

SELECTIVE INSURANCE GROUP INC  
Form 10-Q  
July 31, 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: June 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 June 30, 2014, there were 56,373,933 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 June 30, 2014 (Unaudited) and December 31, 2013</u>	<u>1</u>
	<u>Unaudited Consolidated Statements of Income for the Quarter and Six Months Ended June 30, 2014 and 2013</u>	<u>2</u>
	<u>Unaudited Consolidated Statements of Comprehensive Income for the Quarter and Six Months Ended June 30, 2014 and 2013</u>	<u>3</u>
	<u>Unaudited Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2014 and 2013</u>	<u>4</u>
	<u>Unaudited Consolidated Statements of Cash Flow for the Six Months Ended June 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 Second Quarter and Six Months 2014 and Second Quarter and Six 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	
	June 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: \$385,502 – 2014; \$416,981 – 2013)	\$364,938	392,879
Fixed income securities, available-for-sale – at fair value (amortized cost: \$3,792,036 – 2014; \$3,675,977 – 2013)	3,890,200	3,715,536
Equity securities, available-for-sale – at fair value (cost: \$166,214 – 2014; \$155,350 – 2013)	211,348	192,771
Short-term investments (at cost which approximates fair value)	166,488	174,251
Other investments	106,125	107,875
Total investments (Note 5)	4,739,099	4,583,312
Cash	1,547	193
Interest and dividends due or accrued	37,747	37,382
Premiums receivable, net of allowance for uncollectible accounts of: \$3,733 – 2014; \$4,442 – 2013	589,617	524,870
Reinsurance recoverables, net	558,758	550,897
Prepaid reinsurance premiums	148,256	143,000
Current federal income tax	—	512
Deferred federal income tax	97,401	122,613
Property and equipment – at cost, net of accumulated depreciation and amortization of: \$184,748 – 2014; \$179,192 – 2013	53,836	50,834
Deferred policy acquisition costs	182,087	172,981
Goodwill	7,849	7,849
Other assets	74,388	75,727
Total assets	\$6,490,585	6,270,170
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Reserve for loss and loss expenses	\$3,451,306	3,349,770
Unearned premiums	1,100,864	1,059,155
Notes payable	392,290	392,414
Current federal income tax	10,150	—
Accrued salaries and benefits	84,870	111,427
Other liabilities	213,030	203,476
Total liabilities	\$5,252,510	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: 99,697,374 – 2014; 99,120,235 – 2013	199,395	198,240
Additional paid-in capital	298,352	288,182
Retained earnings	1,234,462	1,202,015
Accumulated other comprehensive income (Note 10)	68,012	24,851
Treasury stock – at cost (shares: 43,323,441– 2014; 43,198,622 – 2013)	(562,146	) (559,360 )
Total stockholders' equity	1,238,075	1,153,928
Commitments and contingencies		
Total liabilities and stockholders' equity	\$6,490,585	6,270,170

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 INCOME

	Quarter ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
(\$ in thousands, except per share amounts)				
Revenues:				
Net premiums earned	\$463,625	426,252	920,120	847,192
Net investment income earned	36,774	34,003	72,308	66,873
Net realized gains:				
Net realized investment gains	4,958	5,709	13,139	11,013
Other-than-temporary impairments	(419	) (508	) (1,382	) (2,427
Other-than-temporary impairments on fixed income securities recognized in other comprehensive income	—	(47	) —	(77
Total net realized gains	4,539	5,154	11,757	8,509
Other income	1,911	3,536	11,735	6,320
Total revenues	506,849	468,945	1,015,920	928,894
Expenses:				
Loss and loss expense incurred	297,795	279,594	618,341	549,443
Policy acquisition costs	155,173	143,728	304,439	283,256
Interest expense	5,425	5,570	10,986	11,401
Other expenses	8,935	3,852	17,549	19,725
Total expenses	467,328	432,744	951,315	863,825
Income from continuing operations, before federal income tax	39,521	36,201	64,605	65,069
Federal income tax expense:				
Current	8,781	6,221	15,319	13,674
Deferred	1,399	2,858	1,971	1,968
Total federal income tax expense	10,180	9,079	17,290	15,642
Net income from continuing operations	29,341	27,122	47,315	49,427
Loss on disposal of discontinued operations, net of tax of \$(538) – 2013	—	—	—	(997
Net income	\$29,341	27,122	47,315	48,430
Earnings per share:				
Basic net income from continuing operations	\$0.52	0.49	0.84	0.89
Basic net loss from discontinued operations	—	—	—	(0.02
Basic net income	\$0.52	0.49	0.84	0.87
Diluted net income from continuing operations	\$0.51	0.48	0.83	0.88
Diluted net loss from discontinued operations	—	—	—	(0.02
Diluted net income	\$0.51	0.48	0.83	0.86
Dividends to stockholders	\$0.13	0.13	0.26	0.26

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 June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Net income	\$29,341	27,122	47,315	48,430
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) arising during period	29,329	(59,353 )	50,755	(56,959 )
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income	—	31	—	50
Amount reclassified into net income:				
Held-to-maturity securities	(144 )	(399 )	(440 )	(865 )
Non-credit other-than-temporary impairments	305	3	305	8
Realized gains on available for sale securities	(3,255 )	(3,438 )	(7,954 )	(7,322 )
Total unrealized gains (losses) on investment securities	26,235	(63,156 )	42,666	(65,088 )
Defined benefit pension and post-retirement plans:				
Net actuarial gain	—	—	—	28,600
Amounts reclassified into net income:				
Net actuarial loss	248	513	495	1,709
Prior service cost	—	—	—	6
Curtailed expense	—	—	—	11
Total defined benefit pension and post-retirement plans	248	513	495	30,326
Other comprehensive income (loss)	26,483	(62,643 )	43,161	(34,762 )
Comprehensive income (loss)	\$55,824	(35,521 )	90,476	13,668

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

Six Months ended June 30,

(\$ in thousands)	2014	2013
Common stock:		
Beginning of year	\$198,240	196,388
Dividend reinvestment plan (shares: 29,949 – 2014; 33,514 – 2013)	60	67
Stock purchase and compensation plans (shares: 547,190 – 2014; 682,661 – 2013)	1,095	1,366
End of period	199,395	197,821
Additional paid-in capital:		
Beginning of year	288,182	270,654
Dividend reinvestment plan	642	703
Stock purchase and compensation plans	9,528	10,657
End of period	298,352	282,014
Retained earnings:		
Beginning of year	1,202,015	1,125,154
Net income	47,315	48,430
Dividends to stockholders (\$0.26 per share – 2014 and 2013)	(14,868	) (14,723
End of period	1,234,462	1,158,861
Accumulated other comprehensive income:		
Beginning of year	24,851	54,040
Other comprehensive income (loss)	43,161	(34,762
End of period	68,012	19,278
Treasury stock:		
Beginning of year	(559,360	) (555,644
Acquisition of treasury stock (shares: 124,819 – 2014; 151,113 – 2013)	(2,786	) (3,285
End of period	(562,146	) (558,929
Total stockholders' equity	\$1,238,075	1,099,045

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)	Six Months ended June 30,	
	2014	2013
Operating Activities		
Net income	\$47,315	48,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,912	23,103
Sale of renewal rights	(8,000	) —
Loss on disposal of discontinued operations	—	997
Stock-based compensation expense	6,102	6,189
Undistributed (gains) losses of equity method investments	(138	) 419
Net realized gains	(11,757	) (8,509
Retirement income plan curtailment expense	—	16
Changes in assets and liabilities:		
Increase in reserve for loss and loss expenses, net of reinsurance recoverables	93,675	69,790
Increase in unearned premiums, net of prepaid reinsurance and advance premiums	36,997	65,225
Decrease in net federal income taxes	12,634	3,171
Increase in premiums receivable	(64,747	) (84,135
Increase in deferred policy acquisition costs	(9,106	) (9,555
Increase in interest and dividends due or accrued	(361	) (1,066
Decrease in accrued salaries and benefits	(26,557	) (6,173
Decrease in accrued insurance expenses	(16,872	) (5,478
Other-net	(5,425	) (4,526
Net adjustments	25,357	49,468
Net cash provided by operating activities	72,672	97,898
Investing Activities		
Purchase of fixed income securities, available-for-sale	(339,362	) (530,402
Purchase of equity securities, available-for-sale	(111,886	) (42,546
Purchase of other investments	(6,039	) (4,393
Purchase of short-term investments	(764,692	) (1,116,873
Sale of subsidiary	—	1,225
Sale of fixed income securities, available-for-sale	19,557	6,851
Sale of short-term investments	772,455	1,144,853
Redemption and maturities of fixed income securities, held-to-maturity	28,595	48,186
Redemption and maturities of fixed income securities, available-for-sale	222,568	286,905
Sale of equity securities, available-for-sale	111,996	42,206
Distributions from other investments	7,726	6,077
Purchase of property and equipment	(6,628	) (6,761
Sale of renewal rights	8,000	—
Net cash used in investing activities	(57,710	) (164,672
Financing Activities		
Dividends to stockholders	(13,914	) (13,668
Acquisition of treasury stock	(2,786	) (3,285
Net proceeds from stock purchase and compensation plans	3,091	3,769
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	955	1,467	
Repayments of capital lease obligations	(954	) —	
Net cash (used in) provided by financing activities	(13,608	) 66,718	
Net increase (decrease) in cash	1,354	(56	)
Cash, beginning of year	193	210	
Cash, end of period	\$1,547	154	

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 (“NFIPs”) 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.

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 second quarters ended June 30, 2014 (“Second Quarter 2014”) and June 30, 2013 (“Second Quarter 2013”) and the six-month periods ended June 30, 2014 (“Six Months 2014”) and June 30, 2013 (“Six 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 exists, 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.

6

---

Table of Contents

## Pronouncements to be effective in the future

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. 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). For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment is 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. The adoption of this guidance will not have a material impact on our financial condition or results of operations.

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 Six Months 2014 and 2013 are as follows:

(\$ in thousands)	Six Months ended June 30,	
	2014	2013
Cash paid during the period for:		
Interest	\$11,113	10,295
Federal income tax	3,699	11,000
Non-cash items:		
Tax-free exchange of fixed income securities, available-for-sale ("AFS")	9,180	13,615
Tax-free exchange of fixed income securities, held-to-maturity ("HTM")	15	10,710
Stock split related to equity securities, AFS	334	—
Assets acquired under capital lease arrangements	2,124	1,898

At June 30, 2014, included in "Other assets" on the Consolidated Balance Sheets was \$8.5 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 June 30, 2014 and December 31, 2013 were as follows:

June 30, 2014

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	\$5,292	90	5,382	137	—	5,519
Obligations of state and political subdivisions	327,898	2,942	330,840	15,884	—	346,724
Corporate securities	21,893	(347)	21,546	2,972	(5)	24,513
Asset-backed securities (“ABS”)	3,260	(583)	2,677	608	—	3,285
Commercial mortgage-backed securities (“CMBS”)	5,015	(522)	4,493	968	—	5,461
Total HTM fixed income securities	\$363,358	1,580	364,938	20,569	(5)	385,502

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 1.9 years as of June 30, 2014.

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

June 30, 2014

(\$ in thousands)	Cost/Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	\$149,537	9,474	(202)	158,809
Foreign government	27,046	983	(1)	28,028
Obligations of states and political subdivisions	1,080,039	30,696	(3,681)	1,107,054

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

Corporate securities	1,730,192	56,587	(4,186	) 1,782,593
ABS	131,434	945	(210	) 132,169
CMBS <sup>1</sup>	170,298	3,246	(1,073	) 172,471
Residential mortgage-backed securities (“RMBS <sup>2</sup> ”)	503,490	9,534	(3,948	) 509,076
AFS fixed income securities	3,792,036	111,465	(13,301	) 3,890,200
AFS equity securities	166,214	45,137	(3	) 211,348
Total AFS securities	\$3,958,250	156,602	(13,304	) 4,101,548

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 \$23.7 million at June 30, 2014 and \$30.0 million at December 31, 2013.

<sup>2</sup> RMBS includes government guaranteed agency securities with a fair value of \$41.8 million at June 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 June 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:

June 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	\$—	—	13,284	(202)
Foreign government	—	—	2,997	(1)
Obligations of states and political subdivisions	54,331	(187)	) 246,340	(3,494)
Corporate securities	55,362	(186)	) 170,034	(4,000)
ABS	14,992	(28)	) 14,215	(182)
CMBS	4,939	(4)	) 58,286	(1,069)
RMBS	2,761	(13)	) 169,064	(3,935)
Total fixed income securities	132,385	(418)	) 674,220	(12,883)
Equity securities	170	(3)	) —	—
Subtotal	\$132,555	(421)	) 674,220	(12,883)

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

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

Corporate securities	1,482	3	(5	) —	—	—
ABS	—	—	—	2,496	(583	) 564
Subtotal	\$1,482	3	(5	) 2,496	(583	) 564
Total AFS and HTM	\$134,037	(418	) (5	) 676,716	(13,466	) 564

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.

As evidenced by the table below, our net unrealized/unrecognized loss positions improved by \$38.7 million as of June 30, 2014 compared to December 31, 2013 as follows:

June 30, 2014			December 31, 2013		
Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss	Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss
288	80% - 99%	\$ 13,325	556	80% - 99%	\$ 51,835
—	60% - 79%	—	1	60% - 79%	176
—	40% - 59%	—	—	40% - 59%	—
—	20% - 39%	—	—	20% - 39%	—
—	0% - 19%	—	—	0% - 19%	—
		\$ 13,325			\$ 52,011

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.

At June 30, 2014, we had 288 securities in an aggregate unrealized/unrecognized loss position of \$13.3 million, compared to 557 securities in an aggregate unrealized/unrecognized loss position of \$52.0 million at December 31, 2013. This improvement was driven by a lower interest rate environment, as interest rates on the 10-year U.S. Treasury Note fell by 50 basis points in Six Months 2014. This interest rate movement had a positive impact on our fixed income securities portfolio's valuation, thus decreasing the number of securities in a loss position and the corresponding dollar amount of unrealized losses.

Table of Contents

At June 30, 2014, \$12.9 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 only \$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 its amortized cost at year end to an average of 2% of its amortized cost at the end of the second 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 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 June 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 June 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 June 30, 2014:

(\$ in thousands)	Carrying Value	Fair Value
Due in one year or less	\$113,394	115,199
Due after one year through five years	230,116	245,500
Due after five years through 10 years	21,428	24,803
Total HTM fixed income securities	\$364,938	385,502

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

(\$ in thousands)	Fair Value
Due in one year or less	\$401,681
Due after one year through five years	2,007,460
Due after five years through 10 years	1,404,203
Due after 10 years	76,856
Total AFS fixed income securities	\$3,890,200

(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		June 30, 2014
	June 30, 2014	December 31, 2013	Remaining Commitment
Alternative Investments			
Secondary private equity	\$23,575	25,618	7,230
Private equity	21,388	20,192	9,917
Energy/power generation	17,802	17,361	6,984
Mezzanine financing	13,243	12,738	14,470
Real estate	11,039	11,698	10,131

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

Distressed debt	9,947	11,579	2,971
Venture capital	7,089	7,025	350
Total alternative investments	104,083	106,211	52,053
Other securities	2,042	1,664	597
Total other investments	\$106,125	107,875	52,650

11

---



Table of Contents

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 six-month periods ended March 31 is as follows:

Income Statement Information (\$ in millions)	Quarter ended March 31,		Six Months ended March 31,	
	2014	2013	2014	2013
Net investment income	\$22.8	46.8	\$85.7	255.0
Realized gains (losses)	74.2	(22.1	) 197.6	599.7
Net change in unrealized appreciation (depreciation)	207.6	378.8	842.4	(18.9
Net income	\$304.6	403.5	\$1,125.7	835.8
Selective's insurance subsidiaries' other investments income	\$3.6	3.9	\$8.8	7.5

(f) We have pledged certain AFS fixed income securities and short-term investments 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 June 30, 2014:

(\$ in millions)	FHLBI Collateral	Reinsurance Collateral	State and Regulatory Deposits	Total
U.S. government and government agencies	\$22.9	—	26.0	48.9
Obligations of states and political subdivisions	—	5.7	—	5.7
Corporate securities	—	5.3	—	5.3
ABS	—	2.0	—	2.0
CMBS	1.9	—	—	1.9
RMBS	36.8	3.2	—	40.0
Total fixed income securities	\$61.6	16.2	26.0	103.8
Short-term investments	—	0.2	—	0.2
Total pledged as collateral	\$61.6	16.4	26.0	104.0

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

(\$ in thousands)	Quarter ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Fixed income securities	\$33,781	30,298	\$64,809	\$60,387
Equity securities	1,736	1,874	3,185	3,081
Short-term investments	14	29	33	81
Other investments	3,553	3,869	8,771	7,471
Investment expenses	(2,310	) (2,067	) (4,490	) (4,147
	\$36,774	34,003	72,308	66,873

Net investment income  
earned

12

---

Table of Contents

(h) The following tables summarize OTTI by asset type for the periods indicated:

Second Quarter 2014 (\$ in thousands)	Gross	Included in Other Comprehensive Income ("OCI")	Recognized in Earnings
AFS securities			
Equity securities	\$419	—	419
Total AFS Securities	419	—	419
OTTI losses	\$419	—	419
Second Quarter 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
Equity securities	429	—	429
Total AFS securities	429	—	429
Other investments	123	—	123
OTTI losses	\$508	(47	) 555
Six Months 2014 (\$ in thousands)	Gross	Included in OCI	Recognized in Earnings
AFS securities			
Equity securities	\$1,382	—	1,382
Total AFS Securities	1,382	—	1,382
OTTI losses	\$1,382	—	1,382
Six 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	646	—	646
Total AFS securities	624	(30	) 654
Other investments	1,847	—	1,847
OTTI losses	\$2,427	(77	) 2,504

The OTTI charges in Second Quarter 2014 and Six Months 2014 relate to equity securities for which we have the intent to sell. The majority of the OTTI charges in Six Months 2013 related to an investment in a limited liability company within our other investments portfolio that had sustained significant losses for which we did not anticipate recovery. 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:

	Quarter ended June 30,	
(\$ in thousands)	2014	2013
Balance, beginning of period	\$7,488	7,486
Addition for the amount related to credit loss for which an OTTI was not previously recognized	—	—
Reductions for securities sold during the period	(1,954	) —
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	—	2
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	—	—
Balance, end of period	\$5,534	7,488
	Six Months ended June 30,	
(\$ in thousands)	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	(1,954	) —
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	\$5,534	7,488

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

	Quarter ended June 30,		Six Months ended June 30,	
(\$ in thousands)	2014	2013	2014	2013
HTM fixed income securities				
Gains	\$3	3	3	3
Losses	(3	) (12	) (14	) (49
AFS fixed income securities				
Gains	780	967	938	1,918
Losses	(31	) (46	) (143	) (299
AFS equity securities				
Gains	4,362	4,800	12,679	10,471
Losses	(153	) (3	) (324	) (171
Other investments				
Gains	—	—	—	—

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

Losses	—	—	—	(860	)
Total other net realized investment gains	4,958	5,709	13,139	11,013	
Total OTTI charges recognized in earnings	(419	) (555	)(1,382	) (2,504	)
Total net realized gains	\$4,539	5,154	11,757	8,509	

Realized gains and losses on the sale of investments are determined on the basis of the cost of the specific investments sold. The \$5.0 million and \$13.1 million in net realized gains in Second Quarter and Six 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 \$5.7 million and \$11.0 million in net realized gains in Second Quarter and Six Months 2013, \$4.7 million related to the sale of a private equity security due to the acquisition of this investment by a third party. In addition, \$5.6 million in net realized gains in Six Months 2013 were related to the sale of AFS equity securities due to the rebalancing of our high dividend yield strategy holdings within our equity portfolio.

Proceeds from the sale of AFS securities were \$68.7 million in Second Quarter 2014 and \$131.6 million in Six Months 2014, and \$42.2 million and \$49.1 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 June 30, 2014 and December 31, 2013:

(\$ in thousands)	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Fixed income securities:				
HTM	\$364,938	385,502	392,879	416,981
AFS	3,890,200	3,890,200	3,715,536	3,715,536
Equity securities, AFS	211,348	211,348	192,771	192,771
Short-term investments	166,488	166,488	174,251	174,251
<b>Financial Liabilities</b>				
Notes payable:				
2.90% borrowings from FHLBI	13,000	13,165	13,000	13,319
1.25% borrowings from FHLBI	45,000	45,338	45,000	45,259
7.25% Senior Notes	49,895	55,527	49,916	50,887
6.70% Senior Notes	99,395	110,926	99,498	98,247
5.875% Senior Notes	185,000	174,714	185,000	146,298
Total notes payable	\$392,290	399,670	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 the majority of 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 June 30, 2014 and December 31, 2013:

June 30, 2014

Description (\$ in thousands)	Assets Measured at Fair Value at 6/30/2014	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	\$ 158,809	52,552	106,257	—
Foreign government	28,028	—	28,028	—
Obligations of states and political subdivisions	1,107,054	—	1,107,054	—
Corporate securities	1,782,593	—	1,782,593	—
ABS	132,169	—	132,169	—
CMBS	172,471	—	172,471	—
RMBS	509,076	—	509,076	—
Total AFS fixed income securities	3,890,200	52,552	3,837,648	—
Equity securities	211,348	208,448	—	2,900
Total AFS Securities	4,101,548	261,000	3,837,648	2,900
Short-term investments	166,488	166,488	—	—
Total assets measured at fair value	\$4,268,036	427,488	3,837,648	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 have been no changes in the fair value of securities measured using Level 3 prices during Six Months 2014. The following table provides a summary of these changes during 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 June 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 fair values of \$2.9 million were measured using Level 3 inputs at June 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 June 30, 2014 and December 31, 2013:

June 30, 2014		Fair Value Measurements Using Quoted Prices in		
(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 6/30/2014	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	\$5,519	—	5,519	—
Obligations of states and political subdivisions	346,724	—	346,724	—
Corporate securities	24,513	—	24,513	—
ABS	3,285	—	3,285	—
CMBS	5,461	—	5,461	—
Total HTM fixed income securities	\$385,502	—	385,502	—
<b>Financial Liabilities</b>				
<b>Notes payable:</b>				
2.90% borrowings from FHLBI	\$13,165	—	13,165	—
1.25% borrowings from FHLBI	45,338	—	45,338	—
7.25% Senior Notes	55,527	—	55,527	—
6.70% Senior Notes	110,926	—	110,926	—
5.875% Senior Notes	174,714	174,714	—	—
Total notes payable	\$399,670	174,714	224,956	—
December 31, 2013		Fair Value Measurements Using Quoted Prices in		
(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 12/31/2013	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 June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Premiums written:				
Direct	\$572,314	551,190	1,130,205	1,080,006
Assumed	5,837	4,378	13,687	12,860
Ceded	(98,328	) (93,391	)(187,319	) (180,565
Net	\$479,823	462,177	956,573	912,301
Premiums earned:				
Direct	\$544,913	504,081	1,081,613	998,147
Assumed	10,385	8,951	20,570	21,414
Ceded	(91,673	) (86,780	)(182,063	) (172,369
Net	\$463,625	426,252	920,120	847,192
Loss and loss expense incurred:				
Direct	\$332,707	338,954	691,056	704,600
Assumed	7,377	6,420	14,856	15,494
Ceded	(42,289	) (65,780	)(87,571	) (170,651
Net	\$297,795	279,594	618,341	549,443

The growth in direct premiums written ("DPW") for our ten insurance subsidiaries ("Insurance Subsidiaries") in both Second Quarter and Six Months 2014 compared to Second Quarter and Six Months 2013 reflects pure price increases and retention that we have achieved in our Standard Insurance Operations.

Direct premiums earned increases in Second Quarter 2014 and Six Months 2014 were consistent with the fluctuation in DPW for the twelve-month period ended June 30, 2014 as compared to the twelve-month period ended June 30, 2013.

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:

Ceded to NFIP (\$ in thousands)	Quarter ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Ceded premiums written	\$(65,775	) (62,461	)(123,078	) (119,168
Ceded premiums earned	(59,213	) (56,450	)(117,499	) (111,777
Ceded loss and loss expense incurred	(26,712	) (51,725	)(34,091	) (127,901

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 very 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 (\$ in thousands)	Quarter ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Standard Insurance Operations:				
Net premiums earned:				
Commercial automobile	\$83,472	76,706	165,688	151,053
Workers compensation	68,992	64,855	138,405	130,939
General liability	111,591	99,766	220,409	197,469
Commercial property	61,226	54,937	121,412	108,352
Businessowners' policies	21,279	18,625	42,148	37,165
Bonds	4,734	4,775	9,490	9,539
Other	3,213	2,993	6,396	5,985
Total Standard Commercial Lines	354,507	322,657	703,948	640,502
Personal automobile	38,022	38,526	76,248	76,919
Homeowners	33,576	31,702	66,874	62,837
Other	2,946	3,320	6,240	6,828
Total Standard Personal Lines	74,544	73,548	149,362	146,584
Total Standard Insurance Operations net premiums earned	429,051	396,205	853,310	787,086
Miscellaneous income	1,908	3,528	11,727	6,248
Total Standard Insurance Operations revenue	430,959	399,733	865,037	793,334
E&S Insurance Operations:				
Net premiums earned	34,574	30,047	66,810	60,106
Investments:				

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

Net investment income	36,774	34,003	72,308	66,873
Net realized investment gains	4,539	5,154	11,757	8,509
Total investment revenues	41,313	39,157	84,065	75,382
Total all segments	506,846	468,937	1,015,912	928,822
Other income	3	8	8	72
Total revenues from continuing operations	\$506,849	468,945	1,015,920	928,894

20

---





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

Service cost	\$1,626	1,857	—	—
Interest cost	3,253	3,051	73	69
Expected return on plan assets	(3,918	) (3,985	) —	—
Amortization of unrecognized net actuarial loss	368	772	13	17
Total net periodic cost	\$1,329	1,695	86	86

21

---

Table of Contents

(\$ in thousands)	Retirement Income Plan		Retirement Life Plan	
	Six Months ended June 30, 2014	2013	Six Months ended June 30, 2014	2013
Components of Net Periodic Benefit Cost:				
Net Periodic Benefit Cost:				
Service cost	\$3,253	4,306	—	—
Interest cost	6,507	6,354	146	139
Expected return on plan assets	(7,837	) (7,833	) —	—