

Edgar Filing: State Auto Financial CORP - Form 10-Q

State Auto Financial CORP

Form 10-Q

August 08, 2017

false--12-31Q2201710-Q0000874977Accelerated FilerState Auto Financial

CORP5070000047000000868000001805000008340000016960000020000040000020000040000063090000066050000053700
0000874977 2017-01-01 2017-06-30 0000874977 2017-07-28 0000874977 2016-12-31 0000874977 2017-06-30
0000874977 us-gaap:PreferredClassAMember 2017-06-30 0000874977 us-gaap:PreferredClassAMember 2016-12-31
0000874977 us-gaap:PreferredClassBMember 2016-12-31 0000874977 us-gaap:PreferredClassBMember 2017-06-30
0000874977 2016-04-01 2016-06-30 0000874977 2017-04-01 2017-06-30 0000874977 2016-01-01 2016-06-30
0000874977 2015-12-31 0000874977 2016-06-30 0000874977 us-gaap:DebtSecuritiesMember 2016-01-01
2016-06-30 0000874977 us-gaap:CashAndCashEquivalentsMember 2017-01-01 2017-06-30 0000874977
us-gaap:DebtSecuritiesMember 2016-04-01 2016-06-30 0000874977 us-gaap:DebtSecuritiesMember 2017-01-01
2017-06-30 0000874977 us-gaap:EquitySecuritiesMember 2017-04-01 2017-06-30 0000874977
us-gaap:CashAndCashEquivalentsMember 2017-04-01 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
2017-01-01 2017-06-30 0000874977 us-gaap:CashAndCashEquivalentsMember 2016-04-01 2016-06-30 0000874977
us-gaap:DebtSecuritiesMember 2017-04-01 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember 2016-04-01
2016-06-30 0000874977 us-gaap:CashAndCashEquivalentsMember 2016-01-01 2016-06-30 0000874977
us-gaap:EquitySecuritiesMember 2016-01-01 2016-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:LargeCapSecuritiesMember 2016-01-01 2016-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:LargeCapSecuritiesMember 2017-01-01 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:LargeCapSecuritiesMember 2016-04-01 2016-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:SmallCapSecuritiesMember 2017-04-01 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:SmallCapSecuritiesMember 2016-01-01 2016-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:SmallCapSecuritiesMember 2017-01-01 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:LargeCapSecuritiesMember 2017-04-01 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:SmallCapSecuritiesMember 2016-04-01 2016-06-30 0000874977
us-gaap:FederalHomeLoanBankOfCincinnatiMember 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
us-gaap:SalesMember 2017-01-01 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:OtherThanTemporaryImpairmentsMember 2017-04-01 2017-06-30 0000874977
stfc:OtherInvestedAssetsMember 2016-04-01 2016-06-30 0000874977 us-gaap:DebtSecuritiesMember
stfc:OtherThanTemporaryImpairmentsMember 2017-04-01 2017-06-30 0000874977
stfc:OtherInvestedAssetsMember 2017-01-01 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
us-gaap:SalesMember 2016-01-01 2016-06-30 0000874977 us-gaap:DebtSecuritiesMember
stfc:OtherThanTemporaryImpairmentsMember 2016-04-01 2016-06-30 0000874977
us-gaap:EquitySecuritiesMember stfc:OtherThanTemporaryImpairmentsMember 2016-01-01 2016-06-30
0000874977 us-gaap:DebtSecuritiesMember stfc:OtherThanTemporaryImpairmentsMember 2016-01-01 2016-06-30
0000874977 us-gaap:EquitySecuritiesMember us-gaap:SalesMember 2016-04-01 2016-06-30 0000874977
us-gaap:EquitySecuritiesMember us-gaap:SalesMember 2017-04-01 2017-06-30 0000874977
stfc:OtherInvestedAssetsMember 2017-04-01 2017-06-30 0000874977 stfc:OtherInvestedAssetsMember 2016-01-01
2016-06-30 0000874977 us-gaap:EquitySecuritiesMember stfc:OtherThanTemporaryImpairmentsMember
2017-01-01 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:OtherThanTemporaryImpairmentsMember 2016-04-01 2016-06-30 0000874977 us-gaap:DebtSecuritiesMember
stfc:OtherThanTemporaryImpairmentsMember 2017-01-01 2017-06-30 0000874977 us-gaap:DebtSecuritiesMember
2016-12-31 0000874977 us-gaap:DebtSecuritiesMember us-gaap:USStatesAndPoliticalSubdivisionsMember
2016-12-31 0000874977 us-gaap:EquitySecuritiesMember stfc:SmallCapSecuritiesMember 2017-06-30 0000874977
us-gaap:EquitySecuritiesMember 2016-12-31 0000874977 us-gaap:DebtSecuritiesMember
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-06-30 0000874977 us-gaap:DebtSecuritiesMember
us-gaap:USTreasuryAndGovernmentMember 2016-12-31 0000874977 us-gaap:DebtSecuritiesMember
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-06-30 0000874977
us-gaap:DebtSecuritiesMember us-gaap:CorporateDebtSecuritiesMember 2016-12-31 0000874977
us-gaap:DebtSecuritiesMember 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember

Edgar Filing: State Auto Financial CORP - Form 10-Q

stfc:LargeCapSecuritiesMember 2016-12-31 0000874977 us-gaap:DebtSecuritiesMember
us-gaap:USTreasuryAndGovernmentMember 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
stfc:MutualandexchangetradedfundsDomainMember 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember
2017-06-30 0000874977 us-gaap:DebtSecuritiesMember us-gaap:CorporateDebtSecuritiesMember 2017-06-30
0000874977 stfc:OtherInvestedAssetsMember 2017-06-30 0000874977 stfc:OtherInvestedAssetsMember 2016-12-31
0000874977 us-gaap:EquitySecuritiesMember stfc:LargeCapSecuritiesMember 2017-06-30 0000874977
us-gaap:EquitySecuritiesMember stfc:MutualandexchangetradedfundsDomainMember 2016-12-31 0000874977
us-gaap:EquitySecuritiesMember stfc:SmallCapSecuritiesMember 2016-12-31 0000874977
us-gaap:DebtSecuritiesMember
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2016-12-31 0000874977
stfc:MutualandexchangetradedfundsDomainMember 2017-06-30 0000874977 stfc:LargeCapSecuritiesMember
2016-12-31 0000874977 stfc:LargeCapSecuritiesMember 2017-06-30 0000874977
stfc:MutualandexchangetradedfundsDomainMember 2016-12-31 0000874977 us-gaap:AffiliatedEntityMember
2017-06-30 0000874977 us-gaap:FairValueInputsLevel3Member 2017-06-30 0000874977
stfc:InternationalfundsMember 2016-12-31 0000874977 stfc:InternationalfundsMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel1Member us-gaap:CorporateDebtSecuritiesMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel2Member 2016-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel3Member
stfc:SmallCapSecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel3Member
us-gaap:USStatesAndPoliticalSubdivisionsMember 2016-12-31 0000874977 us-gaap:FixedMaturitiesMember
2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member us-gaap:USStatesAndPoliticalSubdivisionsMember
2016-12-31 0000874977 us-gaap:USTreasuryAndGovernmentMember 2016-12-31 0000874977
us-gaap:FairValueInputsLevel3Member us-gaap:EquitySecuritiesMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel3Member us-gaap:CorporateDebtSecuritiesMember 2017-06-30 0000874977
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member
stfc:MutualandexchangetradedfundsDomainMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel3Member stfc:OtherInvestedAssetsMember 2017-06-30 0000874977
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2016-12-31 0000874977
us-gaap:FairValueInputsLevel2Member stfc:OtherInvestedAssetsMember 2016-12-31 0000874977
stfc:SmallCapSecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel2Member
stfc:SmallCapSecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel2Member
stfc:OtherInvestedAssetsMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel3Member
us-gaap:FixedMaturitiesMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel1Member
stfc:OtherInvestedAssetsMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:EquitySecuritiesMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:USTreasuryAndGovernmentMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:FixedMaturitiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel3Member
us-gaap:CorporateDebtSecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel3Member
us-gaap:USTreasuryAndGovernmentMember 2017-06-30 0000874977 us-gaap:EquitySecuritiesMember 2017-06-30
0000874977 us-gaap:FairValueInputsLevel1Member 2016-12-31 0000874977
us-gaap:FairValueInputsLevel3Member stfc:MutualandexchangetradedfundsDomainMember 2016-12-31
0000874977 us-gaap:FairValueInputsLevel1Member stfc:OtherInvestedAssetsMember 2016-12-31 0000874977
us-gaap:EquitySecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
stfc:SmallCapSecuritiesMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:FixedMaturitiesMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:USTreasuryAndGovernmentMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel1Member stfc:MutualandexchangetradedfundsDomainMember 2017-06-30
0000874977 us-gaap:USStatesAndPoliticalSubdivisionsMember 2016-12-31 0000874977
us-gaap:FairValueInputsLevel1Member stfc:LargeCapSecuritiesMember 2016-12-31 0000874977

Edgar Filing: State Auto Financial CORP - Form 10-Q

us-gaap:FairValueInputsLevel3Member stfc:LargeCapSecuritiesMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel3Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2016-12-31 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:USTreasuryAndGovernmentMember 2016-12-31 0000874977
us-gaap:FairValueInputsLevel3Member stfc:MutualandexchangetradedfundsDomainMember 2017-06-30
0000874977 us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-06-30
0000874977 us-gaap:FairValueInputsLevel1Member us-gaap:FixedMaturitiesMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:EquitySecuritiesMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel2Member 2017-06-30 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:EquitySecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
stfc:SmallCapSecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel3Member
us-gaap:EquitySecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel3Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel1Member us-gaap:CorporateDebtSecuritiesMember 2016-12-31 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:USTreasuryAndGovernmentMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel3Member us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:FixedMaturitiesMember 2016-12-31 0000874977
us-gaap:FairValueInputsLevel2Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel3Member 2016-12-31 0000874977 us-gaap:FixedMaturitiesMember 2016-12-31
0000874977 us-gaap:FairValueInputsLevel3Member us-gaap:USTreasuryAndGovernmentMember 2016-12-31
0000874977 us-gaap:FairValueInputsLevel1Member stfc:LargeCapSecuritiesMember 2017-06-30 0000874977
us-gaap:USTreasuryAndGovernmentMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel3Member
stfc:OtherInvestedAssetsMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel1Member 2017-06-30
0000874977 us-gaap:FairValueInputsLevel1Member stfc:MutualandexchangetradedfundsDomainMember
2016-12-31 0000874977 us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember
2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member stfc:LargeCapSecuritiesMember 2016-12-31
0000874977 us-gaap:FairValueInputsLevel3Member us-gaap:FixedMaturitiesMember 2016-12-31 0000874977
us-gaap:CorporateDebtSecuritiesMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel3Member
stfc:SmallCapSecuritiesMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member
stfc:SmallCapSecuritiesMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:EquitySecuritiesMember 2016-12-31 0000874977 stfc:SmallCapSecuritiesMember 2017-06-30 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember 2016-12-31 0000874977
us-gaap:CorporateDebtSecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2016-12-31 0000874977
us-gaap:FairValueInputsLevel2Member stfc:MutualandexchangetradedfundsDomainMember 2016-12-31
0000874977 stfc:OtherInvestedAssetsMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member
stfc:LargeCapSecuritiesMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2016-12-31 0000874977
stfc:OtherInvestedAssetsMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:USStatesAndPoliticalSubdivisionsMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel3Member
stfc:LargeCapSecuritiesMember 2016-12-31 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:AffiliatedEntityMember 2016-12-31 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:EstimateOfFairValueFairValueDisclosureMember
us-gaap:AffiliatedEntityMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:AffiliatedEntityMember 2016-12-31
0000874977 us-gaap:FairValueInputsLevel2Member us-gaap:AffiliatedEntityMember 2017-01-01 2017-06-30
0000874977 us-gaap:FairValueInputsLevel2Member us-gaap:CarryingReportedAmountFairValueDisclosureMember
us-gaap:AffiliatedEntityMember 2017-06-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:AffiliatedEntityMember 2016-01-01 2016-12-31 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:SubordinatedDebtMember 2017-06-30

Edgar Filing: State Auto Financial CORP - Form 10-Q

0000874977 us-gaap:CarryingReportedAmountFairValueDisclosureMember 2016-12-31 0000874977
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:SubordinatedDebtMember 2017-06-30
0000874977 us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:SubordinatedDebtMember
2016-12-31 0000874977 us-gaap:EstimateOfFairValueFairValueDisclosureMember 2016-12-31 0000874977
us-gaap:FederalHomeLoanBankAdvancesMember 2017-06-30 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:FederalHomeLoanBankOfCincinnatiMember
2017-06-30 0000874977 us-gaap:EstimateOfFairValueFairValueDisclosureMember
us-gaap:FederalHomeLoanBankOfCincinnatiMember 2016-12-31 0000874977
us-gaap:FederalHomeLoanBankAdvancesMember 2016-12-31 0000874977
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FederalHomeLoanBankOfCincinnatiMember
2017-06-30 0000874977 us-gaap:CarryingReportedAmountFairValueDisclosureMember
us-gaap:FederalHomeLoanBankAdvancesMember 2017-06-30 0000874977
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FederalHomeLoanBankAdvancesMember
2017-06-30 0000874977 us-gaap:FederalHomeLoanBankOfCincinnatiMember 2016-12-31 0000874977
us-gaap:SubordinatedDebtMember 2016-12-31 0000874977 us-gaap:SubordinatedDebtMember 2017-06-30
0000874977 us-gaap:CarryingReportedAmountFairValueDisclosureMember 2017-06-30 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:FederalHomeLoanBankAdvancesMember
2016-12-31 0000874977 us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-06-30 0000874977
us-gaap:FederalHomeLoanBankOfCincinnatiMember 2017-06-30 0000874977
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FederalHomeLoanBankAdvancesMember
2016-12-31 0000874977 us-gaap:EstimateOfFairValueFairValueDisclosureMember
us-gaap:SubordinatedDebtMember 2016-12-31 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:FederalHomeLoanBankOfCincinnatiMember
2016-12-31 0000874977 us-gaap:FairValueMeasurementsRecurringMember
us-gaap:AvailableforsaleSecuritiesMember 2017-04-01 2017-06-30 0000874977
us-gaap:FairValueMeasurementsRecurringMember us-gaap:AvailableforsaleSecuritiesMember 2015-12-31
0000874977 us-gaap:FairValueMeasurementsRecurringMember us-gaap:AvailableforsaleSecuritiesMember
2016-01-01 2016-12-31 0000874977 us-gaap:FairValueMeasurementsRecurringMember
us-gaap:AvailableforsaleSecuritiesMember 2017-01-01 2017-03-31 0000874977
us-gaap:FairValueMeasurementsRecurringMember us-gaap:AvailableforsaleSecuritiesMember 2016-12-31
0000874977 us-gaap:FairValueMeasurementsRecurringMember us-gaap:AvailableforsaleSecuritiesMember
2017-06-30 0000874977 us-gaap:FairValueMeasurementsRecurringMember
us-gaap:AvailableforsaleSecuritiesMember 2017-03-31 0000874977 2009-05-01 2009-05-31 0000874977
stfc:UnallocatedlossadjustmentexpenseMember 2017-01-01 2017-06-30 0000874977 stfc:SpecialtyInsuranceMember
2017-01-01 2017-06-30 0000874977 stfc:PersonalInsuranceSegmentsMember 2017-01-01 2017-06-30 0000874977
stfc:PersonalAutoMember 2017-01-01 2017-06-30 0000874977 stfc:ProgramsMember 2016-01-01 2016-06-30
0000874977 stfc:OtherPersonalMember 2017-01-01 2017-06-30 0000874977 stfc:PersonalAutoMember 2016-01-01
2016-06-30 0000874977 us-gaap:CatastropheMember 2016-01-01 2016-06-30 0000874977 stfc:ESPropertyMember
2017-01-01 2017-06-30 0000874977 us-gaap:CatastropheMember 2017-01-01 2017-06-30 0000874977
stfc:HomeownersMember 2017-01-01 2017-06-30 0000874977 stfc:UnallocatedlossadjustmentexpenseMember
2016-01-01 2016-06-30 0000874977 stfc:CommercialAutoMember 2016-01-01 2016-06-30 0000874977
stfc:BusinessInsuranceSegmentsMember 2017-01-01 2017-06-30 0000874977
us-gaap:PensionPlansDefinedBenefitMember 2016-04-01 2016-06-30 0000874977
us-gaap:PensionPlansDefinedBenefitMember 2017-01-01 2017-06-30 0000874977
us-gaap:PensionPlansDefinedBenefitMember 2016-01-01 2016-06-30 0000874977
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2016-04-01 2016-06-30 0000874977
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2016-01-01 2016-06-30 0000874977
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2017-04-01 2017-06-30 0000874977
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2017-01-01 2017-06-30 0000874977
us-gaap:PensionPlansDefinedBenefitMember 2017-04-01 2017-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2016-01-01 2016-06-30 0000874977

Edgar Filing: State Auto Financial CORP - Form 10-Q

us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-03-31 0000874977 2016-03-31 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-03-31 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-01-01 2016-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-04-01 2017-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-06-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-06-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-04-01 2016-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-01-01 2017-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2016-06-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-01-01 2017-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2016-12-31 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-04-01 2017-06-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2015-12-31 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2016-04-01 2016-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2016-03-31 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-03-31 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2015-12-31 0000874977 2017-03-31 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-12-31 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2016-01-01 2016-06-30
0000874977 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-04-01 2017-06-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-04-01 2016-06-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2016-04-01 2016-06-30
0000874977 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-01-01 2017-06-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-01-01 2017-06-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-01-01 2016-06-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2017-01-01 2017-06-30
0000874977 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2016-01-01 2016-06-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2016-04-01 2016-06-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-04-01 2017-06-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2017-04-01 2017-06-30
0000874977 us-gaap:OperatingSegmentsMember 2016-01-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:NetInvestmentIncomeMember 2017-01-01 2017-06-30 0000874977
us-gaap:MaterialReconcilingItemsMember us-gaap:MaterialReconcilingItemsMember 2017-01-01 2017-06-30
0000874977 us-gaap:MaterialReconcilingItemsMember 2016-01-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember 2017-01-01 2017-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceSegmentMember 2016-01-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember 2017-01-01 2017-06-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:PersonalInsuranceSegmentsMember 2016-04-01 2016-06-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:InvestmentOperationsSegmentMember stfc:NetRealizedCapitalGainsMember 2016-04-01 2016-06-30
0000874977 us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2016-01-01 2016-06-30
0000874977 us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceSegmentMember 2017-04-01 2017-06-30
0000874977 us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2017-04-01 2017-06-30

Edgar Filing: State Auto Financial CORP - Form 10-Q

0000874977 us-gaap:MaterialReconcilingItemsMember 2016-04-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceSegmentsMember 2017-04-01 2017-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember 2016-01-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceMember 2017-01-01 2017-06-30 0000874977
stfc:CorporateAndReconcilingItemsMember 2017-01-01 2017-06-30 0000874977
us-gaap:IntersegmentEliminationMember 2017-01-01 2017-06-30 0000874977
stfc:CorporateAndReconcilingItemsMember 2017-04-01 2017-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceSegmentsMember 2016-01-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceMember 2017-01-01 2017-06-30 0000874977
stfc:CorporateAndReconcilingItemsMember 2016-01-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember
stfc:NetRealizedCapitalGainsMember 2017-01-01 2017-06-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:InsuranceSegmentsMember 2017-01-01 2017-06-30 0000874977 us-gaap:MaterialReconcilingItemsMember
2017-04-01 2017-06-30 0000874977 us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceMember 2017-04-01
2017-06-30 0000874977 us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceSegmentMember 2016-04-01
2016-06-30 0000874977 us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember 2016-04-01
2016-06-30 0000874977 us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceMember 2016-04-01
2016-06-30 0000874977 us-gaap:OperatingSegmentsMember 2017-04-01 2017-06-30 0000874977
us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2016-04-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:NetInvestmentIncomeMember 2017-04-01 2017-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceSegmentsMember 2017-01-01 2017-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InsuranceSegmentsMember 2016-04-01 2016-06-30 0000874977
us-gaap:MaterialReconcilingItemsMember us-gaap:MaterialReconcilingItemsMember 2016-01-01 2016-06-30
0000874977 us-gaap:IntersegmentEliminationMember 2017-04-01 2017-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceSegmentsMember 2016-04-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceMember 2016-01-01 2016-06-30 0000874977
stfc:CorporateAndReconcilingItemsMember 2016-04-01 2016-06-30 0000874977
us-gaap:MaterialReconcilingItemsMember 2017-01-01 2017-06-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:InsuranceSegmentsMember 2016-01-01 2016-06-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:BusinessInsuranceSegmentsMember 2017-01-01 2017-06-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:InvestmentOperationsSegmentMember stfc:NetRealizedCapitalGainsMember 2017-04-01 2017-06-30
0000874977 us-gaap:OperatingSegmentsMember 2016-04-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceMember 2016-04-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceMember 2017-04-01 2017-06-30 0000874977
us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2017-01-01 2017-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceMember 2016-01-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember 2017-04-01 2017-06-30 0000874977
us-gaap:MaterialReconcilingItemsMember us-gaap:MaterialReconcilingItemsMember 2017-04-01 2017-06-30
0000874977 us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceSegmentsMember 2017-04-01 2017-06-30
0000874977 us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceMember 2017-04-01 2017-06-30
0000874977 us-gaap:IntersegmentEliminationMember 2016-04-01 2016-06-30 0000874977
us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceMember 2017-01-01 2017-06-30 0000874977
us-gaap:MaterialReconcilingItemsMember us-gaap:MaterialReconcilingItemsMember 2016-04-01 2016-06-30
0000874977 us-gaap:OperatingSegmentsMember stfc:InsuranceSegmentsMember 2017-04-01 2017-06-30
0000874977 us-gaap:OperatingSegmentsMember stfc:NetInvestmentIncomeMember 2016-01-01 2016-06-30
0000874977 us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceMember 2016-01-01 2016-06-30
0000874977 us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember
stfc:NetRealizedCapitalGainsMember 2016-01-01 2016-06-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:SpecialtyInsuranceSegmentMember 2017-01-01 2017-06-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:BusinessInsuranceSegmentsMember 2016-01-01 2016-06-30 0000874977
us-gaap:IntersegmentEliminationMember 2016-01-01 2016-06-30 0000874977 us-gaap:OperatingSegmentsMember

stfc:PersonalInsuranceMember 2016-04-01 2016-06-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:NetInvestmentIncomeMember 2016-04-01 2016-06-30 xbrli:pure iso4217:USD xbrli:shares iso4217:USD
xbrli:shares stfc:position stfc:Agreement stfc:Segment

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2017

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 000-19289

STATE AUTO FINANCIAL CORPORATION

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of
incorporation or organization)

31-1324304

(I.R.S. Employer
Identification No.)

518 East Broad Street, Columbus, Ohio 43215-3976

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (614) 464-5000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Table of Contents

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

On July 28, 2017, the Registrant had 42,069,515 Common Shares outstanding.

Table of Contents

Index to Form 10-Q Quarterly Report for the three and six month periods ended June 30, 2017

Part I. Financial Information

Item 1.	<u>Financial Statements (Unaudited)</u>	
	<u>Condensed consolidated balance sheets – June 30, 2017 and December 31, 2016</u>	<u>1</u>
	<u>Condensed consolidated statements of income – Three months ended June 30, 2017 and 2016</u>	<u>2</u>
	<u>Condensed consolidated statements of income – Six months ended June 30, 2017 and 2016</u>	<u>3</u>
	<u>Condensed consolidated statements of comprehensive income – Three months ended June 30, 2017 and 2016</u>	<u>4</u>
	<u>Condensed consolidated statements of comprehensive income – Six months ended June 30, 2017 and 2016</u>	<u>5</u>
	<u>Condensed consolidated statements of cash flows – Six months ended June 30, 2017 and 2016</u>	<u>6</u>
	<u>Notes to condensed consolidated financial statements – June 30, 2017</u>	<u>7</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</u>
Item 4.	<u>Controls and Procedures</u>	<u>51</u>

Part II. Other Information

Item 1.	<u>Legal Proceedings</u>	<u>52</u>
Item 1A.	<u>Risk Factors</u>	<u>52</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>52</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>52</u>
Item 5.	<u>Other Information</u>	<u>52</u>
Item 6.	<u>Exhibits</u>	<u>53</u>
	<u>Signatures</u>	<u>54</u>

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

PART I – FINANCIAL STATEMENTS**Item 1. Condensed Consolidated Balance Sheets**

(\$ and shares in millions, except per share amounts)

	June 30,	December
	2017	31, 2016
	(unaudited)	
Assets		
Fixed maturities, available-for-sale, at fair value (amortized cost \$2,138.3 and \$2,095.9, respectively)	\$ 2,167.1	\$2,109.3
Equity securities, available-for-sale, at fair value (cost \$321.5 and \$323.1, respectively)	391.4	382.8
Other invested assets, available-for-sale, at fair value (cost \$25.6 and \$25.5, respectively)	50.6	45.1
Other invested assets	5.6	5.4
Notes receivable from affiliate	70.0	70.0
<i>Total investments</i>	2,684.7	2,612.6
Cash and cash equivalents	48.8	51.1
Accrued investment income and other assets	39.7	40.0
Deferred policy acquisition costs (affiliated net assumed \$47.0 and \$50.7, respectively)	125.0	129.8
Reinsurance recoverable on losses and loss expenses payable	2.7	3.6
Prepaid reinsurance premiums	6.0	6.1
Due from affiliate	22.9	—
Current federal income taxes	6.6	6.7
Net deferred federal income taxes	88.9	102.1
Property and equipment, at cost	7.2	7.4
Total assets	\$ 3,032.5	\$2,959.4
Liabilities and Stockholders' Equity		
Losses and loss expenses payable (affiliated net assumed \$660.5 and \$630.9, respectively)	\$ 1,233.6	\$1,181.6
Unearned premiums (affiliated net assumed \$234.9 and \$220.9, respectively)	627.4	617.8
Notes payable (affiliates \$15.2 and \$15.2, respectively)	122.1	122.1
Pension and postretirement benefits (affiliated net ceded \$36.4 and \$40.1, respectively)	67.6	74.4
Due to affiliate	—	2.4
Other liabilities (affiliated net assumed \$17.9 and \$11.0, respectively)	67.4	69.8
Total liabilities	2,118.1	2,068.1
Stockholders' equity:		
Class A Preferred stock (nonvoting), without par value. Authorized 2.5 shares; none issued	—	—
Class B Preferred stock, without par value. Authorized 2.5 shares; none issued	—	—
Common stock, without par value. Authorized 100.0 shares; 48.9 and 48.6 shares issued, respectively, at stated value of \$2.50 per share	122.2	121.6
Treasury stock, 6.8 and 6.8 shares, respectively, at cost	(116.7)	(116.5)
Additional paid-in capital	165.6	159.9
Accumulated other comprehensive income (affiliated net ceded \$51.9 and \$53.7, respectively)	53.4	32.5
Retained earnings	689.9	693.8
Total stockholders' equity	914.4	891.3
Total liabilities and stockholders' equity	\$ 3,032.5	\$2,959.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Condensed Consolidated Statements of Income

	Three months ended June 30	
(unaudited)	2017	2016
Earned premiums (affiliated net assumed \$118.1 and \$117.6, respectively)	\$320.1	\$322.4
Net investment income (affiliates \$1.2 and \$1.2, respectively)	19.1	19.1
Net realized gains (losses) on investments:		
Total other-than-temporary impairment losses	(0.8)	(0.6)
Other net realized investment gains	16.6	7.1
Total net realized gains on investments	15.8	6.5
Other income from affiliates	0.7	0.5
Total revenues	355.7	348.5
Losses and loss expenses (affiliated net assumed \$83.4 and \$86.8, respectively)	230.4	262.9
Acquisition and operating expenses (affiliated net assumed \$71.8 and \$68.4, respectively)	109.9	107.2
Interest expense (affiliates \$0.2 and \$0.2, respectively)	1.5	1.4
Other expenses	2.0	2.1
Total expenses	343.8	373.6
Income (loss) before federal income taxes	11.9	(25.1)
Federal income tax expense (benefit):		
Current	0.2	—
Deferred	3.0	(0.5)
Total federal income tax expense (benefit)	3.2	(0.5)
Net income (loss)	\$8.7	\$(24.6)
Earnings (loss) per common share:		
Basic	\$0.21	\$(0.59)
Diluted	\$0.21	\$(0.59)
Dividends paid per common share	\$0.10	\$0.10

See accompanying notes to condensed consolidated financial statements.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Condensed Consolidated Statements of Income

(\$ in millions, except per share amounts)

	Six months ended June 30	
(unaudited)	2017	2016
Earned premiums (affiliated net assumed \$232.9 and \$231.0, respectively)	\$637.4	\$642.3
Net investment income (affiliates \$2.4 and \$2.4, respectively)	37.8	36.5
Net realized gains (losses) on investments:		
Total other-than-temporary impairment losses	(2.9)	(4.3)
Other net realized investment gains	26.5	12.1
Total net realized gains on investments	23.6	7.8
Other income from affiliates	1.2	1.1
Total revenues	700.0	687.7
Losses and loss expenses (affiliated net assumed \$169.6 and \$180.5, respectively)	464.4	487.9
Acquisition and operating expenses (affiliated net assumed \$152.1 and \$138.9, respectively)	222.1	214.7
Interest expense (affiliates \$0.4 and \$0.4, respectively)	2.9	2.7
Other expenses	3.9	3.7
Total expenses	693.3	709.0
Income (loss) before federal income taxes	6.7	(21.3)
Federal income tax expense:		
Current	0.1	—
Deferred	2.0	0.3
Total federal income tax expense	2.1	0.3
Net income (loss)	\$4.6	\$(21.6)
Earnings (loss) per common share:		
Basic	\$0.11	\$(0.52)
Diluted	\$0.11	\$(0.52)
Dividends paid per common share	\$0.20	\$0.20

See accompanying notes to condensed consolidated financial statements.

3

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Consolidated Statements of Comprehensive Income

<i>(\$ in millions, except per share amounts)</i>	Three months ended June 30	
(unaudited)	2017	2016
Net income (loss)	\$8.7	\$(24.6)
Other comprehensive income, net of tax:		
Net unrealized holding gains on investments:		
Unrealized holding gains	23.8	38.2
Reclassification adjustments for gains realized in net income	(15.8)	(6.5)
Income tax expense	(2.8)	(11.1)
<i>Total net unrealized holding gains on investments</i>	5.2	20.6
Net unrecognized benefit plan obligations:		
Reclassification adjustments for amortization to statements of income:		
Negative prior service cost	(1.4)	(1.4)
Net actuarial loss	1.9	2.3
Income tax expense	(0.2)	(0.2)
<i>Total net unrecognized benefit plan obligations</i>	0.3	0.7
<i>Other comprehensive income</i>	5.5	21.3
Comprehensive income (loss)	\$14.2	\$(3.3)

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Consolidated Statements of Comprehensive Income

<i>(\$ in millions, except per share amounts)</i>	Six months ended June 30	
(unaudited)	2017	2016
Net income (loss)	\$4.6	\$(21.6)
Other comprehensive income, net of tax:		
Net unrealized holding gains on investments:		
Unrealized holding gains	54.6	75.2
Reclassification adjustments for gains realized in net income	(23.6)	(7.8)
Income tax expense	(10.8)	(23.6)
<i>Total net unrealized holding gains on investments</i>	20.2	43.8
Net unrecognized benefit plan obligations:		
Reclassification adjustments for amortization to statements of income:		
Negative prior service cost	(2.8)	(2.8)
Net actuarial loss	4.0	4.7
Income tax expense	(0.5)	(0.6)
<i>Total net unrecognized benefit plan obligations</i>	0.7	1.3
<i>Other comprehensive income</i>	20.9	45.1
Comprehensive income	\$25.5	\$23.5

See accompanying notes to condensed consolidated financial statements.

5

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Condensed Consolidated Statements of Cash Flows

(\$ in millions)

(unaudited)

Cash flows from operating activities:

	Six months ended June 30	
	2017	2016
Net income (loss)	\$4.6	\$(21.6)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, net	6.1	7.4
Share-based compensation	2.8	2.2
Net realized gains on investments	(23.6)	(7.8)
Changes in operating assets and liabilities:		
Deferred policy acquisition benefits	4.8	(2.7)
Accrued investment income and other assets	0.1	(0.4)
Postretirement and pension benefits	(6.0)	(3.8)
Other liabilities and due to/from affiliates, net	(32.5)	(27.8)
Reinsurance recoverable on losses and loss expenses payable and prepaid reinsurance premiums	1.0	0.7
Losses and loss expenses payable	52.0	90.2
Unearned premiums	9.6	7.4
Deferred tax expense (benefit) on share-based awards	1.3	(0.3)
Federal income taxes	1.2	1.0
Net cash provided by operating activities	21.4	44.5
Cash flows from investing activities:		
Purchases of fixed maturities available-for-sale	(244.5)	(292.0)
Purchases of equity securities available-for-sale	(69.0)	(45.0)
Purchases of other invested assets	(0.7)	(0.7)
Maturities, calls and pay downs of fixed maturities available-for-sale	94.5	101.2
Sales of fixed maturities available-for-sale	108.2	126.4
Sales of equity securities available-for-sale	91.9	65.0
Sales of other invested assets available-for-sale	0.5	0.4
Net cash used in investing activities	(19.1)	(44.7)
Cash flows from financing activities:		
Proceeds from issuance of common stock	4.1	3.3
Payments to acquire treasury stock	(0.2)	(0.2)
Payment of dividends	(8.5)	(8.3)
Deferred tax expense (benefit) on share-based awards	—	0.3
Net cash used in financing activities	(4.6)	(4.9)
Net decrease in cash and cash equivalents	(2.3)	(5.1)
Cash and cash equivalents at beginning of period	51.1	58.1
Cash and cash equivalents at end of period	\$48.8	\$53.0
<u>Supplemental disclosures:</u>		
Interest paid (affiliates \$0.4 and \$0.4, respectively)	\$2.8	\$2.6

See accompanying notes to condensed consolidated financial statements.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of State Auto Financial Corporation and Subsidiaries (“State Auto Financial” or the “Company”) have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. In the opinion of the Company, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month period ended June 30, 2017, are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The balance sheet at December 31, 2016, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2016, (the “2016 Form 10-K”). Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the 2016 Form 10-K.

Adoption of Recent Accounting Pronouncements

Employee Share-Based Payment Accounting

The amendments in this guidance simplify the accounting for share-based payment award transactions including: income tax consequences, classification of awards as either equity or liabilities, classification of excess tax benefits, and classification on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company adopted this guidance prospectively at January 1, 2017, and prior periods were not adjusted. For the three and six months ended June 30, 2017, the Company recognized \$1.3 million of income tax expense as a result of adopting this guidance.

Pending Adoption of Recent Accounting Pronouncements

For information regarding accounting pronouncements that the Company has not yet adopted, see the “Pending Adoption of Recent Accounting Pronouncements” section of Note 1 of the Notes to Consolidated Financial Statements in the 2016 Form 10-K.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

2. Investments

The following tables set forth the cost or amortized cost and fair value of available-for-sale securities by lot at June 30, 2017 and December 31, 2016:

(\$ millions)

June 30, 2017

Fixed maturities:

	Cost or amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
U.S. treasury securities and obligations of U.S. government agencies	\$437.5	\$7.8	\$(4.8)	\$440.5
Obligations of states and political subdivisions	613.1	19.4	(0.8)	631.7
Corporate securities	481.3	6.1	(1.2)	486.2
U.S. government agencies mortgage-backed securities	606.4	9.7	(7.4)	608.7
<i>Total fixed maturities</i>	2,138.3	43.0	(14.2)	2,167.1

Equity securities:

Large-cap securities	80.6	34.1	(0.4)	114.3
Small-cap securities	53.0	19.1	—	72.1
Mutual and exchange traded funds	187.9	19.7	(2.6)	205.0
<i>Total equity securities</i>	321.5	72.9	(3.0)	391.4
Other invested assets	25.6	25.0	—	50.6
<i>Total available-for-sale securities</i>	\$2,485.4	\$140.9	\$(17.2)	\$2,609.1

(\$ millions)

December 31, 2016

Fixed maturities:

	Cost or amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
U.S. treasury securities and obligations of U.S. government agencies	\$401.9	\$8.9	\$(6.1)	\$404.7
Obligations of states and political subdivisions	634.6	12.3	(3.2)	643.7
Corporate securities	445.7	6.1	(2.2)	449.6
U.S. government agencies mortgage-backed securities	613.7	8.5	(10.9)	611.3
<i>Total fixed maturities</i>	2,095.9	35.8	(22.4)	2,109.3

Equity securities:

Large-cap securities	108.9	32.7	(2.6)	139.0
Small-cap securities	57.2	21.9	—	79.1
Mutual and exchange traded funds	157.0	8.5	(0.8)	164.7
<i>Total equity securities</i>	323.1	63.1	(3.4)	382.8
Other invested assets	25.5	19.6	—	45.1
<i>Total available-for-sale securities</i>	\$2,444.5	\$118.5	\$(25.8)	\$2,537.2

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The following tables set forth the Company's gross unrealized losses and fair value on its investments by lot, aggregated by investment category and length of time for individual securities that have been in a continuous unrealized loss position at June 30, 2017 and December 31, 2016:

(\$ millions, except # of positions)	Less than 12 months			12 months or more			Total		
	Fair value	Unrealized losses	Number of positions	Fair value	Unrealized losses	Number of positions	Fair value	Unrealized losses	Number of positions
June 30, 2017									
Fixed maturities:									
U.S. treasury securities and obligations of U.S. government agencies	\$262.4	\$(4.8)	33	\$—	\$—	—	\$262.4	\$(4.8)	33
Obligations of states and political subdivisions	68.3	(0.8)	9	—	—	—	68.3	(0.8)	9
Corporate securities	103.7	(1.0)	17	15.9	(0.2)	3	119.6	(1.2)	20
U.S. government agencies mortgage-backed securities	295.5	(6.4)	40	30.4	(1.0)	13	325.9	(7.4)	53
<i>Total fixed maturities</i>	729.9	(13.0)	99	46.3	(1.2)	16	776.2	(14.2)	115
Equity securities:									
Large-cap equity securities	3.9	(0.3)	4	4.6	(0.1)	2	8.5	(0.4)	6
Mutual and exchange traded funds	52.8	(2.6)	1	—	—	—	52.8	(2.6)	1
<i>Total equity securities</i>	56.7	(2.9)	5	4.6	(0.1)	2	61.3	(3.0)	7
<i>Total temporarily impaired securities</i>	\$786.6	\$(15.9)	104	\$50.9	\$(1.3)	18	\$837.5	\$(17.2)	122

(\$ millions, except # of positions)	Less than 12 months			12 months or more			Total		
	Fair value	Unrealized losses	Number of positions	Fair value	Unrealized losses	Number of positions	Fair value	Unrealized losses	Number of positions
December 31, 2016									
Fixed maturities:									
U.S. treasury securities and obligations of U.S. government agencies	\$229.1	\$(6.1)	30	\$—	\$—	—	\$229.1	\$(6.1)	30
Obligations of states and political subdivisions	178.9	(3.2)	26	—	—	—	178.9	(3.2)	26
Corporate securities	102.9	(1.4)	16	29.4	(0.8)	4	132.3	(2.2)	20
U.S. government agencies mortgage-backed securities	341.7	(10.1)	43	20.5	(0.8)	11	362.2	(10.9)	54
<i>Total fixed maturities</i>	852.6	(20.8)	115	49.9	(1.6)	15	902.5	(22.4)	130
Equity securities:									
Large-cap equity securities	9.1	(0.9)	7	8.8	(1.7)	5	17.9	(2.6)	12
Mutual and exchange traded funds	29.9	(0.8)	2	—	—	—	29.9	(0.8)	2
<i>Total equity securities</i>	39.0	(1.7)	9	8.8	(1.7)	5	47.8	(3.4)	14
<i>Total temporarily impaired securities</i>	\$891.6	\$(22.5)	124	\$58.7	\$(3.3)	20	\$950.3	\$(25.8)	144

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The Company reviewed its investments at June 30, 2017, and determined that no additional other-than-temporary impairment ("OTTI") existed in the gross unrealized holding losses other than those listed in the table below. The following table sets forth the realized losses related to other-than-temporary impairments on the Company's investment portfolio recognized for the three and six months ended June 30, 2017 and 2016:

(\$ millions)	Three months		Six months	
	ended June 30		ended June 30	
	2017	2016	2017	2016
Equity securities:				
Large-cap securities	\$—	\$—	\$(1.5)	\$(0.2)
Small-cap securities	(0.8)	(0.6)	(1.4)	(1.8)
Fixed maturities:	—	—	—	(2.3)
<i>Total other-than-temporary impairments</i>	\$(0.8)	\$(0.6)	\$(2.9)	\$(4.3)

The Company regularly monitors its investments that have fair values less than cost or amortized cost for signs of other-than-temporary impairment, an assessment that requires significant management judgment regarding the evidence known. Such judgments could change in the future as more information becomes known, which could negatively impact the amounts reported. Among the factors that management considers for fixed maturity securities are the financial condition of the issuer including receipt of scheduled principal and interest cash flows, and intent to sell, including if it is more likely than not that the Company will be required to sell the investments before recovery. When a fixed maturity has been determined to have an other-than-temporary impairment, the impairment charge is separated into an amount representing the credit loss, which is recognized in earnings as a realized loss, and the amount related to non-credit factors, which is recognized in accumulated other comprehensive income. Future increases or decreases in fair value, if not other-than-temporary, are included in accumulated other comprehensive income.

Among the factors that management considers for equity securities and other invested assets are the length of time and/or the significance of decline below cost, the Company's ability and intent to hold these securities through their recovery periods, the current financial condition of the issuer and its future business prospects, and the ability of the market value to recover to cost in the near term. When an equity security or other invested asset has been determined to have a decline in fair value that is other-than-temporary, the cost basis of the security is adjusted to fair value. This results in a charge to earnings as a realized loss, which is not reversed for subsequent recoveries in fair value. Future increases or decreases in fair value, if not other-than-temporary, are included in accumulated other comprehensive income.

The following table sets forth the amortized cost and fair value of available-for-sale fixed maturities by contractual maturity at June 30, 2017:

(\$ millions)	Amortized cost	Fair value
Due in 1 year or less	\$ 45.5	\$ 45.6
Due after 1 year through 5 years	558.6	563.8
Due after 5 years through 10 years	350.6	354.4
Due after 10 years	577.2	594.6
U.S. government agencies mortgage-backed securities	606.4	608.7
<i>Total</i>	\$ 2,138.3	\$ 2,167.1

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay the obligations with or without call or prepayment penalties.

At June 30, 2017, State Auto P&C had U.S. government agencies mortgage-backed fixed maturity securities, with a carrying value of approximately \$106.5 million, that were pledged as collateral for the FHLB Loans (as defined in Note 3). In accordance with the terms of the FHLB Loans, State Auto P&C retains all rights regarding these pledged securities.

Fixed maturities with fair values of \$9.3 million and \$9.2 million were on deposit with insurance regulators as required by law at June 30, 2017, and December 31, 2016, respectively. The Company retains all rights regarding these securities.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The following table sets forth the components of net investment income for the three and six months ended June 30, 2017 and 2016:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Fixed maturities	\$15.9	\$16.7	\$31.7	\$31.6
Equity securities	2.0	1.5	3.7	3.0
Cash and cash equivalents, and other	1.5	1.3	3.0	2.7
<i>Investment income</i>	19.4	19.5	38.4	37.3
Investment expenses	0.3	0.4	0.6	0.8
<i>Net investment income</i>	\$19.1	\$19.1	\$37.8	\$36.5

The Company's current investment strategy does not rely on the use of derivative financial instruments.

Proceeds on sales of available-for-sale securities were \$200.6 million and \$191.8 million for the six months ended June 30, 2017, and 2016, respectively.

The following table sets forth the realized and unrealized holding gains (losses) on the Company's investment portfolio for the three and six months ended June 30, 2017 and 2016:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Realized gains:				
Fixed maturities	\$2.0	\$0.6	\$2.3	\$2.1
Equity securities	14.6	6.6	24.3	10.7
Other invested assets	0.1	0.1	0.1	0.1
<i>Total realized gains</i>	16.7	7.3	26.7	12.9
Realized losses:				
Equity securities:				
Sales	(0.1)	(0.2)	(0.2)	(0.8)
OTTI	(0.8)	(0.6)	(2.9)	(2.0)
Fixed maturities:				
OTTI	—	—	—	(2.3)
<i>Total realized losses</i>	(0.9)	(0.8)	(3.1)	(5.1)
<i>Net realized gains on investments</i>	\$15.8	\$6.5	\$23.6	\$7.8
Change in unrealized holding gains (losses), net of tax:				
Fixed maturities	\$10.0	\$29.5	\$15.4	\$65.7
Equity securities	(4.4)	2.8	10.2	1.8
Other invested assets	2.4	(0.6)	5.4	(0.1)
Deferred federal income tax liability	(2.8)	(11.1)	(10.8)	(23.6)
<i>Change in net unrealized holding gains (losses), net of tax</i>	\$5.2	\$20.6	\$20.2	\$43.8

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

3. Fair Value of Financial Instruments

Below is the fair value hierarchy that categorizes into three levels the inputs to valuation techniques that are used to measure fair value:

• Level 1 includes observable inputs which reflect quoted prices for identical assets or liabilities in active markets at the measurement date.

• Level 2 includes observable inputs for assets or liabilities other than quoted prices included in Level 1, and it includes valuation techniques which use prices for similar assets and liabilities.

• Level 3 includes unobservable inputs which reflect the reporting entity's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The Company utilizes one nationally recognized pricing service to estimate the majority of its available-for-sale investment portfolio's fair value. The Company obtains one price per security and the processes and control procedures employed by the Company are designed to ensure the value is accurately recorded on an unadjusted basis. Through discussions with the pricing service, the Company gains an understanding of the methodologies used to price the different types of securities, that the data and the valuation methods utilized are appropriate and consistently applied, and that the assumptions are reasonable and representative of fair value. To validate the reasonableness of the valuations obtained from the pricing service, the Company compares to other fair value pricing information gathered from other independent pricing sources. At June 30, 2017, and December 31, 2016, the Company did not adjust any of the prices received from the pricing service.

Transfers between level categorizations may occur due to changes in the availability of market observable inputs. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. There were no transfers between level categorizations during the three and six months ended June 30, 2017, and 2016.

The following sections describe the valuation methods used by the Company for each type of financial instrument it holds that are carried at fair value.

Fixed Maturities

The Company utilizes a third party pricing service to estimate fair value measurements for the majority of its fixed maturities. The fair value estimate of the Company's fixed maturity investments are determined by evaluations that are based on observable market information rather than market quotes. Inputs to the evaluations include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, and other market-observable information. The fixed maturity portfolio pricing obtained from the pricing service is reviewed for reasonableness. The Company regularly selects a random sample of security prices which are compared to one or more alternative pricing sources for reasonableness. Any discrepancies with the pricing are returned to the pricing service for further explanation and, if necessary, adjustments are made. To date, the Company has not identified any significant discrepancies in the pricing provided by its third party pricing service. Investments valued using these inputs include U.S. treasury securities and obligations of U.S. government agencies, obligations of states and political subdivisions, corporate securities (except for a security discussed below), and U.S. government agencies mortgage-backed securities. All unadjusted estimates of fair value for fixed maturities priced by the pricing service are included in the amounts disclosed in Level 2 of the hierarchy. If market inputs are unavailable, then no fair value is provided by the pricing service. For these securities, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a quote; or the Company internally determines the fair values by employing widely accepted pricing valuation models, and depending on the level of observable market inputs, renders the fair value estimate as Level 2 or Level 3. The Company held one corporate fixed maturity security included in Level 3 and estimated its fair value using the present value of the future cash flows. Due to the limited amount of observable market information for this security, the Company included the fair value estimate in Level 3. This security was sold during the second quarter of 2017.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

Equities

The fair value of each equity security is based on an observable market price for an identical asset in an active market and is priced by the same pricing service discussed above. All equity securities are recorded using unadjusted market prices and have been disclosed in Level 1.

Other Invested Assets

Included in other invested assets is one international fund (“the fund”) that invests in equity securities of foreign issuers and is managed by a third party investment manager. The fund had a fair value of \$40.6 million and \$35.7 million at June 30, 2017, and December 31, 2016, respectively, which was determined using the fund’s net asset value. The Company employs procedures to assess the reasonableness of the fair value of the fund including obtaining and reviewing the fund’s audited financial statements. There are no unfunded commitments related to the fund. The Company may not sell its investment in the fund; however, the Company may redeem all or a portion of its investment in the fund at net asset value per share with the appropriate prior written notice. In accordance with Accounting Standard Codification 820-10, this investment is measured at fair value using the net asset value per share practical expedient and has not been classified in the fair value hierarchy. Fair values presented here are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the condensed consolidated balance sheets. The remainder of the Company’s other invested assets consist primarily of holdings in publicly-traded mutual funds. The Company believes that its prices for these publicly-traded mutual funds based on an observable market price for an identical asset in an active market reflect their fair values and consequently these securities have been disclosed in Level 1.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The following tables set forth the Company's available-for-sale investments within the fair value hierarchy at June 30, 2017 and December 31, 2016:

<i>(\$ millions)</i>	Total	Level 1	Level 2	Level 3
June 30, 2017				
Fixed maturities:				
U.S. treasury securities and obligations of U.S. government agencies	\$440.5	\$—	\$440.5	\$—
Obligations of states and political subdivisions	631.7	—	631.7	—
Corporate securities	486.2	—	486.2	—
U.S. government agencies mortgage-backed securities	608.7	—	608.7	—
<i>Total fixed maturities</i>	2,167.1	—	2,167.1	—
Equity securities:				
Large-cap securities	114.3	114.3	—	—
Small-cap securities	72.1	72.1	—	—
Mutual and exchange traded funds	205.0	205.0	—	—
<i>Total equity securities</i>	391.4	391.4	—	—
Other invested assets	10.0	10.0	—	—
<i>Total available-for-sale investments</i>	\$2,568.5	\$401.4	\$2,167.1	\$—

<i>(\$ millions)</i>	Total	Level 1	Level 2	Level 3
December 31, 2016				
Fixed maturities:				
U.S. treasury securities and obligations of U.S. government agencies	\$404.7	\$—	\$404.7	\$—
Obligations of states and political subdivisions	643.7	—	643.7	—
Corporate securities	449.6	—	446.1	3.5
U.S. government agencies mortgage-backed securities	611.3	—	611.3	—
<i>Total fixed maturities</i>	2,109.3	—	2,105.8	3.5
Equity securities:				
Large-cap securities	139.0	139.0	—	—
Small-cap securities	79.1	79.1	—	—
Mutual and exchange traded funds	164.7	164.7	—	—
<i>Total equity securities</i>	382.8	382.8	—	—
Other invested assets	9.4	9.4	—	—
<i>Total available-for-sale investments</i>	\$2,501.5	\$392.2	\$2,105.8	\$3.5

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

For assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the following tables set forth a reconciliation of the beginning and ending balances for the three and six months ended June 30, 2017, and the year ended December 31, 2016, separately for each major category of assets:

<i>(\$ millions)</i>	Fixed maturities
Balance at January 1, 2017	\$ 3.5
Total realized gains – included in earnings	—
Total unrealized losses – included in other comprehensive income	—
Purchases	0.1
Sales	—
Transfers into Level 3	—
Transfers out of Level 3	—
Balance at March 31, 2017	\$ 3.6
Total realized gains – included in earnings	1.4
Total unrealized losses – included in other comprehensive income	—
Purchases	—
Sales	(5.0)
Transfers into Level 3	—
Transfers out of Level 3	—
Balance at June 30, 2017	\$ —

<i>(\$ millions)</i>	Fixed maturities
Balance at January 1, 2016	\$ 3.3
Total realized gains – included in earnings	—
Total unrealized gains – included in other comprehensive income	—
Purchases	0.2
Sales	—
Transfers into Level 3	—
Transfers out of Level 3	—
Balance at December 31, 2016	\$ 3.5

The following sections describe the valuation methods used by the Company for each type of financial instrument it holds that is not measured at fair value but for which fair value is disclosed:

Financial Instruments Disclosed, But Not Carried, At Fair Value*Other Invested Assets*

Included in other invested assets are common stock of the Federal Home Loan Bank of Cincinnati (the "FHLB") and the Trust Securities. The Trust Securities and FHLB common stock are carried at cost, which approximates fair value. The fair value of the FHLB common stock at June 30, 2017, was \$5.1 million and the fair value of the Trust Securities was \$0.5 million. The investments have been placed in Level 3 of the fair value hierarchy.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

Notes Receivable from Affiliate

In May 2009, the Company entered into two separate credit agreements with State Automobile Mutual Insurance Company ("State Auto Mutual") pursuant to which it loaned State Auto Mutual a total of \$70.0 million. The Company estimates the fair value of the notes receivable from affiliate using market quotations for U.S. treasury securities with similar maturity dates and applies an appropriate credit spread. Consequently this has been placed in Level 2 of the fair value hierarchy.

	June 30, 2017			December 31, 2016		
	Carrying value	Fair value	Interest rate	Carrying value	Fair value	Interest rate
Notes receivable from affiliate	\$70.0	\$75.6	7.00 %	\$70.0	\$75.7	7.00 %

(\$ millions, except interest rates)

Notes Payable

Included in notes payable are the FHLB Loans and Subordinated Debentures. The Company estimates the fair value of the FHLB Loans by discounting cash flows using a borrowing rate currently available to the Company for loans with similar terms. The FHLB Loans have been placed in Level 3 of the fair value hierarchy. The carrying amount of the Subordinated Debentures approximates its fair value as the interest rate adjusts quarterly and has been disclosed in Level 3.

(\$ millions, except interest rates)

	June 30, 2017			December 31, 2016		
	Carrying value	Fair Value	Interest rate	Carrying value	Fair value	Interest rate
FHLB Loan due 2021: issued \$21.5, September 2016 with fixed interest	\$21.5	\$21.1	1.73 %	\$21.5	\$21.0	1.73 %
FHLB Loan due 2033: issued \$85.0, July 2013 with fixed interest	85.4	85.6	5.03 %	85.4	85.6	5.03 %
Affiliate Subordinated Debentures due 2033: issued \$15.5, May 2003 with variable interest	15.2	15.2	5.40 %	15.2	15.2	5.13 %
<i>Total notes payable</i>	\$122.1	\$121.9		\$122.1	\$121.8	

4. Losses and Loss Expenses Payable

The following table sets forth the activity in the liability for losses and loss expenses for the six months ended June 30, 2017 and 2016:

(\$ millions)

	2017	2016
Losses and loss expenses payable, at beginning of period	\$1,181.6	\$1,053.0
Less: reinsurance recoverable on losses and loss expenses payable	3.6	5.9
<i>Net balance at beginning of period</i>	1,178.0	1,047.1
Incurred related to:		
Current year	489.8	457.7
Prior years	(25.4)	30.2
<i>Total incurred</i>	464.4	487.9
Paid related to:		
Current year	174.3	159.3
Prior years	237.2	238.6
<i>Total paid</i>	411.5	397.9
<i>Net balance at end of period</i>	1,230.9	1,137.1

Plus: reinsurance recoverable on losses and loss expenses payable	2.7	6.1
<i>Losses and loss expenses payable, at end of period</i>	\$1,233.6	\$1,143.2

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The Company recorded favorable development related to prior years' loss and loss expense reserves for the six months ended June 30, 2017 of \$25.4 million compared to adverse development of \$30.2 million for the same 2016 period.

Favorable development of prior years' unallocated loss adjustment expenses and catastrophe reserves were approximately \$4.2 million and \$1.6 million, respectively, of the 2017 development. Favorable development of prior accident years' non-catastrophe loss and ALAE reserves was primarily due to \$22.4 million of favorable development in the commercial insurance segment. Slightly offsetting the favorable development was adverse development in the specialty and personal insurance segments of \$1.4 million and \$1.4 million, respectively. The specialty insurance segment was impacted by \$1.6 million of adverse development in E&S property, driven by higher than anticipated severity. In the personal insurance segment, homeowners' contributed \$1.9 million of adverse development, primarily from accident year 2016, and other personal contributed \$2.1 million of adverse development, driven by higher than anticipated severity emerging from accident years 2015 and 2016. Slightly offsetting the adverse development was \$1.8 million of favorable development in personal auto, primarily driven by lower than anticipated severity emerging from accident years 2014 and 2015.

Favorable development of catastrophe reserves was approximately \$1.0 million for the six months ended June 30, 2016, and adverse development of unallocated loss adjustment expenses was \$3.1 million for the same 2016 period. Programs, personal auto and commercial auto contributed \$12.6 million, \$7.9 million and \$4.7 million of the adverse development. Adverse development in programs was primarily due to two programs with commercial auto exposures, both of which are in run-off. Adverse development in personal and commercial auto was primarily due to higher than anticipated bodily injury severity from the prior two accident years.

5. Reinsurance

The insurance subsidiaries of State Auto Financial, including State Auto P&C, Milbank and SA Ohio (collectively referred to as the "STFC Pooled Companies") participate in a quota share reinsurance pooling arrangement ("the Pooling Arrangement") with State Auto Mutual and its subsidiaries and affiliates (collectively referred to as the "Mutual Pooled Companies").

The following table sets forth a summary of the Company's external reinsurance transactions, as well as reinsurance transactions with State Auto Mutual under the Pooling Arrangement, for the three and six months ended June 30, 2017 and 2016:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Premiums earned:				
Assumed from external insurers and reinsurers	\$1.3	\$1.0	\$2.4	\$2.4
Assumed under Pooling Arrangement	320.1	322.4	637.4	642.3
Ceded to external insurers and reinsurers	(6.1)	(6.5)	(12.2)	(13.3)
Ceded under Pooling Arrangement	(202.0)	(204.8)	(404.5)	(411.3)
<i>Net assumed premiums earned</i>	\$113.3	\$112.1	\$223.1	\$220.1
Losses and loss expenses incurred:				
Assumed from external insurers and reinsurers	\$0.9	\$0.8	\$2.5	\$1.9
Assumed under Pooling Arrangement	230.8	263.3	465.2	488.7
Ceded to external insurers and reinsurers	1.0	(0.5)	(1.0)	(2.4)
Ceded under Pooling Arrangement	(147.4)	(176.5)	(295.6)	(308.2)
<i>Net assumed losses and loss expenses incurred</i>	\$85.3	\$87.1	\$171.1	\$180.0

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

6. Income Taxes

The following table sets forth the reconciliation between actual federal income tax expense (benefit) and the amount computed at the indicated statutory rate for the three and six months ended June 30, 2017 and 2016:

(\$ millions)	Three months ended June 30				Six months ended June 30			
	2017		2016		2017		2016	
Amount at statutory rate	\$4.1	35.0 %	\$ (8.7)	35.0 %	\$2.3	35.0 %	\$ (7.4)	35.0 %
Tax-exempt interest and dividends received deduction	(1.5)	(12.4)	(1.9)	7.4	(3.0)	(45.1)	(3.9)	18.1
Other, net	(0.7)	(6.9)	10.1	(40.7)	1.5	21.0	11.6	(54.7)
<i>Federal income tax expense (benefit) and effective rate</i>	1.9	15.7 %	(0.5)	1.7 %	0.8	10.9 %	0.3	(1.6)%
Deferred tax expense on share-based awards	1.3		—		1.3		—	
<i>Federal income tax expense (benefit)</i>	\$3.2		\$ (0.5)		\$2.1		\$0.3	

7. Pension and Postretirement Benefit Plans

The following table sets forth the components of net periodic cost for the Company's pension and postretirement benefit plans for the three and six months ended June 30, 2017 and 2016:

(\$ millions)	Pension		Postretirement		Pension		Postretirement	
	Three months ended June 30				Six months ended June 30			
	2017	2016	2017	2016	2017	2016	2017	2016
Service cost	\$1.3	\$1.5	\$—	\$—	\$3.0	\$3.1	\$—	\$—
Interest cost	2.8	2.9	0.2	0.2	5.7	5.9	0.4	0.4
Expected return on plan assets	(4.2)	(3.7)	—	—	(8.4)	(7.4)	—	—
Amortization of:								
Negative prior service cost	—	—	(1.4)	(1.4)	—	—	(2.8)	(2.8)
Net actuarial loss	1.9	2.3	—	—	3.9	4.6	0.1	0.1
<i>Net periodic cost (benefit)</i>	\$1.8	\$3.0	\$(1.2)	\$(1.2)	\$4.2	\$6.2	\$(2.3)	\$(2.3)

The Company contributed \$6.5 million to its pension plan for the six months ended June 30, 2017, and expects to contribute an additional \$3.3 million during 2017.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

8. Other Comprehensive Income and Accumulated Other Comprehensive Income

The following table sets forth the changes in the Company's accumulated other comprehensive income component ("AOCI"), net of tax, for the three and six months ended June 30, 2017 and 2016:

(\$ millions)

	Unrealized Gains and Losses on Available-for-Sale Securities	Benefit Plan Items	Total
--	---	-----------------------	-------

Beginning
balance

at April 1, 2017	\$ 77.8	\$(29.9)	\$47.9
---------------------------	---------	----------	--------

Other
comprehensive
income
before
reclassifications

Amounts reclassified from AOCI (a)	15.4	—	15.4
	10.2	0.3	(9.9)

Net
current
period
other
comprehensive
(loss)
income

Ending balance at June 30, 2017	\$ 83.0	\$(29.6)	\$53.4
--	---------	----------	--------

Beginning
balance

at April 1, 2016	\$ 91.7	\$(30.3)	\$61.4
---------------------------	---------	----------	--------

Other comprehensive income before reclassifications	—	24.9	
Amounts reclassified from AOCI (a)	(4.3)	0.7	(3.6)
Net current period other comprehensive income	20.6	0.7	21.3
Ending balance at June 30, 2016	\$ 112.3	\$(29.6)	\$82.7

(a) See separate table below for details about these reclassifications

(\$ millions)	Unrealized Gains and Losses on Available-for-Sale Securities	Benefit Plan Items	Total
Beginning balance at January 1, 2017	\$ 62.8	\$(30.3)	\$32.5

Other comprehensive income before reclassifications	—	35.5	
Amounts reclassified from AOCI (a)	(15.3)	0.7	(14.6)
Net current period other	20.2	0.7	20.9

comprehensive
income
*Ending
balance*

at \$ **83.0** \$ (29.6) \$ **53.4**
June
30,
2017

Beginning
balance

at \$ 68.5 \$ (30.9) \$ 37.6
January
1,
2016

Other
comprehensive
loss
before
reclassifications

Amounts
reclassified
from
AOCI

(a) 48.9 — 48.9
6.1) 1.3 (3.8)

Net
current
period
other

43.8 1.3 45.1

comprehensive
income
*Ending
balance*

at \$ 112.3 \$ (29.6) \$ 82.7
June
30,
2016

(a) See separate table below for details about these reclassifications

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The following table sets forth the reclassifications out of accumulated other comprehensive income, by component, to the Company's condensed consolidated statement of income for the three and six months ended June 30, 2017 and 2016:

(\$
millions)

Three months ended June 30	Six months ended June 30	2017	2016	Details about Accumulated Other Comprehensive Income Components
Unrealized gains on available securities	\$15.8	\$6.5		Realized gain on sale of securities
	15.8	6.5		Total before tax
	(5.6)	(2.2)		Tax expense
	10.2	4.3		Net of tax
Amortization of benefit plan items				
Negative prior service cost	1.4	1.4	(b)	
Net actuarial loss	(1.9)	(2.3)	(b)	
	(0.5)	(0.9)		Total before tax
	0.2	0.2		Tax benefit
	(0.3)	(0.7)		Net of tax
<i>Total reclassifications for the period</i>	\$9.9	\$3.6		

These accumulated other comprehensive income components are (b) included in the computation of net periodic pension cost (see pension and postretirement benefit plans footnote for additional details).

(\$
millions)

Six months ended		June 30		2017		2016	
<p>Details about Accumulated Other Comprehensive Income components are included in the Condensed Consolidated Statements of Income</p>							
Unrealized gains on available securities	\$23.6	\$7.8	Realized gain on sale of securities for sale securities				
	23.6	7.8	Total before tax				
	(8.3)	(2.7)	Tax expense				
	15.3	5.1	Net of tax				
Amortization of benefit plan items							
Negative prior service cost	2.8	2.8	(b)				
Net actuarial loss	(4.0)	(4.7)	(b)				
	(1.2)	(1.9)	Total before tax				
	0.5	0.6	Tax benefit				
	(0.7)	(1.3)	Net of tax				
<i>Total reclassifications for the period</i>	\$14.6	\$3.8					

These accumulated other comprehensive income components are (b)included in the computation of net periodic pension cost (see pension and postretirement benefit plans footnote for additional details).

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

9. Net Earnings (Loss) per Common Share

The following table sets forth the compilation of basic and diluted earnings per common share for the three and six months ended June 30, 2017 and 2016:

(\$ and shares in millions, except per share amounts)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Numerator:				
Net income (loss) for basic earnings (loss) per common share	\$8.7	\$(24.6)	\$4.6	\$(21.6)
Denominator:				
Weighted average shares for basic net earnings (loss) per common share	42.1	41.5	42.0	41.4
Effect of dilutive share-based awards	0.4	—	0.5	—
<i>Adjusted weighted average shares for diluted net earnings (loss) per common share</i>	42.5	41.5	42.5	41.4
Basic net earnings (loss) per common share	\$0.21	\$(0.59)	\$0.11	\$(0.52)
Diluted net earnings (loss) per common share	\$0.21	\$(0.59)	\$0.11	\$(0.52)

The following table sets forth common stock options, stock awards and restricted share units ("RSU award") of the Company that were not included in the computation of diluted earnings per common share because the exercise price of the options, or awards, was greater than the average market price or their inclusion would have been antidilutive for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
<i>(shares in millions)</i>				
Total number of antidilutive options and awards	0.7	1.6	0.5	1.7

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

10. Segment Information

The Company has four reportable segments: personal insurance, commercial insurance, specialty insurance and investment operations. The reportable insurance segments are business units managed separately because of the differences in the type of customers they serve, the products they provide or services they offer. The insurance segments market a broad line of property and casualty insurance products throughout the United States through independent insurance agencies, which include retail agents and wholesale brokers. The investment operations segment, managed by Stateco, provides investment services.

Effective January 1, 2017, the Company completed the transition of its internal decision-making process to a product management structure. Under this structure, the Company's principal operating decision makers assess performance based on the underwriting results of individual products. The products within each insurance segment, are as follows:

- *Personal Insurance Segment* - personal auto, homeowners, farm & ranch and other personal
- *Commercial Insurance Segment* - commercial auto, small commercial package, middle market commercial, workers' compensation and other commercial
- *Specialty Insurance Segment* - E&S property, E&S casualty and programs

Certain amounts previously reported within the commercial insurance segment due to immateriality are now reported in the personal insurance segment. Prior reporting periods have been restated to conform to the new presentation.

The Company evaluates the performance of its insurance segments using industry financial measurements based on Statutory Accounting Practices ("SAP"), which include loss and loss adjustment expense ratios, underwriting expense ratios, combined ratios, statutory underwriting gain (loss), net premiums earned and net written premiums. One of the most significant differences between SAP and GAAP is that SAP requires all underwriting expenses to be expensed immediately and not deferred and amortized over the same period the premium is earned.

The investment operations segment is evaluated based on investment returns of assets managed by Stateco. Asset information by segment is not reported for the insurance segments because the Company does not produce such information internally.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The following table sets forth financial information regarding the Company's reportable segments for the three and six months ended June 30, 2017 and 2016:

(\$ millions)	Three months		Six months	
	ended June 30 2017	2016	ended June 30 2017	2016
Revenue from external sources:				
Insurance segments				
Personal insurance	\$152.5	\$153.1	\$305.2	\$306.6
Commercial insurance	104.9	111.6	208.5	223.0
Specialty insurance	62.7	57.7	123.7	112.7
<i>Total insurance segments</i>	320.1	322.4	637.4	642.3
Investment operations segment				
Net investment income	19.1	19.1	37.8	36.5
Net realized capital gains	15.8	6.5	23.6	7.8
<i>Total investment operations segment</i>	34.9	25.6	61.4	44.3
All other	0.7	0.5	1.2	1.1
<i>Total revenue from external sources</i>	355.7	348.5	700.0	687.7
Intersegment revenue	1.6	1.5	3.0	2.9
<i>Total revenue</i>	357.3	350.0	703.0	690.6
Reconciling items:				
Eliminate intersegment revenue	(1.6)	(1.5)	(3.0)	(2.9)
<i>Total consolidated revenues</i>	\$355.7	\$348.5	\$700.0	\$687.7
Segment income (loss) before federal income tax:				
Insurance segments SAP underwriting (loss) gain				
Personal insurance	\$(17.9)	\$(24.9)	\$(28.5)	\$(20.5)
Commercial insurance	0.8	(11.8)	(4.1)	(19.2)
Specialty insurance	(4.8)	(16.3)	(13.4)	(25.0)
<i>Total insurance segments (loss) gain</i>	(21.9)	(53.0)	(46.0)	(64.7)
Investment operations segment				
Net investment income	19.1	19.1	37.8	36.5
Net realized capital gains	15.8	6.5	23.6	7.8
<i>Total investment operations segment</i>	34.9	25.6	61.4	44.3
All other	0.1	0.1	0.2	0.2
<i>Total segment income (loss) before tax expense</i>	13.1	(27.3)	15.6	(20.2)
Reconciling items:				
GAAP expense adjustments	1.4	4.6	(4.0)	3.4
Interest expense on corporate debt	(1.5)	(1.4)	(2.9)	(2.7)
Corporate expenses	(1.1)	(1.0)	(2.0)	(1.8)
<i>Total reconciling items</i>	(1.2)	2.2	(8.9)	(1.1)
<i>Total consolidated income (loss) before federal income tax expense</i>	\$11.9	\$(25.1)	\$6.7	\$(21.3)

Investable assets attributable to the Company's investment operations segment totaled \$2,733.5 million and \$2,663.7 million at June 30, 2017, and December 31, 2016, respectively.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

11. Contingencies and Litigation

In accordance with the Contingencies Topic of the Financial Accounting Standards Board's Accounting Standards Codification, the Company accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount can be reasonably estimated. The Company reviews all litigation on an ongoing basis when making accrual and disclosure decisions. For certain legal proceedings, the Company cannot reasonably estimate losses or a range of loss, if any, particularly for proceedings that are in their early stages of development or where the plaintiffs seek indeterminate damages. Various factors, including, but not limited to, the outcome of potentially lengthy discovery and the resolution of important factual questions, may need to be determined before probability can be established or before a loss or range of loss can be reasonably estimated. If the loss contingency in question is not both probable and reasonably estimable, the Company does not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. Based on currently available information known to the Company, it believes that its reserves for litigation-related liabilities are reasonable. However, in the event that a legal proceeding results in a substantial judgment against, or settlement by, the Company, there can be no assurance that any resulting liability or financial commitment would not have a material adverse effect on the financial condition, results of operations or cash flows of the consolidated financial statements of the Company.

The Company is involved in lawsuits in the ordinary course of its business arising out of or otherwise related to its insurance policies. Additionally, from time to time the Company may be involved in lawsuits, including class actions, in the ordinary course of business but not arising out of or otherwise related to its insurance policies. These lawsuits are in various stages of development. The Company generally will contest these matters vigorously but may pursue settlement if appropriate. Based on currently available information, the Company does not believe it is reasonably possible that any such lawsuit or related lawsuits will be material to its results of operations or have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Additionally, the Company may be impacted by adverse regulatory actions and adverse court decisions where insurance coverages are expanded beyond the scope originally contemplated in its insurance policies. The Company believes that the effects, if any, of such regulatory actions and published court decisions are not likely to have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The term “State Auto Financial” as used below refers only to State Auto Financial Corporation and the terms “our Company,” “we,” “us,” and “our” as used below refer to State Auto Financial Corporation and its consolidated subsidiaries.

The term “second quarter” as used below refers to the three months ended June 30, for the time period then ended. For a glossary of terms for State Auto Financial Corporation and its subsidiaries and affiliates and a glossary of selected insurance and accounting terms, see the section entitled “Important Defined Terms Used in this Form 10-K” included in our Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”).

The discussion and analysis presented below relates to the material changes in financial condition and results of operations for our consolidated balance sheets as of June 30, 2017 and December 31, 2016, and for the consolidated statements of income for the three and six month periods ended June 30, 2017 and 2016. This discussion and analysis should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the 2016 Form 10-K, and in particular the discussions in those sections thereof entitled “Overview,” “Executive Summary,” and “Critical Accounting Policies.” Readers are encouraged to review the entire 2016 Form 10-K, as it includes information regarding our Company not discussed in this Form 10-Q. This information will assist in your understanding of the discussion of our current period financial results.

The discussion and analysis presented below includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “believe” or “continue” or the negative thereof or variations thereon or similar terminology.

Forward-looking statements speak only as of the date the statements were made available. Although we believe that the expectations reflected in forward-looking statements have a reasonable basis, we can give no assurance that these expectations will prove to be correct. Forward-looking statements are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. For a discussion of the most significant risks and uncertainties that could cause our actual results to differ materially from those projected, see “Risk Factors” in Item 1A of the 2016 Form 10-K, updated by Part II, Item 1A of this Form 10-Q. Except to the limited extent required by applicable law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

We have four reportable segments: personal insurance, commercial insurance, specialty insurance and investment operations. As of January 1, 2017, we completed the transition of our internal decision-making process to a product management structure under which our principal operating decision makers assess performance based on the underwriting results of individual products. The products within each insurance segment are as follows:

- *Personal Insurance Segment* - personal auto, homeowners, farm & ranch and other personal
- *Commercial Insurance Segment* - commercial auto, small commercial package, middle market commercial, workers’ compensation and other commercial
- *Specialty Insurance Segment* - E&S property, E&S casualty and programs

Certain amounts previously reported within the commercial insurance segment due to immateriality are now reported in the personal insurance segment. Prior reporting periods have been restated to conform to the new presentation.

The reportable insurance segments are business units managed separately because of the differences in the type of customers they serve or products they provide or services they offer. The insurance segments market a broad line of property and casualty insurance products throughout the United States through independent insurance agencies, which include retail agents and wholesale brokers. The investment operations segment, managed by Stateco, provides investment services. See “Personal and Business Insurance” and “Specialty Insurance” in Item 1 of the 2016 Form 10-K for more information about our insurance segments. Financial information about our reportable segments for 2017 is set forth in Note 10 of our condensed consolidated financial statements included in Item 1 of this Form 10-Q.

POOLING ARRANGEMENT

The STFC Pooled Companies and the Mutual Pooled Companies participate in a quota share reinsurance pooling arrangement referred to as the "Pooling Arrangement." Under the Pooling Arrangement, State Auto Mutual assumes premiums, losses and expenses from each of the Pooled Companies and in turn cedes to each of the Pooled Companies a specified portion of premiums, losses and expenses based on each of the Pooled Companies' respective pooling percentages. State Auto Mutual then retains the balance of the pooled business.

The following table sets forth the participants and their participation percentages in the Pooling Arrangement:

STFC

Pooled

Companies:

State	
Auto	1.0 %
P&C	
Millbrook	
SA	
Ohio	
Total	
STFC	
Pooled	65.0 %
Companies	

State

Auto

Mutual

Pooled

Companies:

State	
Auto	4.5 %
Mutual	
SA	
Wisconsin	
Meridian	
Security	
Patrons	
Mutual	0.5
RIC	
Plaza	
American	
Compensation	
Bloomington	
Compensation	
Total	
State	
Auto	
Mutual	35.0 %
Pooled	
Companies	

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

RESULTS OF OPERATIONS

Our pre-tax income for the three and six months ended June 30, 2017 was \$11.9 million and \$6.7 million, respectively, compared to a pre-tax loss of \$25.1 million and \$21.3 million, respectively, for the same 2016 periods. The improvement in pre-tax income for the quarter and six months ended June 30, 2017 when compared to the same 2016 periods was primarily driven by (i) favorable development of the prior accident year loss and loss adjustment expense reserves, and (ii) higher levels of net realized gains on investments. In addition, the second quarter of 2017 benefited from lower catastrophe losses when compared to the same 2016 period.

The following table sets forth certain key performance indicators we use to monitor our operations for the three and six months ended June 30, 2017 and 2016:

	Three months ended		Six months ended	
	June 30	2016	June 30	2016
<i>(\$ millions, except per share amounts)</i>				
GAAP Basis:				
Total revenues	\$355.7	\$348.5	\$700.0	\$687.7
Income (loss) before federal income taxes	\$11.9	\$(25.1)	\$6.7	\$(21.3)
Net income (loss)	\$8.7	\$(24.6)	\$4.6	\$(21.6)
Basic earnings (loss) per share	\$0.21	\$(0.59)	\$0.11	\$(0.52)
Diluted earnings (loss) per share	\$0.21	\$(0.59)	\$0.11	\$(0.52)
Stockholders' equity	\$914.4	\$901.4		
Return on average equity (LTM)	5.2	% 0.3		%
Book value per share	\$21.74	\$21.69		
Debt to capital ratio	11.8	% 10.0		%
Cat loss and ALAE ratio	7.9	% 13.1	9.3	% 8.9
Non-cat loss and LAE ratio	64.0	% 68.4	63.6	% 67.1
Loss and LAE ratio	71.9	% 81.5	72.9	% 76.0
Expense ratio	34.3	% 33.2	34.8	% 33.4
Combined ratio	106.2	% 114.7	107.7	% 109.4
Premium written growth	(1.2)	% 1.9	(0.5)	% 0.6
Investment yield	3.0	% 3.2	3.0	% 3.0
SAP Basis:				
Cat loss and ALAE ratio	7.9	% 13.1	9.3	% 8.9
Non-cat loss and ALAE ratio	58.5	% 62.2	57.9	% 60.8
ULAE ratio	5.7	% 6.4	5.8	% 6.4
Loss and LAE ratio	72.1	% 81.7	73.0	% 76.1
Expense ratio	32.6	% 32.4	33.7	% 33.6
Combined ratio	104.7	% 114.1	106.7	% 109.7

Twelve
months
ended
June 30
20172016

Net premiums written to surplus **1.5** 1.6

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Insurance Segments

We measure our top-line growth for our insurance segments based on net written premiums, which provide us with an indication of how well we are doing in terms of revenue growth before it is actually earned. Our policies provide a fixed amount of coverage for a stated period of time, often referred to as the “policy term.” As such, our written premiums are recognized as earned ratably over the policy term. The unearned portion of written premiums, called unearned premiums, is reflected on our balance sheet as a liability and represents our obligation to provide coverage for the unexpired term of the policies.

Insurance industry regulators require our insurance subsidiaries to report their financial condition and results of operations using SAP. We use SAP financial results, along with industry standard financial measures determined on a SAP basis and certain measures determined on a GAAP basis, to internally monitor the performance of our insurance segments and reward our employees.

One of the more significant differences between GAAP and SAP is that SAP requires all underwriting expenses to be expensed immediately and not deferred over the same period that the premium is earned. In converting SAP underwriting results to GAAP underwriting results, acquisition costs are deferred and amortized over the periods the related written premiums are earned. For a discussion of deferred acquisition costs, see “Critical Accounting Policies – Deferred Acquisition Costs” section included in Item 7 of our 2016 Form 10-K.

All references to financial measures or components thereof in this discussion are calculated on a GAAP basis, unless otherwise noted.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

The following tables set forth our insurance segments' SAP underwriting gain (loss) and SAP combined ratios for the three and six months ended June 30, 2017 and 2016:

(\$ in millions)

Three months ended June 30, 2017	Personal	Commercial	Specialty	Total	
Net written premiums	\$161.9	\$ 105.7	\$73.7	\$341.3	
Net earned premiums	152.5	104.9	62.7	320.1	
Losses and LAE incurred:					
Cat loss and ALAE	14.8	9.7	0.7	25.2	
Non-cat loss and ALAE	98.5	48.3	40.5	187.3	
<i>Total Loss and ALAE</i>	113.3	58.0	41.2	212.5	
ULAE	9.9	5.4	3.0	18.3	
<i>Total Loss and LAE</i>	123.2	63.4	44.2	230.8	
Underwriting expenses	47.2	40.7	23.3	111.2	
<i>Net underwriting (loss) gain</i>	\$(17.9)	\$ 0.8	\$(4.8)	\$(21.9)	
Cat loss and ALAE ratio	9.7	% 9.3	% 1.0	% 7.9	%
Non-cat loss and ALAE ratio	64.6	% 46.0	% 64.8	% 58.5	%
<i>Total Loss and ALAE ratio</i>	74.3	% 55.3	% 65.8	% 66.4	%
ULAE ratio	6.5	% 5.0	% 4.6	% 5.7	%
<i>Total Loss and LAE ratio</i>	80.8	% 60.3	% 70.4	% 72.1	%
Expense ratio	29.1	% 38.6	% 31.8	% 32.6	%
<i>Combined ratio</i>	109.9	% 98.9	% 102.2	% 104.7	%

(\$ in millions)

Three months ended June 30, 2016	Personal	Commercial	Specialty	Total	
Net written premiums	\$163.8	\$ 112.7	\$69.1	\$345.6	
Net earned premiums	153.1	111.6	57.7	322.4	
Losses and LAE incurred:					
Cat loss and ALAE	30.7	11.6	—	42.3	
Non-cat loss and ALAE	89.7	64.2	46.8	200.7	
<i>Total Loss and ALAE</i>	120.4	75.8	46.8	243.0	
ULAE	10.3	6.7	3.4	20.4	
<i>Total Loss and LAE</i>	130.7	82.5	50.2	263.4	
Underwriting expenses	47.3	40.9	23.8	112.0	
<i>Net underwriting loss</i>	\$(24.9)	\$(11.8)	\$(16.3)	\$(53.0)	
Cat loss and ALAE ratio	20.1	% 10.3	% (0.1)	% 13.1	%
Non-cat loss and ALAE ratio	58.6	% 57.6	% 80.9	% 62.2	%
<i>Total Loss and ALAE ratio</i>	78.7	% 67.9	% 80.8	% 75.3	%
ULAE ratio	6.6	% 6.1	% 6.1	% 6.4	%
<i>Total Loss and LAE ratio</i>	85.3	% 74.0	% 86.9	% 81.7	%
Expense ratio	28.9	% 36.3	% 34.5	% 32.4	%
<i>Combined ratio</i>	114.2	% 110.3	% 121.4	% 114.1	%

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

(\$ in millions)

Six months ended June 30, 2017	Personal	Commercial	Specialty	Total	
Net written premiums	\$303.5	\$205.9	\$138.0	\$647.4	
Net earned premiums	305.2	208.5	123.7	637.4	
Losses and LAE incurred:					
Cat loss and ALAE	39.4	17.2	2.9	59.5	
Non-cat loss and ALAE	182.3	103.5	83.0	368.8	
<i>Total Loss and ALAE</i>	221.7	120.7	85.9	428.3	
ULAE	20.5	11.4	5.0	36.9	
<i>Total Loss and LAE</i>	242.2	132.1	90.9	465.2	
Underwriting expenses	91.5	80.5	46.2	218.2	
<i>Net underwriting loss</i>	\$(28.5)	\$(4.1)	\$(13.4)	\$(46.0)	
Cat loss and ALAE ratio	12.9	% 8.3	% 2.3	% 9.3	%
Non-cat loss and ALAE ratio	59.7	% 49.6	% 67.2	% 57.9	%
<i>Total Loss and ALAE ratio</i>	72.6	% 57.9	% 69.5	% 67.2	%
ULAE ratio	6.8	% 5.4	% 4.0	% 5.8	%
<i>Total Loss and LAE ratio</i>	79.4	% 63.3	% 73.5	% 73.0	%
Expense ratio	30.1	% 39.1	% 33.5	% 33.7	%
<i>Combined ratio</i>	109.5	% 102.4	% 107.0	% 106.7	%

(\$ in millions)

Six months ended June 30, 2016	Personal	Commercial	Specialty	Total	
Net written premiums	\$306.1	\$214.8	\$129.5	\$650.4	
Net earned premiums	306.6	223.0	112.7	642.3	
Losses and LAE incurred:					
Cat loss and ALAE	43.2	13.6	0.5	57.3	
Non-cat loss and ALAE	170.9	134.7	84.6	390.2	
<i>Total Loss and ALAE</i>	214.1	148.3	85.1	447.5	
ULAE	21.8	13.7	5.8	41.3	
<i>Total Loss and LAE</i>	235.9	162.0	90.9	488.8	
Underwriting expenses	91.2	80.2	46.8	218.2	
<i>Net underwriting loss</i>	\$(20.5)	\$(19.2)	\$(25.0)	\$(64.7)	
Cat loss and ALAE ratio	14.1	% 6.1	% 0.4	% 8.9	%
Non-cat loss and ALAE ratio	55.8	% 60.4	% 75.1	% 60.8	%
<i>Total Loss and ALAE ratio</i>	69.9	% 66.5	% 75.5	% 69.7	%
ULAE ratio	7.0	% 6.1	% 5.3	% 6.4	%
<i>Total Loss and LAE ratio</i>	76.9	% 72.6	% 80.8	% 76.1	%
Expense ratio	29.8	% 37.3	% 36.2	% 33.6	%
<i>Combined ratio</i>	106.7	% 109.9	% 117.0	% 109.7	%

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Personal Insurance Segment

The following tables set forth the SAP underwriting gain (loss) and SAP combined ratios by major product line for our personal insurance segment for the three and six months ended June 30, 2017 and 2016:

Table 1

(\$ in millions)

Three months ended June 30, 2017	Personal Auto	Homeowners	Farm & Ranch	Other Personal	Total
Net written premiums	\$86.2	\$ 59.6	\$11.5	\$4.6	\$161.9
Net earned premiums	83.7	54.5	9.6	4.7	152.5
Losses and LAE incurred:					
Cat loss and ALAE	2.7	11.1	1.3	(0.3)	14.8
Non-cat loss and ALAE	61.0	27.0	6.8	3.7	98.5
<i>Total Loss and ALAE</i>	63.7	38.1	8.1	3.4	113.3
ULAE	5.6	3.4	0.7	0.2	9.9
<i>Total Loss and LAE</i>	69.3	41.5	8.8	3.6	123.2
Underwriting expenses	23.0	18.3	4.2	1.7	47.2
<i>Net underwriting loss</i>	\$(8.6)	\$ (5.3)	\$(3.4)	\$(0.6)	\$(17.9)
Cat loss and ALAE ratio	3.2 %	20.4 %	14.0 %	(5.5)%	9.7 %
Non-cat loss and ALAE ratio	72.8 %	49.5 %	70.8 %	78.2 %	64.6 %
<i>Total Loss and ALAE ratio</i>	76.0 %	69.9 %	84.8 %	72.7 %	74.3 %
ULAE ratio	6.8 %	6.2 %	6.5 %	7.1 %	6.5 %
<i>Total Loss and LAE ratio</i>	82.8 %	76.1 %	91.3 %	79.8 %	80.8 %
Expense ratio	26.7 %	30.7 %	36.0 %	35.2 %	29.1 %
<i>Combined ratio</i>	109.5 %	106.8 %	127.3 %	115.0 %	109.9 %

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Table 2

(\$ in millions)

Three months ended June 30, 2016	Personal Auto	Homeowners	Farm & Ranch	Other Personal	Total	
Net written premiums	\$85.8	\$ 62.4	\$10.0	\$ 5.6	\$163.8	
Net earned premiums	82.3	56.7	8.7	5.4	153.1	
Losses and LAE incurred:						
Cat loss and ALAE	4.3	23.8	2.2	0.4	30.7	
Non-cat loss and ALAE	61.7	24.9	0.4	2.7	89.7	
<i>Total Loss and ALAE</i>	66.0	48.7	2.6	3.1	120.4	
ULAE	5.2	4.1	0.5	0.5	10.3	
<i>Total Loss and LAE</i>	71.2	52.8	3.1	3.6	130.7	
Underwriting expenses	22.8	18.9	3.7	1.9	47.3	
<i>Net underwriting (loss) gain</i>	\$(11.7)	\$ (15.0)	\$1.9	\$ (0.1)	\$(24.9)	
Cat loss and ALAE ratio	5.2	% 42.0	% 25.3	% 8.2	% 20.1	%
Non-cat loss and ALAE ratio	75.0	% 43.8	% 5.1	% 51.5	% 58.6	%
<i>Total Loss and ALAE ratio</i>	80.2	% 85.8	% 30.4	% 59.7	% 78.7	%
ULAE ratio	6.3	% 7.3	% 5.2	% 6.7	% 6.6	%
<i>Total Loss and LAE ratio</i>	86.5	% 93.1	% 35.6	% 66.4	% 85.3	%
Expense ratio	26.6	% 30.2	% 36.4	% 35.4	% 28.9	%
<i>Combined ratio</i>	113.1	% 123.3	% 72.0	% 101.8	% 114.2	%

Table 3

(\$ in millions)

Six months ended June 30, 2017	Personal Auto	Homeowners	Farm & Ranch	Other Personal	Total	
Net written premiums	\$168.5	\$ 104.8	\$21.4	\$ 8.8	\$303.5	
Net earned premiums	166.6	110.0	19.0	9.6	305.2	
Losses and LAE incurred:						
Cat loss and ALAE	5.9	29.1	3.7	0.7	39.4	
Non-cat loss and ALAE	116.8	49.9	10.3	5.3	182.3	
<i>Total Loss and ALAE</i>	122.7	79.0	14.0	6.0	221.7	
ULAE	10.3	8.1	1.4	0.7	20.5	
<i>Total Loss and LAE</i>	133.0	87.1	15.4	6.7	242.2	
Underwriting expenses	46.6	33.8	7.8	3.3	91.5	
<i>Net underwriting loss</i>	\$(13.0)	\$ (10.9)	\$(4.2)	\$ (0.4)	\$(28.5)	
Cat loss and ALAE ratio	3.5	% 26.5	% 19.7	% 7.0	% 12.9	%
Non-cat loss and ALAE ratio	70.1	% 45.3	% 54.3	% 55.5	% 59.7	%
<i>Total Loss and ALAE ratio</i>	73.6	% 71.8	% 74.0	% 62.5	% 72.6	%
ULAE ratio	6.3	% 7.4	% 6.8	% 8.1	% 6.8	%
<i>Total Loss and LAE ratio</i>	79.9	% 79.2	% 80.8	% 70.6	% 79.4	%
Expense ratio	27.7	% 32.2	% 36.3	% 36.8	% 30.1	%

Combined ratio

107.6 % 111.4 % 117.1 % 107.4 % 109.5 %

31

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Table 4

(\$ in millions)

Six months ended June 30, 2016	Personal Auto	Homeowners	Farm & Ranch	Other Personal	Total	
Net written premiums	\$166.3	\$ 110.5	\$19.0	\$ 10.3	\$306.1	
Net earned premiums	164.6	114.0	17.3	10.7	306.6	
Losses and LAE incurred:						
Cat loss and ALAE	5.6	34.4	2.6	0.6	43.2	
Non-cat loss and ALAE	117.7	43.7	3.7	5.8	170.9	
<i>Total Loss and ALAE</i>	123.3	78.1	6.3	6.4	214.1	
ULAE	11.5	8.4	1.0	0.9	21.8	
<i>Total Loss and LAE</i>	134.8	86.5	7.3	7.3	235.9	
Underwriting expenses	45.2	35.2	6.9	3.9	91.2	
<i>Net underwriting (loss) gain</i>	\$(15.4)	\$(7.7)	\$3.1	\$(0.5)	\$(20.5)	
Cat loss and ALAE ratio	3.4	% 30.2	% 15.0	% 5.8	% 14.1	%
Non-cat loss and ALAE ratio	71.5	% 38.3	% 21.7	% 54.9	% 55.8	%
<i>Total Loss and ALAE ratio</i>	74.9	% 68.5	% 36.7	% 60.7	% 69.9	%
ULAE ratio	6.9	% 7.4	% 5.6	% 7.1	% 7.0	%
<i>Total Loss and LAE ratio</i>	81.8	% 75.9	% 42.3	% 67.8	% 76.9	%
Expense ratio	27.2	% 31.8	% 36.4	% 37.6	% 29.8	%
<i>Combined ratio</i>	109.0	% 107.7	% 78.7	% 105.4	% 106.7	%

The personal insurance segment's net written premiums for the three and six months ended June 30, 2017 decreased slightly when compared to the same 2016 periods (Tables 1 - 4). While rate actions implemented on our personal auto product throughout 2016 to improve profitability contributed to overall net written premium growth, this growth was more than offset by a decline in policies in force. Personal auto new business counts increased for the first half of 2017 when compared to the same 2016 period. Homeowners net written premiums declined for the first half of 2017 reflecting lower new business counts and policies in force when compared to the same 2016 period. Growth in farm & ranch continued, with increases in both net written premium and policies in force compared to the same 2016 periods. Throughout 2016, we increased the number of personal lines agency appointments and conducted pricing reviews designed to improve personal lines production.

The personal insurance segment's SAP catastrophe loss ratios for the three and six months ended June 30, 2017, were 9.7% and 12.9%, respectively, compared to 20.1% and 14.1%, respectively, for the same 2016 periods (Tables 1 - 4). Weather events classified as catastrophes during the first half of 2017 were generally less severe than those experienced during the same 2016 period. The catastrophe loss ratio for the six months ended June 30, 2017 reflected the impact of widespread storms that effected the Ohio Valley region, South Carolina, Texas, Mississippi and Georgia during the first quarter of 2017. The catastrophe loss ratios for three and six months ended June 30, 2016 were impacted by storms in Texas, primarily wind and hail, which occurred during the second quarter of 2016.

The personal insurance segment's SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2017 increased 6.0 points and 3.9 points, respectively, when compared to the same 2016 periods (Tables 1 - 4). The homeowners SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2017 increased 5.7 points and 7.0 points, respectively, when compared to the same 2016 periods, primarily driven by an increase in non-catastrophe weather losses. The farm & ranch SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2017 increased 65.7 and 32.6 points, respectively, when compared to the same 2016

periods, primarily driven by large fire losses during the second quarter of 2017. In addition, the loss ratio for the three months ended June 30, 2016 reflected revised loss estimates for current accident year losses during the second quarter of 2016.

The personal auto SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2017 improved 2.2 points and 1.4 points, respectively, when compared to the same 2016 periods, primarily due to favorable development of prior

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

accident year losses of \$1.2 million and \$1.8 million, respectively, compared to adverse development of \$4.7 million and \$7.9 million, respectively, for the same 2016 periods.

33

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Commercial Insurance Segment

The following tables set forth the SAP underwriting gain (loss) and SAP combined ratios by major product line for our commercial insurance segment for the three and six months ended June 30, 2017 and 2016:

Table 5

(\$ in millions)

Three months ended June 30, 2017	Commercial Auto	Small Commercial Package	Middle Market Commercial	Workers' Comp	Other Commercial	Total
Net written premiums	\$ 19.9	\$ 31.8	\$ 30.6	\$ 19.6	3.8	\$ 105.7
Net earned premiums	19.3	31.9	27.5	22.8	3.4	104.9
Losses and LAE incurred:						
Cat loss and ALAE	0.3	5.4	4.0	—	—	9.7
Non-cat loss and ALAE	10.5	15.9	8.2	13.0	0.7	48.3
<i>Total Loss and ALAE</i>	10.8	21.3	12.2	13.0	0.7	58.0
ULAE	1.0	1.7	1.0	1.4	0.3	5.4
<i>Total Loss and LAE</i>	11.8	23.0	13.2	14.4	1.0	63.4
Underwriting expenses	8.0	13.5	10.7	6.7	1.8	40.7
<i>Net underwriting (loss) gain</i>	\$ (0.5)	\$ (4.6)	\$ 3.6	\$ 1.7	0.6	\$ 0.8
Cat loss and ALAE ratio	1.6	% 16.9	% 14.6	% —	% 0.3	% 9.3
Non-cat loss and ALAE ratio	54.3	% 49.5	% 29.7	% 57.1	% 22.5	% 46.0
<i>Total Loss and ALAE ratio</i>	55.9	% 66.4	% 44.3	% 57.1	% 22.8	% 55.3
ULAE ratio	5.1	% 5.5	% 3.9	% 6.0	% 4.8	% 5.0
<i>Total Loss and LAE ratio</i>	61.0	% 71.9	% 48.2	% 63.1	% 27.6	% 60.3
Expense ratio	40.1	% 42.6	% 35.1	% 33.9	% 50.6	% 38.6
<i>Combined ratio</i>	101.1	% 114.5	% 83.3	% 97.0	% 78.2	% 98.9

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Table 6

(\$ in millions)

Three months ended June 30, 2016	Commercial Auto	Small Commercial Package	Middle Market Commercial	Workers' Comp	Other Commercial	Total
Net written premiums	\$ 21.9	\$ 32.0	\$ 30.8	\$23.4	\$ 4.6	\$112.7
Net earned premiums	23.0	31.9	27.7	24.7	4.3	111.6
Losses and LAE incurred:						
Cat loss and ALAE	0.7	5.0	5.9	—	—	11.6
Non-cat loss and ALAE	21.4	14.7	10.1	15.4	2.6	64.2
<i>Total Loss and ALAE</i>	22.1	19.7	16.0	15.4	2.6	75.8
ULAE	1.3	1.8	1.4	1.9	0.3	6.7
<i>Total Loss and LAE</i>	23.4	21.5	17.4	17.3	2.9	82.5
Underwriting expenses	8.0	13.2	11.3	6.5	1.9	40.9
<i>Net underwriting (loss) gain</i>	\$ (8.4)	\$ (2.8)	\$ (1.0)	\$0.9	\$ (0.5)	\$(11.8)
Cat loss and ALAE ratio	3.1	% 15.6	% 21.2	% —	% —	% 10.3
Non-cat loss and ALAE ratio	93.1	% 46.0	% 36.5	% 62.2	% 61.7	% 57.6
<i>Total Loss and ALAE ratio</i>	96.2	% 61.6	% 57.7	% 62.2	% 61.7	% 67.9
ULAE ratio	5.9	% 5.7	% 5.0	% 7.7	% 7.1	% 6.1
<i>Total Loss and LAE ratio</i>	102.1	% 67.3	% 62.7	% 69.9	% 68.8	% 74.0
Expense ratio	36.5	% 41.3	% 36.6	% 28.0	% 41.1	% 36.3
<i>Combined ratio</i>	138.6	% 108.6	% 99.3	% 97.9	% 109.9	% 110.3

Table 7

(\$ in millions)

Six months ended June 30, 2017	Commercial Auto	Small Commercial Package	Middle Market Commercial	Workers' Comp	Other Commercial	Total
Net written premiums	\$ 38.3	\$ 62.3	\$ 56.4	\$41.3	\$ 7.6	\$205.9
Net earned premiums	38.8	63.2	54.5	44.3	7.7	208.5
Losses and LAE incurred:						
Cat loss and ALAE	0.6	9.5	7.1	—	—	17.2
Non-cat loss and ALAE	23.4	29.6	25.2	25.7	(0.4)	103.5
<i>Total Loss and ALAE</i>	24.0	39.1	32.3	25.7	(0.4)	120.7
ULAE	2.1	2.6	2.6	3.6	0.5	11.4
<i>Total Loss and LAE</i>	26.1	41.7	34.9	29.3	0.1	132.1
Underwriting expenses	15.6	26.8	20.7	13.6	3.8	80.5
<i>Net underwriting (loss) gain</i>	\$ (2.9)	\$ (5.3)	\$ (1.1)	\$1.4	\$ 3.8	\$(4.1)
Cat loss and ALAE ratio	1.6	% 15.0	% 13.1	% —	% 0.1	% 8.3
Non-cat loss and ALAE ratio	60.2	% 46.8	% 46.3	% 58.0	% (4.4)	% 49.6
<i>Total Loss and ALAE ratio</i>	61.8	% 61.8	% 59.4	% 58.0	% (4.3)	% 57.9
ULAE ratio	5.6	% 4.1	% 4.8	% 8.1	% 4.8	% 5.4

Edgar Filing: State Auto Financial CORP - Form 10-Q

<i>Total Loss and LAE ratio</i>	67.4	%	65.9	%	64.2	%	66.1	%	0.5	%	63.3	%
Expense ratio	40.6	%	43.0	%	36.7	%	32.9	%	51.2	%	39.1	%
<i>Combined ratio</i>	108.0	%	108.9	%	100.9	%	99.0	%	51.7	%	102.4	%

35

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Table 8

(\$ in millions)

Six months ended June 30, 2016	Commercial Auto	Small Commercial Package	Middle Market Commercial	Workers' Comp	Other Commercial	Total
Net written premiums	\$ 41.7	\$ 63.3	\$ 55.1	\$ 46.2	\$ 8.5	\$ 214.8
Net earned premiums	46.7	64.1	55.9	47.7	8.6	223.0
Losses and LAE incurred:						
Cat loss and ALAE	0.8	6.2	6.6	—	—	13.6
Non-cat loss and ALAE	37.7	34.0	28.5	29.9	4.6	134.7
<i>Total Loss and ALAE</i>	38.5	40.2	35.1	29.9	4.6	148.3
ULAE	2.3	3.7	2.9	4.1	0.7	13.7
<i>Total Loss and LAE</i>	40.8	43.9	38.0	34.0	5.3	162.0
Underwriting expenses	15.4	25.7	22.0	13.5	3.6	80.2
<i>Net underwriting (loss) gain</i>	\$ (9.5)	\$ (5.5)	\$ (4.1)	\$ 0.2	\$ (0.3)	\$ (19.2)
Cat loss and ALAE ratio	1.8 %	9.6 %	11.7 %	— %	— %	6.1 %
Non-cat loss and ALAE ratio	80.8 %	53.0 %	51.0 %	62.6 %	54.3 %	60.4 %
<i>Total Loss and ALAE ratio</i>	82.6 %	62.6 %	62.7 %	62.6 %	54.3 %	66.5 %
ULAE ratio	5.0 %	5.6 %	5.2 %	8.7 %	6.9 %	6.1 %
<i>Total Loss and LAE ratio</i>	87.6 %	68.2 %	67.9 %	71.3 %	61.2 %	72.6 %
Expense ratio	36.9 %	40.6 %	39.9 %	29.3 %	42.2 %	37.3 %
<i>Combined ratio</i>	124.5 %	108.8 %	107.8 %	100.6 %	103.4 %	109.9 %

The commercial insurance segment's net written premiums for the three and six months ended June 30, 2017 decreased 6.1% and 4.1%, respectively, compared to the same 2016 periods (Tables 5 - 8). The decreases were primarily driven by (i) rate actions to improve profitability in commercial auto, (ii) more competitive market conditions in workers' comp, and (iii) our continued focus on underwriting discipline. Despite these actions, new business premiums increased for the three and six months ended June 30, 2017, for commercial auto, small commercial package and middle market commercial compared to the same 2016 periods, due primarily to efforts undertaken in 2016 to (i) expand and strengthen our agency relationships, and (ii) reinforce and clarify our underwriting appetite for commercial exposures with our agency force.

The commercial insurance segment's SAP catastrophe loss and ALAE ratios for the three and six months ended June 30, 2017 improved 1.0 point and increased 2.2 points, respectively, when compared to the same 2016 periods (Tables 5 - 8). Catastrophes were not as severe during the second quarter of 2017 when compared to the same 2016 period, which was impacted by wind and hail, primarily in Texas. We experienced an increase in catastrophe losses during the first half of 2017 when compared to the same 2016 period. During the first quarter of 2017, widespread storms impacted the Ohio Valley region, South Carolina, Texas, Mississippi and Georgia.

The commercial insurance segment's SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2017 improved 11.6 points and 10.8 points, respectively, when compared to the same 2016 periods (Tables 5 - 8), primarily driven by (i) favorable development of prior accident year losses compared to adverse development in the same 2016 periods and (ii) pricing, underwriting and claims improvements implemented throughout the last two years, including improved risk classification, rate increases and reductions in claims leakage. The commercial auto ratios for the three and six months ended June 30, 2017 improved 38.8 and 20.6 points, respectively, when compared to the same 2016 periods, due to favorable development of prior accident year losses of \$1.6 million and \$3.1 million,

respectively, compared to adverse development of \$4.7 million and \$4.7 million, respectively, for the same 2016 periods.

The small commercial package SAP non-catastrophe loss and ALAE ratio for the three months ended June 30, 2017 increased 3.5 points when compared to the same 2016 period, primarily driven by current accident year large fire losses which were partially offset by greater favorable development of prior accident year losses. Year to date 2017, the ratio improved 6.2 points when compared to the same 2016 period, primarily driven by favorable development of prior accident year ultimate loss estimates of \$5.0 million compared to adverse development of \$0.6 million in the same 2016 period.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

The middle market commercial SAP non-catastrophe loss and ALAE ratios improved 6.8 points and 4.7 points, respectively, when compared to the same 2016 periods, primarily driven by greater favorable development of prior accident year losses.

The workers' compensation SAP non-catastrophe loss and ALAE ratios improved 5.1 points and 4.6 points, respectively, when compared to the same 2016 periods. The quarter to date improvement was primarily driven by favorable development of prior accident year losses of \$2.8 million compared to adverse development of \$0.3 million in the same 2016 period. The year to date 2017 improvement was driven by greater favorable development of prior accident year losses when compared to the same 2016 period.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Specialty Insurance Segment

The following tables set forth the SAP underwriting gain (loss) and SAP combined ratios by major product line for our specialty insurance segment for the three and six months ended June 30, 2017 and 2016:

Table 9

(\$ in millions)

Three months ended June 30, 2017	E&S Property	E&S Casualty	Programs	Total
Net written premiums	\$ 17.3	\$ 30.7	\$ 25.7	\$ 73.7
Net earned premiums	10.4	25.8	26.5	62.7
Losses and LAE incurred:				
Cat loss and ALAE	0.3	—	0.4	0.7
Non-cat loss and ALAE	4.1	17.6	18.8	40.5
<i>Total Loss and ALAE</i>	4.4	17.6	19.2	41.2
ULAE	0.2	1.2	1.6	3.0
<i>Total Loss and LAE</i>	4.6	18.8	20.8	44.2
Underwriting expenses	6.2	10.5	6.6	23.3
<i>Net underwriting loss</i>	\$(0.4)	\$(3.5)	\$(0.9)	\$(4.8)
Cat loss and ALAE ratio	2.4 %	— %	1.4 %	%