

Aircastle LTD
Form 4
October 01, 2013

FORM 4

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

OMB APPROVAL

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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)

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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

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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:

(\$ millions)

	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 income	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 ~~(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	
Details are included in the Condensed	
ended	
June 30 Consolidated Statements of Income	
Components	
2018	
Unrealized	
gains	
on	
available for sale	
fixed	
maturity	
investments	
1.3	Total before tax
(0.3)) Tax expense
1.0	Net of tax
Amortization	
of	
benefit	
plan	
items	
Negative	
prior	
service	1.3 (b)
cost	
Net	
actual	(2.0) (b)
loss	
(0.7)) Total before tax
0.1) Tax benefit
(0.6)) Net of tax
<i>Total</i>	
<i>reclassifications</i>	
<i>for \$ 0.4</i>	
<i>the</i>	
<i>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 June 30, 2018

Comprehensive Income
Components Consolidated Statements of Income

2018

Unrealized

gains

on

available for sale investments

fixed

maturity

investments

1.7 Total before tax

(0.4) Tax expense

1.3 Net of tax

Amortization

of

benefit

plan

items

Negative

2.7 (b)

service

cost

Net

(4.2) (b)

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 June 30, 2017

Comprehensive Income Components Consolidated Statements of Income

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 (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	\$6.0	\$8.7	\$3.9	\$5.4
Denominator:				
Weighted average shares for basic earnings per common share	42.8	42.1	42.7	42.0
Effect of dilutive share-based awards	0.6	0.4	0.6	0.5
<i>Adjusted weighted average shares for diluted net earnings per common share</i>	43.4	42.5	43.3	42.5
Basic net earnings per common share	\$0.14	\$0.21	\$0.09	\$0.13
Diluted net earnings per common share	\$0.14	\$0.21	\$0.09	\$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	0.7	0.7	0.7	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

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

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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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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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)

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

Explanation of Responses:

Combined ratio

104.3 % 105.7 % 271.3 % 106.7 %

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(\$ 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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(\$ in millions)

Six months ended June 30, 2018	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>	206.7	136.6	50.2	393.4	
ULAE	20.0	13.7	3.7	37.5	
<i>Total Loss and LAE</i>	226.7	150.3	53.9	430.9	
Underwriting expenses	106.0	97.3	14.2	217.5	
<i>Net underwriting (loss) gain</i>	\$(11.5)	\$(17.1)	\$2.6	\$(26.0)	
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>	64.4	% 59.2	% 70.9	% 63.2	%
ULAE ratio	6.2	% 6.0	% 5.2	% 6.0	%
<i>Total Loss and LAE ratio</i>	70.6	% 65.2	% 76.1	% 69.2	%
Expense ratio	30.6	% 40.7	% 96.2	% 36.2	%
<i>Combined ratio</i>	101.2	% 105.9	% 172.3	% 105.4	%

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(\$ 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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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)

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

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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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Table 3

(\$ in millions)

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

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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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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)

Three months ended June 30, 2018	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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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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Table 7

(\$ in millions)

Six months ended June 30, 2018	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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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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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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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)

Three months ended June 30, 2018	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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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 %	