

Aircastle LTD  
Form 4  
October 01, 2013

**FORM 4**

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

OMB APPROVAL

OMB Number: 3235-0287  
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
MARUBENI CORP /FI

(Last) (First) (Middle)

4-2 OHTEMACHI 1-CHOME

(Street)

CHIYODA-KU, TOKYO  
100-8088, M0

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
Aircastle LTD [AYR]

3. Date of Earliest Transaction  
(Month/Day/Year)  
09/27/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Shares	09/27/2013		P	30,000 A	\$ 17.4603 13,877,200	I	See Footnote (2)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

## Edgar Filing: Aircastle LTD - Form 4

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Transaction (Instr. 6)
--------------------------------------------	--------------------------------------------------------	--------------------------------------	----------------------------------------------------	--------------------------------	-----------------------------------------------------------------------------------------	----------------------------------------------------------	---------------------------------------------------------------	--------------------------------------------	---------------------------------------------------------------------------

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MARUBENI CORP /FI 4-2 OHTEMACHI 1-CHOME CHIYODA-KU, TOKYO 100-8088, M0	X	X		
Marubeni Aviation Holding Cooperatief U.A. HERIKERBERGWEG 238, 1101 CM AMSTERDAM, ZUIDOOST, P7	X	X		
Marubeni Aviation Corp 4-2 OHTEMACHI 1-CHOME, CHIYODA-KU, TOKYO, 100-8088, M0	X	X		

## Signatures

/s/Tadaaki Kurakake, General Manager, Aerospace & Defense, Systems Dept., Marubeni Corporation	09/30/2013
__Signature of Reporting Person	Date
/s/Tadaaki Kurakake, Managing Director, Marubeni Aviation Holding Cooperatief U.A.	09/30/2013
__Signature of Reporting Person	Date
/s/Tadaaki Kurakake, Director, Marubeni Aviation Corporation	09/30/2013
__Signature of Reporting Person	Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
  - (1) The reported purchases were executed in multiple trades on the open market at a range of prices. The price reported above reflects the average purchase price. Upon request, full information regarding the number of shares and prices at which the transactions were affected can be provided.
  - (2) Shares owned directly by Marubeni Aviation Holding Cooperatief U.A.

**Remarks:**

On August 2, 2013, Ryusuke Konto, Chairman of Marubeni Aerospace Corporation, and Gentaro Toya, Assistant Advisor to

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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al-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

3.9

**0.1**

0.1

*Net periodic cost (benefit)*

\$

**1.4**

\$

1.8

\$

**(1.2**

)

\$

(1.2

)

\$

**3.0**

\$

4.2

\$

**(2.3**

)

\$

(2.3

)

The Company contributed \$4.9 million to its pension plan for the six months ended June 30, 2018, and expects to contribute an additional \$4.9 million to its pension plan during 2018.

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## 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. Other Comprehensive Loss and Accumulated Other Comprehensive Loss**

The following tables set forth the changes in the Company's accumulated other comprehensive (loss) income ("AOC(L)I"), net of tax, for the three and six months ended June 30, 2018 and 2017:

<i>(\$ millions)</i>	Unrealized Gains and Losses on Available-for-Sale Securities	Benefit Plan Items	Total
Beginning balance			
at April 1, 2018	\$ (11.2 )	\$ (37.6 )	\$ (48.8 )
Other comprehensive income before reclassifications	(0.1 )	—	(8.1 )
Amounts reclassified from AOCI (a)	1.0 )	0.6	(0.4 )
Net current period other comprehensive (loss) income	(9.1 )	0.6	(8.5 )
Ending balance			
at June 30, 2018	\$ (20.3 )	\$ (37.0 )	\$ (57.3 )

Beginning balance			
at April 1, 2017	\$ 77.8	\$ (29.9 )	\$ 47.9
Other comprehensive	15.4	—	15.4

Explanation of Responses:

loss  
before  
reclassifications  
Amounts  
reclassified  
from  
10.2 ) 0.3 (9.9 )  
AOCI  
(a)  
Net  
current  
period  
other  
5.2 0.3 5.5  
comprehensive  
(loss)  
income  
*Ending  
balance  
at*  
\$ 83.0 (29.6 ) \$53.4  
*June  
30,  
2017*

(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  
\$ 66.0 (29.3 ) \$36.7  
January  
1,  
2018  
Cumulative  
47.9 ) (8.9 ) (56.8 )  
effect  
of  
change  
in  
accounting  
for  
equity  
securities  
and  
other  
invested  
assets  
and  
reclassification  
of  
stranded

Explanation of Responses:

tax effects as of January 1, 2018 Adjusted beginning balance at **18.1** (38.2 ) (20.1 ) January 1, 2018 Other comprehensive income ~~(37.1)~~ ) — (37.1 ) before reclassifications Amounts reclassified from ~~1.3~~ ) 1.2 (0.1 ) AOCI (a) Net current period other ~~(38.4)~~ ) 1.2 (37.2 ) comprehensive (loss) income *Ending balance at \$ (20.3 ) \$ (37.0 ) \$ (57.3 ) June 30, 2018*

Beginning balance at \$ 62.8 (30.3 ) \$ 32.5 January 1, 2017 Other comprehensive loss ~~35.5~~ — 35.5 before reclassifications Amounts reclassified from ~~(0.1)~~ ) 0.7 (14.6 )

Explanation of Responses:

from  
AOCI  
(a)  
Net  
current  
period  
other  
20.2            0.7            20.9  
comprehensive  
income  
*Ending*  
*balance*  
*at*  
*June* \$ 83.0            \$(29.6 ) \$53.4  
30,  
2017

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

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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 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, 2018 and 2017:

(\$  
 millions)

Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Unrealized gains on available-for-sale fixed maturity investments	1.3	1.3	1.3
	(0.3)	(0.3)	(0.3)
	1.0	1.0	1.0
Amortization of benefit plan items	1.3	1.3	1.3
Negative prior service cost	(2.0)	(2.0)	(2.0)
Net actuarial loss	(0.7)	(0.7)	(0.7)
	0.1	0.1	0.1
	(0.6)	(0.6)	(0.6)
<i>Total reclassifications for \$ 0.4 the period</i>			

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

(\$  
millions)

Six

months ended  
Detailed Information in the Condensed

Comprehensive Income  
June 30 Consolidated Statements of Income  
Components

2018

Unrealized

gains

on

available for sale - Realized gains on sale of securities

fixed

maturity

investments

1.7 Total before tax

(0.4 ) Tax expense

1.3 Net of tax

Amortization

of

benefit

plan

items

Negative

prior service cost (b)  
2.7

cost

Net

actual loss (b)  
4.2

loss

(1.5 ) Total before tax

0.3 Tax benefit

(1.2 ) Net of tax

Total

reclassifications

for \$ 0.1

the

period

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

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STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES  
 (a majority-owned subsidiary of State Automobile Mutual Insurance Company)  
 Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

(\$  
 millions)

Three  
 Months Ended  
 June 30  
 2017

Comprehensive Income  
 Components

Unrealized  
 gains  
 on  
 available  
 for  
 sale  
 securities

15.8	Total before tax
(5.6 )	Tax expense
10.2	Net of tax

Amortization  
 of  
 benefit  
 plan  
 items

Negative  
 prior  
 service  
 cost

1.4	(b)
-----	-----

Net  
 actuarial  
 loss

(0.5 )	Total before tax
0.2	Tax benefit
(0.3 )	Net of tax

*Total  
 reclassifications  
 for \$9.9  
 the  
 period*

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

(\$  
 millions)

Details about Accumulated Other Comprehensive Income in the Condensed

Six  
 months  
 ended  
 Comprehensive Income  
 June 30 Consolidated Statements of Income  
 Components  
 2017  
 Unrealized  
 gains  
 on  
 available  
 for  
 sale  
 securities  
 23.6 Total before tax  
 (8.3 ) Tax expense  
 15.3 Net of tax  
 Amortization  
 of  
 benefit  
 plan  
 items  
 Negative  
 prior  
 service  
 cost  
 Net  
 actuarial  
 loss  
 2.8 (b)  
 (4.0 ) (b)  
 (1.2 ) Total before tax  
 0.5 Tax benefit  
 (0.7 ) Net of tax  
*Total  
 reclassifications  
 for \$ 14.6  
 the  
 period*

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

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## 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. Net Earnings 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, 2018 and 2017:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
<i>(\$ and shares in millions, except per share amounts)</i>				
Numerator:				
Net income for basic earnings per common share	<b>\$6.0</b>	\$8.7	<b>\$3.9</b>	\$5.4
Denominator:				
Weighted average shares for basic earnings per common share	<b>42.8</b>	42.1	<b>42.7</b>	42.0
Effect of dilutive share-based awards	<b>0.6</b>	0.4	<b>0.6</b>	0.5
<i>Adjusted weighted average shares for diluted net earnings per common share</i>	<b>43.4</b>	42.5	<b>43.3</b>	42.5
Basic net earnings per common share	<b>\$0.14</b>	\$0.21	<b>\$0.09</b>	\$0.13
Diluted net earnings per common share	<b>\$0.14</b>	\$0.21	<b>\$0.09</b>	\$0.13

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, 2018 and 2017:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
<i>(shares in millions)</i>				
Total number of antidilutive options and awards	<b>0.7</b>	0.7	<b>0.7</b>	0.5

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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. 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.

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.

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## 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, 2018 and 2017:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenue from external sources:				
Insurance segments				
Personal insurance	<b>\$164.9</b>	\$142.9	<b>\$321.2</b>	\$286.5
Commercial insurance	<b>115.6</b>	114.5	<b>230.5</b>	227.5
Specialty insurance	<b>27.0</b>	62.7	<b>70.7</b>	124.2
<i>Total insurance segments</i>	<b>307.5</b>	320.1	<b>622.4</b>	638.2
Investment operations segment				
Net investment income	<b>21.5</b>	19.1	<b>41.4</b>	37.8
Net investment gain	<b>12.1</b>	15.8	<b>0.4</b>	23.6
<i>Total investment operations segment</i>	<b>33.6</b>	34.9	<b>41.8</b>	61.4
All other	<b>0.6</b>	0.7	<b>1.2</b>	1.2
<i>Total revenue from external sources</i>	<b>341.7</b>	355.7	<b>665.4</b>	700.8
Intersegment revenue	<b>1.8</b>	1.6	<b>3.2</b>	3.0
<i>Total revenue</i>	<b>343.5</b>	357.3	<b>668.6</b>	703.8
Reconciling items:				
Eliminate intersegment revenue	<b>(1.8 )</b>	(1.6 )	<b>(3.2 )</b>	(3.0 )
<i>Total consolidated revenues</i>	<b>\$341.7</b>	\$355.7	<b>\$665.4</b>	\$700.8
Segment income before federal income tax:				
Insurance segments SAP underwriting (loss) gain				
Personal insurance	<b>\$(13.2 )</b>	\$(14.5 )	<b>\$(11.5 )</b>	\$(24.0 )
Commercial insurance	<b>(8.8 )</b>	(2.6 )	<b>(17.1 )</b>	(8.3 )
Specialty insurance	<b>1.0</b>	(4.8 )	<b>2.6</b>	(13.0 )
<i>Total insurance segments loss</i>	<b>(21.0 )</b>	(21.9 )	<b>(26.0 )</b>	(45.3 )
Investment operations segment				
Net investment income	<b>21.5</b>	19.1	<b>41.4</b>	37.8
Net investment gain	<b>12.1</b>	15.8	<b>0.4</b>	23.6
<i>Total investment operations segment</i>	<b>33.6</b>	34.9	<b>41.8</b>	61.4
All other	<b>0.1</b>	0.1	<b>0.2</b>	0.2
<i>Total segment income before reconciling items</i>	<b>12.7</b>	13.1	<b>16.0</b>	16.3
Reconciling items:				
GAAP expense adjustments	<b>0.6</b>	1.4	<b>(3.4 )</b>	(3.5 )
Interest expense on corporate debt	<b>(1.7 )</b>	(1.5 )	<b>(3.3 )</b>	(2.9 )
Corporate expenses	<b>(3.9 )</b>	(1.1 )	<b>(4.8 )</b>	(2.0 )
<i>Total reconciling items</i>	<b>(5.0 )</b>	(1.2 )	<b>(11.6 )</b>	(8.4 )
<i>Total consolidated income before federal income tax expense</i>	<b>\$7.7</b>	\$11.9	<b>\$4.4</b>	\$7.9

Investable assets attributable to the Company's investment operations segment totaled \$2,711.3 million and \$2,781.2 million at June 30, 2018, and December 31, 2017, respectively.





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STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

**12. Contingencies and Litigation**

In accordance with the Contingencies Topic of the FASB'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 a loss 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.

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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, 2017 (the “2017 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, 2018 and December 31, 2017, and for the consolidated statements of income for the three and six month periods ended June 30, 2018 and 2017. This discussion and analysis should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the 2017 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 2017 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 2017 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.

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 Commercial Insurance” and “Specialty Insurance” in Item 1 of the 2017 Form 10-K for more information about our insurance segments. Financial information about our reportable segments for 2018 is set forth in Note 11 of our condensed consolidated financial statements included in Item 1 of this Form 10-Q.

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STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

**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

Milwaukee

SA

Ohio

Total

STFC 65.0 %

Pooled

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 35.0 %

Mutual

Pooled

Companies

Explanation of Responses:



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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

**RESULTS OF OPERATIONS**

The following table sets forth certain key performance indicators we use to monitor our operations for the three and six months ended June 30, 2018 and 2017:

(\$ millions, except per share amounts)	Three months ended		Six months ended	
	June 30	2017	June 30	2017
	2018	2017	2018	2017
<b>GAAP Basis:</b>				
Total revenues	\$341.7	\$355.7	\$665.4	\$700.8
Income before federal income taxes	\$7.7	\$11.9	\$4.4	\$7.9
Net income	\$6.0	\$8.7	\$3.9	\$5.4
Basic earnings per share	\$0.14	\$0.21	\$0.09	\$0.13
Diluted earnings per share	\$0.14	\$0.21	\$0.09	\$0.13
Stockholders' equity	\$847.0	\$908.5		
Return on average equity (LTM)	(1.9 )%	5.4 %		
Book value per share	\$19.75	\$21.65		
Debt to capital ratio	12.6 %	11.9 %		
Cat loss and ALAE ratio	12.2 %	7.9 %	7.6 %	9.3 %
Non-cat loss and LAE ratio	58.6 %	64.0 %	61.5 %	63.5 %
Loss and LAE ratio	70.8 %	71.9 %	69.1 %	72.8 %
Expense ratio	36.2 %	34.3 %	35.7 %	34.7 %
Combined ratio	107.0 %	106.2 %	104.8 %	107.5 %
Premium written growth	(9.7 )%	(1.2 )%	(7.4 )%	0.7 %
Investment yield	3.2 %	3.0 %	3.1 %	3.0 %

**SAP Basis:**

Cat loss and ALAE ratio	12.2 %	7.9 %	7.6 %	9.3 %
Non-cat loss and ALAE ratio	52.4 %	58.5 %	55.6 %	57.8 %
ULAE ratio	6.3 %	5.7 %	6.0 %	5.8 %
Loss and LAE ratio	70.9 %	72.1 %	69.2 %	72.9 %
Expense ratio	35.8 %	32.6 %	36.2 %	33.7 %
Combined ratio	106.7 %	104.7 %	105.4 %	106.6 %

Twelve  
months  
ended  
June 30  
20182017

Net premiums written to surplus **1.8** 1.5

Our pre-tax income for the second quarter of 2018, compared with the second quarter of 2017, decreased \$4.2 million. Earned premiums and losses and loss expenses each decreased \$12.6 million when compared to the second quarter of 2017, due primarily to (i) our decision to exit specialty business during the latter half of 2017 and (ii) lower non-catastrophe losses and loss expenses compared to the same 2017 period. Partially offsetting the decrease in non-catastrophe losses and loss expenses was an increase in weather-related catastrophe losses and loss expenses. Net investment gains decreased by \$3.7 million, while net investment income increased \$2.4 million compared to the same 2017 period. Effective January 1, 2018, we adopted ASU 2016-01, which requires changes in fair value for equity securities and other invested assets still held to be reported through net income. Net investment gains for the three

months ended June 30, 2018, includes an unrealized gain of \$9.5 million resulting from fair value changes of equity securities and other invested assets still held that prior to 2018 would have been reported in other comprehensive income instead of pre-tax income.

Our pre-tax income for the six months ended June 30, 2018, decreased \$3.5 million compared with the first six months of 2017. Earned premiums and losses and loss expenses decreased \$15.8 million and \$34.6 million, respectively, when compared to the six months ended June 30, 2017, due primarily to our decision to exit specialty business. In addition, the decrease in losses and loss expenses was attributable to (i) lower current accident year losses and loss expenses, including both non-catastrophe and catastrophe and (ii) greater favorable development of prior accident year losses and loss expenses when compared to the same

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STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

2017 period. Net investment gains decreased \$23.2 million compared to the six months ended June 30, 2017, while net investment income increased by \$3.6 million. Net investment gains for 2018 includes a net unrealized loss of \$5.8 million.

The second quarter and year to date 2018 results were also impacted by increases in acquisition and operating expenses and other expenses when compared to the same 2017 periods, due to (i) increased estimates of agent and associate incentive compensation, (ii) higher report ordering costs, (iii) the continued impact of our technology investments and (iv) an increase in the valuation of a share-based compensation plan, which is accounted for as a liability plan (for additional information regarding our share-based compensation plans, see Note 14 in Item 8 of the 2017 Form 10-K).

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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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**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 2017 Form 10-K.

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

The following tables set forth certain key performance indicators for our insurance segments for the three and six months ended June 30, 2018 and 2017:

*(\$ in millions)*

<b>Three months ended June 30, 2018</b>	Personal	Commercial	Specialty	Total
Net written premiums	<b>\$184.9</b>	<b>\$120.8</b>	<b>\$2.4</b>	<b>\$308.1</b>
Net earned premiums	<b>164.9</b>	<b>115.6</b>	<b>27.0</b>	<b>307.5</b>
Losses and LAE incurred:				
Cat loss and ALAE	<b>27.1</b>	<b>10.6</b>	<b>(0.2 )</b>	<b>37.5</b>
Non-cat loss and ALAE				
Prior accident years non-cat loss and ALAE	<b>(10.6 )</b>	<b>(9.6 )</b>	<b>2.1</b>	<b>(18.1 )</b>
Current accident year non-cat loss and ALAE	<b>94.3</b>	<b>67.3</b>	<b>18.0</b>	<b>179.6</b>
Total non-cat loss and ALAE	<b>83.7</b>	<b>57.7</b>	<b>20.1</b>	<b>161.5</b>
<i>Total Loss and ALAE</i>	<b>110.8</b>	<b>68.3</b>	<b>19.9</b>	<b>199.0</b>
ULAE	<b>10.7</b>	<b>6.8</b>	<b>1.5</b>	<b>19.0</b>
<i>Total Loss and LAE</i>	<b>121.5</b>	<b>75.1</b>	<b>21.4</b>	<b>218.0</b>
Underwriting expenses	<b>56.6</b>	<b>49.3</b>	<b>4.6</b>	<b>110.5</b>
<i>Net underwriting (loss) gain</i>	<b>\$(13.2 )</b>	<b>\$(8.8 )</b>	<b>\$1.0</b>	<b>\$(21.0 )</b>
Cat loss and ALAE ratio	<b>16.4</b> %	<b>9.1</b> %	<b>(0.7 )</b> %	<b>12.2</b> %
Non-cat loss and ALAE ratio				
Prior accident years non-cat loss and ALAE ratio	<b>(6.4 )</b> %	<b>(8.3 )</b> %	<b>7.8</b> %	<b>(5.9 )</b> %
Current accident year non-cat loss and ALAE ratio	<b>57.2</b> %	<b>58.2</b> %	<b>66.4</b> %	<b>58.3</b> %
Total non-cat loss and ALAE ratio	<b>50.8</b> %	<b>49.9</b> %	<b>74.2</b> %	<b>52.4</b> %
<i>Total Loss and ALAE ratio</i>	<b>67.2</b> %	<b>59.0</b> %	<b>73.5</b> %	<b>64.6</b> %
ULAE ratio	<b>6.5</b> %	<b>6.0</b> %	<b>5.6</b> %	<b>6.3</b> %
<i>Total Loss and LAE ratio</i>	<b>73.7</b> %	<b>65.0</b> %	<b>79.1</b> %	<b>70.9</b> %
Expense ratio	<b>30.6</b> %	<b>40.7</b> %	<b>192.2</b> %	<b>35.8</b> %

Explanation of Responses:



*Combined ratio*

**104.3 % 105.7 % 271.3 % 106.7 %**

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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

(\$ in millions)

Three months ended June 30, 2017	Personal	Commercial	Specialty	Total	
Net written premiums	\$ 150.4	\$ 117.2	\$ 73.7	\$ 341.3	
Net earned premiums	142.9	114.5	62.7	320.1	
Losses and LAE incurred:					
Cat loss and ALAE	13.5	11.0	0.7	25.2	
Non-cat loss and ALAE					
Prior accident years non-cat loss and ALAE	(0.1 )	(15.6 )	0.9	(14.8 )	
Current accident year non-cat loss and ALAE	91.8	70.7	39.6	202.1	
Total non-cat loss and ALAE	91.7	55.1	40.5	187.3	
<i>Total Loss and ALAE</i>	105.2	66.1	41.2	212.5	
ULAE	9.2	6.1	3.0	18.3	
<i>Total Loss and LAE</i>	114.4	72.2	44.2	230.8	
Underwriting expenses	43.0	44.9	23.3	111.2	
<i>Net underwriting loss</i>	\$(14.5 )	\$(2.6 )	\$(4.8 )	\$(21.9 )	
Cat loss and ALAE ratio	9.5	% 9.7	% 1.0	% 7.9	%
Non-cat loss and ALAE ratio					
Prior accident years non-cat loss and ALAE ratio	(0.1 )%	(13.6 )%	1.5	% (4.6 )%	%
Current accident year non-cat loss and ALAE ratio	64.2	% 61.7	% 63.3	% 63.1	%
Total non-cat loss and ALAE ratio	64.1	% 48.1	% 64.8	% 58.5	%
<i>Total Loss and ALAE ratio</i>	73.6	% 57.8	% 65.8	% 66.4	%
ULAE ratio	6.5	% 5.2	% 4.6	% 5.7	%
<i>Total Loss and LAE ratio</i>	80.1	% 63.0	% 70.4	% 72.1	%
Expense ratio	28.5	% 38.3	% 31.8	% 32.6	%
<i>Combined ratio</i>	108.6	% 101.3	% 102.2	% 104.7	%

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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

(\$ in millions)

<b>Six months ended June 30, 2018</b>	Personal	Commercial	Specialty	Total
Net written premiums	\$346.6	\$238.9	\$14.8	\$600.3
Net earned premiums	321.2	230.5	70.7	622.4
Losses and LAE incurred:				
Cat loss and ALAE	32.3	15.2	(0.2 )	47.3
Non-cat loss and ALAE				
Prior accident years non-cat loss and ALAE	(17.2 )	(19.3 )	2.4	(34.1 )
Current accident year non-cat loss and ALAE	191.6	140.7	48.0	380.3
Total non-cat loss and ALAE	174.4	121.4	50.4	346.2
<i>Total Loss and ALAE</i>	<b>206.7</b>	<b>136.6</b>	<b>50.2</b>	<b>393.4</b>
ULAE	20.0	13.7	3.7	37.5
<i>Total Loss and LAE</i>	<b>226.7</b>	<b>150.3</b>	<b>53.9</b>	<b>430.9</b>
Underwriting expenses	106.0	97.3	14.2	217.5
<i>Net underwriting (loss) gain</i>	<b>\$(11.5 )</b>	<b>\$(17.1 )</b>	<b>\$2.6</b>	<b>\$(26.0 )</b>
Cat loss and ALAE ratio	10.1	% 6.6	% (0.3 )	% 7.6
Non-cat loss and ALAE ratio				
Prior accident years non-cat loss and ALAE ratio	(5.4 )	% (8.4 )	% 3.4	% (5.5 )
Current accident year non-cat loss and ALAE ratio	59.7	% 61.0	% 67.8	% 61.1
Total non-cat loss and ALAE ratio	54.3	% 52.6	% 71.2	% 55.6
<i>Total Loss and ALAE ratio</i>	<b>64.4</b>	<b>% 59.2</b>	<b>% 70.9</b>	<b>% 63.2</b>
ULAE ratio	6.2	% 6.0	% 5.2	% 6.0
<i>Total Loss and LAE ratio</i>	<b>70.6</b>	<b>% 65.2</b>	<b>% 76.1</b>	<b>% 69.2</b>
Expense ratio	30.6	% 40.7	% 96.2	% 36.2
<i>Combined ratio</i>	<b>101.2</b>	<b>% 105.9</b>	<b>% 172.3</b>	<b>% 105.4</b>

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## 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	\$282.4	\$ 227.3	\$ 138.5	\$648.2	
Net earned premiums	286.5	227.5	124.2	638.2	
Losses and LAE incurred:					
Cat loss and ALAE	35.7	20.9	2.9	59.5	
Non-cat loss and ALAE					
Prior accident years non-cat loss and ALAE	2.2	(23.2 )	1.4	(19.6 )	
Current accident year non-cat loss and ALAE	169.8	137.0	81.8	388.6	
Total non-cat loss and ALAE	172.0	113.8	83.2	369.0	
<i>Total Loss and ALAE</i>	207.7	134.7	86.1	428.5	
ULAE	19.1	12.8	5.0	36.9	
<i>Total Loss and LAE</i>	226.8	147.5	91.1	465.4	
Underwriting expenses	83.7	88.3	46.1	218.1	
<i>Net underwriting loss</i>	\$(24.0 )	\$(8.3 )	\$(13.0 )	\$(45.3 )	
Cat loss and ALAE ratio	12.5	% 9.2	% 2.3	% 9.3	%
Non-cat loss and ALAE ratio					
Prior accident years non-cat loss and ALAE ratio	0.8	% (10.2 )%	1.2	% (3.1 )%	%
Current accident year non-cat loss and ALAE ratio	59.2	% 60.2	% 65.9	% 60.9	%
Total non-cat loss and ALAE ratio	60.0	% 50.0	% 67.1	% 57.8	%
<i>Total Loss and ALAE ratio</i>	72.5	% 59.2	% 69.4	% 67.1	%
ULAE ratio	6.7	% 5.6	% 4.0	% 5.8	%
<i>Total Loss and LAE ratio</i>	79.2	% 64.8	% 73.4	% 72.9	%
Expense ratio	29.6	% 38.8	% 33.3	% 33.7	%
<i>Combined ratio</i>	108.8	% 103.6	% 106.7	% 106.6	%

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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

*Personal Insurance Segment*

The following tables set forth certain key performance indicators by major product line for our personal insurance segment for the three and six months ended June 30, 2018 and 2017:

Table 1

(\$ in millions)

<b>Three months ended June 30, 2018</b>	Personal Auto	Homeowners	Other Personal	Total
Net written premiums	<b>\$106.2</b>	<b>\$ 72.1</b>	<b>\$ 6.6</b>	<b>\$184.9</b>
Net earned premiums	<b>99.1</b>	<b>60.4</b>	<b>5.4</b>	<b>164.9</b>
Losses and LAE incurred:				
Cat loss and ALAE	<b>3.8</b>	<b>22.3</b>	<b>1.0</b>	<b>27.1</b>
Non-cat loss and ALAE				
Prior accident years non-cat loss and ALAE	<b>(7.2 )</b>	<b>(2.9 )</b>	<b>(0.5 )</b>	<b>(10.6 )</b>
Current accident year non-cat loss and ALAE	<b>64.8</b>	<b>25.9</b>	<b>3.6</b>	<b>94.3</b>
Total non-cat loss and ALAE	<b>57.6</b>	<b>23.0</b>	<b>3.1</b>	<b>83.7</b>
<i>Total Loss and ALAE</i>	<b>61.4</b>	<b>45.3</b>	<b>4.1</b>	<b>110.8</b>
ULAE	<b>5.9</b>	<b>4.6</b>	<b>0.2</b>	<b>10.7</b>
<i>Total Loss and LAE</i>	<b>67.3</b>	<b>49.9</b>	<b>4.3</b>	<b>121.5</b>
Underwriting expenses	<b>31.4</b>	<b>22.8</b>	<b>2.4</b>	<b>56.6</b>
<i>Net underwriting gain (loss)</i>	<b>\$0.4</b>	<b>\$ (12.3 )</b>	<b>\$ (1.3)</b>	<b>\$ (13.2 )</b>
Cat loss and ALAE ratio	<b>3.9</b>	<b>% 36.9</b>	<b>% 18.2</b>	<b>% 16.4</b>
Non-cat loss and ALAE ratio				
Prior accident years non-cat loss and ALAE ratio	<b>(7.2 )%</b>	<b>(4.8 )%</b>	<b>(9.8 )%</b>	<b>(6.4 )%</b>
Current accident year non-cat loss and ALAE ratio	<b>65.3</b>	<b>% 43.0</b>	<b>% 65.6</b>	<b>% 57.2</b>
Total non-cat loss and ALAE ratio	<b>58.1</b>	<b>% 38.2</b>	<b>% 55.8</b>	<b>% 50.8</b>
<i>Total Loss and ALAE ratio</i>	<b>62.0</b>	<b>% 75.1</b>	<b>% 74.0</b>	<b>% 67.2</b>
ULAE ratio	<b>6.0</b>	<b>% 7.6</b>	<b>% 5.2</b>	<b>% 6.5</b>
<i>Total Loss and LAE ratio</i>	<b>68.0</b>	<b>% 82.7</b>	<b>% 79.2</b>	<b>% 73.7</b>
Expense ratio	<b>29.5</b>	<b>% 31.5</b>	<b>% 36.1</b>	<b>% 30.6</b>
<i>Combined ratio</i>	<b>97.5</b>	<b>% 114.2</b>	<b>% 115.3</b>	<b>% 104.3</b>



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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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Table 2

(\$ in millions)

Three months ended June 30, 2017	Personal Auto	Homeowners	Other Personal	Total
Net written premiums	\$86.2	\$ 59.6	\$4.6	\$150.4
Net earned premiums	83.7	54.5	4.7	142.9
Losses and LAE incurred:				
Cat loss and ALAE	2.7	11.1	(0.3 )	13.5
Non-cat loss and ALAE				
Prior accident years non-cat loss and ALAE	(1.2 )	(0.9 )	2.0	(0.1 )
Current accident year non-cat loss and ALAE	62.2	27.9	1.7	91.8
Total non-cat loss and ALAE	61.0	27.0	3.7	91.7
<i>Total Loss and ALAE</i>	63.7	38.1	3.4	105.2
ULAE	5.6	3.4	0.2	9.2
<i>Total Loss and LAE</i>	69.3	41.5	3.6	114.4
Underwriting expenses	23.0	18.3	1.7	43.0
<i>Net underwriting loss</i>	\$(8.6 )	\$ (5.3 )	\$(0.6 )	\$(14.5 )
Cat loss and ALAE ratio	3.2	% 20.4	% (5.5 )%	9.5 %
Non-cat loss and ALAE ratio				
Prior accident years non-cat loss and ALAE ratio	(1.4 )%	(1.7 )%	43.0 %	(0.1 )%
Current accident year non-cat loss and ALAE ratio	74.2 %	51.2 %	35.2 %	64.2 %
Total non-cat loss and ALAE ratio	72.8 %	49.5 %	78.2 %	64.1 %
<i>Total Loss and ALAE ratio</i>	76.0 %	69.9 %	72.7 %	73.6 %
ULAE ratio	6.8 %	6.2 %	7.1 %	6.5 %
<i>Total Loss and LAE ratio</i>	82.8 %	76.1 %	79.8 %	80.1 %
Expense ratio	26.7 %	30.7 %	35.2 %	28.5 %
<i>Combined ratio</i>	109.5 %	106.8 %	115.0 %	108.6 %





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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Table 3

(\$ in millions)

<b>Six months ended June 30, 2018</b>	Personal Auto	Homeowners	Other Personal	Total
Net written premiums	<b>\$208.1</b>	<b>\$ 126.4</b>	<b>\$12.1</b>	<b>\$346.6</b>
Net earned premiums	<b>192.6</b>	<b>118.3</b>	<b>10.3</b>	<b>321.2</b>
Losses and LAE incurred:				
Cat loss and ALAE	<b>3.9</b>	<b>27.0</b>	<b>1.4</b>	<b>32.3</b>
Non-cat loss and ALAE				
Prior accident years non-cat loss and ALAE	<b>(11.2 )</b>	<b>(5.7 )</b>	<b>(0.3 )</b>	<b>(17.2 )</b>
Current accident year non-cat loss and ALAE	<b>131.7</b>	<b>54.3</b>	<b>5.6</b>	<b>191.6</b>
Total non-cat loss and ALAE	<b>120.5</b>	<b>48.6</b>	<b>5.3</b>	<b>174.4</b>
<i>Total Loss and ALAE</i>	<b>124.4</b>	<b>75.6</b>	<b>6.7</b>	<b>206.7</b>
ULAE	<b>10.9</b>	<b>8.6</b>	<b>0.5</b>	<b>20.0</b>
<i>Total Loss and LAE</i>	<b>135.3</b>	<b>84.2</b>	<b>7.2</b>	<b>226.7</b>
Underwriting expenses	<b>60.3</b>	<b>41.0</b>	<b>4.7</b>	<b>106.0</b>
<i>Net underwriting loss</i>	<b>\$(3.0 )</b>	<b>\$(6.9 )</b>	<b>\$(1.6 )</b>	<b>\$(11.5 )</b>
Cat loss and ALAE ratio	<b>2.1</b>	<b>% 22.8</b>	<b>% 13.3</b>	<b>% 10.1</b>
Non-cat loss and ALAE ratio				
Prior accident years non-cat loss and ALAE ratio	<b>(5.8 )%</b>	<b>(4.8 )%</b>	<b>(2.9 )%</b>	<b>(5.4 )%</b>
Current accident year non-cat loss and ALAE ratio	<b>68.3</b>	<b>% 45.9</b>	<b>% 53.9</b>	<b>% 59.7</b>
Total non-cat loss and ALAE ratio	<b>62.5</b>	<b>% 41.1</b>	<b>% 51.0</b>	<b>% 54.3</b>
<i>Total Loss and ALAE ratio</i>	<b>64.6</b>	<b>% 64.0</b>	<b>% 64.3</b>	<b>% 64.4</b>
ULAE ratio	<b>5.6</b>	<b>% 7.2</b>	<b>% 5.3</b>	<b>% 6.2</b>
<i>Total Loss and LAE ratio</i>	<b>70.2</b>	<b>% 71.2</b>	<b>% 69.6</b>	<b>% 70.6</b>
Expense ratio	<b>29.0</b>	<b>% 32.4</b>	<b>% 39.0</b>	<b>% 30.6</b>
<i>Combined ratio</i>	<b>99.2</b>	<b>% 103.6</b>	<b>% 108.6</b>	<b>% 101.2</b>

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## 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, 2017	Personal Auto	Homeowners	Other Personal	Total	
Net written premiums	\$ 168.8	\$ 104.8	\$ 8.8	\$ 282.4	
Net earned premiums	166.9	110.0	9.6	286.5	
Losses and LAE incurred:					
Cat loss and ALAE	5.9	29.1	0.7	35.7	
Non-cat loss and ALAE					
Prior accident years non-cat loss and ALAE	(1.8 )	1.9	2.1	2.2	
Current accident year non-cat loss and ALAE	118.6	48.0	3.2	169.8	
Total non-cat loss and ALAE	116.8	49.9	5.3	172.0	
<i>Total Loss and ALAE</i>	122.7	79.0	6.0	207.7	
ULAE	10.3	8.1	0.7	19.1	
<i>Total Loss and LAE</i>	133.0	87.1	6.7	226.8	
Underwriting expenses	46.6	33.8	3.3	83.7	
<i>Net underwriting loss</i>	\$(12.7 )	\$ (10.9 )	\$ (0.4 )	\$(24.0 )	
Cat loss and ALAE ratio	3.5	% 26.5	% 7.0	% 12.5	%
Non-cat loss and ALAE ratio					
Prior accident years non-cat loss and ALAE ratio	(1.1 )	% 1.7	% 21.4	% 0.8	%
Current accident year non-cat loss and ALAE ratio	71.4	% 43.6	% 34.1	% 59.2	%
Total non-cat loss and ALAE ratio	70.3	% 45.3	% 55.5	% 60.0	%
<i>Total Loss and ALAE ratio</i>	73.5	% 71.8	% 62.5	% 72.5	%
ULAE ratio	6.2	% 7.4	% 8.1	% 6.7	%
<i>Total Loss and LAE ratio</i>	79.7	% 79.2	% 70.6	% 79.2	%
Expense ratio	27.6	% 32.2	% 36.8	% 29.6	%
<i>Combined ratio</i>	107.3	% 111.4	% 107.4	% 108.8	%

The personal insurance segment's net written premiums for the three and six months ended June 30, 2018 increased 23.0% and 22.7%, respectively, compared to the same 2017 periods (Tables 1 - 4). The premium growth was driven by personal auto rate increases, new business growth and a higher level of policies in force in both personal auto and homeowners attributable to production generated through State Auto Connect.

The personal insurance segment's SAP catastrophe loss ratios for the three and six months ended June 30, 2018, increased 6.9 points and improved 2.4 points, respectively, when compared to the same 2017 periods. The second quarter 2018 was impacted by weather events, primarily wind and hail. Weather related catastrophe events for the six months ended June 30, 2018, were less severe than catastrophe events impacting our results for the same 2017 period. During the first quarter 2017, widespread storms impacted the Ohio Valley region, South Carolina, Texas, Mississippi and Georgia.

The personal insurance segment's SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2018, improved 13.3 points and 5.7 points, respectively, compared to the same 2017 periods (Tables 1 - 4). The personal auto SAP non-catastrophe loss and ALAE ratio for the three and six months ended June 30, 2018 improved 14.7 and 7.8 points, respectively, compared to the same 2017 periods (Tables 1 - 4). The quarter and year to date 2018 current accident year loss and ALAE ratios improved 8.9 points and 3.1 points, respectively, compared to the same 2017 periods. Favorable development of prior accident year losses for the three and six months ended

June 30, 2018, improved the loss ratios by 7.2 points and 5.8 points, respectively, compared to 1.4 points and 1.1 points, respectively, for the same 2017 periods. The 2018 prior accident year favorable development was primarily attributable to lower than anticipated severity from the 2016 and 2017 accident years.

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The homeowners SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2018, improved 11.3 points and 4.2 points, respectively, compared to the same 2017 periods. The second quarter 2018 improvement compared to the same 2017 period was primarily due to (i) a decrease in non-catastrophe weather losses and (ii) greater favorable development of prior accident year losses (4.8 points compared to 1.7 points for the three months ended June 30, 2017). The year to date 2018 improvement was due to favorable development of prior accident year losses of 4.8 points compared to adverse development of 1.7 points during the same 2017 period.

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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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*Commercial Insurance Segment*

The following tables set forth certain key performance indicators by major product line for our commercial insurance segment for the three and six months ended June 30, 2018 and 2017:

Table 5

(\$ in millions)

<b>Three months ended June 30, 2018</b>	Commercial Auto	Small Commercial Package	Middle Market Commercial	Workers' Comp	Farm & Ranch	Other Commercial	Total
Net written premiums	\$21.4	\$31.6	\$32.3	\$17.6	\$12.7	5.2	\$120.8
Net earned premiums	18.7	30.3	28.3	22.6	11.1	4.6	115.6
Losses and LAE incurred:							
Cat loss and ALAE	0.6	4.5	3.8	—	1.7	—	10.6
Non-cat loss and ALAE							
Prior accident years non-cat loss and ALAE	(1.1 )	(4.2 )	2.1	(3.6 )	(1.5 )	(1.3 )	(9.6 )
Current accident year non-cat loss and ALAE	11.0	18.6	15.7	13.9	6.4	1.7	67.3
Total non-cat loss and ALAE	9.9	14.4	17.8	10.3	4.9	0.4	57.7
<i>Total Loss and ALAE</i>	10.5	18.9	21.6	10.3	6.6	0.4	68.3
ULAE	1.1	1.7	1.5	1.5	0.7	0.3	6.8
<i>Total Loss and LAE</i>	11.6	20.6	23.1	11.8	7.3	0.7	75.1
Underwriting expenses	9.5	13.9	12.3	6.4	5.4	1.8	49.3
<i>Net underwriting (loss) gain</i>	\$(2.4 )	\$(4.2 )	\$(7.1 )	\$4.4	\$(1.6 )	2.1	\$(8.8 )
Cat loss and ALAE ratio	2.9 %	14.8 %	13.5 %	— %	14.8 %	— %	9.1 %
Non-cat loss and ALAE ratio							
Prior accident years non-cat loss and ALAE ratio	(5.7 )%	(14.0 )%	7.6 %	(15.9 )%	(13.8 )%	(27.0 )%	(8.3 )%
Current accident year non-cat loss and ALAE ratio	59.4 %	61.8 %	55.2 %	61.2 %	58.0 %	34.2 %	58.2 %
Total non-cat loss and ALAE ratio	53.7 %	47.8 %	62.8 %	45.3 %	44.2 %	7.2 %	49.9 %
<i>Total Loss and ALAE ratio</i>	56.6 %	62.6 %	76.3 %	45.3 %	59.0 %	7.2 %	59.0 %
ULAE ratio	5.9 %	5.7 %	5.5 %	7.2 %	6.3 %	5.4 %	6.0 %
<i>Total Loss and LAE ratio</i>	62.5 %	68.3 %	81.8 %	52.5 %	65.3 %	12.6 %	65.0 %
Expense ratio	44.0 %	43.9 %	38.0 %	36.1 %	42.4 %	36.4 %	40.7 %
<i>Combined ratio</i>	106.5 %	112.2 %	119.8 %	88.6 %	107.7 %	49.0 %	105.7 %



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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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Table 6

(\$ in millions)

Three months ended June 30, 2017	Commercial Auto	Small Commercial Package	Middle Market Commercial	Workers' Comp	Farm & Ranch	Other Commercial	Total
Net written premiums	\$ 19.9	\$ 31.8	\$ 30.6	\$ 19.6	\$ 11.5	\$ 3.8	\$ 117.2
Net earned premiums	19.3	31.9	27.5	22.8	9.6	3.4	114.5
Losses and LAE incurred:							
Cat loss and ALAE	0.3	5.4	4.0	—	1.3	—	11.0
Non-cat loss and ALAE							
Prior accident years non-cat loss and ALAE	(1.6 )	(3.0 )	(6.3 )	(2.8 )	(0.8 )	(1.1 )	(15.6 )
Current accident year non-cat loss and ALAE	12.1	18.9	14.5	15.8	7.6	1.8	70.7
Total non-cat loss and ALAE	10.5	15.9	8.2	13.0	6.8	0.7	55.1
<i>Total Loss and ALAE</i>	10.8	21.3	12.2	13.0	8.1	0.7	66.1
ULAE	1.0	1.7	1.0	1.4	0.7	0.3	6.1
<i>Total Loss and LAE</i>	11.8	23.0	13.2	14.4	8.8	1.0	72.2
Underwriting expenses	8.0	13.5	10.7	6.7	4.2	1.8	44.9
<i>Net underwriting (loss) gain</i>	\$ (0.5 )	\$ (4.6 )	\$ 3.6	\$ 1.7	\$ (3.4 )	\$ 0.6	\$ (2.6 )
Cat loss and ALAE ratio	1.6	% 16.9	% 14.6	% —	% 14.0	% 0.3	% 9.7
Non-cat loss and ALAE ratio							
Prior accident years non-cat loss and ALAE ratio	(8.1 )%	(9.3 )%	(23.0 )%	(12.4 )%	(8.2 )%	(33.6 )%	(13.6 )%
Current accident year non-cat loss and ALAE ratio	62.4	% 58.8	% 52.7	% 69.5	% 79.0	% 56.1	% 61.7
Total non-cat loss and ALAE ratio	54.3	% 49.5	% 29.7	% 57.1	% 70.8	% 22.5	% 48.1
<i>Total Loss and ALAE ratio</i>	55.9	% 66.4	% 44.3	% 57.1	% 84.8	% 22.8	% 57.8
ULAE ratio	5.1	% 5.5	% 3.9	% 6.0	% 6.5	% 4.8	% 5.2
<i>Total Loss and LAE ratio</i>	61.0	% 71.9	% 48.2	% 63.1	% 91.3	% 27.6	% 63.0
Expense ratio	40.1	% 42.6	% 35.1	% 33.9	% 36.0	% 50.6	% 38.3
<i>Combined ratio</i>	101.1	% 114.5	% 83.3	% 97.0	% 127.3	% 78.2	% 101.3

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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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Table 7

(\$ in millions)

<b>Six months ended June 30, 2018</b>	Commercial Auto	Small Commercial Package	Middle Market Commercial	Workers' Comp	Farm & Ranch	Other Commercial	Total
Net written premiums	\$40.0	\$62.0	\$61.0	\$42.0	\$24.2	\$9.7	\$238.9
Net earned premiums	37.1	60.7	56.4	45.4	22.1	8.8	230.5
Losses and LAE incurred:							
Cat loss and ALAE	0.6	7.7	5.3	—	1.6	—	15.2
Non-cat loss and ALAE							
Prior accident years non-cat loss and ALAE	(4.6 )	(4.7 )	(3.4 )	(5.9 )	(1.2 )	0.5	(19.3 )
Current accident year non-cat loss and ALAE	23.4	36.8	37.2	29.0	10.6	3.7	140.7
Total non-cat loss and ALAE	18.8	32.1	33.8	23.1	9.4	4.2	121.4
<i>Total Loss and ALAE</i>	19.4	39.8	39.1	23.1	11.0	4.2	136.6
ULAE	2.3	3.0	3.0	3.8	1.0	0.6	13.7
<i>Total Loss and LAE</i>	21.7	42.8	42.1	26.9	12.0	4.8	150.3
Underwriting expenses	17.6	27.7	23.6	14.4	10.2	3.8	97.3
<i>Net underwriting (loss) gain</i>	\$(2.2 )	\$(9.8 )	\$(9.3 )	\$4.1	\$(0.1 )	\$0.2	\$(17.1 )
Cat loss and ALAE ratio	1.5 %	12.7 %	9.4 %	— %	7.2 %	— %	6.6 %
Non-cat loss and ALAE ratio							
Prior accident years non-cat loss and ALAE ratio	(12.3 )%	(7.8 )%	(6.0 )%	(12.9 )%	(5.5 )%	5.6 %	(8.4 )%
Current accident year non-cat loss and ALAE ratio	63.3 %	60.6 %	66.0 %	63.6 %	47.7 %	41.6 %	61.0 %
Total non-cat loss and ALAE ratio	51.0 %	52.8 %	60.0 %	50.7 %	42.2 %	47.2 %	52.6 %
<i>Total Loss and ALAE ratio</i>	52.5 %	65.5 %	69.4 %	50.7 %	49.4 %	47.2 %	59.2 %
ULAE ratio	6.1 %	5.0 %	5.4 %	8.6 %	4.8 %	6.2 %	6.0 %
<i>Total Loss and LAE ratio</i>	58.6 %	70.5 %	74.8 %	59.3 %	54.2 %	53.4 %	65.2 %
Expense ratio	43.9 %	44.7 %	38.8 %	34.3 %	42.1 %	39.4 %	40.7 %
<i>Combined ratio</i>	102.5 %	115.2 %	113.6 %	93.6 %	96.3 %	92.8 %	105.9 %



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## 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, 2017	Commercial Auto	Small Commercial Package	Middle Market Commercial	Workers' Comp	Farm & Ranch	Other Commercial	Total
Net written premiums	\$38.3	\$62.3	\$56.4	\$41.3	\$21.4	\$7.6	\$227.3
Net earned premiums	38.8	63.2	54.5	44.3	19.0	7.7	227.5
Losses and LAE incurred:							
Cat loss and ALAE	0.6	9.5	7.1	—	3.7	—	20.9
Non-cat loss and ALAE							
Prior accident years non-cat loss and ALAE	(3.1 )	(5.0 )	(5.3 )	(4.7 )	(0.8 )	(4.3 )	(23.2 )
Current accident year non-cat loss and ALAE	26.5	34.6	30.5	30.4	11.1	3.9	137.0
Total non-cat loss and ALAE	23.4	29.6	25.2	25.7	10.3	(0.4 )	113.8
<i>Total Loss and ALAE</i>	24.0	39.1	32.3	25.7	14.0	(0.4 )	134.7
ULAE	2.1	2.6	2.6	3.6	1.4	0.5	12.8
<i>Total Loss and LAE</i>	26.1	41.7	34.9	29.3	15.4	0.1	147.5
Underwriting expenses	15.6	26.8	20.7	13.6	7.8	3.8	88.3
<i>Net underwriting (loss) gain</i>	\$(2.9 )	\$(5.3 )	\$(1.1 )	\$1.4	\$(4.2 )	\$3.8	\$(8.3 )
Cat loss and ALAE ratio	1.6	% 15.0	% 13.1	% —	% 19.7	% 0.1	% 9.2
Non-cat loss and ALAE ratio							
Prior accident years non-cat loss and ALAE ratio	(8.0 )%	(7.9 )%	(9.7 )%	(10.6 )%	(4.3 )%	(55.5 )%	(10.2 )%
Current accident year non-cat loss and ALAE ratio	68.2 %	54.7 %	56.0 %	68.6 %	58.6 %	51.1 %	60.2 %
Total non-cat loss and ALAE ratio	60.2 %	46.8 %	46.3 %	58.0 %	54.3 %	(4.4 )%	50.0 %
<i>Total Loss and ALAE ratio</i>	61.8 %	61.8 %	59.4 %	58.0 %	74.0 %	(4.3 )%	59.2 %
ULAE ratio	5.6 %	4.1 %	4.8 %	8.1 %	6.8 %	4.8 %	5.6 %
<i>Total Loss and LAE ratio</i>	67.4 %	65.9 %	64.2 %	66.1 %	80.8 %	0.5 %	64.8 %
Expense ratio	40.6 %	43.0 %	36.7 %	32.9 %	36.3 %	51.2 %	38.8 %
<i>Combined ratio</i>	108.0 %	108.9 %	100.9 %	99.0 %	117.1 %	51.7 %	103.6 %

The commercial insurance segment's net written premiums for the three and six months ended June 30, 2018, increased 2.8% and 5.0%, respectively, compared to the same 2017 periods (Tables 5 - 8), due to rate increases and new business growth in most product lines, partially offset by more competitive market conditions in workers' comp. The commercial insurance segment's SAP catastrophe loss and ALAE ratios for the three and six months ended June 30, 2018 improved 0.6 and 2.6 points, respectively, compared to the same 2017 periods (Tables 5 - 8), primarily driven by lower severity. Year to date 2017 was impacted by the events discussed above.

The commercial insurance segment's SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2018 increased 1.8 points and 2.6 points, respectively, compared to the same 2017 periods (Tables 5 - 8), due primarily to less favorable development of prior accident year losses. In addition, year to date 2018 was impacted by (i) higher weather-related losses (freeze claims), and (ii) large fire losses when compared to the same 2017 period. The commercial auto SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2018, improved 0.6 and 9.2 points, respectively, compared to the same 2017 periods. The second quarter and year to date 2018 benefited from fewer large losses when compared to the same 2017 periods. In addition, year to date 2018 was impacted by greater favorable development of prior accident year losses of 12.3 points compared to 8.0 points for the same 2017 period. The 2018 prior accident year favorable development was primarily attributable to lower than

anticipated severity from the 2016 and 2017 accident years.

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STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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The small commercial package SAP non-catastrophe loss and ALAE ratio for the three months ended June 30, 2018, improved 1.7 points compared to the same 2017 period driven by greater favorable development of prior accident year losses of 14.0 points compared to 9.3 points for the same 2017 period. The non-catastrophe loss and ALAE ratio for the six months ended June 30, 2018, increased 6.0 points compared to the same 2017 period primarily driven by an increase in (i) weather-related claims, and (ii) large fire losses in the current accident year when compared to the same 2017 period.

The middle market commercial SAP non-catastrophe loss and ALAE ratios for the three and six months ended June 30, 2018, increased 33.1 and 13.7 points, respectively, compared to the same 2017 periods. The quarter to date increase was primarily driven by adverse development of prior accident year losses of 7.6 points compared to favorable development of prior accident year losses of 23.0 points for the same 2017 period. Quarter to date adverse development was driven by a small number of construction defect claims from accident years 2008 and prior. The year to date increase was driven by (i) less favorable development of prior accident year losses of 6.0 points compared to 9.7 points for the same 2017 period, (ii) an increase in weather-related claims, and (iii) large fire losses when compared to the same 2017 period.

The workers' compensation SAP non-catastrophe loss and ALAE ratio for the three and six months ended June 30, 2018, improved 11.8 and 7.3 points compared to the same 2017 periods due primarily to (i) improved experience in the current accident year, and (ii) greater favorable development of prior accident year losses.

The farm & ranch SAP non-catastrophe loss and ALAE ratio for the three and six months ended June 30, 2018, improved 26.6 and 12.1 points, respectively, compared to the same 2017 periods, primarily due to (i) greater favorable development of prior accident year losses, and (ii) fewer large losses. Slightly offsetting the improvement was a second quarter 2018 large fire loss that added 18.0 points and 9.0 points, respectively, to the quarter and year to date 2018 loss ratios. The three and six months ended June 30, 2017 were also impacted by large fire losses.

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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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*Specialty Insurance Segment*

The following tables set forth certain key performance indicators by major product line for our specialty insurance segment for the three and six months ended June 30, 2018 and 2017:

Table 9

(\$ in millions)

<b>Three months ended June 30, 2018</b>	E&S Property	E&S Casualty	Programs	Total
Net written premiums	\$ (2.6)	\$ 5.7	\$ (0.7)	\$ 2.4
Net earned premiums	2.1	19.6	5.3	27.0
Losses and LAE incurred:				
Cat loss and ALAE	(0.1 )	—	(0.1 )	(0.2 )
Non-cat loss and ALAE				
Prior accident years non-cat loss and ALAE	0.6	0.9	0.6	2.1
Current accident year non-cat loss and ALAE	0.2	13.8	4.0	18.0
Total non-cat loss and ALAE	0.8	14.7	4.6	20.1
<i>Total Loss and ALAE</i>	0.7	14.7	4.5	19.9
ULAE	—	0.9	0.6	1.5
<i>Total Loss and LAE</i>	0.7	15.6	5.1	21.4
Underwriting expenses	0.9	3.3	0.4	4.6
<i>Net underwriting gain (loss)</i>	\$ 0.5	\$ 0.7	\$ (0.2)	\$ 1.0
Cat loss and ALAE ratio	(5.6 )%	— %	(1.4 )%	(0.7 )%
Non-cat loss and ALAE ratio				
Prior accident years non-cat loss and ALAE ratio	27.5 %	4.5 %	12.2 %	7.8 %
Current accident year non-cat loss and ALAE ratio	6.5 %	70.6 %	74.5 %	66.4 %
Total non-cat loss and ALAE ratio	34.0 %	75.1 %	86.7 %	74.2 %
<i>Total Loss and ALAE ratio</i>	28.4 %	75.1 %	85.3 %	73.5 %
ULAE ratio	3.1 %	4.6 %	10.2 %	5.6 %
<i>Total Loss and LAE ratio</i>	31.5 %	79.7 %	95.5 %	79.1 %
Expense ratio	(34.0 )%	60.3 %	(78.0 )%	192.2%
<i>Combined ratio</i>	(2.5 )%	140.0 %	17.5 %	271.3%



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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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Table 10

(\$ 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				
Prior accident years non-cat loss and ALAE	1.2	(0.1 )	(0.2 )	0.9
Current accident year non-cat loss and ALAE	2.9	17.7	19.0	39.6
Total 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 %	1.0 %
Non-cat loss and ALAE ratio				
Prior accident years non-cat loss and ALAE ratio	11.6 %	(0.2 )%	(0.6 )%	1.5 %
Current accident year non-cat loss and ALAE ratio	29.0 %	68.4 %	71.6 %	63.3 %
Total non-cat loss and ALAE ratio	40.6 %	68.2 %	71.0 %	64.8 %
<i>Total Loss and ALAE ratio</i>	43.0 %	68.2 %	72.4 %	65.8 %
ULAE ratio	1.1 %	4.8 %	5.8 %	4.6 %
<i>Total Loss and LAE ratio</i>	44.1 %	73.0 %	78.2 %	70.4 %
Expense ratio	36.4 %	34.2 %	26.0 %	31.8 %
<i>Combined ratio</i>	80.5 %	107.2 %	104.2 %	102.2 %



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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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Table 11

(\$ in millions)

<b>Six months ended June 30, 2018</b>	E&S Property	E&S Casualty	Programs	Total
Net written premiums	<b>\$ (5.3)</b>	<b>\$ 21.0</b>	<b>\$ (0.9)</b>	<b>\$ 14.8</b>
Net earned premiums	<b>8.3</b>	<b>45.0</b>	<b>17.4</b>	<b>70.7</b>
Losses and LAE incurred:				
Cat loss and ALAE	<b>0.1</b>	<b>—</b>	<b>(0.3 )</b>	<b>(0.2 )</b>
Non-cat loss and ALAE				
Prior accident years non-cat loss and ALAE	<b>0.4</b>	<b>2.8</b>	<b>(0.8 )</b>	<b>2.4</b>
Current accident year non-cat loss and ALAE	<b>2.7</b>	<b>32.4</b>	<b>12.9</b>	<b>48.0</b>
Total non-cat loss and ALAE	<b>3.1</b>	<b>35.2</b>	<b>12.1</b>	<b>50.4</b>
<i>Total Loss and ALAE</i>	<b>3.2</b>	<b>35.2</b>	<b>11.8</b>	<b>50.2</b>
ULAE	<b>0.1</b>	<b>2.0</b>	<b>1.6</b>	<b>3.7</b>
<i>Total Loss and LAE</i>	<b>3.3</b>	<b>37.2</b>	<b>13.4</b>	<b>53.9</b>
Underwriting expenses	<b>2.9</b>	<b>9.6</b>	<b>1.7</b>	<b>14.2</b>
<i>Net underwriting gain (loss)</i>	<b>\$ 2.1</b>	<b>\$ (1.8 )</b>	<b>\$ 2.3</b>	<b>\$ 2.6</b>
Cat loss and ALAE ratio	<b>0.7</b>	<b>% —</b>	<b>% (1.5 )%</b>	<b>(0.3 )%</b>
Non-cat loss and ALAE ratio				
Prior accident years non-cat loss and ALAE ratio	<b>4.0</b>	<b>% 6.3</b>	<b>% (4.4 )%</b>	<b>3.4</b>
Current accident year non-cat loss and ALAE ratio	<b>32.8</b>	<b>% 72.0</b>	<b>% 73.8</b>	<b>% 67.8</b>
Total non-cat loss and ALAE ratio	<b>36.8</b>	<b>% 78.3</b>	<b>% 69.4</b>	<b>% 71.2</b>
<i>Total Loss and ALAE ratio</i>	<b>37.5</b>	<b>% 78.3</b>	<b>% 67.9</b>	<b>% 70.9</b>
ULAE ratio	<b>1.7</b>	<b>% 4.3</b>	<b>% 9.2</b>	<b>% 5.2</b>
<i>Total Loss and LAE ratio</i>	<b>39.2</b>	<b>% 82.6</b>	<b>% 77.1</b>	<b>% 76.1</b>
Expense ratio	<b>(54.5 )%</b>	<b>46.2</b>	<b>% (206.0)%</b>	<b>96.2</b>
<i>Combined ratio</i>	<b>(15.3 )%</b>	<b>128.8</b>	<b>% (128.9)%</b>	<b>172.3</b>

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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Table 12

(\$ in millions)

Six months ended June 30, 2017	E&S Property	E&S Casualty	Programs	Total
Net written premiums	\$26.5	\$57.4	\$54.6	\$138.5
Net earned premiums	21.4	49.1	53.7	124.2
Losses and LAE incurred:				
Cat loss and ALAE	2.4	—	0.5	2.9
Non-cat loss and ALAE				
Prior accident years non-cat loss and ALAE	1.6	(0.3 )	0.1	1.4
Current accident year non-cat loss and ALAE	5.8	35.3	40.7	81.8
Total non-cat loss and ALAE	7.4	35.0	40.8	83.2
<i>Total Loss and ALAE</i>	9.8	35.0	41.3	86.1
ULAE	(0.2 )	2.2	3.0	5.0
<i>Total Loss and LAE</i>	9.6	37.2	44.3	91.1
Underwriting expenses	11.0	20.1	15.0	46.1
<i>Net underwriting gain (loss)</i>	\$0.8	\$(8.2 )	\$(5.6 )	(13.0 )
Cat loss and ALAE ratio	11.1 %	— %	0.9 %	2.3 %
Non-cat loss and ALAE ratio				
Prior accident years non-cat loss and ALAE ratio	7.7 %	(0.5 )%	0.3 %	1.2 %
Current accident year non-cat loss and ALAE ratio	27.4 %	71.7 %	75.7 %	65.9 %
Total non-cat loss and ALAE ratio	35.1 %	71.2 %	76.0 %	67.1 %
<i>Total Loss and ALAE ratio</i>	46.2 %	71.2 %	76.9 %	69.4 %
ULAE ratio	(1.2 )%	4.6 %	5.6 %	4.0 %
<i>Total Loss and LAE ratio</i>	45.0 %	75.8 %	82.5 %	73.4 %
Expense ratio	41.9 %	35.0 %	27.5 %	33.3 %
<i>Combined ratio</i>	86.9 %	110.8 %	110.0 %	106.7 %

As a result of our decision to exit specialty business, the specialty insurance segment's net written premiums for the three and six months ended June 30, 2018 decreased 96.7% and 89.3%, respectively, compared the same 2017 periods (Tables 9 - 12).

The specialty insurance segment's SAP loss and ALAE ratios for the three and six months ended June 30, 2018 increased 7.7 points and 1.5 points, respectively, compared to the same 2017 periods (Tables 9 - 12) driven by increases in the non-cat loss and ALAE ratios of 9.4 points and 4.1 points respectively. The second quarter and year to date 2018 were impacted by adverse development of prior accident year losses of 7.8 points and 3.4 points, respectively, compared to 1.5 points and 1.2 points, respectively, for the same 2017 periods. The second quarter 2018 was impacted by adverse development across all products and year to date 2018 was primarily impacted by adverse development in E&S casualty. The E&S casualty quarter and year to date 2018 adverse development was due primarily to development within our general liability and healthcare books of business. The programs quarter to date 2018 adverse development for prior accident years was driven by increased ultimate loss estimates for commercial auto coverages, although, year to date changes in prior accident year ultimate loss estimates were favorable.



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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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*Losses and LAE Development*

Losses and loss expenses represent the combined estimated ultimate liability for claims occurring in a period, along with any change in the estimated ultimate liability for claims occurring in prior periods.

The following table sets forth a tabular presentation of the development of the prior accident years' ultimate liability by product for the three and six months ended June 30, 2018 and 2017:

(\$ millions)	Three months ended June 30			Six months ended June 30		
	2018	2017	\$ Change	2018	2017	\$ Change
	<i>(Redundancy)/Deficiency</i>			<i>(Redundancy)/Deficiency</i>		
Non-cat loss and ALAE:						
<u>Personal Insurance Segment:</u>						
Personal Auto	<b>\$(7.2)</b>	\$(1.2)	\$(6.0)	<b>\$(11.2)</b>	\$(1.8)	\$(9.4)
Homeowners	<b>(2.9)</b>	(0.9)	(2.0)	<b>(5.7)</b>	1.9	(7.6)
Other Personal	<b>(0.5)</b>	2.0	(2.5)	<b>(0.3)</b>	2.1	(2.4)
<i>Total Personal Insurance Segment</i>	<b>(10.6)</b>	(0.1)	(10.5)	<b>(17.2)</b>	2.2	(19.4)
<u>Commercial Insurance Segment:</u>						
Commercial Auto	<b>(1.1)</b>	(1.6)	0.5	<b>(4.6)</b>	(3.1)	(1.5)
Small Commercial Package	<b>(4.2)</b>	(3.0)	(1.2)	<b>(4.7)</b>	(5.0)	0.3
Middle Market Commercial	<b>2.1</b>	(6.3)	8.4	<b>(3.4)</b>	(5.3)	1.9
Workers' Compensation	<b>(3.6)</b>	(2.8)	(0.8)	<b>(5.9)</b>	(4.7)	(1.2)
Farm & Ranch	<b>(1.5)</b>	(0.8)	(0.7)	<b>(1.2)</b>	(0.8)	(0.4)
Other Commercial	<b>(1.3)</b>	(1.1)	(0.2)	<b>0.5</b>	(4.3)	4.8
<i>Total Commercial Insurance Segment</i>	<b>(9.6)</b>	(15.6)	6.0	<b>(19.3)</b>	(23.2)	3.9
<u>Specialty Insurance Segment:</u>						
E&S Property	<b>0.6</b>	1.2	(0.6)	<b>0.4</b>	1.6	(1.2)
E&S Casualty	<b>0.9</b>	(0.1)	1.0	<b>2.8</b>	(0.3)	3.1
Programs	<b>0.6</b>	(0.2)	0.8	<b>(0.8)</b>	0.1	(0.9)
<i>Total Specialty Insurance Segment</i>	<b>2.1</b>	0.9	1.2	<b>2.4</b>	1.4	1.0
Cat Loss and ALAE	<b>1.1</b>	0.6	0.5	<b>0.5</b>	(1.6)	2.1
ULAE	<b>(0.9)</b>	(1.5)	0.6	<b>(4.7)</b>	(4.2)	(0.5)
<i>Total</i>	<b>\$(17.9)</b>	\$(15.7)	\$(2.2)	<b>\$(38.3)</b>	\$(25.4)	\$(12.9)

For further information, see the "Personal Insurance Segment," "Commercial Insurance Segment" and "Specialty Insurance Segment" discussions included in this Item 2.

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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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*Losses and loss expenses payable*

The following table sets forth losses and loss expenses payable by major product at June 30, 2018 and December 31, 2017:

<i>(\$ millions)</i>	<b>June 30,</b>	December \$	
	<b>2018</b>	31, 2017	Change
<u>Personal Insurance Segment:</u>			
Personal Auto	<b>\$185.3</b>	\$ 191.8	\$(6.5 )
Homeowners	<b>66.3</b>	50.5	\$ 15.8
Other Personal	<b>16.5</b>	13.8	\$ 2.7
<i>Total Personal Insurance Segment</i>	<b>268.1</b>	256.1	12.0
<u>Commercial Insurance Segment:</u>			
Commercial Auto	<b>83.7</b>	92.1	(8.4 )
Small Commercial Package	<b>124.2</b>	124.5	(0.3 )
Middle Market Commercial	<b>152.9</b>	151.4	1.5
Workers' Compensation	<b>195.5</b>	193.4	2.1
Farm & Ranch	<b>18.8</b>	16.4	2.4
Other Commercial	<b>28.1</b>	26.5	1.6
<i>Total Commercial Insurance Segment</i>	<b>603.2</b>	604.3	(1.1 )
<u>Specialty Insurance Segment:</u>			
E&S Property	<b>43.0</b>	64.8	(21.8 )
E&S Casualty	<b>186.9</b>	176.8	10.1
Programs	<b>128.2</b>	150.5	(22.3 )
<i>Total Specialty Insurance Segment</i>	<b>358.1</b>	392.1	(34.0 )
<i>Total losses and loss expenses payable, net of reinsurance recoverable on losses and loss expenses payable</i>	<b>\$1,229.4</b>	\$ 1,252.5	\$(23.1 )

Losses and loss expenses payable decreased \$23.1 million since December 31, 2017 primarily due to the settlement of hurricane Harvey and hurricane Irma claims in E&S property and the run-off of programs business. Partially offsetting the decrease is (i) a higher level of current accident year weather-related losses, predominantly in homeowners, and (ii) exposure growth and higher prior accident year loss estimates in E&S casualty. We continued to write business in E&S casualty in the second quarter of 2018 pursuant to the negotiated contracts.

We conduct quarterly reviews of loss development and make judgments in determining the reserves for losses and loss expenses. Several factors are considered by us when estimating ultimate liabilities, including consistency in relative case reserve adequacy, consistency in claims settlement practices, recent legal developments, historical data, actuarial projections, accounting projections, exposure changes, anticipated inflation, current business conditions, catastrophe development, late reported claims, and other reasonableness tests.

The risks and uncertainties inherent in our estimates include, but are not limited to, actual settlement experience different from historical data, trends, changes in business and economic conditions, court decisions creating unanticipated liabilities, ongoing interpretation of policy provisions by the courts, inconsistent decisions in lawsuits regarding coverage and additional information discovered before settlement of claims. Our results of operations and financial condition could be impacted, perhaps significantly, in the future if the ultimate payments required for claims settlement vary from the liability currently recorded. For a discussion of our reserving methodologies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Losses and Loss Expenses Payable" in Item 7 of the 2017 Form 10-K.



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## STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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*Acquisition and Operating Expenses*

Our GAAP acquisition and operating expense ratio for the three and six months ended June 30, 2018, were 36.2% and 35.7%, respectively, compared to 34.3% and 34.7%, respectively, for the same 2017 periods. The second quarter and year to date 2018 increases were primarily due to (i) an increase in agent and associate incentive compensation, (ii) an increase in report ordering costs and (iii) the impact of our technology investments, including amortization and system and infrastructure support.

**Investment Operations Segment**

Our investments in fixed maturities, equity securities and certain other invested assets are carried at fair value. The unrealized holding gains or losses of our available-for-sale fixed maturities, net of applicable deferred taxes, are included as a separate component of stockholders' equity as accumulated other comprehensive income and as such are not included in the determination of net income.

Effective January 1, 2018, the Company adopted Accounting Standards Update (ASU) No. 2016-01 which, among other things requires unrealized gains and losses for equity securities and other invested assets previously identified as available-for-sale to be recognized in net income. Previously, the unrealized gains and losses for these securities were recognized in other comprehensive income. Accordingly, changes in the fair value of equity securities and other invested assets are reported in "net investment gain" in the condensed consolidated statements of income for the three and six months ended June 30, 2018.

We have investment policy guidelines with respect to purchasing fixed maturity investments for our insurance subsidiaries which preclude investments in bonds that are rated below investment grade by a recognized rating service at the time of purchase. Our fixed maturity portfolio is composed of high quality, investment grade issues, consisting primarily of debt issues rated AAA, AA or A. We obtain investment ratings from major rating services. If there is a split rating, we assign the lowest rating obtained. At June 30, 2018, there was one fixed maturity investment rated below investment grade in our available-for-sale investment portfolio.

For further discussion regarding the management of our investment portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Investment Operations Segment" in Item 7 of the 2017 Form 10-K.

*Composition of Investment Portfolio*

The following table sets forth the composition of our investment portfolio at carrying value at June 30, 2018 and December 31, 2017:

<b>June 30, 2018<sup>(s)</sup></b>	<b>% of Total</b>	<b>December 31, 2017</b>	<b>% of Total</b>
Cash and cash equivalents	<b>\$ 40.8 1.5</b>	\$ 91.5	3.3
Fixed maturities, at fair value:			
Fixed maturities	<b>2,021.5 74.6</b>	2,037.0	73.2
Treasury non-protected securities	<b>156.5 5.8</b>	155.8	5.6

Explanation of Responses:

<i>Total</i>			
<del>2,178.0</del> <b>80.4</b>	2,192.8	78.8	
<i>maturities</i>			
Notes			
receivable			
<del>70.0</del> <b>2.6</b>	70.0	2.5	
affiliate			
(a)			
Equity			
securities:			
Large-cap			
<del>92.6</del> <b>3.4</b>	96.8	3.5	
securities			
Mutual			
and			
<del>270.8</del> <b>10.0</b>	268.5	9.7	
traded			
funds			
<i>Total</i>			
<del>362.8</del> <b>13.4</b>	365.3	13.2	
<i>securities</i>			
Other			
invested			
assets:			
International			
<del>43.2</del> <b>1.6</b>			
funds			