

SELECTIVE INSURANCE GROUP INC  
Form 10-Q  
October 30, 2014  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2014  
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: 001-33067

SELECTIVE INSURANCE GROUP, INC.  
(Exact Name of Registrant as Specified in Its Charter)

New Jersey 22-2168890  
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)  
Organization)

40 Wantage Avenue 07890  
Branchville, New Jersey (Zip Code)  
(Address of Principal Executive Offices)

(973) 948-3000  
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Yes  No

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

Yes  No

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

As of September 30, 2014, there were 56,424,220 shares of common stock, par value \$2.00 per share, outstanding.

---

Table of Contents

SELECTIVE INSURANCE GROUP, INC.  
Table of Contents

Page No.

PART I. FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets as of September 30, 2014 (Unaudited) and December 31, 2013</u>	<u>1</u>
	<u>Unaudited Consolidated Statements of Income for the Quarter and Nine Months Ended September 30, 2014 and 2013</u>	<u>2</u>
	<u>Unaudited Consolidated Statements of Comprehensive Income for the Quarter and Nine Months Ended September 30, 2014 and 2013</u>	<u>3</u>
	<u>Unaudited Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2014 and 2013</u>	<u>4</u>
	<u>Unaudited Consolidated Statements of Cash Flow for the Nine Months Ended September 30, 2014 and 2013</u>	<u>5</u>
	<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
	<u>Forward-Looking Statements</u>	<u>27</u>
	<u>Introduction</u>	<u>27</u>
	<u>Critical Accounting Policies and Estimates</u>	<u>28</u>
	<u>Financial Highlights of Results for Third Quarter and Nine Months 2014 and Third Quarter and Nine Months 2013</u>	<u>28</u>
	<u>Results of Operations and Related Information by Segment</u>	<u>32</u>
	<u>Federal Income Taxes</u>	<u>49</u>
	<u>Financial Condition, Liquidity, Short-term Borrowings, and Capital Resources</u>	<u>50</u>
	<u>Ratings</u>	<u>52</u>
	<u>Off-Balance Sheet Arrangements</u>	<u>52</u>
	<u>Contractual Obligations, Contingent Liabilities, and Commitments</u>	<u>53</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>53</u>

PART II. OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>54</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>54</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>56</u>
<u>Signatures</u>		<u>57</u>

---

Table of ContentsPART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS.SELECTIVE INSURANCE GROUP, INC.  
CONSOLIDATED BALANCE SHEETS

	Unaudited	
	September 30, 2014	December 31, 2013
(\$ in thousands, except share amounts)		
<b>ASSETS</b>		
Investments:		
Fixed income securities, held-to-maturity – at carrying value (fair value: \$354,190 – 2014; \$416,981 – 2013)	\$336,082	392,879
Fixed income securities, available-for-sale – at fair value (amortized cost: \$3,884,252 – 2014; \$3,675,977 – 2013)	3,967,638	3,715,536
Equity securities, available-for-sale – at fair value (cost: \$180,419 – 2014; \$155,350 – 2013)	211,266	192,771
Short-term investments (at cost which approximates fair value)	181,593	174,251
Other investments	106,548	107,875
Total investments (Note 5)	4,803,127	4,583,312
Cash	2,501	193
Interest and dividends due or accrued	37,563	37,382
Premiums receivable, net of allowance for uncollectible accounts of: \$3,860 – 2014; \$4,442 – 2013	591,686	524,870
Reinsurance recoverables, net	559,946	550,897
Prepaid reinsurance premiums	158,889	143,000
Current federal income tax	—	512
Deferred federal income tax	92,780	122,613
Property and equipment – at cost, net of accumulated depreciation and amortization of: \$188,175 – 2014; \$179,192 – 2013	55,532	50,834
Deferred policy acquisition costs	189,681	172,981
Goodwill	7,849	7,849
Other assets	77,865	75,727
Total assets	\$6,577,419	6,270,170
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Reserve for loss and loss expenses	\$3,445,706	3,349,770
Unearned premiums	1,143,979	1,059,155
Notes payable	392,294	392,414
Current federal income tax	16,322	—
Accrued salaries and benefits	97,469	111,427
Other liabilities	214,724	203,476
Total liabilities	\$5,310,494	5,116,242
Stockholders' Equity:		
Preferred stock of \$0 par value per share:	\$—	—
Authorized shares 5,000,000; no shares issued or outstanding		
Common stock of \$2 par value per share:		
Authorized shares 360,000,000		

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Issued: 99,753,415 – 2014; 99,120,235 – 2013	199,507	198,240
Additional paid-in capital	300,425	288,182
Retained earnings	1,280,148	1,202,015
Accumulated other comprehensive income (Note 10)	49,125	24,851
Treasury stock – at cost (shares: 43,329,195 – 2014; 43,198,622 – 2013)	(562,280	) (559,360 )
Total stockholders' equity	1,266,925	1,153,928
Commitments and contingencies		
Total liabilities and stockholders' equity	\$6,577,419	6,270,170

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

1

---

Table of Contents

SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (\$ in thousands, except per share amounts)	Quarter ended September 30,		Nine Months ended September 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Net premiums earned	\$462,639	437,568	1,382,759	1,284,760
Net investment income earned	34,292	32,457	106,600	99,330
<b>Net realized gains:</b>				
Net realized investment gains	15,231	14,111	28,370	25,124
Other-than-temporary impairments	—	(680	) (1,382	) (3,107
Other-than-temporary impairments on fixed income securities recognized in other comprehensive income	—	—	—	(77
Total net realized gains	15,231	13,431	26,988	21,940
Other income	3,196	3,357	14,931	9,677
Total revenues	515,358	486,813	1,531,278	1,415,707
<b>Expenses:</b>				
Loss and loss expense incurred	270,932	283,317	889,273	832,760
Policy acquisition costs	158,101	145,314	462,540	428,570
Interest expense	5,558	5,570	16,544	16,971
Other expenses	5,441	8,127	22,990	27,852
Total expenses	440,032	442,328	1,391,347	1,306,153
Income from continuing operations, before federal income tax	75,326	44,485	139,931	109,554
<b>Federal income tax expense:</b>				
Current	7,373	6,367	22,692	20,041
Deferred	14,791	5,465	16,762	7,433
Total federal income tax expense	22,164	11,832	39,454	27,474
Net income from continuing operations	53,162	32,653	100,477	82,080
Loss on disposal of discontinued operations, net of tax of \$(538) – 2013	—	—	—	(997
Net income	\$53,162	32,653	100,477	81,083
<b>Earnings per share:</b>				
Basic net income from continuing operations	\$0.94	0.59	1.79	1.48
Basic net loss from discontinued operations	—	—	—	(0.02
Basic net income	\$0.94	0.59	1.79	1.46
Diluted net income from continuing operations	\$0.93	0.57	1.75	1.45
Diluted net loss from discontinued operations	—	—	—	(0.02
Diluted net income	\$0.93	0.57	1.75	1.43
Dividends to stockholders	\$0.13	0.13	0.39	0.39

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.



Table of ContentsSELECTIVE INSURANCE GROUP, INC.  
UNAUDITED CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME

(\$ in thousands)

	Quarter ended September 30,		Nine Months ended September 30,	
	2014	2013	2014	2013
Net income	\$53,162	32,653	100,477	81,083
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on investment securities:				
Unrealized holding (losses) gains arising during period	(8,988 )	6,383	41,767	(50,576 )
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income	—	—	—	50
Amount reclassified into net income:				
Held-to-maturity securities	(243 )	(307 )	(683 )	(1,172 )
Non-credit other-than-temporary impairments	780	1	1,085	9
Realized gains on available for sale securities	(10,683 )	(8,785 )	(18,637 )	(16,107 )
Total unrealized (losses) gains on investment securities	(19,134 )	(2,708 )	23,532	(67,796 )
Defined benefit pension and post-retirement plans:				
Net actuarial gain	—	—	—	28,600
Amounts reclassified into net income:				
Net actuarial loss	247	513	742	2,222
Prior service cost	—	—	—	6
Curtailed expense	—	—	—	11
Total defined benefit pension and post-retirement plans	247	513	742	30,839
Other comprehensive (loss) income	(18,887 )	(2,195 )	24,274	(36,957 )
Comprehensive income	\$34,275	30,458	124,751	44,126

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents

SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (\$ in thousands)	Nine Months ended September 30,	
	2014	2013
Common stock:		
Beginning of year	\$198,240	196,388
Dividend reinvestment plan (shares: 44,322 – 2014; 49,964 – 2013)	89	100
Stock purchase and compensation plans (shares: 588,858 – 2014; 712,994 – 2013)	1,178	1,426
End of period	199,507	197,914
Additional paid-in capital:		
Beginning of year	288,182	270,654
Dividend reinvestment plan	957	1,052
Stock purchase and compensation plans	11,286	12,361
End of period	300,425	284,067
Retained earnings:		
Beginning of year	1,202,015	1,125,154
Net income	100,477	81,083
Dividends to stockholders (\$0.39 per share – 2014 and 2013)	(22,344	) (22,153
End of period	1,280,148	1,184,084
Accumulated other comprehensive income:		
Beginning of year	24,851	54,040
Other comprehensive income (loss)	24,274	(36,957
End of period	49,125	17,083
Treasury stock:		
Beginning of year	(559,360	) (555,644
Acquisition of treasury stock (shares: 130,573 – 2014; 151,555 – 2013)	(2,920	) (3,295
End of period	(562,280	) (558,939
Total stockholders' equity	\$1,266,925	1,124,209

Selective Insurance Group, Inc. also has authorized, but not issued, 5,000,000 shares of preferred stock, without par value, of which 300,000 shares have been designated Series A junior preferred stock, without par value.

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents

SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW (\$ in thousands)	Nine Months ended September 30,	
	2014	2013
Operating Activities		
Net income	\$100,477	81,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,059	32,861
Sale of renewal rights	(8,000	) —
Loss on disposal of discontinued operations	—	997
Stock-based compensation expense	7,421	7,428
Undistributed (gains) losses of equity method investments	(131	) 248
Net realized gains	(26,988	) (21,940
Retirement income plan curtailment expense	—	16
Changes in assets and liabilities:		
Increase in reserve for loss and loss expenses, net of reinsurance recoverables	86,887	112,876
Increase in unearned premiums, net of prepaid reinsurance	68,935	120,288
Decrease in net federal income taxes	33,596	8,990
Increase in premiums receivable	(66,816	) (84,826
Increase in deferred policy acquisition costs	(16,700	) (21,688
Increase in interest and dividends due or accrued	(82	) (45
(Decrease) increase in accrued salaries and benefits	(13,958	) 8,286
(Decrease) increase in accrued insurance expenses	(12,545	) 6,895
Other-net	(25,036	) (13,480
Net adjustments	57,642	156,906
Net cash provided by operating activities	158,119	237,989
Investing Activities		
Purchase of fixed income securities, available-for-sale	(560,493	) (838,634
Purchase of equity securities, available-for-sale	(185,529	) (112,742
Purchase of other investments	(8,498	) (7,864
Purchase of short-term investments	(1,082,192	) (1,619,948
Sale of subsidiary	—	1,225
Sale of fixed income securities, available-for-sale	35,499	6,851
Sale of short-term investments	1,074,850	1,662,340
Redemption and maturities of fixed income securities, held-to-maturity	56,375	87,952
Redemption and maturities of fixed income securities, available-for-sale	336,939	413,722
Sale of equity securities, available-for-sale	186,001	109,399
Distributions from other investments	13,514	10,546
Purchase of property and equipment	(9,178	) (10,493
Sale of renewal rights	8,000	—
Net cash used in investing activities	(134,712	) (297,646
Financing Activities		
Dividends to stockholders	(20,899	) (20,532
Acquisition of treasury stock	(2,920	) (3,295
Net proceeds from stock purchase and compensation plans	3,554	4,305
Proceeds from issuance of notes payable, net of debt issuance costs	—	178,435

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Repayment of notes payable	—	(100,000	)
Excess tax benefits from share-based payment arrangements	1,024	1,479	
Repayments of capital lease obligations	(1,858	) (768	)
Net cash (used in) provided by financing activities	(21,099	) 59,624	
Net increase (decrease) in cash	2,308	(33	)
Cash, beginning of year	193	210	
Cash, end of period	\$2,501	177	

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Organization

Selective Insurance Group, Inc., through its subsidiaries, (collectively referred to as “we,” “us,” or “our”) offers standard and excess and surplus lines (“E&S”) property and casualty insurance products. Selective Insurance Group, Inc. (referred to as the “Parent”) was incorporated in New Jersey in 1977 and its main offices are located in Branchville, New Jersey. The Parent’s common stock is publicly traded on the NASDAQ Global Select Market under the symbol “SIGI.”

We classify our business into three operating segments:

Our Standard Insurance Operations segment, which is comprised of both commercial lines (“Commercial Lines”) and personal lines (“Personal Lines”) business, sells property and casualty insurance products and services in the standard market, including flood insurance through the National Flood Insurance Program’s (“NFIP”) write-your-own (“WYO”) program;

Our E&S Insurance Operations segment sells Commercial Lines property and casualty insurance products and services to insureds who have not obtained coverage in the standard market; and

Our Investments segment, which invests the premiums collected by our Standard and E&S Insurance Operations and amounts generated through our capital management strategies, which may include the issuance of debt and equity securities.

NOTE 2. Basis of Presentation

These interim unaudited consolidated financial statements (“Financial Statements”) include the accounts of the Parent and its subsidiaries, and have been prepared in conformity with: (i) U.S. generally accepted accounting principles (“GAAP”); and (ii) the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The preparation of the Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. All significant intercompany accounts and transactions between the Parent and its subsidiaries are eliminated in consolidation.

Certain amounts in our prior years' Financial Statements and related notes have been reclassified to conform to the 2014 presentation. Such reclassifications had no effect on our net income, stockholders' equity, or cash flows.

These Financial Statements reflect all adjustments that, in our opinion, are normal, recurring, and necessary for a fair presentation of our results of operations and financial condition. The Financial Statements cover the third quarters ended September 30, 2014 (“Third Quarter 2014”) and September 30, 2013 (“Third Quarter 2013”) and the nine-month periods ended September 30, 2014 (“Nine Months 2014”) and September 30, 2013 (“Nine Months 2013”). The Financial Statements do not include all of the information and disclosures required by GAAP and the SEC for audited annual financial statements. Results of operations for any interim period are not necessarily indicative of results for a full year. Consequently, the Financial Statements should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013 (“2013 Annual Report”) filed with the SEC.

NOTE 3. Adoption of Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, Income Taxes, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) (“ASU 2013-11”). ASU 2013-11 applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. An unrecognized tax benefit is the difference between a tax position taken or expected to be taken in a tax return and the benefit that is more likely than not sustainable under examination. Under ASU 2013-11, an entity must net an unrecognized tax benefit, or a portion of an

unrecognized tax benefit, against deferred tax assets for a net operating loss ("NOL") carryforward, a similar tax loss, or a tax credit carryforward except when:

• An NOL carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position; or

• The entity does not intend to use the deferred tax asset for this purpose.

If either of these conditions exist, an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset.

ASU 2013-11 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance did not impact our financial condition or results of operation.

Table of Contents

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects ("ASU 2014-01"). ASU 2014-01 applies to all reporting entities that invest in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for a low-income housing tax credit. ASU 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using a newly defined "proportional amortization method" if certain conditions are met. This policy election is required to be applied consistently to all qualifying investments, rather than a decision to be applied to individual investments. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as components of income tax expense (benefit). When a company does not make a policy election to account for investments in qualified affordable housing projects using the proportional amortization method, these investments are required to be accounted for as an equity method investment or a cost method investment.

ASU 2014-01 is effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2014, with early adoption being permitted. During Third Quarter 2014, we adopted this guidance and have made a policy election to use the proportional amortization method. The adoption of this guidance did not materially impact our financial condition or results of operation.

## Pronouncements to be effective in the future

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period ("ASU 2014-12"). ASU 2014-12 applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target could be achieved and still be eligible to vest in the award if and when the performance target is achieved. ASU 2014-12 is intended to resolve the diverse accounting treatment of these types of awards in practice. Many reporting entities were accounting for these types of performance targets as non-vesting conditions that affect the grant-date fair value of the award while other entities treated these performance targets as performance conditions that do not affect the grant-date fair value of the award. ASU 2014-12 clarifies that these types of performance targets should be treated as performance conditions that do not impact the grant-date fair value of the award.

This guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. The implementation of ASU 2014-12 will not affect us, as we are currently recording expense consistent with the requirements of this accounting update.

## NOTE 4. Statements of Cash Flow

Supplemental cash flow information for Nine Months 2014 and 2013 is as follows:

(\$ in thousands)	Nine Months ended September 30,	
	2014	2013
Cash paid during the period for:		
Interest	\$ 14,089	13,325
Federal income tax	4,699	17,000
Non-cash items:		
Tax-free exchange of fixed income securities, available-for-sale ("AFS")	14,954	23,733
Tax-free exchange of fixed income securities, held-to-maturity ("HTM")	4,288	15,820

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Stock split related to equity securities, AFS	334	—
Assets acquired under capital lease arrangements	4,853	2,290

At September 30, 2014, included in "Other assets" on the Consolidated Balance Sheets was \$8.1 million of cash received from the NFIP, which is restricted to pay flood claims under the WYO program.

7

---



Table of Contents

## NOTE 5. Investments

(a) The amortized cost, net unrealized gains and losses, carrying value, unrecognized holding gains and losses, and fair value of HTM fixed income securities as of September 30, 2014 and December 31, 2013 were as follows:

September 30, 2014

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	\$5,292	68	5,360	47	—	5,407
Obligations of state and political subdivisions	301,216	2,472	303,688	13,921	—	317,609
Corporate securities	20,303	(325)	19,978	2,749	(1)	22,726
Asset-backed securities (“ABS”)	3,111	(530)	2,581	543	—	3,124
Commercial mortgage-backed securities (“CMBS”)	4,953	(478)	4,475	849	—	5,324
Total HTM fixed income securities	\$334,875	1,207	336,082	18,109	(1)	354,190

December 31, 2013

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	\$5,292	131	5,423	168	—	5,591
Obligations of state and political subdivisions	348,109	4,013	352,122	17,634	—	369,756
Corporate securities	28,174	(346)	27,828	2,446	—	30,274
ABS	3,413	(655)	2,758	657	—	3,415
CMBS	5,634	(886)	4,748	3,197	—	7,945
Total HTM fixed income securities	\$390,622	2,257	392,879	24,102	—	416,981

Unrecognized holding gains and losses of HTM securities are not reflected in the Financial Statements, as they represent fair value fluctuations from the later of: (i) the date a security is designated as HTM; or (ii) the date that an other-than-temporary impairment (“OTTI”) charge is recognized on an HTM security, through the date of the balance sheet. Our HTM securities had an average duration of 2.0 years as of September 30, 2014.

(b) The cost/amortized cost, unrealized gains and losses, and fair value of AFS securities as of September 30, 2014 and December 31, 2013 were as follows:

September 30, 2014

(\$ in thousands)	Cost/Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	\$143,742	8,210	(263)	151,689
Foreign government	27,041	832	(6)	27,867
Obligations of states and political subdivisions	1,196,478	34,533	(1,777)	1,229,234

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Corporate securities	1,725,290	44,571	(6,631	) 1,763,230
ABS	146,557	791	(382	) 146,966
CMBS <sup>1</sup>	164,934	2,077	(1,493	) 165,518
Residential mortgage-backed securities (“RMBS <sup>2</sup> ”)	480,210	7,664	(4,740	) 483,134
AFS fixed income securities	3,884,252	98,678	(15,292	) 3,967,638
AFS equity securities	180,419	34,797	(3,950	) 211,266
Total AFS securities	\$4,064,671	133,475	(19,242	) 4,178,904

8

---

Table of Contents

December 31, 2013

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	\$163,218	10,661	(504)	) 173,375
Foreign government	29,781	906	(72)	) 30,615
Obligations of states and political subdivisions	946,455	25,194	(20,025)	) 951,624
Corporate securities	1,707,928	44,004	(17,049)	) 1,734,883
ABS	140,430	934	(468)	) 140,896
CMBS <sup>1</sup>	172,288	2,462	(3,466)	) 171,284
RMBS <sup>2</sup>	515,877	7,273	(10,291)	) 512,859
AFS fixed income securities	3,675,977	91,434	(51,875)	) 3,715,536
AFS equity securities	155,350	37,517	(96)	) 192,771
Total AFS securities	\$3,831,327	128,951	(51,971)	) 3,908,307

<sup>1</sup> CMBS includes government guaranteed agency securities with a fair value of \$17.6 million at September 30, 2014 and \$30.0 million at December 31, 2013.

<sup>2</sup> RMBS includes government guaranteed agency securities with a fair value of \$35.9 million at September 30, 2014 and \$55.2 million at December 31, 2013.

Unrealized gains and losses of AFS securities represent fair value fluctuations from the later of: (i) the date a security is designated as AFS; or (ii) the date that an OTTI charge is recognized on an AFS security, through the date of the balance sheet. These unrealized gains and losses are recorded in Accumulated other comprehensive income ("AOCI") on the Consolidated Balance Sheets.

(c) The following tables summarize, for all securities in a net unrealized/unrecognized loss position at September 30, 2014 and December 31, 2013, the fair value and gross pre-tax net unrealized/unrecognized loss by asset class and by length of time those securities have been in a net loss position:

September 30, 2014	Less than 12 months		12 months or longer	
(\$ in thousands)	Fair Value	Unrealized Losses <sup>1</sup>	Fair Value	Unrealized Losses <sup>1</sup>
AFS securities				
U.S. government and government agencies	\$1,001	—	13,219	(263)
Foreign government	4,755	(6)	—	—
Obligations of states and political subdivisions	121,728	(292)	98,944	(1,485)
Corporate securities	274,501	(1,529)	158,127	(5,102)
ABS	47,542	(134)	14,149	(248)
CMBS	16,969	(89)	57,634	(1,404)
RMBS	30,958	(101)	163,237	(4,639)
Total fixed income securities	497,454	(2,151)	505,310	(13,141)
Equity securities	35,229	(3,950)	—	—
Subtotal	\$532,683	(6,101)	505,310	(13,141)

(\$ in thousands)	Less than 12 months			12 months or longer		
	Fair Value	Unrealized Losses <sup>1</sup>	Unrecognized Gains <sup>2</sup>	Fair Value	Unrealized Losses <sup>1</sup>	Unrecognized Gains <sup>2</sup>
HTM securities	460	(9)	) 8	—	—	—

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Obligations of states and  
political subdivisions

ABS	—	—	—	2,428	(530	) 516
Subtotal	\$460	(9	) 8	2,428	(530	) 516
Total AFS and HTM	\$533,143	(6,110	) 8	507,738	(13,671	) 516

9

---

Table of Contents

December 31, 2013 (\$ in thousands)	Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses <sup>1</sup>	Fair Value	Unrealized Losses <sup>1</sup>
AFS securities				
U.S. government and government agencies	\$ 16,955	(500 )	507	(4 )
Foreign government	2,029	(30 )	2,955	(42 )
Obligations of states and political subdivisions	442,531	(19,120 )	13,530	(905 )
Corporate securities	511,100	(15,911 )	14,771	(1,138 )
ABS	68,725	(468 )	—	—
CMBS	100,396	(2,950 )	6,298	(516 )
RMBS	268,943	(10,031 )	2,670	(260 )
Total fixed income securities	1,410,679	(49,010 )	40,731	(2,865 )
Equity securities	1,124	(96 )	—	—
Subtotal	\$ 1,411,803	(49,106 )	40,731	(2,865 )

(\$ in thousands)	Less than 12 months			12 months or longer		
	Fair Value	Unrealized Losses <sup>1</sup>	Unrecognized Gains <sup>2</sup>	Fair Value	Unrealized Losses <sup>1</sup>	Unrecognized Gains <sup>2</sup>
HTM securities						
Obligations of states and political subdivisions	\$ 65	(5 )	5	441	(20 )	14
ABS	—	—	—	2,490	(655 )	621
Subtotal	65	(5 )	5	2,931	(675 )	635
Total AFS and HTM	\$ 1,411,868	(49,111 )	5	43,662	(3,540 )	635

<sup>1</sup> Gross unrealized losses include non-OTTI unrealized amounts and OTTI losses recognized in AOCI. In addition, this column includes remaining unrealized gain or loss amounts on securities that were transferred to an HTM designation in the first quarter of 2009 for those securities that are in a net unrealized/unrecognized loss position.

<sup>2</sup> Unrecognized gains represent fair value fluctuations from the later of: (i) the date a security is designated as HTM; or (ii) the date that an OTTI charge is recognized on an HTM security.

The table below provides our net unrealized/unrecognized loss positions by impairment severity as of September 30, 2014 compared to December 31, 2013:

September 30, 2014			December 31, 2013		
Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss	Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss
404	80% - 99%	\$ 16,417	556	80% - 99%	\$ 51,835
2	60% - 79%	2,840	1	60% - 79%	176
—	40% - 59%	—	—	40% - 59%	—
—	20% - 39%	—	—	20% - 39%	—
—	0% - 19%	—	—	0% - 19%	—
		\$ 19,257			\$ 52,011

At September 30, 2014, we had 406 securities in an aggregate unrealized/unrecognized loss position of \$19.3 million, compared to 557 securities in an aggregate unrealized/unrecognized loss position of \$52.0 million at December 31, 2013. This improvement was mainly driven by a lower interest rate environment. Fixed income security pricing in the marketplace has improved reflecting the 54 basis point decrease in 10-year U.S. Treasury Note yields during Nine Months 2014.



Table of Contents

At September 30, 2014, \$13.2 million of the aggregate unrealized/unrecognized losses related to securities that have been in a loss position for more than 12 months, while at December 31, 2013, these losses amounted to \$2.9 million. Despite these securities being in a loss position, the nature of the loss is interest-rate related as opposed to credit-related concerns, as was evidenced by the fact that the severity of impairment on these securities improved from an average of 6% of amortized cost at year end to an average of 3% of amortized cost at the end of the third quarter. This movement is reflective of the overall interest rate decline experienced during the year.

For a discussion regarding the impact of interest rate movements on our fixed income securities portfolio, refer to Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." in our 2013 Annual Report.

We have reviewed the securities in the tables above in accordance with our OTTI policy, as described in Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2013 Annual Report.

In addition, we do not intend to sell any securities in an unrealized/unrecognized loss position, nor do we believe we will be required to sell these securities, and therefore we have concluded that they are temporarily impaired as of September 30, 2014. This conclusion reflects our current judgment as to the financial position and future prospects of the entity that issued the investment security and underlying collateral. If our judgment about an individual security changes in the future, we may ultimately record a credit loss after having originally concluded that one did not exist, which could have a material impact on our net income and financial position in future periods.

(d) Fixed income securities at September 30, 2014, by contractual maturity, are shown below. Mortgage-backed securities ("MBS") are included in the maturity tables using the estimated average life of each security. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Listed below are HTM fixed income securities at September 30, 2014:

(\$ in thousands)	Carrying Value	Fair Value
Due in one year or less	\$99,364	100,786
Due after one year through five years	220,937	235,038
Due after five years through 10 years	15,781	18,366
Total HTM fixed income securities	\$336,082	354,190

Listed below are AFS fixed income securities at September 30, 2014:

(\$ in thousands)	Fair Value
Due in one year or less	\$435,053
Due after one year through five years	1,915,327
Due after five years through 10 years	1,507,315
Due after 10 years	109,943
Total AFS fixed income securities	\$3,967,638

Table of Contents

(e) The following table summarizes our other investment portfolio by strategy and the remaining commitment amount associated with each strategy:

Other Investments (\$ in thousands)	Carrying Value		September 30, 2014
	September 30, 2014	December 31, 2013	Remaining Commitment
Alternative Investments			
Secondary private equity	\$23,064	25,618	6,978
Private equity	21,569	20,192	9,181
Energy/power generation	16,659	17,361	6,984
Mezzanine financing	11,273	12,738	13,774
Real estate	11,212	11,698	10,061
Distressed debt	9,205	11,579	2,981
Venture capital	7,115	7,025	350
Total alternative investments	100,097	106,211	50,309
Other securities	6,451	1,664	—
Total other investments	\$106,548	107,875	50,309

For a description of our seven alternative investment strategies, as well as information regarding redemption, restrictions, and fund liquidations, refer to Note 5. "Investments" in Item 8. "Financial Statements and Supplementary Data." of our 2013 Annual Report.

The following table sets forth gross summarized financial information for our other investments portfolio, including the portion not owned by us. The investments are carried under the equity method of accounting. The last line of the table below reflects our share of the aggregate income, which is the portion included in our Financial Statements. As the majority of these investments report results to us on a one quarter lag, the summarized financial statement information for the three and nine-month periods ended September 30 is based on the investments' results through June 30 and is as follows:

Income Statement Information (\$ in millions)	Quarter ended September 30, <sup>1</sup>		Nine Months ended September 30, <sup>2</sup>	
	2014	2013	2014	2013
Net investment income	\$81.3	97.8	\$167.0	352.8
Realized (losses) gains	(26.1	) 162.8	171.5	762.5
Net change in unrealized appreciation	628.6	104.8	1,471.0	85.9
Net income	\$683.8	365.4	\$1,809.5	1,201.2
Selective's insurance subsidiaries' other investments income	\$3.9	2.6	\$12.7	10.1

<sup>1</sup> The majority of these results are for the second quarter of each respective year.

<sup>2</sup> The majority of these results are for the nine months ended June 30 of each respective year.

(f) We have pledged certain AFS fixed income securities as collateral related to: (i) our outstanding borrowing of \$58 million with the Federal Home Loan Bank of Indianapolis ("FHLBI"); and (ii) our reinsurance obligations related to our 2011 acquisition of our E&S book of business. In addition, certain securities were on deposit with various state and regulatory agencies to comply with insurance laws. We retain all rights regarding all securities pledged as collateral.

The following table summarizes the market value of these securities at September 30, 2014:

(\$ in millions)	FHLBI Collateral	Reinsurance Collateral	State and Regulatory	Total
------------------	---------------------	---------------------------	-------------------------	-------



Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

			Deposits	
U.S. government and government agencies	\$22.8	—	25.6	48.4
Obligations of states and political subdivisions	—	5.7	—	5.7
Corporate securities	—	5.3	—	5.3
ABS	—	2.0	—	2.0
CMBS	1.2	—	—	1.2
RMBS	37.6	2.3	—	39.9
Total pledged as collateral	\$61.6	15.3	25.6	102.5

12

---

Table of Contents

(g) The components of pre-tax net investment income earned for the periods indicated were as follows:

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2014	2013	2014	2013
Fixed income securities	\$30,706	30,569	\$95,515	\$90,956
Equity securities	1,909	1,341	5,094	4,422
Short-term investments	15	21	48	102
Other investments	3,906	2,639	12,677	10,110
Investment expenses	(2,244	) (2,113	) (6,734	) (6,260
Net investment income earned	\$34,292	32,457	106,600	99,330

(h) The following tables summarize OTTI by asset type for the periods indicated. We had no OTTI charges in Third Quarter 2014:

Third Quarter 2013		Included in Other Comprehensive Income ("OCI")	Recognized in Earnings
(\$ in thousands)	Gross		
AFS securities			
Equity securities	\$680	—	680
OTTI losses	\$680	—	680
Nine Months 2014			
(\$ in thousands)	Gross	Included in OCI	Recognized in Earnings
AFS securities			
Equity securities	\$1,382	—	1,382
OTTI losses	\$1,382	—	1,382
Nine Months 2013			
(\$ in thousands)	Gross	Included in OCI	Recognized in Earnings
HTM fixed income securities			
ABS	\$(44	) (47	) 3
Total HTM fixed income securities	(44	) (47	) 3
AFS fixed income securities			
RMBS	(22	) (30	) 8
Total AFS fixed income securities	(22	) (30	) 8
Equity securities	1,326	—	1,326
Total AFS securities	1,304	(30	) 1,334
Other investments	1,847	—	1,847
OTTI losses	\$3,107	(77	) 3,184

For a discussion of our evaluation for OTTI of fixed income securities, short-term investments, equity securities, and other investments, refer to Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2013 Annual Report.

Table of Contents

The following tables set forth, for the periods indicated, credit loss impairments on fixed income securities for which a portion of the OTTI charge was recognized in OCI, and the corresponding changes in such amounts:

(\$ in thousands)	Quarter ended September 30,	
	2014	2013
Balance, beginning of period	\$5,534	7,488
Addition for the amount related to credit loss for which an OTTI was not previously recognized	—	—
Reductions for securities sold during the period	(90	) —
Reductions for securities for which the amount previously recognized in OCI was recognized in earnings because of intention or potential requirement to sell before recovery of amortized cost	—	—
Reductions for securities for which the entire amount previously recognized in OCI was recognized in earnings due to a decrease in cash flows expected	—	—
Additional increases to the amount related to credit loss for which an OTTI was previously recognized	—	—
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	—	—
Balance, end of period	\$5,444	7,488
	Nine Months ended September 30,	
	2014	2013
Balance, beginning of period	\$7,488	7,477
Addition for the amount related to credit loss for which an OTTI was not previously recognized	—	—
Reductions for securities sold during the period	(2,044	) —
Reductions for securities for which the amount previously recognized in OCI was recognized in earnings because of intention or potential requirement to sell before recovery of amortized cost	—	—
Reductions for securities for which the entire amount previously recognized in OCI was recognized in earnings due to a decrease in cash flows expected	—	—
Additional increases to the amount related to credit loss for which an OTTI was previously recognized	—	11
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	—	—
Balance, end of period	\$5,444	7,488

(i) The components of net realized gains, excluding OTTI charges, for the periods indicated were as follows:

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2014	2013	2014	2013
HTM fixed income securities				
Gains	\$—	32	3	35
Losses	(4	) (37	) (18	) (86
AFS fixed income securities				
Gains	695	662	1,633	2,580
Losses	(29	) (31	) (172	) (330
AFS equity securities				
Gains	14,576	13,801	27,255	24,272
Losses	(8	) (236	) (332	) (407
Other investments				

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Gains	1	—	1	—
Losses	—	(80	)—	(940
Total other net realized investment gains	15,231	14,111	28,370	25,124
Total OTTI charges recognized in earnings	—	(680	)(1,382	)(3,184
Total net realized gains	\$15,231	13,431	26,988	21,940

Realized gains and losses on the sale of investments are determined on the basis of the cost of the specific investments sold. The \$15.2 million and \$28.4 million in net realized gains in Third Quarter and Nine Months 2014, respectively, were primarily related to the sale of AFS equity securities due to the rebalancing of our high dividend yield strategy holdings within our equity portfolio.

Table of Contents

Of the \$14.1 million and \$25.1 million in net realized gains in Third Quarter and Nine Months 2013, \$13.5 million and \$19.1 million, respectively, were related to the sale of AFS equity securities due to the rebalancing of our high dividend yield strategy holdings within our equity portfolio. In addition, \$4.7 million in net realized gains in Nine Months 2013, was related to the sale of a private equity security due to the acquisition of this investment by a third party.

Proceeds from the sale of AFS securities were \$89.9 million in Third Quarter 2014 and \$221.5 million in Nine Months 2014, and \$67.2 million and \$116.3 million in the same periods a year ago.

## NOTE 6. Fair Value Measurements

The following table presents the carrying amounts and estimated fair values of our financial instruments as of September 30, 2014 and December 31, 2013:

(\$ in thousands)	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Fixed income securities:				
HTM	\$336,082	354,190	392,879	416,981
AFS	3,967,638	3,967,638	3,715,536	3,715,536
Equity securities, AFS	211,266	211,266	192,771	192,771
Short-term investments	181,593	181,593	174,251	174,251
<b>Financial Liabilities</b>				
Notes payable:				
2.90% borrowings from FHLBI	13,000	13,085	13,000	13,319
1.25% borrowings from FHLBI	45,000	45,220	45,000	45,259
7.25% Senior Notes	49,896	56,970	49,916	50,887
6.70% Senior Notes	99,398	110,310	99,498	98,247
5.875% Senior Notes	185,000	179,598	185,000	146,298
Total notes payable	\$392,294	405,183	392,414	354,010

The fair values of our financial assets and liabilities are generated using various valuation techniques and are placed into the fair value hierarchy considering the following: (i) the highest priority is given to quoted prices in active markets for identical assets (Level 1); (ii) the next highest priority is given to quoted prices in markets that are not active or inputs that are observable either directly or indirectly, including quoted prices for similar assets in markets that are not active and other inputs that can be derived principally from, or corroborated by, observable market data for substantially the full term of the assets (Level 2); and (iii) the lowest priority is given to unobservable inputs supported by little or no market activity and that reflect our assumptions about the exit price, including assumptions that market participants would use in pricing the asset (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

For a discussion of the techniques used to value our financial assets and liabilities, refer to Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2013 Annual Report.

Table of Contents

The following tables provide quantitative disclosures of our financial assets that were measured at fair value at September 30, 2014 and December 31, 2013:

September 30, 2014

Description (\$ in thousands)	Assets Measured at Fair Value at 9/30/2014	Fair Value Measurements Using Quoted Prices		
		in Active Markets for Identical Assets/ Liabilities (Level 1) <sup>1</sup>	Significant Other Observable Inputs (Level 2) <sup>1</sup>	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
AFS:				
U.S. government and government agencies	\$ 151,689	51,467	100,222	—
Foreign government	27,867	—	27,867	—
Obligations of states and political subdivisions	1,229,234	—	1,229,234	—
Corporate securities	1,763,230	—	1,763,230	—
ABS	146,966	—	146,966	—
CMBS	165,518	—	165,518	—
RMBS	483,134	—	483,134	—
Total AFS fixed income securities	3,967,638	51,467	3,916,171	—
Equity securities	211,266	208,366	—	2,900
Total AFS Securities	4,178,904	259,833	3,916,171	2,900
Short-term investments	181,593	181,593	—	—
Total assets measured at fair value	\$4,360,497	441,426	3,916,171	2,900

<sup>1</sup>There were no transfers of securities between Level 1 and Level 2.

December 31, 2013

Description (\$ in thousands)	Assets Measured at Fair Value at 12/31/13	Fair Value Measurements Using Quoted Prices		
		in Active Markets for Identical Assets/Liabilities (Level 1) <sup>1</sup>	Significant Other Observable Inputs (Level 2) <sup>1</sup>	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
AFS:				
U.S. government and government agencies	\$ 173,375	52,153	121,222	—
Foreign government	30,615	—	30,615	—
Obligations of states and political subdivisions	951,624	—	951,624	—
Corporate securities	1,734,883	—	1,734,883	—
ABS	140,896	—	140,896	—
CMBS	171,284	—	171,284	—
RMBS	512,859	—	512,859	—
Total AFS fixed income securities	3,715,536	52,153	3,663,383	—
Equity securities	192,771	189,871	—	2,900
Total AFS Securities	3,908,307	242,024	3,663,383	2,900

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Short-term investments	174,251	174,251	—	—
Total assets measured at fair value	\$4,082,558	416,275	3,663,383	2,900

<sup>1</sup> There were no transfers of securities between Level 1 and Level 2.

Table of Contents

There were no changes in the fair value of securities measured using Level 3 prices during Nine Months 2014. The following table provides a summary of these changes during full year 2013: December 31, 2013

(\$ in thousands)	Government	Corporate	ABS	CMBS	Equity	Receivable for Proceeds Related to Sale of Selective HR Solutions ("Selective HR")	Total
Fair value, December 31, 2012	\$ 19,789	2,946	6,068	7,162	3,607	2,705	42,277
Total net (losses) gains for the period included in:							
OCI <sup>1</sup>	(537 )	(7 )	(74 )	772	3,935	—	4,089
Net income <sup>2,3</sup>	(76 )	—	—	361	—	(1,480 )	(1,195 )
Purchases	—	—	—	—	—	—	—
Sales	—	—	—	—	—	—	—
Issuances	—	—	—	—	—	—	—
Settlements	(1,847 )	(168 )	—	(2,420 )	—	(225 )	(4,660 )
Transfers into Level 3	—	—	—	—	—	—	—
Transfers out of Level 3	(17,329 )	(2,771 )	(5,994 )	(5,875 )	(4,642 )	(1,000 )	(37,611 )
Fair value, December 31, 2013	\$ —	\$ —	\$ —	\$ —	\$ 2,900	\$ —	\$ 2,900

<sup>1</sup> Amounts are reported in "Unrealized holding (losses) gains arising during period" on the Consolidated Statements of Comprehensive Income in our 2013 Annual Report.

<sup>2</sup> Amounts are reported in "Net realized gains" for realized gains and losses and "Net investment income earned" for amortization of securities on the Consolidated Statements of Income in our 2013 Annual Report.

<sup>3</sup> For the receivable related to the sale of Selective HR, amounts in "Loss on disposal of discontinued operations, net of tax" relate to an impairment charge and amounts in "Other income" relate to interest accretion on the Consolidated Statements of Income in our 2013 Annual Report.

As discussed in Note 2. "Summary of Significant Accounting Policies," in Item 8. "Financial Statements and Supplementary Data." in our 2013 Annual Report, the fair value of our Level 3 fixed income securities is typically obtained through non-binding broker quotes based on unobservable inputs, which we review for reasonableness. There were no fixed income securities measured using Level 3 inputs at September 30, 2014 and December 31, 2013. However, in 2013, fixed income securities with a fair value of \$32.0 million were transferred out of Level 3 during the year due to the availability of Level 2 pricing at December 31, 2013 that was not available previously.

Equity securities with a fair value of \$2.9 million were measured using Level 3 inputs at September 30, 2014 and at December 31, 2013. An equity security with a fair value of \$4.6 million was transferred out of Level 3 during 2013 due to the availability of Level 2 pricing at the date of transfer. In addition, the receivable related to the sale of Selective HR was settled during 2013 and as a result was also transferred out of Level 3.





Table of Contents

The following tables provide quantitative information regarding our financial assets and liabilities that were disclosed at fair value at September 30, 2014 and December 31, 2013:

September 30, 2014

(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 9/30/2014	Fair Value Measurements Using Quoted Prices in		
		Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
<b>HTM:</b>				
Foreign government	\$5,407	—	5,407	—
Obligations of states and political subdivisions	317,609	—	317,609	—
Corporate securities	22,726	—	22,726	—
ABS	3,124	—	3,124	—
CMBS	5,324	—	5,324	—
Total HTM fixed income securities	\$354,190	—	354,190	—
<b>Financial Liabilities</b>				
<b>Notes payable:</b>				
2.90% borrowings from FHLBI	\$13,085	—	13,085	—
1.25% borrowings from FHLBI	45,220	—	45,220	—
7.25% Senior Notes	56,970	—	56,970	—
6.70% Senior Notes	110,310	—	110,310	—
5.875% Senior Notes	179,598	179,598	—	—
Total notes payable	\$405,183	179,598	225,585	—

December 31, 2013

(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 12/31/2013	Fair Value Measurements Using Quoted Prices in		
		Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
<b>HTM:</b>				
Foreign government	\$5,591	—	5,591	—
Obligations of states and political subdivisions	369,756	—	369,756	—
Corporate securities	30,274	—	30,274	—
ABS	3,415	—	3,415	—
CMBS	7,945	—	7,945	—
Total HTM fixed income securities	\$416,981	—	416,981	—
<b>Financial Liabilities</b>				
<b>Notes payable:</b>				
2.90% borrowings from FHLBI	\$13,319	—	13,319	—
1.25% borrowings from FHLBI	45,259	—	45,259	—

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

7.25% Senior Notes	50,887	—	50,887	—
6.70% Senior Notes	98,247	—	98,247	—
5.875% Senior Notes	146,298	146,298	—	—
Total notes payable	\$354,010	146,298	207,712	—

Table of Contents

## NOTE 7. Reinsurance

The following table contains a listing of direct, assumed, and ceded reinsurance amounts for premiums written, premiums earned, and loss and loss expenses incurred for the periods indicated. For more information concerning reinsurance, refer to Note 8. "Reinsurance" in Item 8. "Financial Statements and Supplementary Data." of our 2013 Annual Report.

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2014	2013	2014	2013
Premiums written:				
Direct	\$592,858	570,849	1,723,063	1,650,855
Assumed	5,780	22,053	19,467	34,913
Ceded	(103,517	) (100,154	) (290,836	) (280,719
Net	\$495,121	492,748	1,451,694	1,405,049
Premiums earned:				
Direct	\$548,734	518,307	1,630,347	1,516,454
Assumed	6,789	11,066	27,359	32,480
Ceded	(92,884	) (91,805	) (274,947	) (264,174
Net	\$462,639	437,568	1,382,759	1,284,760
Loss and loss expense incurred:				
Direct	\$304,525	350,648	995,581	1,055,248
Assumed	5,362	7,264	20,218	22,758
Ceded	(38,955	) (74,595	) (126,526	) (245,246
Net	\$270,932	283,317	889,273	832,760

Direct premiums earned increases in Third Quarter 2014 and Nine Months 2014 compared to Third Quarter 2013 and Nine Months 2013 reflect pure price increases coupled with stable retention that we have achieved in our Standard Insurance Operations. These increases were consistent with the fluctuation in DPW for the twelve-month period ended September 30, 2014 compared to the twelve-month period ended September 30, 2013.

Assumed premiums written and earned decreased in Third Quarter 2014 and Nine Months 2014 compared to the same periods last year as a result of the March 2014 sale of the renewal rights to our self-insured group, or "SIG," book of pooled public entity business.

Direct loss and loss expense incurred decreased by \$46.1 million in Third Quarter 2014 compared to Third Quarter 2013 driven by: (i) lower catastrophe losses; (ii) favorable prior year casualty reserve development; and (iii) a \$4.0 million reduction in our estimated ultimate exposure related to Hurricane Sandy, \$3.6 million of which is ceded under our catastrophe excess of loss treaty.

In addition, the ceded premiums and losses related to our participation in the NFIP, under which 100% of our flood premiums, losses, and loss expenses are ceded to the NFIP, are as follows:

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2014	2013	2014	2013
Ceded to NFIP				
Ceded premiums written	\$(69,922	) (64,196	) (193,000	) (183,364
Ceded premiums earned	(60,761	) (57,920	) (178,260	) (169,697
Ceded loss and loss expense incurred	(14,008	) (34,879	) (48,099	) (162,780



Table of Contents

## NOTE 8. Segment Information

The disaggregated results of our three operating segments are used by senior management to manage our operations. These segments are evaluated based on the following:

Our Standard Insurance Operations segment and our E&S Insurance Operations segment are evaluated based on statutory underwriting results (net premiums earned, incurred loss and loss expenses, policyholders dividends, policy acquisition costs, and other underwriting expenses), and statutory combined ratios; and

Our Investments segment is evaluated based on after-tax net investment income and net realized gains and losses.

In computing the results of each segment, we do not make adjustments for interest expense or net general corporate expenses. While we do not fully allocate taxes to all segments, we do allocate taxes to our Investments segment as we manage that segment on after-tax results. We do not maintain separate investment portfolios for the segments and therefore, do not allocate assets to the segments.

In the first quarter of 2014, we sold the renewal rights to our \$38 million self-insured group, or "SIG," book of business within the Standard Insurance Operations segment. We decided to opportunistically sell this small and specialized book of pooled business as a significant portion of the business was produced outside of our standard lines footprint, and proved difficult to grow. As this was a renewal rights sale, we will continue to service policies that were in force at the date of the sale. We continue to remain active in the municipal and public school marketplace for individual risks that procure traditional insurance programs rather than pooling arrangements. The proceeds from this sale, which amounted to \$8 million, are included in "Miscellaneous income" within the table below as a component of the Standard Insurance Operations revenue.

The following summaries present revenues from continuing operations (net investment income and net realized gains on investments in the case of the Investments segment) and pre-tax income from continuing operations for the individual segments:

Revenue by Segment	Quarter ended		Nine Months ended	
(\$ in thousands)	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
Standard Insurance Operations:				
Net premiums earned:				
Commercial automobile	\$83,536	79,138	249,224	230,191
Workers compensation	66,732	66,510	205,137	197,449
General liability	110,894	100,925	331,303	298,394
Commercial property	61,304	57,004	182,716	165,356
Businessowners' policies	21,649	19,629	63,797	56,794
Bonds	4,791	4,705	14,281	14,244
Other	3,237	3,051	9,633	9,036
Total Standard Commercial Lines	352,143	330,962	1,056,091	971,464
Personal automobile	37,695	38,513	113,943	115,432
Homeowners	33,957	32,374	100,831	95,211
Other	2,725	3,827	8,965	10,655
Total Standard Personal Lines	74,377	74,714	223,739	221,298
Total Standard Insurance Operations net premiums earned	426,520	405,676	1,279,830	1,192,762
Miscellaneous income	3,196	3,342	14,923	9,590
Total Standard Insurance Operations revenue	429,716	409,018	1,294,753	1,202,352
E&S Insurance Operations:				
Net premiums earned	36,119	31,892	102,929	91,998
Investments:				

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Net investment income	34,292	32,457	106,600	99,330
Net realized investment gains	15,231	13,431	26,988	21,940
Total investment revenues	49,523	45,888	133,588	121,270
Total all segments	515,358	486,798	1,531,270	1,415,620
Other income	—	15	8	87
Total revenues from continuing operations	\$515,358	486,813	1,531,278	1,415,707

20

---

Table of Contents

Income from Continuing Operations before Federal Income Tax (\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2014	2013	2014	2013
Standard Insurance Operations:				
Commercial Lines underwriting gain	\$27,771	8,776	\$39,844	24,621
Personal Lines underwriting gain	8,037	1,362	95	4,360
Total Standard Insurance Operations underwriting gain, before federal income tax	35,808	10,138	39,939	28,981
GAAP combined ratio	91.6	% 97.5	96.9	% 97.6
Statutory combined ratio	90.5	% 96.0	96.3	% 96.6

E&amp;S Insurance Operations: