

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
<i>(In millions, except per share amounts)</i>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net premiums written	\$ 267.6	\$ 267.7	\$ 515.1	\$ 516.8
Earned premiums	253.3	256.7	505.2	512.8
Net investment income	20.6	20.6	41.9	41.0
Net realized gain on investments	3.6	1.4	4.7	0.5
Other income	1.2	1.3	2.4	2.5
Total revenue	278.7	280.0	554.2	556.8
Income (loss) before federal income taxes	28.9	(0.2)	69.7	56.5
Federal income tax expense (benefit)	5.5	(4.3)	15.5	12.2
Net income	\$ 23.4	\$ 4.1	\$ 54.2	\$ 44.3
Earnings per share:				
- basic	\$ 0.57	\$ 0.10	\$ 1.32	\$ 1.09
- diluted	\$ 0.56	\$ 0.10	\$ 1.30	\$ 1.07
Earnings per share from operations ^(A) :				
- basic	\$ 0.51	\$ 0.08	\$ 1.24	\$ 1.08
- diluted	\$ 0.51	\$ 0.08	\$ 1.23	\$ 1.06
Weighted average shares outstanding:				
- basic	41.1	40.8	41.1	40.7
- diluted	41.8	41.6	41.8	41.5
Book value per share	\$ 21.17	\$ 19.25		
Dividends paid per share	\$ 0.10	\$ 0.09	\$ 0.20	\$ 0.18
Total shares outstanding	41.2	40.9		
GAAP ratios:				
Loss and LAE ratio	63.3	75.6	60.1	62.7
Expense ratio	33.4	31.5	33.9	32.8
Combined ratio	96.7	107.1	94.0	95.5
^(A) Net income from operations:				
Net income	\$ 23.4	\$ 4.1	\$ 54.2	\$ 44.3
Less net realized gains on investments, less applicable federal income taxes	2.3	0.9	3.1	0.3
Net income from operations	\$ 21.1	\$ 3.2	\$ 51.1	\$ 44.0

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	<u>June 30</u>	<u>December 31</u>
<i>(\$ millions, except per share amounts)</i>	2007	2006
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost \$1,705.1 and \$1,630.6, respectively)	\$ 1,691.0	\$ 1,647.4
Equity securities, at fair value (cost \$224.8 and \$230.8, respectively)	287.3	284.2
Other invested assets	<u>5.7</u>	<u>6.3</u>
Total investments	1,984.0	1,937.9
Cash and cash equivalents	26.4	73.4
Accrued investment income and other assets	44.7	43.7
Deferred policy acquisition costs	105.8	104.0
Reinsurance recoverable on losses and loss expenses payable	12.6	13.5
Due from affiliate	45.9	17.9
Prepaid reinsurance premiums	6.5	6.0
Current federal income tax	3.0	-
Deferred federal income taxes	58.7	46.3
Property and equipment, net	<u>12.3</u>	<u>12.4</u>
Total assets	<u>\$ 2,299.9</u>	<u>\$ 2,255.1</u>
LIABILITIES		
Losses and loss expenses payable	\$ 682.0	\$ 674.5
Unearned premiums	439.3	428.8
Notes payable (affiliate \$15.5)	118.2	118.4
Postretirement benefits	129.8	124.8
Pension benefits	19.6	16.1
Current federal income taxes	-	7.2
Other liabilities	<u>39.3</u>	<u>51.1</u>
Total liabilities	<u>1,428.2</u>	<u>1,420.9</u>
STOCKHOLDERS' EQUITY		
Common stock, without par value. Authorized 100.0 shares; 45.9 and 45.7 shares issued, respectively, at stated value of \$2.50 per share	114.7	114.3
Less 4.7 and 4.7 treasury shares, at cost, respectively	(58.6)	(58.1)
Additional paid-in capital	93.0	87.3
Accumulated other comprehensive loss	(31.2)	(17.3)
Retained earnings	<u>753.8</u>	<u>708.0</u>
Total stockholders' equity	<u>871.7</u>	<u>834.2</u>
Total liabilities and stockholders' equity	<u>\$ 2,299.9</u>	<u>\$ 2,255.1</u>

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>(\$ millions, except per share amounts)</i>	2007	2006	2007	2006
Earned premiums	\$ 253.3	\$ 256.7	\$ 505.2	\$ 512.8
Net investment income	20.6	20.6	41.9	41.0
Net realized gain on investments	3.6	1.4	4.7	0.5
Other income (includes \$0.8 and \$0.7, and \$1.6 and \$1.5, respectively from affiliates)	1.2	1.3	2.4	2.5
Total revenues	278.7	280.0	554.2	556.8
Losses and loss expenses	160.4	194.0	303.4	321.3
Acquisition and operating expenses	84.4	80.9	171.4	168.4
Interest expense (includes \$0.4 and \$0.4, and \$0.7 and \$0.7, respectively to affiliates)	1.8	1.9	3.7	3.7
Other expenses	3.2	3.4	6.0	6.9
Total expenses	249.8	280.2	484.5	500.3
Income (loss) before federal income taxes	28.9	(0.2)	69.7	56.5
Federal income tax expense (benefit)	5.5	(4.3)	15.5	12.2
Net income	<u>\$ 23.4</u>	<u>\$ 4.1</u>	<u>\$ 54.2</u>	<u>\$ 44.3</u>
Earnings per common share:				
Basic	<u>\$ 0.57</u>	<u>\$ 0.10</u>	<u>\$ 1.32</u>	<u>\$ 1.09</u>
Diluted	<u>\$ 0.56</u>	<u>\$ 0.10</u>	<u>\$ 1.30</u>	<u>\$ 1.07</u>
Dividends paid per common share	<u>\$ 0.100</u>	<u>\$ 0.090</u>	<u>\$ 0.200</u>	<u>\$ 0.180</u>

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(\$ millions)	Six Months Ended June 30	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 54.2	\$ 44.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other, net	5.3	4.9
Share-based compensation	3.6	4.1
Net realized gains on investments	(4.7)	(0.5)
Changes in operating assets and liabilities:		
Deferred policy acquisition costs	(1.8)	(0.3)
Accrued investment income and other assets	(1.3)	1.0
Net prepaid pension expense	-	3.7
Postretirement and pension benefit liabilities	9.3	4.0
Other liabilities and due to/from affiliate, net	(43.3)	(23.7)
Reinsurance recoverable on losses and loss expenses payable and prepaid reinsurance premiums	0.4	2.5
Losses and loss expenses payable	7.5	0.7
Unearned premiums	10.5	3.7
Excess tax benefits on share based awards	0.1	0.4
Federal income taxes	(15.3)	(20.6)
Net cash provided by operating activities	24.5	24.2
Cash flows from investing activities:		
Purchases of fixed maturities - available-for-sale	(243.1)	(122.6)
Purchases of equity securities - available-for-sale	(25.8)	(41.9)
Purchases of other invested assets	(0.6)	(0.3)
Maturities, calls and principal reductions of fixed maturities - available-for-sale	38.6	47.9
Sales of fixed maturities - available-for-sale	127.4	51.3
Sales of equity securities - available-for-sale	37.1	46.7
Sales of other invested assets	1.3	0.7
Net additions of property and equipment	(0.2)	(0.2)
Net cash used in investing activities	(65.3)	(18.4)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1.9	4.2
Excess tax benefits on share based awards	0.1	2.4
Payments of dividends	(8.2)	(7.3)
Change in securities lending collateral	-	99.0
Change in securities lending obligation	-	(99.0)
Net cash used in financing activities	(6.2)	(0.7)
Net (decrease) increase in cash and cash equivalents	(47.0)	5.1
Cash and cash equivalents at beginning of period	73.4	28.7
Cash and cash equivalents at end of period	\$ 26.4	\$ 33.8
<u>Supplemental disclosures:</u>		
Federal income taxes paid	\$ 30.5	\$ 29.4
Interest paid (\$0.7 to affiliates)	\$ 3.9	\$ 3.8

STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited)

(\$ in millions)

	Period Ended	
	June 30, 2007	December 31, 2006
Common shares:		
Balance at beginning of year	45.7	45.1
Issuance of shares	0.2	0.6
Balance at end of year	<u>45.9</u>	<u>45.7</u>
Treasury shares:		
Balance at beginning of year	(4.7)	(4.6)
Shares acquired on stock option exercises	(0.0)	(0.1)
Balance at end of year	<u>(4.7)</u>	<u>(4.7)</u>
Common stock:		
Balance at beginning of year	\$114.3	112.8
Issuance of shares	0.4	1.5
Balance at end of year	<u>114.7</u>	<u>114.3</u>
Treasury stock:		
Balance at beginning of year	(\$58.1)	(56.8)
Shares acquired on stock option exercises	(0.5)	(1.3)
Balance at end of year	<u>(58.6)</u>	<u>(58.1)</u>
Additional paid-in capital:		
Balance at beginning of year	\$87.3	70.2
Issuance of common stock	2.1	7.2
Tax benefit from stock options exercises	0.3	3.2
Stock options granted	3.3	6.7
Balance at end of year	<u>93.0</u>	<u>87.3</u>
Accumulated other comprehensive income (loss):		
Balance at beginning of year	(\$17.3)	34.3
Unrealized gains (losses) on investments, net of tax	(14.3)	12.4
Amortization of gain on derivative used in cash flow hedge	-	(0.1)
Amortization of postretirement and pension obligations	0.4	-
Accum. other comprehensive income (loss) before SFAS No. 158 adjustment	(31.2)	46.6
Adjustment to initially apply SFAS No. 158, net of tax	-	(63.9)
Balance at end of year	<u>(31.2)</u>	<u>(17.3)</u>
Retained earnings:		
Balance at beginning of year	\$708.0	603.0
Net income	54.2	120.4
Cash dividends paid	(8.4)	(15.4)
Balance at end of year	<u>753.8</u>	<u>708.0</u>
Total stockholders' equity at end of year	<u><u>\$871.7</u></u>	<u><u>834.2</u></u>

STATE AUTO FINANCIAL CORPORATION

YEAR-TO-DATE

(unaudited)

NET PREMIUMS WRITTEN

(\$ millions)

	<u>3/31/2007</u>	<u>3/31/2006</u>	<u>6/30/2007</u>	<u>6/30/2006</u>
<u>Personal Segment:</u>				
Standard private passenger auto	\$ 88.3	\$ 90.1	\$ 179.8	\$ 181.9
Nonstandard private passenger auto	12.3	12.7	22.3	22.6
Homeowners	38.6	38.5	90.6	89.7
Other personal	5.5	5.3	11.7	11.3
Personal segment	<u>144.7</u>	<u>146.6</u>	<u>304.4</u>	<u>305.5</u>
<u>Business Segment:</u>				
Commercial auto	25.3	25.8	51.7	53.1
Commercial multi peril	21.9	21.7	44.3	44.8
Fire & allied lines	20.3	20.2	41.3	41.4
Other & product liability	20.5	19.9	41.0	40.8
Workers' compensation	8.1	8.3	18.5	17.7
Other commercial	6.7	6.6	13.9	13.5
Business segment	<u>102.8</u>	<u>102.5</u>	<u>210.7</u>	<u>211.3</u>
Total	<u>\$ 247.5</u>	<u>\$ 249.1</u>	<u>\$ 515.1</u>	<u>\$ 516.8</u>

	<u>9/30/2007</u>	<u>9/30/2006</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
<u>Personal Segment:</u>				
Standard private passenger auto		\$ 274.9		\$ 361.7
Nonstandard private passenger auto		33.3		42.4
Homeowners		142.2		186.1
Other personal		17.0		22.6
Personal segment		<u>467.4</u>		<u>612.8</u>
<u>Business Segment:</u>				
Commercial auto		76.9		98.7
Commercial multi peril		67.3		87.8
Fire & allied lines		63.3		83.1
Other & product liability		59.5		77.2
Workers' compensation		26.7		34.3
Other commercial		19.7		25.6
Business segment		<u>313.4</u>		<u>406.7</u>
Total		<u>\$ 780.8</u>		<u>\$ 1,019.5</u>

STATE AUTO FINANCIAL CORPORATION

YEAR-TO-DATE

(unaudited)

NET PREMIUMS EARNED

(\$ millions)

	<u>3/31/2007</u>	<u>3/31/2006</u>	<u>6/30/2007</u>	<u>6/30/2006</u>
<u>Personal Segment:</u>				
Standard private passenger auto	\$ 88.7	\$ 91.1	\$ 177.9	\$ 181.6
Nonstandard private passenger auto	10.7	11.8	21.6	23.2
Homeowners	46.5	46.0	93.3	92.2
Other personal	<u>5.7</u>	<u>5.7</u>	<u>11.4</u>	<u>11.5</u>
Personal segment	151.6	154.6	304.2	308.5
 <u>Business Segment:</u>				
Commercial auto	24.4	25.2	48.8	50.4
Commercial multi peril	21.8	21.6	43.5	43.6
Fire & allied lines	20.8	21.3	41.2	42.4
Other & product liability	19.0	18.8	38.1	38.5
Workers' compensation	8.1	8.2	16.6	16.6
Other commercial	<u>6.2</u>	<u>6.4</u>	<u>12.8</u>	<u>12.8</u>
Business segment	100.3	101.5	201.0	204.3
Total	<u>\$ 251.9</u>	<u>\$ 256.1</u>	<u>\$ 505.2</u>	<u>\$ 512.8</u>

	<u>9/30/2007</u>	<u>9/30/2006</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
<u>Personal Segment:</u>				
Standard private passenger auto		\$ 272.2		\$ 362.1
Nonstandard private passenger auto		34.2		44.8
Homeowners		138.5		185.2
Other personal		<u>17.1</u>		<u>22.7</u>
Personal segment		462.0		614.8
 <u>Business Segment:</u>				
Commercial auto		75.5		100.3
Commercial multi peril		65.5		87.5
Fire & allied lines		63.4		84.2
Other & product liability		57.6		77.5
Workers' compensation		25.4		33.8
Other commercial		<u>19.2</u>		<u>25.7</u>
Business segment		306.6		409.0
Total		<u>\$ 768.6</u>		<u>\$ 1,023.8</u>

STATE AUTO FINANCIAL CORPORATION
QUARTER-TO-DATE
(unaudited)

NET PREMIUMS WRITTEN

<i>(\$ millions)</i>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>Change</u>
<u>Personal Segment:</u>			
Standard private passenger auto	\$ 91.6	\$ 91.8	-0.2%
Nonstandard private passenger auto	10.0	9.9	1.0%
Homeowners	52.0	51.2	1.6%
Other personal	6.1	6.0	1.7%
Personal segment	<u>159.7</u>	<u>158.9</u>	0.5%
<u>Business Segment:</u>			
Commercial auto	26.4	27.3	-3.3%
Commercial multi peril	22.5	23.1	-2.6%
Fire & allied lines	21.0	21.2	-0.9%
Other & product liability	20.6	20.9	-1.4%
Workers' compensation	10.3	9.4	9.6%
Other commercial	7.1	6.9	2.9%
Business segment	<u>107.9</u>	<u>108.8</u>	-0.8%
Total	<u>\$ 267.6</u>	<u>\$ 267.7</u>	0.0%

NET PREMIUMS EARNED

<i>(\$ millions)</i>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>Change</u>
<u>Personal Segment:</u>			
Standard private passenger auto	\$ 89.2	\$ 90.5	-1.4%
Nonstandard private passenger auto	10.9	11.4	-4.4%
Homeowners	46.8	46.2	1.3%
Other personal	5.7	5.8	-1.7%
Personal segment	<u>152.6</u>	<u>153.9</u>	-0.8%
<u>Business Segment:</u>			
Commercial auto	24.4	25.2	-3.2%
Commercial multi peril	21.7	22.0	-1.4%
Fire & allied lines	20.4	21.1	-3.3%
Other & product liability	19.2	19.7	-2.5%
Workers' compensation	8.5	8.4	1.2%
Other commercial	6.5	6.4	1.6%
Business segment	<u>100.7</u>	<u>102.8</u>	-2.0%
Total	<u>\$ 253.3</u>	<u>\$ 256.7</u>	-1.3%

STATE AUTO FINANCIAL CORPORATION
QUARTERLY STATUTORY LOSS AND LAE RATIOS
(unaudited)

	<u>3/31/2007</u>	<u>3/31/2006</u>	<u>6/30/2007</u>	<u>6/30/2006</u>
<u>Personal Segment:</u>				
Standard private passenger auto	65.7%	56.0%	57.7%	57.2%
Nonstandard private passenger auto	61.3%	58.4%	65.9%	60.8%
Homeowners	56.1%	54.3%	86.9%	133.8%
Other personal	10.0%	31.9%	50.1%	108.8%
Personal segment	60.3%	54.8%	66.9%	82.4%
<u>Business Segment:</u>				
Commercial auto	49.7%	30.3%	49.2%	38.7%
Commercial multi peril	56.5%	40.7%	59.7%	75.6%
Fire & allied lines	56.2%	61.5%	53.0%	110.6%
Other & product liability	40.1%	29.8%	45.3%	40.5%
Workers' compensation	73.1%	27.4%	113.1%	63.4%
Other commercial	12.6%	60.7%	39.5%	40.2%
Business segment	50.3%	40.7%	56.3%	63.8%
All lines	56.3%	49.2%	62.7%	75.0%

	<u>9/30/2007</u>	<u>9/30/2006</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
<u>Personal Segment:</u>				
Standard private passenger auto		54.8%		60.0%
Nonstandard private passenger auto		56.3%		64.7%
Homeowners		76.6%		47.9%
Other personal		93.7%		-30.0%
Personal segment		62.9%		53.3%
<u>Business Segment:</u>				
Commercial auto		44.0%		48.1%
Commercial multi peril		64.4%		13.6%
Fire & allied lines		28.2%		32.5%
Other & product liability		38.9%		40.6%
Workers' compensation		68.1%		69.5%
Other commercial		41.3%		42.9%
Business segment		46.1%		37.5%
All lines		56.2%		47.0%

STATE AUTO FINANCIAL CORPORATION
YEAR-TO-DATE STATUTORY LOSS AND LAE RATIOS
(unaudited)

	<u>3/31/2007</u>	<u>3/31/2006</u>	<u>6/30/2007</u>	<u>6/30/2006</u>
<u>Personal Segment:</u>				
Standard private passenger auto	65.7%	56.0%	61.7%	56.6%
Nonstandard private passenger auto	61.3%	58.4%	63.7%	59.6%
Homeowners	56.1%	54.3%	71.5%	94.2%
Other personal	10.0%	31.9%	30.1%	70.2%
Personal segment	60.3%	54.8%	63.6%	68.6%
<u>Business Segment:</u>				
Commercial auto	49.7%	30.3%	49.5%	34.5%
Commercial multi peril	56.5%	40.7%	58.1%	58.3%
Fire & allied lines	56.2%	61.5%	54.6%	86.0%
Other & product liability	40.1%	29.8%	42.7%	35.3%
Workers' compensation	73.1%	27.4%	93.6%	45.7%
Other commercial	12.6%	60.7%	26.1%	50.4%
Business segment	50.3%	40.7%	53.3%	52.3%
All lines	56.3%	49.2%	59.5%	62.1%

	<u>9/30/2007</u>	<u>9/30/2006</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
<u>Personal Segment:</u>				
Standard private passenger auto		56.0%		57.0%
Nonstandard private passenger auto		58.5%		60.0%
Homeowners		88.3%		78.1%
Other personal		78.0%		51.1%
Personal segment		66.7%		63.4%
<u>Business Segment:</u>				
Commercial auto		37.7%		40.3%
Commercial multi peril		60.3%		48.6%
Fire & allied lines		66.8%		58.3%
Other & product liability		36.5%		37.5%
Workers' compensation		53.5%		57.5%
Other commercial		47.4%		46.3%
Business segment		50.2%		47.0%
All lines		60.1%		56.8%

STATE AUTO FINANCIAL CORPORATION
ROLLING FOUR QUARTER - PAID LOSS COST TRENDS
STANDARD PRIVATE PASSENGER AUTO
(unaudited)

<u>Line of Business</u>	<u>Frequency</u>	<u>06/30/2007</u> <u>Severity</u>	<u>Pure Prem</u>
Bodily Injury	-5.7%	4.1%	-1.8%
Property Damage	-1.7%	4.0%	2.3%
Medical Payments	-1.9%	3.2%	1.3%
Personal Injury Prot	1.2%	-5.6%	-4.5%
Comprehensive	-3.3%	7.8%	4.2%
Collision	1.4%	0.2%	1.5%
Total	-1.6%	2.5%	0.8%