TO AMEND THE CURRENT REGULATIONS.

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PROPOSAL THREE: AMENDMENT TO THE 2009 EQUITY INCENTIVE COMPENSATION PLAN

Proposal

At the Annual Meeting, shareholders will be asked to consider and vote upon a proposal to amend the Company's 2009 Equity Incentive Compensation Plan (the "2009 Equity Plan" or the "Plan"). This amendment, hereinafter referred to as the "Fourth Amendment," would modify the Plan to: (i) authorize an additional 2,000,000 Common Shares for awards under the Plan; and (ii) add policies in force as a performance goal under the Plan. This modification is proposed to enable the Plan to continue to provide appropriate and meaningful awards and maintain the Plan on a competitive basis.

At the 2009 annual meeting, shareholders first approved the Plan. Shareholders approved the first and second amendments to the Plan at the 2011 and 2013 annual meetings, respectively. The third amendment was approved by the Board of Director in 2014, but shareholder approval was not required for that amendment.

Shares Available for Issuance under the Plan

A total of 3,000,000 Common Shares were reserved for awards under the Plan, 294,735 of which remain available for issuance as of March 8, 2016. Under the Fourth Amendment, an additional 2,000,000 Common Shares would be made available for awards under the Plan.

Each Common Share issued or transferred pursuant to an award of stock options will reduce the aggregate Plan limit of available Common Shares by one Common Share and each Common Share issued or transferred (and in the case of restricted shares, released from all substantial risk of forfeiture) pursuant to an award other than stock options will reduce the aggregate Plan limit of available Common Shares by (i) one Common Share if issued or transferred pursuant to an award granted prior to May 3, 2013; and (ii) three Common Shares if issued or transferred pursuant to an award granted on or after May 3, 2013.

No more than 33% of the Common Shares authorized for issuance under the Plan may be granted in the form of awards other than stock options. The maximum number of Common Shares subject to awards of options, restricted shares and performance shares that may be granted in any calendar year to any individual is 250,000 shares. The maximum number of performance units that may be granted in any calendar year to any individual is 100,000 performance units.

Summary of the Plan

The following discussion describes the important aspects of the Plan. This discussion is intended to be a summary of the material provisions of the Plan and is qualified in its entirety by reference to the full text of the Plan, including the proposed Fourth Amendment, which is attached to this Proxy Statement as Exhibit B. This summary may not include some details that may be important to you. For this reason, you are encouraged to read the Plan in its entirety.

Purpose

The purpose of the Plan is to advance the interests of the Company and its shareholders by enhancing the Company's ability to attract and retain highly qualified key employees and by providing such employees with additional incentives and compensation to achieve the Company's long-term business plans and objectives. The Plan is also intended to encourage and enable key employees to participate in the Company's future prosperity and growth by providing the participants with incentives and compensation based on the Company's performance, development and financial success. These purposes will be achieved by granting to key employees equity-based awards, including stock options, restricted shares, performance shares, performance units and other stock-based awards.

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Eligibility

Only employees of the Company or its parent or one of the Company's or its parent's subsidiaries or affiliates who perform services in an executive, administrative, professional or technical capacity and who, in the opinion of the committee administering the Plan, have responsibilities affecting the management, development or financial success of the Company or one of its subsidiaries or other affiliated entities are eligible to participate in the Plan. As of the date of this Proxy Statement, there were approximately 92 eligible employees.

Administration

The Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Committee"). The Committee's authority to administer the Plan includes, among other things, the authority to grant awards, including the number and type of awards, the frequency of award grants, the terms and conditions of the awards, the number of shares subject to each award and the expiration date of each award. Each award grant must be evidenced by a written award agreement between the employee to whom the award was granted and the Company. In granting awards, the Committee is required to consider the level and responsibility of an employee's position, the employee's performance, level of compensation and assessed potential, as well as any other factors deemed relevant by the Committee. The Committee is also authorized to determine the vesting requirements, if any, that will apply to award grants and to interpret the provisions of the Plan. The Committee has the authority to grant options that are intended to qualify as incentive stock options under the Internal Revenue Code of 1986, as amended (the "Code"), options that do not qualify as incentive stock options under the Code (these options are sometimes referred to as "non-qualified stock options"), restricted shares, performance shares, performance units and other stock-based awards. Awards may be granted alone or in addition to other awards granted under the Plan. No consideration is received by the Company or its subsidiaries for the granting of awards under the Plan.

Change in Control

Under the Plan, a "change in control" or "potential change in control" of the Company is generally defined by reference to the acquisition of a specified percentage of voting power, or a change in the composition of the Board of Directors, or an acquisition of the Company that requires shareholder approval, or a transaction involving the Company or its affiliates that requires shareholder approval and has the effect of causing the Company to cease to be a public company. If a participant incurs a termination of employment with the Company and any related entity within one year of the change in control or potential change in control or if the change in control or potential change in control involves a change in the ownership of the Company and the successor entity does not provide benefits of equal or greater value at the time of the transaction, all of the participant's stock options which are not otherwise vested automatically vest and become exercisable in full and all restrictions applicable to any restricted stock, performance shares or performance units automatically lapse such that those awards become fully vested.

Within 30 days following a "change in control" or "potential change in control" of the Company, all outstanding options may be terminated by the Company upon the payment of cash in an amount equal to the difference between the exercise price of the option and the "change in control price" (generally defined to mean the highest fair market value of the Common Shares underlying the options at any time during the sixty-day period preceding the event that triggered the change in control or potential change in control provisions). If the change in control price is less than the exercise price, the option may be terminated without any payment.

Amendment and Termination

The Board of Directors may at any time suspend, amend or terminate the Plan. However, except as otherwise provided in the Plan, the Board of Directors may not take any action that materially and adversely affects any outstanding awards granted under the Plan without obtaining the consent of the individuals who have

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been granted such awards and certain amendments may require shareholder approval. In addition, no amendment may be made by the Board of Directors without shareholder approval if the amendment would effect any change which requires shareholder approval under any applicable laws or regulations, such as the Nasdaq Marketplace Rules.

By its terms, the Plan will automatically terminate in 2019.

Stock Options

Exercise Price. The exercise price of either incentive stock options or non-qualified stock options granted under the Plan may not be less than the fair market value of the Common Shares underlying the option at the time the option is granted. Fair market value is currently based upon the last sale price of the Common Shares as reported on the Nasdaq Stock Market as of the close of the trading day the option is granted. However, if a participant owns more than 10% of the combined voting power of all classes of stock issued by the Company, the exercise price of an incentive stock option granted to such person may not be less than 110% of such fair market value. The exercise price of any stock option granted under the Plan may not be changed or modified after the time of grant unless such change or modification is made with the prior approval of the Company's shareholders. Except in connection with a corporate transaction involving the Company, the Company will not reduce the exercise price of outstanding stock options or cancel outstanding stock options in exchange for cash, other awards, or stock options with an exercise price that is less than the exercise price of the original stock option without shareholder approval.

Term. No stock option may be exercised more than ten years after the date of grant (five years with respect to an incentive stock option granted to a participant who owns more than 10% of the combined voting power of all classes of stock issued by the Company). Each stock option is subject to a minimum three-year vesting period. Participants whose employment is terminated for reasons other than retirement, disability or death must exercise all of their vested options within the earlier of 90 days of such termination or the expiration date of the option (options which are not vested immediately lapse). If a participant's employment is terminated due to illegal conduct, all of such participant's options, whether or not vested, immediately lapse without any further force or effect as of such termination). If the participant's employment is terminated as a result of retirement, disability or death, all of such participant's options, whether or not vested, become exercisable immediately and must be exercised by the following dates:

Reason for Termination

of Employment	Incentive Stock Options	Non-Qualified Stock Options
Retirement	within the earlier of 90 days of such termination or the expiration date of the option	on or before the expiration date of the option or, in the case of options granted on or after January 1, 2015, within the earlier of five years from retirement or the expiration date of the option
Disability	within the earlier of one year of such termination or the expiration date of the option	on or before the expiration date
Death	within the earlier of one year of such termination or the expiration date of the option	on or before the expiration date of the option or, in the case of termination within 90 days of the expiration date, within 180 days from the date of termination

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Non-Transferability of Options. Options may be transferred only by will or the laws of descent and distribution except that the Committee may authorize gifts of options (provided that they are not incentive stock options) to a grantee's parents, spouse, children, grandchildren, nieces or nephews, or to the trustee of a trust for the principal benefit of one or more of these persons or to a partnership whose only partners are one or more of these persons. In addition, non-qualified stock options and, if permitted by applicable law, incentive stock options may be transferred pursuant to qualified domestic relations orders to a grantee's former spouse. Options may be exercised only by a grantee or his or her legal representative or, if gifted or otherwise transferred, by the permitted transferee or the transferee's legal representative.

Restricted Shares

Restricted shares are Common Shares that are subject to a vesting schedule and other restrictions. The vesting schedule and the lapsing, if any, of the restrictions, are determined by the Committee. Each restricted share has a minimum three-year vesting period, except that restricted shares issued on or after January 1, 2014, shall immediately vest upon the participant's death or retirement. Unless otherwise determined by the Committee, upon the voluntary or involuntary termination of the participant's employment for any other reason, including disability, any shares still subject to restrictions will be forfeited. The Committee has the authority to determine the voting rights (which may be full or limited), dividend rights (which may be full or limited) and other shareholder rights associated with the restricted shares during the restriction period.

Performance Shares and Units

Performance shares and performance units are awards that will result in a payment to a participant only if the performance goals established by the Committee are achieved during the performance period established by the Committee. In making such awards, the Committee establishes organizational performance goals, including, without limitation, earnings, return on capital, revenue, premiums, net income, earnings per share, combined ratio, loss ratio, expense ratio, assets, equity, cash flows, stock price, total shareholders' return or any other performance goal approved by the shareholders of the Company in accordance with Code Section 162(m), which, depending on the extent to which they are met, determines the number and/or the value of performance shares and performance units to be paid out to participants. If the shareholders approve the Fourth Amendment, policies in force as defined in the Fourth Amendment, will be added to the list of organizational performance goals. The Committee also establishes the performance period for each award, which period may not be less than one calendar year.

The purchase price of performance shares will be established by the Committee, and may be zero. The maximum number of performance shares that may be granted in any calendar year to any individual is 250,000 shares. Because (i) the maximum number of performance shares that may be granted in any calendar year to any individual is 250,000 shares, and (ii) the minimum performance period is one calendar year, the maximum amount of compensation that could be paid to a participant for a one-year performance period would be equal to 250,000 shares multiplied by the fair market value of such performance shares.

Performance units will have an initial dollar value established by the Committee at the time of the award, but will not be less than a value per unit equal to the fair market value of a Common Share of the Company. The maximum number of performance units that may be granted in any calendar year to any individual will be 100,000 performance units. Because (i) the maximum number of performance units that may be granted in any calendar year to any individual is 100,000 units, and (ii) the minimum performance period is one calendar year, the maximum amount of compensation that could be paid to a participant for a one-year performance period would be equal to 100,000 multiplied by the fair market value of the Common Shares.

Upon the termination of employment before the end of any performance period due to death, disability or change in control, the Committee, taking into consideration the performance of the participant and the performance of the Company over the performance period, may authorize the payment of all or a portion of the

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amount which would have been paid to the participant had such participant's employment continued to the end of the performance period. If the participant's employment terminates for any other reason, all performance shares and performance units are forfeited. The Committee will have the authority to determine the voting rights (which may be full or limited), dividend rights (which may be full or limited) and other shareholder rights associated with the performance shares during the performance period. However, dividends and/or dividend rights may not be granted in connection with unearned performance shares.

Other Stock-Based Awards

The Committee is authorized, subject to limitations under applicable law, to grant such other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, the Common Shares and factors that may influence the value of Common Shares, as deemed by the Committee to be consistent with the purposes of the Plan, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Common Shares, purchase rights for Common Shares, awards with value and payment contingent upon performance of the Company or any other factors designated by the Committee and awards valued by reference to the book value of Common Shares or the value of securities of or the performance of specified subsidiaries of the Company. The Committee determines the terms and conditions of such awards.

Non-Transferability of Awards Other than Options

Awards other than options granted under the Plan generally may not be sold, pledged, transferred or assigned. If the Committee makes an award under the Plan transferable, such award may contain such additional terms and conditions as the Committee deems appropriate.

Forfeiture Events

The Board may require that all or a portion of the value of the awards, as well as any gain on the exercise of awards, is subject to a repayment obligation upon (i) the violation of any non-competition and/or confidentiality obligations applicable to the participant, (ii) a financial restatement where the amount of the participant's award was calculated based on the achievement of certain financial results which were the subject of a subsequent financial restatement and in which the participant engaged in fraudulent misconduct that caused or substantially contributed to the need for the restatement (if the participant's award would have been lower if the financials had been properly reported); or (iii) the participant engages in any wrongful conduct during the participant's employment with the Company or its parent or the Company's or its parent's subsidiary corporations or affiliates which has a material adverse effect on the Company or such entity.

Stock Price

On March 8, 2016, the closing price of the Common Shares as reported by the Nasdaq Stock Market was \$21.50.

Number of Awards

The number of awards that an employee may receive under the Plan is at the discretion of the Committee and therefore cannot be determined in advance.

Federal Income Tax Information

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and the Company and its affiliates of awards granted under the Plan. Tax consequences for any particular individual may be different.

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Stock Options

Federal income taxation of the various events related to the options (option grant, option exercise and sale of shares) under the Plan is different for incentive stock options and non-qualified stock options.

Non-Qualified Stock Options. In general, for federal income tax purposes under present law:

- (a) The grant of a non-qualified stock option, by itself, will not result in income to the optionee.
- (b) Except as provided in (e) below, the exercise of a non-qualified stock option (in whole or in part, according to its terms) will result in ordinary income to the optionee at that time in an amount equal to the excess (if any) of the fair market value of the shares underlying the option on the date of exercise over the exercise price.
- (c) Except as provided in (e) below, the optionee's tax basis of shares acquired upon the exercise of a non-qualified stock option, which will be used to determine the amount of any capital gain or loss on a future taxable disposition of such shares, will be the fair market value of the shares on the date of exercise.
- (d) No deduction will be allowable to the Company upon the grant of a non-qualified stock option, but upon the exercise of a non-qualified stock option, a deduction will be allowable to the Company at that time in an amount equal to the amount of ordinary income realized by the optionee exercising the option if the Company withholds appropriate federal income tax and provided that the deduction is not otherwise disallowed under the Code.
- (e) With respect to the exercise of a non-qualified stock option and the payment of the exercise price by the delivery of shares, to the extent that the number of shares received does not exceed the number of shares surrendered, no taxable income will be realized by the optionee at that time, the tax basis of shares received will be the same as the tax basis of shares surrendered and the holding period of the optionee in shares received will include his or her holding period in shares surrendered. To the extent that the number of shares received exceeds the number of shares surrendered, ordinary income will be realized by the optionee at that time in the amount of the fair market value of such excess shares, the tax basis of such shares will be equal to the fair market value of such shares at the time of exercise and the holding period of the optionee in such shares will begin on the date such shares are transferred to the optionee.

Incentive Stock Options. In general, for federal income tax purposes under present law:

- (a) Neither the grant nor the exercise of an incentive stock option, by itself, will result in income to the optionee; however, the excess of the fair market value of the shares underlying the option at the time of exercise over the exercise price is (unless there is a disposition of shares acquired upon exercise of an incentive stock option in the taxable year of exercise) includable in alternative minimum taxable income which may, under certain circumstances, result in an alternative minimum tax liability to the optionee.
- (b) If shares acquired upon the exercise of an incentive stock option are disposed of in a taxable transaction after the later of two years from the date on which the incentive stock option is granted or one year from the date on which such shares are transferred to the optionee, long-term capital gain or loss will be realized by the optionee in an amount equal to the difference between the amount realized by the optionee and the optionee's basis which, except as provided in (e) below, is the exercise price.
- (c) Except as provided in (e) below, if the shares acquired upon the exercise of an incentive stock option are disposed of within the two-year period from the date of grant or the one-year period after the transfer of the shares to the optionee upon exercise of the

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incentive stock option (a disqualifying disposition):

- (i) Ordinary income will be realized by the optionee at the time of the disqualifying disposition in the amount of the excess, if any, of the fair market value of the shares at the time of such exercise over the exercise price, but not in an amount exceeding the excess, if any, of the amount realized by the optionee over the exercise price.

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- (ii) Short-term or long-term capital gain will be realized by the optionee at the time of the disqualifying disposition in an amount equal to the excess, if any, of the amount realized over the fair market value of the shares at the time of such exercise.
- (iii) Short-term or long-term capital loss will be realized by the optionee at the time of the disqualifying disposition in an amount equal to the excess, if any, of the exercise price over the amount realized.
- (d) No deduction will be allowed to the Company with respect to incentive stock options granted or shares transferred upon exercise thereof, except that if a disposition is made by the optionee within the two-year period referred to above, the Company will be entitled to a deduction in the taxable year in which the disposition occurred in an amount equal to the amount of ordinary income realized by the optionee making the disposition, provided that the deduction is not otherwise disallowed under the Code.
- (e) With respect to the exercise of an incentive stock option and the payment of the option price by the delivery of shares to the extent that the number of shares received does not exceed the number of shares surrendered, no taxable income will be realized by the optionee at that time, the tax basis of the shares received will be the same as the tax basis of the shares surrendered and the holding period (except for purposes of the one-year period referred to in (c) above) of the optionee in the shares received will include his or her holding period in the shares surrendered. To the extent that the number of shares received exceeds the number of shares surrendered, no taxable income will be realized by the optionee at that time, such excess shares will be considered incentive stock option stock with a zero basis and the holding period of the optionee in such shares will begin on the date such shares are transferred to the optionee. If the shares surrendered were acquired as the result of the exercise of an incentive stock option and the surrender takes place within two years from the date the option relating to the surrendered shares was granted or within one year from the date of such exercise, the surrender will result in a disqualifying disposition and the optionee will realize ordinary income at the time of exercise of the shares surrendered over the basis of such shares. If any of the shares received are disposed of within one year after the shares are transferred to the optionee, the optionee will be treated as first disposing of the shares with a zero basis.

Restricted Shares, Performance Shares and Performance Units

A participant generally will not have taxable income at the time an award of restricted shares, performance shares or performance units is granted. Instead, he or she will recognize as ordinary income at the time of the lapse of the applicable restrictions an amount equal to the fair market value of the restricted shares, performance shares or performance units at the time of such lapse. However, the recipient of a restricted shares, performance shares or performance units award may elect to recognize income at the time he or she receives the award in an amount equal to the fair market value of the shares underlying the award (less any cash paid for the shares) on the date the award is granted. The Company generally will be entitled to a tax deduction in connection with an award under the Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income, provided that the Company satisfies applicable withholding requirements and the deduction is not otherwise disallowed under the Code.

Reasons for Shareholder Approval; Board Recommendation

Under the Nasdaq Marketplace Rules, the Company is required to receive shareholder approval for modifications to the material terms of stock option and purchase plans in which officers or employees participate. For this reason, the Company's shareholders are being asked to approve the Fourth Amendment.

The favorable vote of a majority of the outstanding Common Shares voted on this Proposal is required to approve the Fourth Amendment. Abstentions will have the same effect as not voting or expressing a preference, as the case may be. Abstentions and broker non-votes will not have a positive or negative effect on the outcome of this Proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE FOURTH AMENDMENT.

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**PROPOSAL FOUR: APPROVAL OF MATERIAL TERMS
OF THE OUTSIDE DIRECTORS RESTRICTED SHARE UNIT PLAN**

Proposal

At the Annual Meeting, shareholders will be asked to consider and vote upon a proposal to approve the material terms of the State Auto Financial Corporation Outside Directors Restricted Share Unit Plan (the Proposed RSU Plan). The Board of Directors approved the terms of the Proposed RSU Plan on March 4, 2016. Many terms of the Proposed RSU Plan are substantially the same as the Company's previous outside directors restricted share unit plan approved by the shareholders on May 11, 2005, which plan terminated by its own terms on May 31, 2015. One difference is an increase in the maximum numbers of Restricted Share Units that can be awarded under the Proposed RSU Plan.

Restricted Share Units to be Granted under the Proposed RSU Plan

Promptly following each annual meeting of the shareholders of the Company on and after the date of approval of the Proposed RSU Plan by the shareholders of the Company, each non-employee member of the Board of Directors (an Outside Director) shall be automatically granted an award of restricted share units (Restricted Share Units) in such number as determined by the administrative committee in accordance with the terms of the Proposed RSU Plan. The administrative committee of the Proposed RSU Plan has the power to increase or decrease the number of Restricted Share Units to be awarded to each Outside Director not to exceed a maximum annual award of 10,000 Restricted Share Units, without shareholder approval, if the administrative committee believes the increase or decrease is warranted to maintain director compensation at an appropriate level.

Summary of the Proposed RSU Plan

The following discussion of the Proposed RSU Plan is qualified in its entirety by reference to the full text of the plan, which is attached to this Proxy Statement as Exhibit C.

Purpose and Eligibility

The purpose of the Proposed RSU Plan is to advance the interests of the Company and its shareholders by aligning and strengthening the interests of Outside Directors with the interests of the Company's shareholders. This purpose will be achieved by annually granting to Outside Directors Restricted Share Units. As of the date of this Proxy Statement, there were seven incumbent Outside Directors.

The Proposed RSU Plan is intended to comply with the requirements of Section 409A of the Code and applicable regulations. To the extent inconsistent with Section 409A or regulations issued thereunder, the Proposed RSU Plan shall be subsequently amended, subject to any required shareholder approval, to conform to such requirements within the applicable time limitations established by the Internal Revenue Service (IRS).

Administration

The Proposed RSU Plan is to be administered by the Compensation Committee of the Company's Board of Directors or such other individuals designated by the Compensation Committee to oversee administration of the Proposed RSU Plan (the Administrator). The Committee's authority to administer the Proposed RSU Plan includes, among other things, the discretionary authority to interpret the Proposed RSU Plan, the discretionary authority to determine all questions relating to the rights and status of participants, the discretionary authority to make such rules and regulations for the administration of the Proposed RSU Plan as are not inconsistent with the terms and provisions of the Proposed RSU Plan or applicable law and the authority to change or waive any requirements of the Proposed RSU Plan to conform with the law or to meet special circumstances not anticipated.

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or covered under the Proposed RSU Plan. The Committee also has the power to increase or decrease the number of Restricted Share Units to be awarded to each of the Outside Directors not to exceed a maximum annual award of 10,000 Restricted Share Units. Any such increase or decrease may be made without further shareholder approval if, in the Committee's discretion, such an increase is warranted to maintain Outside Director compensation at a competitive level. Each award grant must be evidenced by a written Restricted Share Unit Agreement between the Outside Director to whom the award was granted and the Company.

No consideration is received by the Company or its subsidiaries for the granting of awards under the Proposed RSU Plan.

Recapitalization, Reorganization, Consolidation, Merger or Asset Sale

In the event of (a) a recapitalization, reorganization, reclassification, consolidation, or merger of the Company, or any sale of all or substantially all of the Company's assets to another person or entity, or any other transaction which is effected in such a way that holders of Common Shares are entitled to receive (either directly or upon subsequent liquidation) other stock, securities, or assets with respect to or in exchange for Common Shares of the Company or (b) a change in the Company's outstanding Common Shares by reason of stock splits, stock dividends, or any other increase or reduction of the number of outstanding Common Shares without receiving consideration in the form of money, services, or property deemed appropriate by the Board (an Organic Change), the value of each participant's Restricted Share Units shall be adjusted so as to contain a value equivalent to such shares of stock, securities or assets (including cash) as would have been issued or payable with respect to or in exchange for the number of Common Shares credited to such participant's account immediately before such Organic Change, as if such Common Shares had been outstanding.

Amendment and Termination

The Board of Directors may at any time amend, modify, suspend, discontinue or terminate the Proposed RSU Plan. However, no amendment shall operate retroactively so as to affect adversely any rights to which a participant may be entitled under the provisions of the Proposed RSU Plan as in effect prior to such action and no amendment may be made by the Board of Directors without shareholder approval if the amendment would effect any change which requires shareholder approval under any applicable laws or regulations, such as the Nasdaq Marketplace Rules. Additionally, any suspension, discontinuance or termination of the Proposed RSU Plan shall not (a) accelerate the obligation to make payments to any person not otherwise currently entitled to payments under the Proposed RSU Plan, unless otherwise specifically so determined by the Company and permitted by applicable law, (b) relieve the Company of its obligations to make payments to any person then entitled to payments under the Proposed RSU Plan, or (c) reduce the balance of any participant's existing account under the Proposed RSU Plan.

Funding

All benefits under the Proposed RSU Plan are unfunded and the Company shall not be required to establish any special or separate fund or to make any other segregation of assets in order to assure the payment of any amounts under the Proposed RSU Plan; provided, however, that in order to provide a source of payment for its obligations under the Proposed RSU Plan, the Company may establish a trust fund. The right of a participant or his beneficiary to receive a distribution under the Proposed RSU Plan shall be an unsecured claim against the general assets of the Company, and neither the participant nor his beneficiary shall have any rights in or against any amounts credited under the Proposed RSU Plan or any other specific assets of the Company. All amounts credited under the Proposed RSU Plan to the benefit of a participant shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate.

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Restricted Share Units

A Restricted Share Unit is a unit representing one Common Share. The number of Restricted Share Units awarded to participants under the Proposed RSU Plan and their corresponding value will be maintained in a separate bookkeeping account of the Company until the time of distribution of the Restricted Share Units in a form and at such time as are provided under the Proposed RSU Plan.

Annual Awards. Promptly following each annual meeting of the shareholders of the Company on and after the date of approval of the Proposed RSU Plan by the shareholders of the Company, each Outside Director shall be automatically granted an award of Restricted Share Units under the Proposed RSU Plan in such number as determined by the administrative committee in accordance with the terms of the Proposed RSU Plan. The Committee has the power to increase or decrease the number of Restricted Share Units to be awarded to each of the Outside Directors not to exceed a maximum annual award of 10,000 Restricted Share Units. Each Outside Director will be one hundred percent vested in an award upon the completion of six months of service as an Outside Director from the date of grant, provided that in the event of the Outside Director's death or disability, he or she will be one hundred percent vested in the total amount credited to his or her account. For each award of Restricted Share Units, the Outside Director will select the form of payment upon distribution of awarded Restricted Share Units. The form of payment will be either in cash or Common Shares.

Value. The value of each Restricted Share Unit, on any particular day, shall be: (a) the last reported sale price of a Common Share on the Nasdaq National Market System on the most recent previous trading day (or if there was no trading in the Common Shares on that day, then on the next preceding trading day in which there was trading in the Common Shares), or (b) the mean between the high and low bid and ask price of a Common Share as reported by the National Association of Securities Dealers on the most recent previous trading day, or (c) the last reported sale price of a Common Share on any stock exchange on which the Common Shares are listed on the most recent previous trading day (or if there was no trading in the Common Shares on that day, then on the next preceding trading day on which there was trading in the Common Shares).

Dividends. Whenever a dividend is made with respect to the Common Shares, participants under the Proposed RSU Plan shall receive, with respect to each Restricted Share Unit held in the account of the participant on the dividend record date, additional Restricted Share Units in an amount equal to the value of the dividend.

Distribution of Benefits. Other than withdrawals for an unforeseeable emergency, a participant under the Proposed RSU Plan will not receive payment with respect to the vested Restricted Share Units until his or her termination from membership on the Board of Directors due to death, disability, or any other reason. With respect to terminations of membership on the Board of Directors other than due to death or disability, the participant may elect to receive the distribution either (i) in a single lump sum payment approximately six months following the termination, or (ii) in annual installment payments over a period of five or ten years, as selected by the participant. In the event of death or disability, the distribution shall be made as soon as practicable following the termination from membership on the Board of Directors. Upon the occurrence of an unforeseeable emergency, the participant shall be eligible to receive payment of the amount necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the participant's assets (to the extent such liquidation would not itself cause severe financial hardship). The amount determined to be properly distributable under applicable regulations under Code Section 409A shall be payable in a single lump sum only. An unforeseeable emergency means a severe financial hardship to the participant resulting from an illness or accident of the participant, the participant's spouse, or a dependent of the participant (as defined in Code Section 152(a)); loss of the participant's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.

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Non-Transferability

Generally no rights or benefits under the Proposed RSU Plan shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge; and any attempt to anticipate, alienate, sell, assign, pledge, encumber or charge the same shall be void. No right or benefit shall be liable for or subject to the debts, contracts, liabilities, or torts of the person entitled to such benefits.

Federal Income Tax Information

The following is a summary of the general federal income tax consequences to U.S. taxpayers and the Company of awards of Restricted Share Units under the Proposed RSU Plan. Tax consequences for any particular individual may be different.

As a deferred compensation plan, a participant generally will not have taxable income at the time of an award of Restricted Shares Units. Instead, at the time of receipt of the deferred compensation plan benefits, he or she will recognize as ordinary income an amount equal to (i) the fair market value of the Common Shares received, if that payment distribution method is elected, or (ii) the cash received, if that payment method is elected. The Company generally will be entitled to a tax deduction in connection with an award of Restricted Shares Units under the Proposed RSU Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income, provided that the Company satisfies applicable withholding requirements and the deduction is not otherwise disallowed under the Code.

Reasons for Shareholder Approval; Board Recommendation

Under the Nasdaq Marketplace Rules, the Company is required to receive shareholder approval of any new equity compensation plan. The Proposed RSU Plan constitutes a new equity compensation plan. For this reason, the Company's shareholders are being asked to approve the Proposed RSU Plan.

The favorable vote of a majority of the outstanding Common Shares voted on this Proposal is required to approve the material terms of the Outside Directors Restricted Share Unit Plan. Abstentions on this Proposal will have the same effect as not voting or expressing a preference, as the case may be. Abstentions and broker non-votes will not have a positive or negative effect on the outcome of this Proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE MATERIAL TERMS OF THE OUTSIDE DIRECTORS RESTRICTED SHARE UNIT PLAN.

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PROPOSAL FIVE: APPROVAL OF MATERIAL TERMS OF THE ONE TEAM INCENTIVE PLAN

Proposal

At the Annual Meeting, shareholders will be asked to consider and vote upon a proposal to approve the material terms of the State Auto Financial Corporation One Team Incentive Plan or OTIP. The Board of Directors approved the terms of the One Team Incentive Plan on March 4, 2016.

Reason for One Team Incentive Plan

The One Team Incentive Plan provides for an annual cash incentive bonus opportunity for all of the Company's regular, active employees based upon the achievement of stated corporate performance goals in relation to the Company's achievement of its annual plan goals. The Board of Directors implemented the OTIP to advance the interests of the Company and its shareholders by providing employees with an incentive bonus for achieving the strategic objectives of the Company. The One Team Incentive Plan is also intended, in part, to provide for performance-based compensation which will not be subject to the deduction limitation rules under Section 162(m) of the Code as applicable to covered employees of the Company.

The One Team Incentive Plan has been designed, in part, to take into account certain limits on the ability of a public corporation to claim tax deductions for compensation paid to certain highly compensated executives. Section 162(m) of the Code generally denies a corporate tax deduction for annual compensation exceeding \$1.0 million paid to any person who is considered a covered employee under Section 162(m) of the Code. However, qualified performance-based compensation paid to covered employees is exempt from this limitation. Covered employees are executive officers and other persons listed in a public corporation's summary compensation table. These executive officers and other persons are also known as NEOs. For the Company, its covered employees, or NEOs, are those persons listed in the Summary Compensation Table found on page 65 of this Proxy Statement. Qualified performance-based compensation is compensation paid based solely upon the achievement of objective performance goals, the material terms of which are approved by the shareholders of the paying corporation.

Description of One Team Incentive Plan

The following discussion describes the important aspects of the One Team Incentive Plan. This discussion is intended to be a summary of the material provisions of the OTIP. Because it is a summary, some details that may be important to you are not included. For this reason, the entire One Team Incentive Plan is attached as Exhibit D to this Proxy Statement. You are encouraged to read the OTIP in its entirety.

Purpose

The purposes of the One Team Incentive Plan are (a) to further our long-term profitable growth and earnings by providing incentives and rewards to all employees who achieve the stated performance goals and strategic objectives which contribute significantly to the achievement of that profitable growth; (b) to focus employees on the key measures that align and drive superior performance and value over the long term; and (c) to assist us in recruiting and maintaining highly talented associates by providing competitive total rewards.

Administration

The Compensation Committee of the Company's Board of Directors (the Committee) will administer the One Team Incentive Plan. Among other things, the Committee will approve the performance goals, bonus amounts and other terms and conditions of awards under the OTIP (subject to the terms of the OTIP). The Committee will also have the authority to establish and amend rules and administrative processes relating to the OTIP and to make all other determinations necessary and advisable for the administration of the OTIP. The Committee may, within its discretion, designate other individuals to assist in the administration of the OTIP;

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provided that such individuals may not exercise any discretion regarding awards for covered employees. All decisions made by the Committee pursuant to the OTIP will be made in the Committee's sole discretion and will be final and binding. Notwithstanding any other provision of the OTIP, the Committee shall not have any discretion or authority to make changes to any award that is intended to qualify as performance-based compensation under Section 162(m) of the Code to the extent that the exercise of such discretion or authority would cause such award not to so qualify.

Eligibility

In general, every regular, active employee of the Company is eligible to be granted awards under the One Team Incentive Plan. Only the Committee may determine the eligibility of employees who are covered employees. An employee who becomes eligible after the beginning of a performance period may participate on a pro-rated basis for that performance period, as determined by the Committee in its sole discretion.

Terms of Awards

Awards under the One Team Incentive Plan will consist of cash amounts payable upon the achievement of specified objective performance goals (a performance bonus award) during a specified performance period. It is anticipated that most performance periods will begin on the first day of the Company's fiscal year and end on the last day of that year. At the beginning of a performance period for a given award, the Committee will approve the performance goal(s) and the amount of the award, each as recommended by executive management, which will be earned if the performance goal(s) are achieved in full, together with any lesser amount that will be earned if the performance goal(s) are only partially achieved. After the end of the performance period, the Committee will certify the extent to which the performance goals are achieved and determine the amount of the award that is payable; provided, however, that the Committee will have the discretion to determine that the actual amount paid with respect to an award will be less than (but not greater than) the amount earned with respect to covered employees.

The One Team Incentive Plan also provides for cash bonus awards that can be issued by members of senior leadership to associates who achieve exemplary performance results. A cash bonus award is a spot award of cash or a cash equivalency, such as a gift card, paid on an immediate basis. Cash bonus awards are not intended to qualify as performance-based compensation as defined in Section 162(m) of the Code. In addition, covered employees are not eligible for cash bonus awards.

Performance Goals; Maximum Award

The performance goals for awards will be based upon the achievement of one or more of the following performance measures of the Company (and/or one or more business segments or sub-groups of the Company) over the performance period: (i) combined ratio; (ii) premium growth; and (iii) policies in force.

The maximum award that may be paid to any participant for any performance period is \$3 million.

Termination of Employment

A participant whose employment terminates during the performance period because of death or disability, will receive a bonus equal to 100% of the participant's target bonus, pro-rated based upon the length of time that the participant was employed by the Company during the performance period, unless the Committee determines otherwise. A participant whose employment terminates during the performance period as a result of retirement (as defined in the OTIP) will receive a bonus based on the achievement of the performance criteria during the performance period, pro-rated based upon the length of time the participant was employed by the Company during the performance period, unless the Committee determines otherwise. Except for terminations due to retirement, death or disability, only participants who are, as of the date an award is paid, either current, active employees or current employees on a leave of absence authorized by the Company shall be entitled to any award.

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earned for the performance period, unless otherwise determined by the Committee.

Amendment and Termination

The One Team Incentive Plan may be amended, modified, suspended or terminated by the Committee at any time, but no such amendment, modification, suspension or termination will affect the payment of any award for a performance period that has already ended or increase the amount of any award. No new awards may be granted during any period of suspension of the One Team Incentive Plan or after its termination.

Reasons for Shareholder Approval; Board Recommendation

The Company's shareholders are being asked to approve the material terms of the One Team Incentive Plan so that compensation paid by the Company under the One Team Incentive Plan to certain of its highly compensated executive officers qualifies as performance-based compensation under Section 162(m) of the Code, which will then permit the Company to claim tax deductions for the payment of this compensation without the limitations imposed by Section 162(m) of the Code.

The favorable vote of a majority of the outstanding Common Shares voted on this Proposal at the Annual Meeting is required to approve the material terms of the One Team Incentive Plan. Abstentions on this Proposal have the same effect as not voting or expressing a preference, as the case may be. Abstentions and broker non-votes will not have a positive or negative effect on the outcome of this Proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE MATERIAL TERMS OF THE ONE TEAM INCENTIVE PLAN.

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**PROPOSAL SIX: RATIFICATION OF SELECTION OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Company's Board of Directors has selected Ernst & Young LLP as the Company's independent registered public accounting firm for 2016. Ernst & Young LLP has served as the Company's independent registered public accounting firm since 1994.

Reasons for Shareholder Approval; Board Recommendation

The Audit Committee and the Board of Directors believe that the appointment of Ernst & Young LLP for 2016 is appropriate because of the firm's reputation, qualifications and experience. Although not required, the Board of Directors is submitting the selection of Ernst & Young LLP to the Company's shareholders for ratification.

The favorable vote of a majority of the outstanding Common Shares present at the Annual Meeting is required to approve the ratification of the selection of Ernst & Young LLP. Abstentions on this Proposal will have the same effect as a vote against it. Broker non-votes will be counted for purposes of Proposal Six since this Proposal is considered a routine matter on which a broker or other nominee has discretionary authority to vote.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2016.

The Audit Committee will reconsider the appointment of Ernst & Young LLP if its selection is not ratified by the Company's shareholders. Even if the selection of Ernst & Young LLP is ratified by shareholders, the Audit Committee, in its discretion, could decide to terminate the engagement of Ernst & Young LLP and to engage another independent registered public accounting firm if the Audit Committee determines such action to be necessary or desirable.

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**PROPOSAL SEVEN: ADVISORY VOTE ON COMPENSATION OF
NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT**

We are asking shareholders to approve, on a non-binding and advisory basis, the compensation of the Company's Named Executive Officers as disclosed in this Proxy Statement.

The Board of Directors and the Compensation Committee believe that the policies and practices articulated in the Compensation Discussion and Analysis are effective in achieving the objectives of our executive compensation program. The Board of Directors urges you to read the Compensation Discussion and Analysis, which describes in more detail how our executive compensation policies and practices operate and are designed to achieve the objectives of our executive compensation programs, as well as the tables, notes and narrative disclosure relating to the compensation of the Named Executive Officers, set forth on pages 40 through 84 of this Proxy Statement, which provide detailed information on the compensation of our Named Executive Officers.

We are asking shareholders to approve the following advisory resolution at the Annual Meeting:

RESOLVED, that the shareholders of the Company approve, on an advisory basis, the compensation of the Company's Named Executive Officers as disclosed in the Proxy Statement for the Company's 2016 Annual Meeting of Shareholders under the Compensation Discussion and Analysis section and the tables, notes and narrative disclosure relating to the compensation of the Named Executive Officers of the Company.

Reasons for Shareholder Approval; Board Recommendation

This advisory vote on executive compensation is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the policies and practices described in this Proxy Statement. This advisory vote on executive compensation is advisory and, therefore, is not binding on the Company, the Board of Directors or the Compensation Committee. However, the Board of Directors and the Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program.

The favorable vote of a majority of the outstanding Common Shares voted on this advisory Proposal is required to approve the non-binding vote. Abstentions have the same effect as not voting or expressing a preference, as the case may be. Abstentions and broker non-votes will not have a positive or negative effect on the outcome of this Proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS.

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CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

Relationship with State Auto Mutual and Changes in Board Structure

Our parent is State Auto Mutual, a mutual insurance company organized in 1921. State Auto Mutual currently owns approximately 62.6% of the outstanding Common Shares. In 1990, State Auto Mutual engaged in a corporate restructuring which, among other things, resulted in the formation of STFC as a wholly owned subsidiary of State Auto Mutual. In 1991, State Auto Mutual sold approximately 30% of its ownership interest in STFC in a public stock offering. While State Auto Mutual's ownership interest in STFC has declined since STFC's initial public offering, the State Auto Mutual Board has made public its determination that it is in the best interest of State Auto Mutual to maintain a 60% or greater ownership interest in STFC.

We qualify as a controlled company under the Nasdaq listing rules because State Auto Mutual owns more than a majority of the voting power for the election of our directors. A controlled company is exempt from a number of Nasdaq corporate governance requirements. Notwithstanding this qualification, our corporate governance operates in a manner consistent with that of a non-controlled company. For example, a majority of the members of our Board are independent directors as determined under the Nasdaq listing rules. See Director Independence. In addition, the members of both our Compensation and Nominating and Governance Committees are composed entirely of independent directors as determined under the Nasdaq listing rules. See Board Meetings and Board Committee Meetings.

We and our subsidiaries operate and manage our businesses in conjunction with State Auto Mutual and its subsidiaries and affiliates under various management and cost sharing agreements under the leadership and direction of the same senior management team. In addition, our insurance subsidiaries participate in a pooling arrangement with State Auto Mutual and certain of its insurance subsidiaries and affiliates. This pooling arrangement covers all of the property and casualty insurance written by our insurance subsidiaries. See Related Person Transactions Transactions Involving State Auto Mutual for additional information concerning these intercompany agreements and arrangements.

In 2014, the Nominating and Governance Committee of our Board and the Nominating and Governance Committee of the State Auto Mutual Board (collectively, the N&G Committees) began a process to consider a potential restructuring of the STFC and State Auto Mutual Boards (collectively, the Boards). In broad terms, the N&G Committees considered whether or not it was in the best interest of their respective constituencies to create more overlapping, common directors on the STFC and State Auto Mutual Boards and their committees, which would result in board and committee structures that might be more similar to what they looked like when STFC was initially formed and went public. In addition, the N&G Committees considered the size of each Board and the total number of directors comprising both Boards. The N&G Committees also considered the current skill sets of directors and whether such skill sets would remain appropriate after anticipating the retirement of certain directors. The N&G Committees identified various reasons in support of their belief that a restructuring would be in the best interest of their respective constituencies, included the following continuing to improve the communications and engagement between boards and committees, improving knowledge transfer and sharing, cost savings through eliminated positions, continuing to improve communications and efficiencies between directors and management, and improving skill sets and expertise.

As a result of this process, each of the N&G Committees recommended to its respective Board, and each Board approved, a structure in which each board would have two additional common directors, i.e., two directors (other than our President and Chief Executive Officer) that serve on both the STFC and State Auto Mutual Boards. In that regard, at the State Auto Mutual 2015 annual meeting of members, Robert E. Baker, at that time only a director of STFC, was elected as a director of State Auto Mutual. Likewise, Michael J. Fiorile, at that time only a director of State Auto Mutual, was elected as a Class III director of the Company at the 2015 annual meeting of STFC shareholders.

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Director Independence

The Nominating and Governance Committee has affirmatively determined that seven of our eight incumbent directors, namely Robert E. Baker, David J. D'Antoni, Michael J. Fiorile, Eileen A. Mallesch, Thomas E. Markert, David R. Meuse and S. Elaine Roberts, are independent as determined by the Nasdaq listing rules. The Nominating and Governance Committee made this determination based upon its review of information included in director questionnaires provided by each of the incumbent directors and a report by our General Counsel. The information reviewed by the Nominating and Governance Committee included information on the relationships between Mr. Meuse and Stonehenge Financial Holdings and RED Capital Group, two of his affiliates. From time to time we make investments in debt and equity funds sponsored by affiliates of these two companies and receive securities broker-dealer services from an affiliate of RED Capital Group. The Nominating and Governance Committee of our Board affirmatively determined that Mr. Meuse is independent as determined under the Nasdaq listing rules because our investments in the funds sponsored by, and the fees paid to, these two companies and their affiliates are not material to us or to them and Mr. Meuse's relationships with these companies do not interfere with his independent judgment in carrying out his responsibilities as a director. The fees paid to either Stonehenge Financial Holdings and RED Capital Group in 2015 did not exceed \$200,000. The information reviewed by the Nominating and Governance Committee also included information on the relationships of Mr. Baker and Mr. Fiorile as directors of State Auto Mutual. The Nominating and Governance Committee of our Board affirmatively determined that Mr. Baker and Mr. Fiorile are independent as determined under the Nasdaq listing rules.

Our Corporate Governance Guidelines expressly provide that five of the six standing committees are to be comprised solely of independent directors. Our Board's Audit, Compensation, Independent, Nominating and Governance, and Risk Committees meet this standard. Our Board of Directors has concluded that the Investment and Finance Committee does not need to be comprised solely of independent directors. Michael E. LaRocco, who is our employee, and thus does not qualify as an independent director as determined under the Nasdaq listing rules, is a member of the Investment and Finance Committee.

Board and Executive Leadership: CEO Succession

We are managed under the direction of our Board in the interest of all shareholders. Our Board delegates its authority to our senior executive team to manage the day-to-day operations and ongoing affairs of our business. Our Board requires that our senior executive team review major initiatives and actions with our Board prior to implementation.

As discussed elsewhere in this Proxy Statement, we and our subsidiaries operate and manage our businesses in conjunction with State Auto Mutual and its subsidiaries and affiliates under various management and cost sharing agreements under the leadership and direction of the same senior management team, and our insurance subsidiaries participate in a pooling arrangement with State Auto Mutual and certain of its insurance subsidiaries and affiliates which covers all of the property and casualty insurance written by our insurance subsidiaries. Because of this corporate structure, our Company and State Auto Mutual have always had a leadership structure whereby the same person served as both chairman and chief executive officer of both companies. As such, Robert P. Restrepo, Jr. had been chairman and chief executive officer of both our Company and State Auto Mutual until May 8, 2015 when, in anticipation of his upcoming retirement and pursuant to his employment agreement, Mr. Restrepo stepped down as chief executive officer in connection with Michael E. LaRocco's election as Chief Executive Officer of our Company and State Auto Mutual. From that date through the end of 2015, we had a leadership structure whereby the positions of chairman and chief executive officer of our Company and State Auto Mutual were separate, with Mr. LaRocco serving as Chief Executive Officer and Mr. Restrepo remaining as Chairman until he retired as an employee of the Company on December 31, 2015.

In early 2015, our Board and the State Auto Mutual Board began the process of considering whether or not to maintain our historical leadership structure, whereby the same person served as chairman and chief executive officer of both our Company and State Auto Mutual, or to implement a different leadership structure, such as a

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structure whereby the positions of chief executive officer and chairman are separated with a non-executive, independent director serving as chairman. As part of this process, the Boards considered a number of factors, including the following:

whether separating the positions of chief executive officer and chairman could cause unnecessary complexity and complications and perhaps a split in our strategic direction, given the manner in which our businesses are operated;

whether the qualifications of our chief executive officer are better suited for the combined role or a separate position;

the possible benefits of separating the positions of chairman and chief executive officer, such as creating a level of accountability in that the chief executive officer reports directly to another person, i.e., the chairman, rather than a board; and

the extent to which separating the roles allows the person holding such position to focus on the responsibilities and duties of the chief executive officer or chairman, as the case may be.

Another factor considered by the Boards was the parent-subsidiary relationship of State Auto Mutual and STFC. This factor was especially important in considering the leadership structure of the two companies. After weighing the above factors, as well as others, it was determined that it was in the best interests of shareholders and policyholders to have a leadership structure whereby the parent company, State Auto Mutual, had an independent chairman and that the subsidiary, STFC, would be more effective and efficient with a combined chairman and chief executive officer. Accordingly, as of January 1, 2016, our Board elected Mr. LaRocco to serve as Chairman of the Board in addition to serving as our Chief Executive Officer. On the other hand, the State Auto Mutual Board of Directors separated the duties of chairman and chief executive officer and elected James E. Kunk, an independent director, as its Chairman, with Mr. LaRocco continuing to serve as the Chief Executive Officer of State Auto Mutual.

Irrespective of whether or not the positions of chief executive officer and chairman are combined or separated, our Board has adopted a governance structure which includes:

A Board composed entirely of independent directors as determined under the Nasdaq listing rules, other than the Company's chief executive officer;

A Board composed of a majority of directors independent from State Auto Mutual;

An Independent Committee composed entirely of directors independent from State Auto Mutual and as determined under the Nasdaq listing rules;

Audit and Compensation Committees composed entirely of independent directors as determined under the Nasdaq listing rules; and

Established governance structures and processes and ethics guidelines.

Under our historical structure that our Board decided to maintain, we have a designated Lead Director. Our Lead Director's responsibilities include, among other things, leading the executive session of our independent directors, being a primary advisor to and principal point of contact with our chairman and chief executive officer, working with our chairman and soliciting input from other Board members to develop a regular board meeting schedule and an agenda for each meeting, securing input from other directors on agenda items, ensuring the adequate flow of information from management to our Board and delivering the chief executive officer's performance evaluation on behalf of the Compensation Committee of our Board. Our current Lead Director is David R. Meuse, who has served in such position since May 2015.

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Board Meetings and Board Committee Meetings

Our Board of Directors held five Board meetings during the fiscal year ended December 31, 2015. Five of our incumbent directors attended 100% of the Board meetings and the meetings of all committees on which they served. Our other three incumbent directors attended 90% or more of the Board meetings and the meetings of all committees on which they served.

Our Board has established an Audit Committee, a Compensation Committee, a Nominating and Governance Committee, a Risk Committee, an Investment and Finance Committee and a standing Independent Committee. All of the members of the Audit, Compensation, Nominating and Governance, Risk and Independent Committees are independent as determined by the Nasdaq listing rules. In addition, all of the members of the Audit and Compensation Committees are independent under the heightened standards of independence under the applicable rules of the Securities and Exchange Commission (the SEC) and Nasdaq. Finally, none of the members of the Independent Committee serve as directors of State Auto Mutual. Our Board has adopted charters for each of the foregoing committees. The current charters for each of these committees, along with our Corporate Governance Guidelines, Board of Directors Ethical Principles, Employee Code of Business Conduct and Code of Ethics for Senior Financial Officers, are available on our website. To access these documents, go to <http://www.stateauto.com> and click on Investors and then Corporate Governance.

The Audit Committee is charged with several responsibilities, including: (1) appointment, compensation, retention and oversight of the work performed by our independent registered public accounting firm; (2) reviewing our accounting functions, operations and management; (3) considering the adequacy and effectiveness of our internal controls and internal auditing methods and procedures; (4) meeting and consulting with our independent registered public accounting firm and with our financial and accounting personnel concerning the foregoing matters; (5) reviewing with our independent registered public accounting firm the scope of their audit and the results of their examination of our financial statements; (6) participating in the process of administering our Employee Code of Business Conduct and our Board of Directors Ethical Principles set forth in our Corporate Governance Guidelines; (7) establishing procedures for receipt, retention and treatment of compliance regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters; and (8) approving in advance any other work performed by our independent registered public accounting firm that it is permitted by law to perform for us. Present members of the Audit Committee are Chairperson Eileen A. Mallesch, Robert E. Baker, David R. Meuse and Alexander B. Trevor. Based on a recommendation of the Audit Committee, our Board has designated Eileen A. Mallesch as the Audit Committee Financial Expert. The Audit Committee held nine meetings during 2015.

The Compensation Committee is charged with several responsibilities, including: (1) evaluating and approving the compensation and fringe benefits provided to our executive officers and adopting compensation policies and practices that appropriately align pay and performance; (2) approving stock-based compensation plans and grants thereunder to employees or members of the Board; and (3) evaluating the compensation provided to the members of the Board and its committees. Present members of the Compensation Committee are Chairperson Robert E. Baker, David J. D. Antoni, Eileen A. Mallesch, Thomas E. Markert and S. Elaine Roberts. The Compensation Committee held seven meetings during 2015.

Our executive officers also serve as executive officers of State Auto Mutual, and, in general, during 2015 the compensation expenses associated with our executive officers were allocated 65% to us and our subsidiaries and 35% to State Auto Mutual and its subsidiaries and affiliates under the Pooling Arrangement. See also Related Person Transactions Transactions Involving State Auto Mutual. It is for this reason that the Board of Directors of State Auto Mutual has its own compensation committee. The members of the State Auto Mutual compensation committee attend meetings of our Compensation Committee with regard to the compensation and benefit matters applicable to our and their executive officers, and report on such matters to the State Auto Mutual Board of Directors. Present members of the State Auto Mutual compensation committee are Chairperson Robert E. Baker, Dwight E. Smith, Michael J. Fiorile and James E. Kunk.

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The Nominating and Governance Committee is charged with several responsibilities, including: (1) selecting nominees for election as directors; (2) reviewing the performance of our Board and individual directors; and (3) annually reviewing and recommending to our Board changes to our Corporate Governance Guidelines and Board of Directors Ethical Principles. Present members of the Nominating and Governance Committee are Chairperson Michael J. Fiorile, S. Elaine Roberts, David J. D. Antoni, and Thomas E. Markert. The Nominating and Governance Committee met six times in 2015. See also Nomination of Directors.

The Risk Committee's purpose is to assist the Board in fulfilling its risk management oversight responsibilities, including oversight of the Company's enterprise risk management systems and processes. Some of the Risk Committee's chief duties include: (1) reviewing with management the Company's risk appetite statement; (2) monitoring and discussing with management the Company's major enterprise risk exposures and the strategies and programs addressing these exposures; and (3) discussing information and technology risks with management. Present members of the Risk Committee are Chairperson Michael J. Fiorile, Thomas E. Markert, S. Elaine Roberts and Alexander B. Trevor. The Risk Committee met four times in 2015.

The Investment and Finance Committee oversees our investment functions and those of our insurance subsidiaries. Present members of the Investment and Finance Committee are Chairperson David R. Meuse, David J. D. Antoni, Michael E. LaRocco and Alexander B. Trevor. The Investment and Finance Committee met four times in 2015.

Independent Committees of STFC and State Auto Mutual

Both STFC and State Auto Mutual have standing Independent Committees. The members of the STFC Independent Committee must be independent from State Auto management, be independent as determined under the Nasdaq listing rules, and be independent from State Auto Mutual. The members of the State Auto Mutual Independent Committee must be both independent from State Auto management and independent from STFC.

These Independent Committees principally serve to review related person transactions between or among us and our subsidiaries, on the one hand, and State Auto Mutual and its subsidiaries and affiliates, on the other. Accordingly, before our Company and State Auto Mutual may enter into a related person transaction, each of these Independent Committees must separately review the agreement and separately recommend approval to their respective Boards. Also, each of these Independent Committees separately reviews, on an annual basis, related person transactions which by their terms contain no specific termination date or which renew automatically at the end of the current term, and each of these Independent Committees separately decides whether to recommend that their respective Boards approve the renewal of such related person transaction.

These Independent Committees also help to determine which entity, our Company or State Auto Mutual, is best suited to take advantage of transactional opportunities presented by a third party. In evaluating business opportunities, these Independent Committees may elect to meet jointly, but in any event it is understood that each Independent Committee must receive substantially identical information in making its respective evaluation of the business opportunity. In this context, our Independent Committee strives to vigorously protect the interests of STFC and its shareholders, considering only the merits of the proposal, free from extraneous considerations or influences. As part of the review process, each of these Independent Committees must separately evaluate the business opportunity and separately recommend approval to their respective Boards before the two Boards of Directors may vote on any joint recommendation to proceed with the business transaction.

Present members of our Independent Committee are Chairperson Alexander B. Trevor, David J. D. Antoni, Eileen A. Mallesch, Thomas E. Markert, David R. Meuse and S. Elaine Roberts, none of whom are members of the Board of Directors of State Auto Mutual. Present members of the State Auto Mutual Independent Committee are Chairperson James E. Kunk, Marsha P. Ryan, Edwin J. Simcox, Dwight E. Smith and Roger P. Sugarman, none of whom are members of our Company's Board of Directors. Our Independent Committee, which only meets as needed, held one meeting in 2015.

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Executive Sessions of Independent Directors

Our Board meets in executive session, without management present, prior to each regular quarterly Board meeting. Consistent with our Corporate Governance Guidelines and the Nasdaq listing rules, during 2015 there were four executive sessions with only independent directors present. In addition, following each regular quarterly Board meeting, our Board meets in executive session with the State Auto Mutual board of directors, without management present. Our Corporate Governance Guidelines provide that the Lead Director acts as the presiding director at these executive sessions.

Compensation of Outside Directors and Outside Director Compensation Table

Our non-employee directors, who we refer to as our outside directors, receive compensation for the services they perform as members of our Board and the Board committees on which they serve. The charter for the Compensation Committee requires the Compensation Committee to annually review the compensation of our outside directors and recommend any changes to such compensation to our Board. Because the Boards of Directors of our Company and State Auto Mutual have two common directors on each Board, the Compensation Committees of our Company and State Auto Mutual meet jointly to consider the director compensation arrangements for both Boards. At these meetings, usually held in November, the Compensation Committees review peer group compensation and market data provided by Pay Governance, LLC, the compensation consultant for the Compensation Committee. For 2015, the total annual retainer paid to our outside directors was \$145,000, with \$75,000, or 52%, paid in cash and \$70,000, or 48%, paid in equity in the form of RSUs. For 2016, our Compensation Committee recommended to our Board, and our Board approved, maintaining the total annual retainer paid to our outside directors at the 2015 level.

No meeting fees are payable to any of our directors, as our directors are expected to attend and participate in all meetings of the Board and the Board committees on which they serve without the incentive of additional compensation. Our Board may, however, elect to pay additional meeting fees to directors if it determines that extraordinary circumstances warrant the formation of a special committee or necessitate a large number of meetings. No additional meeting fees were paid to our directors in 2015. For 2016, each chairperson of our permanent Board committees is to receive an additional \$7,500 annual cash retainer, the same amount as paid in 2015, other than the chairpersons of the Audit Committee and the Compensation Committee, who are to receive an additional annual cash retainer of \$17,500 and \$12,500, respectively, the same amounts as paid in 2015. The ad hoc executive search committee established in 2014 to identify and hire our new chief executive officer was disbanded after the first quarter of 2015 upon the selection of Mr. LaRocco as our new chief executive officer. For the first quarter of 2015, the chairperson of this ad hoc committee received an additional cash retainer of \$3,750, and the committee members received a cash retainer of \$1,875, the same quarterly fees they received in 2014. Our Lead Director will receive an additional cash retainer of \$20,000, the same amount as paid in 2015. We reimburse our outside directors for the travel expenses they incur to attend Board and committee meetings and an annual Board retreat. The Company also reimburses each of our outside directors for the travel expenses incurred by a guest of the outside director to attend the annual Board retreat, subject to applicable tax laws.

Our outside directors may defer all or any portion of the cash compensation they receive for Board or committee service under our deferred compensation plan for directors. The amount of cash compensation earned by each director in 2015, whether or not deferred, is included in the amounts shown in the Fees Paid or Earned in Cash column of the 2015 Outside Director Compensation table set forth below.

Our outside directors also have received equity compensation in the form of RSUs granted pursuant to our Outside Directors Restricted Share Unit Plan, which plan terminated by its own terms on May 31, 2015 (the Old RSU Plan). See Proposal Four for discussion of a proposed new Outside Directors Restricted Share Unit Plan (the Proposed RSU Plan) that would replace the Old RSU Plan. The terms of the Proposed RSU Plan are substantially the same as the terms of the Old RSU Plan. Accordingly, the following description applies to both the Old RSU Plan and the Proposed RSU Plan, referred to in either case as the Directors RSU Plan, unless

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otherwise indicated: An RSU is a unit representing one Common Share. The value of each RSU, on any particular day, is equal to the last reported sale price of a Common Share on the Nasdaq Stock Market on the immediately previous trading day. Following each annual meeting of shareholders, each outside director automatically receives an annual award of RSUs. Under the Old RSU Plan, the annual award was 1,400 RSUs, but our Compensation Committee had the authority to decrease the amount of such annual award to not less than 500 RSUs or to increase the amount of such annual award to not more than 5,000 RSUs without shareholder approval. For 2015, our Compensation Committee determined that each outside director would be awarded a number of RSUs equal to the targeted annual equity compensation for outside directors divided by the average daily closing price of a Common Share during the prior (2014) calendar year. This calculation resulted in each outside director receiving an award of 3,273 RSUs following our 2015 annual meeting of shareholders. Under the Proposed RSU Plan, the number of RSUs awarded annually will be determined by the administrative committee in accordance with the terms of the Proposed RSU Plan. The Compensation Committee has the power to increase or decrease the number of RSUs to be awarded to each of the outside directors not to exceed a maximum annual award of 10,000 RSUs.

Under the Directors RSU Plan, whenever a dividend is paid with respect to our Common Shares, an amount equal to the value of the dividend is paid to the holders of RSUs with respect to each RSU in their account on the dividend record date in the form of additional RSUs. RSUs vest upon the completion of six months of service as an outside director from the date of grant. Outside directors are generally required to hold their RSUs until their service on the Board terminates, at which time such outside director may settle his or her RSUs in cash or Common Shares payable, at the director's election, in a single lump sum or in annual installments over a five- or ten-year period. An outside director elected or appointed to the Board outside of an annual meeting of our shareholders will be granted a pro rata amount of RSUs based upon the number of anticipated days after the date of election or appointment until our next annual meeting of shareholders.

2015 Outside Director Compensation

In 2015, our outside directors received the following compensation:

Name	Fees Paid or Earned in Cash (\$)	Restricted Share Unit Awards \$(1)	Total (\$)
Robert E. Baker	95,000	76,195	171,195
David J. D. Antoni	75,000	76,195	151,195
Michael J. Fiorile(2)	41,250	76,195	117,445
Eileen A. Mallesch	96,250	76,195	172,445
Thomas E. Markert			