

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

State Auto Financial CORP

Form 10-Q

November 05, 2018

false--12-31Q3201810-Q0000874977Accelerated FilerState Auto Financial

CORP5720000050100000128900000298800000347000001054000002000006000002000007000007114000006194000005070

0000874977 2018-01-01 2018-09-30 0000874977 2018-10-30 0000874977 2017-12-31 0000874977 2018-09-30

0000874977 us-gaap:PreferredClassAMember 2017-12-31 0000874977 us-gaap:PreferredClassAMember 2018-09-30

0000874977 us-gaap:PreferredClassBMember 2017-12-31 0000874977 us-gaap:PreferredClassBMember 2018-09-30

0000874977 2018-07-01 2018-09-30 0000874977 2017-07-01 2017-09-30 0000874977 2017-01-01 2017-09-30

0000874977 2016-12-31 0000874977 2017-09-30 0000874977 2018-01-01 2018-01-01 0000874977

us-gaap:EquitySecuritiesMember 2017-12-31 0000874977 us-gaap:DebtSecuritiesMember

us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0000874977

us-gaap:DebtSecuritiesMember

us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-09-30 0000874977

us-gaap:EquitySecuritiesMember stfc:MutualandexchangetradedfundsDomainMember 2017-12-31 0000874977

us-gaap:DebtSecuritiesMember us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0000874977

us-gaap:DebtSecuritiesMember us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31 0000874977

us-gaap:DebtSecuritiesMember 2017-12-31 0000874977 us-gaap:DebtSecuritiesMember

us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0000874977 us-gaap:EquitySecuritiesMember

stfc:LargeCapSecuritiesMember 2017-12-31 0000874977 us-gaap:DebtSecuritiesMember 2018-09-30 0000874977

stfc:OtherInvestedAssetsMember 2017-12-31 0000874977 us-gaap:DebtSecuritiesMember

us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0000874977 us-gaap:DebtSecuritiesMember

us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0000874977 us-gaap:DebtSecuritiesMember

us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-09-30 0000874977 us-gaap:EquitySecuritiesMember

2018-07-01 2018-09-30 0000874977 us-gaap:EquitySecuritiesMember us-gaap:SalesMember 2018-01-01 2018-09-30

0000874977 us-gaap:EquitySecuritiesMember stfc:OtherThanTemporaryImpairmentsMember 2017-07-01

2017-09-30 0000874977 us-gaap:EquitySecuritiesMember us-gaap:SalesMember 2018-07-01 2018-09-30

0000874977 stfc:OtherInvestedAssetsMember 2018-01-01 2018-09-30 0000874977 us-gaap:EquitySecuritiesMember

us-gaap:SalesMember 2017-07-01 2017-09-30 0000874977 stfc:OtherInvestedAssetsMember 2017-01-01 2017-09-30

0000874977 us-gaap:EquitySecuritiesMember 2018-01-01 2018-09-30 0000874977 us-gaap:EquitySecuritiesMember

stfc:OtherThanTemporaryImpairmentsMember 2018-07-01 2018-09-30 0000874977

us-gaap:EquitySecuritiesMember 2017-07-01 2017-09-30 0000874977 us-gaap:DebtSecuritiesMember 2017-07-01

2017-09-30 0000874977 stfc:OtherInvestedAssetsMember 2018-07-01 2018-09-30 0000874977

us-gaap:EquitySecuritiesMember 2017-01-01 2017-09-30 0000874977 us-gaap:EquitySecuritiesMember

stfc:OtherThanTemporaryImpairmentsMember 2017-01-01 2017-09-30 0000874977

stfc:OtherInvestedAssetsMember 2017-07-01 2017-09-30 0000874977 us-gaap:EquitySecuritiesMember

stfc:OtherThanTemporaryImpairmentsMember 2018-01-01 2018-09-30 0000874977 us-gaap:DebtSecuritiesMember

2018-01-01 2018-09-30 0000874977 us-gaap:DebtSecuritiesMember 2018-07-01 2018-09-30 0000874977

us-gaap:EquitySecuritiesMember us-gaap:SalesMember 2017-01-01 2017-09-30 0000874977

us-gaap:DebtSecuritiesMember 2017-01-01 2017-09-30 0000874977

stfc:MutualandexchangetradedfundsDomainMember 2017-12-31 0000874977 stfc:LargeCapSecuritiesMember

2017-12-31 0000874977 us-gaap:CashAndCashEquivalentsMember 2018-01-01 2018-09-30 0000874977

us-gaap:CashAndCashEquivalentsMember 2017-07-01 2017-09-30 0000874977

us-gaap:CashAndCashEquivalentsMember 2018-07-01 2018-09-30 0000874977

us-gaap:CashAndCashEquivalentsMember 2017-01-01 2017-09-30 0000874977

srt:FederalHomeLoanBankOfCincinnatiMember 2018-09-30 0000874977

us-gaap:CarryingReportedAmountFairValueDisclosureMember srt:FederalHomeLoanBankOfCincinnatiMember

2017-12-31 0000874977 us-gaap:EstimateOfFairValueFairValueDisclosureMember

us-gaap:SubordinatedDebtMember 2018-09-30 0000874977

us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:SubordinatedDebtMember 2017-12-31

0000874977 us-gaap:EstimateOfFairValueFairValueDisclosureMember

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

us-gaap:FederalHomeLoanBankAdvancesMember 2018-09-30 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2018-09-30 0000874977
us-gaap:FederalHomeLoanBankAdvancesMember 2017-12-31 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:SubordinatedDebtMember 2018-09-30
0000874977 us-gaap:SubordinatedDebtMember 2018-09-30 0000874977 us-gaap:NotesPayableToBanksMember
2018-09-30 0000874977 us-gaap:EstimateOfFairValueFairValueDisclosureMember
us-gaap:NotesPayableToBanksMember 2017-12-31 0000874977 us-gaap:SubordinatedDebtMember 2017-12-31
0000874977 us-gaap:EstimateOfFairValueFairValueDisclosureMember
srt:FederalHomeLoanBankOfCincinnatiMember 2018-09-30 0000874977
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:SubordinatedDebtMember 2017-12-31
0000874977 us-gaap:CarryingReportedAmountFairValueDisclosureMember
us-gaap:FederalHomeLoanBankAdvancesMember 2017-12-31 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:FederalHomeLoanBankAdvancesMember
2018-09-30 0000874977 us-gaap:NotesPayableToBanksMember 2017-12-31 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:NotesPayableToBanksMember 2017-12-31
0000874977 srt:FederalHomeLoanBankOfCincinnatiMember 2017-12-31 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember srt:FederalHomeLoanBankOfCincinnatiMember
2018-09-30 0000874977 us-gaap:CarryingReportedAmountFairValueDisclosureMember
us-gaap:NotesPayableToBanksMember 2018-09-30 0000874977
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-12-31 0000874977
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2017-12-31 0000874977
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:NotesPayableToBanksMember 2018-09-30
0000874977 us-gaap:FederalHomeLoanBankAdvancesMember 2018-09-30 0000874977
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-09-30 0000874977
srt:FederalHomeLoanBankOfCincinnatiMember 2018-09-30 0000874977
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FederalHomeLoanBankAdvancesMember
2017-12-31 0000874977 us-gaap:EstimateOfFairValueFairValueDisclosureMember
srt:FederalHomeLoanBankOfCincinnatiMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel3Member
2018-09-30 0000874977 srt:AffiliatedEntityMember 2018-09-30 0000874977 stfc:InternationalfundsMember
2018-09-30 0000874977 stfc:InternationalfundsMember 2017-12-31 0000874977 2009-05-01 2009-05-31
0000874977 us-gaap:FairValueInputsLevel2Member us-gaap:EstimateOfFairValueFairValueDisclosureMember
srt:AffiliatedEntityMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel2Member
srt:AffiliatedEntityMember 2017-01-01 2017-12-31 0000874977 us-gaap:FairValueInputsLevel2Member
srt:AffiliatedEntityMember 2018-01-01 2018-09-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:CarryingReportedAmountFairValueDisclosureMember srt:AffiliatedEntityMember 2018-09-30 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:EstimateOfFairValueFairValueDisclosureMember
srt:AffiliatedEntityMember 2018-09-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:CarryingReportedAmountFairValueDisclosureMember srt:AffiliatedEntityMember 2017-12-31 0000874977
us-gaap:FairValueInputsLevel2Member stfc:MutualandexchangetradedfundsDomainMember 2018-09-30
0000874977 us-gaap:FairValueInputsLevel2Member stfc:OtherInvestedAssetsMember 2018-09-30 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0000874977
us-gaap:FairValueInputsLevel1Member us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0000874977
us-gaap:FairValueInputsLevel1Member us-gaap:FixedMaturitiesMember 2017-12-31 0000874977
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-09-30 0000874977
us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:EquitySecuritiesMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
stfc:LargeCapSecuritiesMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:EquitySecuritiesMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel1Member 2018-09-30
0000874977 us-gaap:FairValueInputsLevel2Member 2018-09-30 0000874977
us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel2Member

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

us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0000874977
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0000874977
us-gaap:FairValueInputsLevel2Member stfc:LargeCapSecuritiesMember 2018-09-30 0000874977
us-gaap:FairValueInputsLevel2Member stfc:OtherInvestedAssetsMember 2017-12-31 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:EquitySecuritiesMember 2018-09-30 0000874977
us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0000874977 us-gaap:FairValueInputsLevel2Member
stfc:MutualandexchangetradedfundsDomainMember 2017-12-31 0000874977
us-gaap:FairValueInputsLevel2Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-09-30 0000874977
us-gaap:FairValueInputsLevel2Member us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-09-30 0000874977
us-gaap:FairValueInputsLevel1Member stfc:OtherInvestedAssetsMember 2018-09-30 0000874977
stfc:MutualandexchangetradedfundsDomainMember 2018-09-30 0000874977
us-gaap:FairValueInputsLevel2Member 2017-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0000874977
us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-09-30 0000874977 stfc:OtherInvestedAssetsMember
2018-09-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0000874977
us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0000874977 us-gaap:FairValueInputsLevel1Member
2017-12-31 0000874977 us-gaap:EquitySecuritiesMember 2017-12-31 0000874977
us-gaap:FairValueInputsLevel1Member us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-09-30 0000874977
us-gaap:FairValueInputsLevel1Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2017-12-31 0000874977
us-gaap:FairValueInputsLevel1Member us-gaap:EquitySecuritiesMember 2018-09-30 0000874977
us-gaap:FairValueInputsLevel2Member stfc:LargeCapSecuritiesMember 2017-12-31 0000874977
us-gaap:EquitySecuritiesMember 2018-09-30 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:FixedMaturitiesMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:FixedMaturitiesMember 2018-09-30 0000874977 stfc:OtherInvestedAssetsMember 2017-12-31 0000874977
us-gaap:FairValueInputsLevel1Member us-gaap:FixedMaturitiesMember 2018-09-30 0000874977
us-gaap:FairValueInputsLevel1Member stfc:OtherInvestedAssetsMember 2017-12-31 0000874977
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:MortgageBackedSecuritiesIssuedByUSGovernmentSponsoredEnterprisesMember 2018-09-30 0000874977
us-gaap:FixedMaturitiesMember 2018-09-30 0000874977 us-gaap:FairValueInputsLevel1Member
stfc:LargeCapSecuritiesMember 2018-09-30 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel2Member
us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
us-gaap:USStatesAndPoliticalSubdivisionsMember 2017-12-31 0000874977 us-gaap:FixedMaturitiesMember
2017-12-31 0000874977 us-gaap:FairValueInputsLevel1Member
stfc:MutualandexchangetradedfundsDomainMember 2017-12-31 0000874977 stfc:LargeCapSecuritiesMember
2018-09-30 0000874977 us-gaap:FairValueInputsLevel1Member
stfc:MutualandexchangetradedfundsDomainMember 2018-09-30 0000874977 stfc:HomeownersMember 2018-01-01
2018-09-30 0000874977 stfc:PersonalAutoMember 2017-01-01 2017-09-30 0000874977
stfc:SpecialtyInsuranceMember 2018-01-01 2018-09-30 0000874977 stfc:UnallocatedlossadjustmentexpenseMember
2018-01-01 2018-09-30 0000874977 stfc:ExcessSurplusCasualtyMember 2018-01-01 2018-09-30 0000874977
stfc:HomeownersMember 2017-01-01 2017-09-30 0000874977 stfc:SmallcommercialMember 2018-01-01
2018-09-30 0000874977 stfc:PersonalInsuranceMember 2017-01-01 2017-09-30 0000874977
stfc:UnallocatedlossadjustmentexpenseMember 2017-01-01 2017-09-30 0000874977 stfc:PersonalAutoMember
2018-01-01 2018-09-30 0000874977 stfc:PersonalAndBusinessInsuranceSegmentsMember 2018-01-01 2018-09-30
0000874977 stfc:SpecialtyInsuranceMember 2017-01-01 2017-09-30 0000874977 stfc:ProgramsMember 2018-01-01
2018-09-30 0000874977 us-gaap:CatastropheMember 2017-01-01 2017-09-30 0000874977

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

us-gaap:CatastropheMember 2018-01-01 2018-09-30 0000874977 stfc:MiddleMarketCommercialMember
2018-01-01 2018-09-30 0000874977 stfc:BusinessInsuranceMember 2017-01-01 2017-09-30 0000874977
stfc:CommercialAutoMember 2018-01-01 2018-09-30 0000874977 stfc:WorkerscompensationMember 2018-01-01
2018-09-30 0000874977 stfc:OtherPersonalMember 2017-01-01 2017-09-30 0000874977 stfc:ESPropertyMember
2017-01-01 2017-09-30 0000874977 2018-03-01 0000874977 2013-07-26 0000874977 2018-03-22 0000874977
2018-05-17 0000874977 2018-03-22 2018-03-23 0000874977 2018-05-16 2018-05-17 0000874977
us-gaap:PensionPlansDefinedBenefitMember 2017-07-01 2017-09-30 0000874977
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2017-01-01 2017-09-30 0000874977
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2018-01-01 2018-09-30 0000874977
us-gaap:PensionPlansDefinedBenefitMember 2017-01-01 2017-09-30 0000874977
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2018-07-01 2018-09-30 0000874977
us-gaap:PensionPlansDefinedBenefitMember 2018-07-01 2018-09-30 0000874977
us-gaap:PensionPlansDefinedBenefitMember 2018-01-01 2018-09-30 0000874977
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2017-07-01 2017-09-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-07-01 2018-09-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-07-01 2017-09-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-07-01 2017-09-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-09-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-06-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-06-30 0000874977 2017-06-30 0000874977
2018-06-30 0000874977 us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-09-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-07-01 2018-09-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-06-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-09-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-01-01 2018-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-07-01 2018-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-01-01 2018-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-07-01 2018-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-09-30
0000874977 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2018-07-01
2018-09-30 0000874977 us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-01-01 2017-09-30
0000874977 us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-01-01 2017-09-30 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-01-01 2018-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-01-01 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-01-01 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-01-01 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-01-01 2018-09-30 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2016-12-31 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2018-01-01 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-12-31 0000874977 2018-01-01 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-12-31 0000874977
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-01-01 0000874977
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-12-31 0000874977

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

us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-07-01 2017-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-07-01 2017-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-01-01 2017-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-01-01 2017-09-30 0000874977
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2017-07-01 2017-09-30
0000874977 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2017-01-01
2017-09-30 0000874977 us-gaap:MaterialReconcilingItemsMember us-gaap:MaterialReconcilingItemsMember
2017-07-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceMember 2018-07-01
2018-09-30 0000874977 us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember 2018-07-01
2018-09-30 0000874977 us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceMember 2018-01-01
2018-09-30 0000874977 us-gaap:MaterialReconcilingItemsMember 2017-07-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2018-01-01 2018-09-30 0000874977
us-gaap:MaterialReconcilingItemsMember us-gaap:MaterialReconcilingItemsMember 2018-07-01 2018-09-30
0000874977 us-gaap:MaterialReconcilingItemsMember us-gaap:MaterialReconcilingItemsMember 2018-01-01
2018-09-30 0000874977 us-gaap:MaterialReconcilingItemsMember 2017-01-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InsuranceSegmentsMember 2018-07-01 2018-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember 2017-07-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember 2018-01-01 2018-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InsuranceSegmentsMember 2018-01-01 2018-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceMember 2017-07-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:NetInvestmentIncomeMember 2017-01-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember 2017-07-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:BusinessInsuranceSegmentsMember 2017-07-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember
2018-07-01 2018-09-30 0000874977 us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceSegmentsMember
2018-01-01 2018-09-30 0000874977 us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember
2017-07-01 2017-09-30 0000874977 us-gaap:MaterialReconcilingItemsMember
us-gaap:MaterialReconcilingItemsMember 2017-01-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember
2017-01-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember
stfc:NetRealizedCapitalGainsMember 2017-07-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:SpecialtyInsuranceMember 2017-07-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember
2018-01-01 2018-09-30 0000874977 stfc:CorporateAndReconcilingItemsMember 2017-01-01 2017-09-30
0000874977 us-gaap:OperatingSegmentsMember stfc:InsuranceSegmentsMember 2017-01-01 2017-09-30
0000874977 us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceSegmentsMember 2017-07-01 2017-09-30
0000874977 us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember 2017-01-01 2017-09-30
0000874977 us-gaap:MaterialReconcilingItemsMember 2018-07-01 2018-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceMember 2017-07-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2017-01-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceSegmentsMember 2017-01-01 2017-09-30 0000874977
us-gaap:MaterialReconcilingItemsMember 2018-01-01 2018-09-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:InvestmentOperationsSegmentMember stfc:NetRealizedCapitalGainsMember 2018-01-01 2018-09-30
0000874977 us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceSegmentMember 2018-07-01 2018-09-30
0000874977 us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceMember 2018-01-01 2018-09-30
0000874977 us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember 2018-07-01 2018-09-30
0000874977 us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceMember 2018-07-01 2018-09-30
0000874977 us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceSegmentMember 2018-01-01 2018-09-30
0000874977 us-gaap:IntersegmentEliminationMember 2017-07-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:InvestmentOperationsSegmentMember

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

stfc:NetRealizedCapitalGainsMember 2017-01-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:BusinessInsuranceMember 2017-01-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:PersonalInsuranceMember 2017-01-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:SpecialtyInsuranceSegmentMember 2017-01-01 2017-09-30 0000874977
us-gaap:IntersegmentEliminationMember 2017-01-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:SpecialtyInsuranceSegmentMember 2017-07-01 2017-09-30 0000874977
stfc:CorporateAndReconcilingItemsMember 2017-07-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceSegmentsMember 2018-01-01 2018-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceSegmentsMember 2017-01-01 2017-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:PersonalInsuranceSegmentsMember 2018-07-01 2018-09-30 0000874977
stfc:CorporateAndReconcilingItemsMember 2018-01-01 2018-09-30 0000874977
us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceMember 2018-07-01 2018-09-30 0000874977
stfc:CorporateAndReconcilingItemsMember 2018-07-01 2018-09-30 0000874977
us-gaap:IntersegmentEliminationMember 2018-07-01 2018-09-30 0000874977 us-gaap:OperatingSegmentsMember
stfc:PersonalInsuranceMember 2018-01-01 2018-09-30 0000874977 us-gaap:IntersegmentEliminationMember
2018-01-01 2018-09-30 0000874977 us-gaap:OperatingSegmentsMember stfc:InsuranceSegmentsMember
2017-07-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember stfc:SpecialtyInsuranceMember
2017-01-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember stfc:NetInvestmentIncomeMember
2017-07-01 2017-09-30 0000874977 us-gaap:OperatingSegmentsMember stfc:BusinessInsuranceSegmentsMember
2018-07-01 2018-09-30 xbrli:pure iso4217:USD xbrli:shares iso4217:USD xbrli:shares stfc:Agreement stfc:Segment
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number 000-19289

STATE AUTO FINANCIAL CORPORATION

(Exact name of Registrant as specified in its charter)

Ohio 31-1324304
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

518 East Broad Street, Columbus, Ohio 43215-3976
(Address of principal executive offices) (Zip Code)

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

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

Yes ý No ¨

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

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Table of Contents

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

Yes No

On October 30, 2018, the Registrant had 43,146,858 Common Shares outstanding.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

	September	December
	30, 2018	31, 2017
<i>(\$ and shares in millions, except per share amounts)</i>		
<i>(unaudited)</i>		
Assets		
Fixed maturities, available-for-sale, at fair value (amortized cost \$2,185.2 and \$2,173.1, respectively)	\$ 2,141.6	\$2,192.8
Equity securities	376.3	365.3
Other invested assets	54.5	56.0
Other invested assets, at cost	5.6	5.6
Notes receivable from affiliate	70.0	70.0
<i>Total investments</i>	2,648.0	2,689.7
Cash and cash equivalents	49.5	91.5
Accrued investment income and other assets	39.5	36.5
Deferred policy acquisition costs (affiliated net assumed \$50.1 and \$57.2, respectively)	104.5	110.3
Reinsurance recoverable on losses and loss expenses payable	5.0	3.1
Prepaid reinsurance premiums	6.8	6.4
Due from affiliate	10.6	—
Current federal income taxes	5.9	4.8
Net deferred federal income taxes	62.3	58.8
Property and equipment, at cost	7.1	7.3
Total assets	\$ 2,939.2	\$3,008.4
Liabilities and Stockholders' Equity		
Losses and loss expenses payable (affiliated net assumed \$619.4 and \$711.4, respectively)	\$ 1,198.7	\$1,255.6
Unearned premiums (affiliated net assumed \$121.7 and \$187.9, respectively)	595.6	611.8
Notes payable (affiliates \$15.2 and \$15.2, respectively)	122.0	122.1
Pension and postretirement benefits (affiliated \$28.0 and \$34.8, respectively)	52.1	64.5
Due to affiliate	—	2.7
Other liabilities (affiliated net assumed \$70.0 and \$15.5, respectively)	101.4	76.7
Total liabilities	2,069.8	2,133.4
Stockholders' equity:		
Class A Preferred stock (nonvoting), without par value. Authorized 2.5 shares; none issued	—	—
Class B Preferred stock, without par value. Authorized 2.5 shares; none issued	—	—
Common stock, without par value. Authorized 100.0 shares; 49.8 and 49.2 shares issued, respectively, at stated value of \$2.50 per share	124.5	123.0
Treasury stock, 6.8 and 6.8 shares, respectively, at cost	(117.0)	(116.8)
Additional paid-in capital	188.6	171.8
Accumulated other comprehensive (loss) income (affiliated net ceded \$47.7 and \$50.7, respectively)	(68.3)	36.7
Retained earnings	741.6	660.3
Total stockholders' equity	869.4	875.0
Total liabilities and stockholders' equity	\$ 2,939.2	\$3,008.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Condensed Consolidated Statements of Income

	Three months ended September 30	
	2018	2017
<i>(\$ in millions, except per share amounts)</i>		
<i>(unaudited)</i>		
Earned premiums (affiliated net assumed \$71.9 and \$115.3, respectively)	\$306.8	\$319.0
Net investment income (affiliates \$1.3 and \$1.3, respectively)	20.8	18.7
Net investment gain		
Total other-than-temporary impairment losses	—	(0.6)
Other investment gain	17.8	20.8
Total net investment gain	17.8	20.2
Other income from affiliates	0.6	0.5
Total revenues	346.0	358.4
Losses and loss expenses (affiliated net assumed \$34.7 and \$128.9, respectively)	191.0	253.5
Acquisition and operating expenses (affiliated net ceded \$26.8 and affiliated net assumed \$78.9, respectively)	110.9	112.7
Interest expense (affiliates \$0.2 and \$0.2, respectively)	1.2	1.5
Other expenses	1.9	1.9
Total expenses	305.0	369.6
Income (loss) before federal income taxes	41.0	(11.2)
Federal income tax expense (benefit):		
Current	(0.1)	(0.1)
Deferred	7.7	(1.6)
Total federal income tax expense (benefit)	7.6	(1.7)
Net income (loss)	\$33.4	\$(9.5)
Earnings (loss) per common share:		
Basic	\$0.78	\$(0.23)
Diluted	\$0.76	\$(0.23)
Dividends paid per common share	\$0.10	\$0.10

See accompanying notes to condensed consolidated financial statements.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Condensed Consolidated Statements of Income

	Nine months ended September 30	
	2018	2017
<i>(\$ in millions, except per share amounts)</i>		
<i>(unaudited)</i>		
Earned premiums (affiliated net assumed \$251.1 and \$349.0, respectively)	\$929.2	\$957.2
Net investment income (affiliates \$3.7 and \$3.7, respectively)	62.2	56.5
Net investment gain		
Total other-than-temporary impairment losses	—	(3.5)
Other investment gain	18.2	47.3
Total net investment gain	18.2	43.8
Other income from affiliates	1.8	1.7
Total revenues	1,011.4	1,059.2
Losses and loss expenses (affiliated net assumed \$105.4 and \$298.8, respectively)	621.1	718.2
Acquisition and operating expenses (affiliated net assumed \$52.3 and \$231.0, respectively)	333.0	334.1
Interest expense (affiliates \$0.7 and \$0.6, respectively)	4.5	4.4
Other expenses	7.4	5.8
Total expenses	966.0	1,062.5
Income (loss) before federal income taxes	45.4	(3.3)
Federal income tax expense (benefit):		
Current	(1.1)	—
Deferred	9.2	0.8
Total federal income tax expense	8.1	0.8
Net income (loss)	\$37.3	\$(4.1)
Earnings (loss) per common share:		
Basic	\$0.87	\$(0.10)
Diluted	\$0.86	\$(0.10)
Dividends paid per common share	\$0.30	\$0.30

See accompanying notes to condensed consolidated financial statements.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Consolidated Statements of Comprehensive Income

	Three months ended September 30 2018
<i>(\$ in millions, except per share amounts)</i>	
<i>(unaudited)</i>	
Net income	\$ 33.4
Other comprehensive income, net of tax:	
Net unrealized holding losses on fixed maturities:	
Unrealized holding losses	(14.7)
Reclassification adjustments for gains realized in net income	—
Income tax benefit	3.1
<i>Total net unrealized holding losses on fixed maturities</i>	(11.6)
Net unrecognized benefit plan obligations:	
Reclassification adjustments for amortization to statements of income:	
Negative prior service cost	(1.4)
Net actuarial loss	2.2
Income tax expense	(0.2)
<i>Total net unrecognized benefit plan obligations</i>	0.6
<i>Other comprehensive loss</i>	(11.0)
Comprehensive income	\$ 22.5

	Three months ended September 30 2017
<i>(\$ in millions, except per share amounts)</i>	
<i>(unaudited)</i>	
Net loss	\$ (9.5)
Other comprehensive income, net of tax:	
Net unrealized holding losses on investments:	
Unrealized holding gains	11.0
Reclassification adjustments for gains realized in net income	(20.2)
Income tax benefit	3.2
<i>Total net unrealized holding losses on investments</i>	(6.0)
Net unrecognized benefit plan obligations:	
Reclassification adjustments for amortization to statements of income:	
Negative prior service cost	(1.3)
Net actuarial loss	2.1
Income tax expense	(0.3)
<i>Total net unrecognized benefit plan obligations</i>	0.5
<i>Other comprehensive loss</i>	(5.5)
Comprehensive loss	\$ (15.0)

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Consolidated Statements of Comprehensive Income

	Nine months ended September 30 2018
<i>(\$ in millions, except per share amounts)</i>	
<i>(unaudited)</i>	
Net income	\$ 37.3
Other comprehensive income, net of tax:	
Net unrealized holding losses on fixed maturities:	
Unrealized holding losses	(61.6)
Reclassification adjustments for gains realized in net income	(1.7)
Income tax benefit	13.3
<i>Total net unrealized holding losses on fixed maturities</i>	(50.0)
Net unrecognized benefit plan obligations:	
Reclassification adjustments for amortization to statements of income:	
Negative prior service cost	(4.1)
Net actuarial loss	6.4
Income tax expense	(0.5)
<i>Total net unrecognized benefit plan obligations</i>	1.8
<i>Other comprehensive loss</i>	(48.2)
Comprehensive loss	\$ (10.9)

	Nine months ended September 30 2017
<i>(\$ in millions, except per share amounts)</i>	
<i>(unaudited)</i>	
Net loss	\$ (4.1)
Other comprehensive income, net of tax:	
Net unrealized holding gains on investments:	
Unrealized holding gains	65.6
Reclassification adjustments for gains realized in net income	(43.8)
Income tax expense	(7.6)
<i>Total net unrealized holding gains on investments</i>	14.2
Net unrecognized benefit plan obligations:	
Reclassification adjustments for amortization to statements of income:	
Negative prior service cost	(4.1)
Net actuarial loss	6.1
Income tax expense	(0.8)
<i>Total net unrecognized benefit plan obligations</i>	1.2
<i>Other comprehensive income</i>	15.4
Comprehensive income	\$ 11.3

See accompanying notes to condensed consolidated financial statements.

5

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30	
	2018	2017
<i>(\$ in millions)</i>		
<i>(unaudited)</i>		
Cash flows from operating activities:		
Net income (loss)	\$37.3	\$(4.1)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization, net	6.7	9.9
Share-based compensation	6.7	3.0
Net investment gain	(18.2)	(43.8)
Changes in operating assets and liabilities:		
Deferred policy acquisition costs	5.8	7.2
Accrued investment income and other assets	(3.0)	2.0
Postretirement and pension benefits	(10.6)	(9.1)
Other liabilities and due to/from affiliates, net	11.8	(15.1)
Reinsurance recoverable on losses and loss expenses payable and prepaid reinsurance premiums	(2.3)	(1.9)
Losses and loss expenses payable	(56.9)	98.9
Unearned premiums	(16.2)	12.7
Deferred tax expense on share-based awards	—	1.3
Federal income taxes	8.6	(0.3)
Net cash (used in) provided by operating activities	(30.3)	60.7
Cash flows from investing activities:		
Purchases of fixed maturities available-for-sale	(267.0)	(409.2)
Purchases of equity securities	(82.2)	(104.1)
Purchases of other invested assets	(1.1)	(1.0)
Maturities, calls and pay downs of fixed maturities available-for-sale	180.4	192.1
Sales of fixed maturities available-for-sale	69.7	156.3
Sales of equity securities	89.3	171.3
Sales of other invested assets	0.9	0.8
Net cash (used in) provided by investing activities	(10.0)	6.2
Cash flows from financing activities:		
Proceeds from issuance of common stock	11.7	6.0
Payments to acquire treasury stock	(0.2)	(0.2)
Payment of dividends	(12.8)	(12.7)
Payment of prepayment fee	(0.4)	—
Net cash used in financing activities	(1.7)	(6.9)
Net (decrease) increase in cash and cash equivalents	(42.0)	60.0
Cash and cash equivalents at beginning of period	91.5	51.1
Cash and cash equivalents at end of period	\$49.5	\$111.1
<u>Supplemental disclosures:</u>		
Interest paid (affiliates \$0.7 and \$0.6, respectively)	\$4.5	\$4.3

See accompanying notes to condensed consolidated financial statements.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of State Auto Financial Corporation and Subsidiaries (“State Auto Financial” or the “Company”) have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. In the opinion of the Company, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month period ended September 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The balance sheet at December 31, 2017, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, (the “2017 Form 10-K”). Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the 2017 Form 10-K.

Adoption of Recent Accounting Pronouncements

Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU-2016-01 to improve certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically the guidance (i) requires equity investments, including equity securities and limited partnership interests, that are not accounted for under the equity method of accounting or result in consolidation to be measured at fair value with changes in fair value recognized in earnings, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (iv) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option, (vi) requires separate presentation of financial assets and liabilities by measurement category and form on the balance sheet or the notes to the financial statements, and (vii) clarifies that the need for a valuation allowance on a deferred tax asset related to an available for sale security should be evaluated with other deferred tax assets. The guidance was effective beginning January 1, 2018. The adoption of this guidance resulted in the recognition of \$60.8 million of net unrealized gains (net of tax) as a cumulative effect adjustment that increased retained earnings as of January 1, 2018 and decreased accumulated other comprehensive income (“AOCI”) by the same amount. Changes in the fair value of equity securities and other invested assets previously identified as available-for-sale are reported in "net investment (loss) gain" in the condensed consolidated statements of income. At December 31, 2017, equity securities and other invested assets were classified as available-for-sale on the Company's balance sheet; however, upon adoption, the guidance eliminated the available-for-sale balance sheet classification for equity securities and other invested assets.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02 that addresses certain stranded income tax effects in AOCI resulting from the Tax Cuts and Jobs Act of 2017 (“TCJA”). Current guidance requires the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period that includes the period of enactment, even if the related income tax effects were originally charged or credited directly to AOCI. The amount of the reclassification would include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of TCJA related to items in AOCI. The updated guidance is effective for reporting periods beginning after December 15, 2018

and is to be applied retrospectively to each period in which the effect of the TCJA related to items remaining in AOCI are recognized or at the beginning of the period of adoption. Early adoption is permitted. The Company adopted the updated guidance effective January 1, 2018 and elected to reclassify the income tax effects of the TCJA from AOCI to retained earnings as of January 1, 2018. This reclassification resulted in a decrease in retained earnings of \$4.0 million as of January 1, 2018 and an increase in AOCI by the same amount.

7

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts do not fall within the scope of this new guidance. The guidance was effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company adopted this guidance effective January 1, 2018. The adoption of the guidance did not impact how the Company recognizes revenue; thus, there was no impact to its results of operations or consolidated financial position.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued 2016-15 that addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The new guidance is effective beginning January 1, 2018. The Company adopted this guidance effective January 1, 2018 and it did not impact the Company's cash flows.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07 on how to present the components of net periodic benefit costs in the income statement for pension plans and other post-retirement benefit plans. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted this guidance effective beginning January 1, 2018 and it did not have a material impact on the Company's results of operations, consolidated financial position, or cash flows.

Pending Adoption of Recent Accounting Pronouncements

Leases

In February 2016, the FASB issued guidance that amended previous guidance on lease accounting. The new guidance requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The guidance is effective beginning January 1, 2019 and it is not expected to have a material impact on the Company's results of operations, consolidated financial position or cash flows.

For information regarding other accounting pronouncements that the Company has not yet adopted, see the "Pending Adoption of Recent Accounting Pronouncements" section of Note 1 of the Notes to Consolidated Financial Statements in the 2017 Form 10-K.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

2. Investments

The following tables set forth the cost or amortized cost and fair value of investments by lot at September 30, 2018 and December 31, 2017:

(\$ millions)

September 30, 2018

Available-for-sale fixed maturities:

	Cost or amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
U.S. treasury securities and obligations of U.S. government agencies	\$409.4	\$4.3	\$(11.7)	\$402.0
Obligations of states and political subdivisions	434.8	6.0	(2.0)	438.8
Corporate securities	535.6	1.7	(11.4)	525.9
U.S. government agencies mortgage-backed securities	805.4	1.7	(32.2)	774.9
<i>Total available-for-sale fixed maturities</i>	\$2,185.2	\$13.7	\$(57.3)	\$2,141.6

(\$ millions)

December 31, 2017

Fixed maturities:

	Cost or amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
U.S. treasury securities and obligations of U.S. government agencies	\$433.8	\$9.3	\$(6.2)	\$436.9
Obligations of states and political subdivisions	507.1	19.1	(0.4)	525.8
Corporate securities	527.5	4.5	(2.3)	529.7
U.S. government agencies mortgage-backed securities	704.7	7.1	(11.4)	700.4
<i>Total fixed maturities</i>	2,173.1	40.0	(20.3)	2,192.8
Equity securities:				
Large-cap securities	62.4	35.1	(0.7)	96.8
Mutual and exchange traded funds	256.2	21.6	(9.3)	268.5
<i>Total equity securities</i>	318.6	56.7	(10.0)	365.3
Other invested assets	25.8	30.2	—	56.0
<i>Total available-for-sale securities</i>	\$2,517.5	\$126.9	\$(30.3)	\$2,614.1

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The following tables set forth the Company's gross unrealized losses and fair value on its investments by lot, aggregated by investment category and length of time for individual securities that have been in a continuous unrealized loss position at September 30, 2018 and December 31, 2017:

(\$ millions, except # of positions)

	Less than 12 months			12 months or more			Total		
	Fair value	Unrealized losses	Number of positions	Fair value	Unrealized losses	Number of positions	Fair value	Unrealized losses	Number of positions
September 30, 2018									
Fixed maturities:									
U.S. treasury securities and obligations of U.S. government agencies	\$106.1	\$(2.1)	15	\$221.6	\$(9.6)	29	\$327.7	\$(11.7)	44
Obligations of states and political subdivisions	130.7	(1.8)	19	23.3	(0.2)	3	154.0	(2.0)	22
Corporate securities	352.9	(5.7)	46	114.3	\$(5.7)	19	467.2	\$(11.4)	65
U.S. government agencies mortgage-backed securities	390.1	(11.8)	54	303.1	(20.4)	52	693.2	(32.2)	106
<i>Total temporarily impaired securities</i>	\$979.8	\$(21.4)	134	\$662.3	\$(35.9)	103	\$1,642.1	\$(57.3)	237

(\$ millions, except # of positions)

	Less than 12 months			12 months or more			Total		
	Fair value	Unrealized losses	Number of positions	Fair value	Unrealized losses	Number of positions	Fair value	Unrealized losses	Number of positions
December 31, 2017									
Fixed maturities:									
U.S. treasury securities and obligations of U.S. government agencies	\$102.4	\$(0.6)	18	\$196.1	\$(5.6)	22	\$298.5	\$(6.2)	40
Obligations of states and political subdivisions	58.6	(0.4)	10	—	—	—	58.6	(0.4)	10
Corporate securities	153.2	(1.3)	23	67.3	(1.0)	10	220.5	(2.3)	33
U.S. government agencies mortgage-backed securities	188.6	(2.9)	31	252.2	(8.5)	41	440.8	(11.4)	72
<i>Total fixed maturities</i>	502.8	(5.2)	82	515.6	(15.1)	73	1,018.4	(20.3)	155
Equity securities:									
Large-cap equity securities	4.4	(0.7)	4	—	—	—	4.4	(0.7)	4
Mutual and exchange traded funds	66.9	(9.3)	1	—	—	—	66.9	(9.3)	1
<i>Total equity securities</i>	71.3	(10.0)	5	—	—	—	71.3	(10.0)	5
<i>Total temporarily impaired securities</i>	\$574.1	\$(15.2)	87	\$515.6	\$(15.1)	73	\$1,089.7	\$(30.3)	160

The Company reviewed its investments at September 30, 2018, and determined that no other-than-temporary impairment ("OTTI") existed in the gross unrealized holding losses.

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

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The following table sets forth the amortized cost and fair value of available-for-sale fixed maturities by contractual maturity at September 30, 2018:

(\$ millions)	Amortized Fair	
	cost	value
Due in 1 year or less	\$ 28.1	\$28.0
Due after 1 year through 5 years	587.1	576.4
Due after 5 years through 10 years	369.9	364.2
Due after 10 years	394.7	398.1
U.S. government agencies mortgage-backed securities	805.4	774.9
<i>Total</i>	\$ 2,185.2	\$2,141.6

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

At September 30, 2018, State Auto P&C had U.S. government agencies mortgage-backed fixed maturity securities, with a carrying value of approximately \$106.5 million, that were pledged as collateral for the FHLB Loans (as defined in Note 3). In accordance with the terms of the FHLB Loans, State Auto P&C retains all rights regarding these pledged securities.

Fixed maturities with fair values of \$8.9 million and \$9.3 million were on deposit with insurance regulators as required by law at September 30, 2018, and December 31, 2017, respectively. The Company retains all rights regarding these securities.

The following table sets forth the components of net investment income for the three and nine months ended September 30, 2018 and 2017:

(\$ millions)	Three months ended		Nine months ended	
	September 30	2017	September 30	2017
Fixed maturities	\$16.4	\$15.4	\$49.4	\$47.1
Equity securities	3.0	2.0	8.6	5.7
Cash and cash equivalents, and other	1.7	1.6	5.2	4.6
<i>Investment income</i>	21.1	19.0	63.2	57.4
Investment expenses	0.3	0.3	1.0	0.9
<i>Net investment income</i>	\$20.8	\$18.7	\$62.2	\$56.5

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

Proceeds on sales of investments were \$159.9 million and \$328.4 million for the nine months ended September 30, 2018, and 2017, respectively.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The following table sets forth the realized and unrealized holding gains (losses) on the Company's investment portfolio for the three and nine months ended September 30, 2018 and 2017:

(\$ millions)	Three months ended		Nine months ended	
	September 30 2018	2017	September 30 2018	2017
Realized gains:				
Fixed maturities	\$—	\$0.4	\$1.7	\$2.7
Equity securities	1.0	20.9	6.0	45.2
Other invested assets	—	—	—	0.1
<i>Total realized gains</i>	1.0	21.3	7.7	48.0
Realized losses on securities:				
Sales of equity securities	—	(0.5)	(0.6)	(0.7)
OTTI	—	(0.6)	—	(3.5)
<i>Total equity securities realized losses</i>	—	(1.1)	(0.6)	(4.2)
<i>Net realized gain on investments</i>	\$1.0	\$20.2	\$7.1	\$43.8
Net unrealized gain (loss) on investments ⁽¹⁾				
Equity securities	16.4	\$—	\$12.8	\$—
Other invested assets	0.4	—	(1.7)	—
<i>Net unrealized gain on investments</i>	16.8	—	11.1	—
<i>Net investment gain</i>	\$17.8	\$20.2	\$18.2	\$43.8
Change in unrealized holding (losses) gains, net of tax:				
Fixed maturities	\$(14.7)	\$0.4	\$(63.3)	\$15.8
Equity securities	—	(12.1)	—	(1.9)
Other invested assets	—	2.5	—	7.9
Deferred federal income tax liability	3.1	3.2	13.3	(7.6)
<i>Change in net unrealized holding (losses) gains, net of tax</i>	\$(11.6)	\$(6.0)	\$(50.0)	\$14.2

⁽¹⁾Unrealized holding gains (losses) recognized during the period on securities still held at the reporting date

3. Fair Value of Financial Instruments

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

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

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

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

The Company utilizes a nationally recognized pricing service to estimate the majority of its investment portfolio's fair value. The Company obtains one price per security and the processes and control procedures employed by the Company are designed to ensure the value is accurately recorded on an unadjusted basis. Through discussions with the pricing service, the Company gains an understanding of the methodologies used to price the different types of

securities, that the data and the valuation methods utilized are appropriate and consistently applied, and that the assumptions are reasonable and representative of fair value. To validate the reasonableness of the valuations obtained from the pricing service, the Company compares to other fair value pricing information gathered from other independent pricing sources. At September 30, 2018, and December 31, 2017, the Company did not adjust any of the prices received from the pricing service.

Fixed Maturities

12

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

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

Transfers between level categorizations may occur due to changes in the availability of market observable inputs. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. There were no transfers between level categorizations during the three and nine months ended September 30, 2018, and 2017.

Equities

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

Other Invested Assets

Included in other invested assets is one international fund ("the fund") that invests in equity securities of foreign issuers and is managed by a third party investment manager. The fund had a fair value of \$43.3 million and \$45.2 million at September 30, 2018, and December 31, 2017, respectively, which was determined using the fund's net asset value. The Company employs procedures to assess the reasonableness of the fair value of the fund, including obtaining and reviewing the fund's audited financial statements. There are no unfunded commitments related to the fund. The Company may not sell its investment in the fund; however, the Company may redeem all or a portion of its investment in the fund at net asset value per share with the appropriate prior written notice. In accordance with Accounting Standard Codification 820-10, this investment is measured at fair value using the net asset value per share practical expedient and has not been classified in the fair value hierarchy. Fair values presented here are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the condensed consolidated balance sheets. The remainder of the Company's other invested assets consist primarily of holdings in publicly-traded mutual funds. The Company believes that its prices for these publicly-traded mutual funds based on an observable market price for an identical asset in an active market reflect their fair values and consequently these securities have been disclosed in Level 1.

Table of Contents

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

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

Notes to Condensed Consolidated Financial Statements, Continued (Unaudited)

The following tables set forth the Company's investments within the fair value hierarchy at September 30, 2018 and December 31, 2017:

(\$ millions)

September 30, 2018

	Total	Level 1	Level 2
Available-for-sale fixed maturities:			
U.S. treasury securities and obligations of U.S. government agencies	\$402.0	\$—	\$402.0
Obligations of states and political subdivisions	438.8	—	438.8
Corporate securities	525.9	—	525.9
U.S. government agencies mortgage-backed securities	774.9	—	774.9
<i>Total available-for-sale fixed maturities</i>	2,141.6	—	2,141.6
Equity securities:			
Large-cap securities	95.6	95.6	—
Mutual and exchange traded funds	280.7	280.7	—
<i>Total equity securities</i>	376.3	376.3	—
Other invested assets	11.2	11.2	—
<i>Total investments</i>	\$2,529.1	\$387.5	\$2,141.6

(\$ millions)

December 31, 2017

	Total	Level 1	Level 2
Fixed maturities:			
U.S. treasury securities and obligations of U.S. government agencies	\$436.9	\$—	\$436.9
Obligations of states and political subdivisions	525.8	—	525.8
Corporate securities	529.7	—	529.7