

SELECTIVE INSURANCE GROUP INC  
Form 10-Q  
April 30, 2015  
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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: March 31, 2015  
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

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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 April 15, 2015, there were 56,948,239 shares of common stock, par value \$2.00 per share, outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

SELECTIVE INSURANCE GROUP, INC.  
CONSOLIDATED BALANCE SHEETS

	Unaudited	
	March 31, 2015	December 31, 2014
(\$ in thousands, except share amounts)		
<b>ASSETS</b>		
Investments:		
Fixed income securities, held-to-maturity – at carrying value (fair value: \$311,093 – 2015; \$333,961 – 2014)	\$296,557	318,137
Fixed income securities, available-for-sale – at fair value (amortized cost: \$4,059,034 – 2015; \$3,975,786 – 2014)	4,174,242	4,066,122
Equity securities, available-for-sale – at fair value (cost: \$199,617 – 2015; \$159,011 – 2014)	211,571	191,400
Short-term investments (at cost which approximates fair value)	124,376	131,972
Other investments	95,020	99,203
Total investments (Note 4)	4,901,766	4,806,834
Cash	14,804	23,959
Interest and dividends due or accrued	38,416	38,901
Premiums receivable, net of allowance for uncollectible accounts of: \$4,201 – 2015; \$4,137 – 2014	596,888	558,778
Reinsurance recoverables, net	574,982	581,548
Prepaid reinsurance premiums	141,941	146,993
Deferred federal income tax	92,061	98,449
Property and equipment – at cost, net of accumulated depreciation and amortization of: \$175,896 – 2015; \$172,183 – 2014	61,855	59,416
Deferred policy acquisition costs	191,956	185,608
Goodwill	7,849	7,849
Other assets	78,627	73,215
Total assets	\$6,701,145	6,581,550
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Reserve for loss and loss expenses	\$3,516,268	3,477,870
Unearned premiums	1,132,733	1,095,819
Notes payable	394,301	379,297
Current federal income tax	10,627	3,921
Accrued salaries and benefits	142,092	158,382
Other liabilities	189,186	190,675
Total liabilities	\$5,385,207	5,305,964
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		
Issued: 100,430,480 – 2015; 99,947,933 – 2014	200,861	199,896

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Additional paid-in capital	312,930	305,385
Retained earnings	1,345,035	1,313,440
Accumulated other comprehensive income (Note 10)	23,615	19,788
Treasury stock – at cost (shares: 43,482,438 – 2015; 43,353,181 – 2014)	(566,503	) (562,923
Total stockholders' equity	1,315,938	1,275,586
Commitments and contingencies		
Total liabilities and stockholders' equity	\$6,701,145	6,581,550

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (\$ in thousands, except per share amounts)	Quarter ended	
	March 31, 2015	2014
Revenues:		
Net premiums earned	\$476,123	456,495
Net investment income earned	26,917	35,534
Net realized gains:		
Net realized investment gains	20,977	8,181
Other-than-temporary impairments	(2,094	) (963
Other-than-temporary impairments on fixed income securities recognized in other comprehensive income	—	—
Total net realized gains	18,883	7,218
Other income	1,969	9,824
Total revenues	523,892	509,071
Expenses:		
Loss and loss expense incurred	284,999	320,546
Policy acquisition costs	164,723	149,266
Interest expense	5,479	5,561
Other expenses	12,401	8,614
Total expenses	467,602	483,987
Income before federal income tax	56,290	25,084
Federal income tax expense:		
Current	12,254	6,538
Deferred	4,328	572
Total federal income tax expense	16,582	7,110
Net income	\$39,708	17,974
Earnings per share:		
Basic net income	\$0.70	0.32
Diluted net income	\$0.69	0.31
Dividends to stockholders	\$0.14	0.13

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (\$ in thousands)	Quarter ended March 31,	
	2015	2014
Net income	\$39,708	17,974
Other comprehensive income, net of tax:		
Unrealized gains on investment securities:		
Unrealized holding gains arising during period	15,586	21,426
Amount reclassified into net income:		
Held-to-maturity securities	(170	) (296
Non-credit other-than-temporary impairments	232	—
Realized gains on available for sale securities	(12,932	) (4,699
Total unrealized gains on investment securities	2,716	16,431
Defined benefit pension and post-retirement plans:		
Amounts reclassified into net income:		
Net actuarial loss	1,111	247
Total defined benefit pension and post-retirement plans	1,111	247
Other comprehensive income	3,827	16,678
Comprehensive income	\$43,535	34,652

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



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## SELECTIVE INSURANCE GROUP, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Quarter ended March 31,

(\$ in thousands)	2015	2014
Common stock:		
Beginning of year	\$199,896	198,240
Dividend reinvestment plan (shares: 13,533 – 2015; 15,283 – 2014)	27	31
Stock purchase and compensation plans (shares: 469,014 – 2015; 401,179 – 2014)	938	802
End of period	200,861	199,073
Additional paid-in capital:		
Beginning of year	305,385	288,182
Dividend reinvestment plan	346	320
Stock purchase and compensation plans	7,199	5,863
End of period	312,930	294,365
Retained earnings:		
Beginning of year	1,313,440	1,202,015
Net income	39,708	17,974
Dividends to stockholders (\$0.14 per share – 2015; \$0.13 per share – 2014)	(8,113)	(7,412)
End of period	1,345,035	1,212,577
Accumulated other comprehensive income:		
Beginning of year	19,788	24,851
Other comprehensive income	3,827	16,678
End of period	23,615	41,529
Treasury stock:		
Beginning of year	(562,923)	(559,360)
Acquisition of treasury stock (shares: 129,257 – 2015; 118,876 – 2014)	(3,580)	(2,653)
End of period	(566,503)	(562,013)
Total stockholders' equity	\$1,315,938	1,185,531

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.

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW (\$ in thousands)	Quarter ended March 31,	
	2015	2014
Operating Activities		
Net income	\$39,708	17,974
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,041	10,578
Sale of renewal rights	—	(8,000 )
Stock-based compensation expense	3,681	4,176
Undistributed losses (gains) of equity method investments	3,541	(33 )
Net realized gains	(18,883 )	(7,218 )
Changes in assets and liabilities:		
Increase in reserve for loss and loss expenses, net of reinsurance recoverables	44,964	58,938
Increase in unearned premiums, net of prepaid reinsurance	41,966	20,254
Decrease in net federal income taxes	11,034	4,332
Increase in premiums receivable	(38,110 )	(29,042 )
Increase in deferred policy acquisition costs	(6,348 )	(4,697 )
Decrease in interest and dividends due or accrued	510	414
Decrease in accrued salaries and benefits	(16,290 )	(21,869 )
Decrease in accrued insurance expenses	(24,255 )	(26,957 )
Increase in other assets and other liabilities	5,015	16,914
Net adjustments	20,866	17,790
Net cash provided by operating activities	60,574	35,764
Investing Activities		
Purchase of fixed income securities, available-for-sale	(238,000 )	(182,809 )
Purchase of equity securities, available-for-sale	(150,500 )	(61,360 )
Purchase of other investments	(1,724 )	(4,615 )
Purchase of short-term investments	(333,550 )	(398,348 )
Sale of fixed income securities, available-for-sale	9,305	1,302
Sale of short-term investments	341,146	434,865
Redemption and maturities of fixed income securities, held-to-maturity	20,720	9,396
Redemption and maturities of fixed income securities, available-for-sale	145,661	104,358
Sale of equity securities, available-for-sale	129,052	61,523
Distributions from other investments	5,845	5,704
Purchase of property and equipment	(4,064 )	(5,699 )
Sale of renewal rights	—	8,000
Net cash used in investing activities	(76,109 )	(27,683 )
Financing Activities		
Dividends to stockholders	(7,591 )	(6,948 )
Acquisition of treasury stock	(3,580 )	(2,653 )
Net proceeds from stock purchase and compensation plans	2,271	1,261
Proceeds from borrowings	15,000	—
Excess tax benefits from share-based payment arrangements	1,398	770
Repayments of capital lease obligations	(1,118 )	(459 )
Net cash provided by (used in) financing activities	6,380	(8,029 )

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Net (decrease) increase in cash	(9,155	) 52
Cash, beginning of year	23,959	193
Cash, end of period	\$14,804	245

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

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Basis of Presentation

As used herein, the "Company," "we," "us," or "our" refers to Selective Insurance Group, Inc. (the "Parent"), and its subsidiaries, except as expressly indicated or unless the context otherwise requires. Our interim unaudited consolidated financial statements ("Financial Statements") have been prepared by us 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 the prior years' Financial Statements and related notes have been reclassified to conform to the 2015 presentation. Such reclassifications had no effect on our net income, stockholders' equity, or cash flows.

Our 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. Our Financial Statements cover the first quarters ended March 31, 2015 ("First Quarter 2015") and March 31, 2014 ("First Quarter 2014") and 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, our 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, 2014 ("2014 Annual Report") filed with the SEC.

NOTE 2. Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 requires that performance targets that affect vesting and could be achieved after the requisite service period be treated as performance conditions. The effective date for ASU 2014-12 is for interim and annual periods beginning after December 15, 2015. The adoption of ASU 2014-12 will not affect us, as we are currently recording expense consistent with the requirements of this accounting update.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 provides guidance about: (i) management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern; and (ii) the content of related footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods beginning in 2017. Early application is permitted. The adoption of this ASU is not expected to impact the Company.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 amends the current consolidation guidance, focusing mainly on the investment management industry, although entities across all industries will be impacted. The main provisions in this update affect the following areas: (i) limited partnerships and similar legal entities; (ii) the evaluation of fees paid to a decision maker or a service provider as a variable interest; (iii) the effect of fee arrangements on the primary beneficiary determination; (iv) the effect of related parties on the primary beneficiary determination; and (v) certain investment funds. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. While we are currently evaluating ASU 2015-02, we do not expect a material impact on our financial condition or results of operations from the adoption of this guidance.



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## NOTE 3. Statements of Cash Flow

Supplemental cash flow information for First Quarter 2015 and First Quarter 2014 is as follows:

(\$ in thousands)	Quarter ended March 31,	
	2015	2014
Cash paid during the period for:		
Interest	\$2,887	2,973
Federal income tax	4,000	2,000

## Non-cash items:

Tax-free exchange of fixed income securities, available-for-sale ("AFS")	8,586	—
Tax-free exchange of fixed income securities, held-to-maturity ("HTM")	—	15
Corporate actions related to equity securities, AFS <sup>1</sup>	389	—
Assets acquired under capital lease arrangements	2,428	1,419

<sup>1</sup>Examples of such corporate actions include non-cash acquisitions and stock splits.

Included in "Other assets" on the Consolidated Balance Sheet was \$6.0 million at March 31, 2015 and \$6.1 million at March 31, 2014 of cash received from the National Flood Insurance Program ("NFIP"), which is restricted to pay flood claims under the Write Your Own ("WYO") program.

## NOTE 4. 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 March 31, 2015 and December 31, 2014 were as follows:

March 31, 2015

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	\$5,292	25	5,317	21	—	5,338
Obligations of states and political subdivisions	264,788	1,706	266,494	10,536	—	277,030
Corporate securities	18,532	(269)	18,263	2,936	—	21,199
Asset-backed securities ("ABS")	2,483	(378)	2,105	375	—	2,480
Commercial mortgage-backed securities ("CMBS")	4,764	(386)	4,378	668	—	5,046
Total HTM fixed income securities	\$295,859	698	296,557	14,536	—	311,093

December 31, 2014

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	\$5,292	47	5,339	55	—	5,394
Obligations of states and political subdivisions	285,301	2,071	287,372	11,760	—	299,132

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Corporate securities	18,899	(273	)	18,626	2,796	—	21,422
ABS	2,818	(455	)	2,363	460	—	2,823
CMBS	4,869	(432	)	4,437	753	—	5,190
Total HTM fixed income securities	\$317,179	958		318,137	15,824	—	333,961

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 1.7 years as of March 31, 2015.

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(b) The cost/amortized cost, unrealized gains and losses, and fair value of AFS securities as of March 31, 2015 and December 31, 2014 were as follows:

March 31, 2015

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	\$112,146	7,342	(2	) 119,486
Foreign government	27,030	885	—	27,915
Obligations of states and political subdivisions	1,254,037	40,872	(534	) 1,294,375
Corporate securities	1,770,747	55,057	(1,539	) 1,824,265
ABS	184,278	1,214	(105	) 185,387
CMBS <sup>1</sup>	197,304	3,335	(128	) 200,511
Residential mortgage-backed securities ("RMBS <sup>2</sup> ")	513,492	9,991	(1,180	) 522,303
AFS fixed income securities	4,059,034	118,696	(3,488	) 4,174,242
AFS equity securities	199,617	15,223	(3,269	) 211,571
Total AFS securities	\$4,258,651	133,919	(6,757	) 4,385,813

December 31, 2014

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	\$116,666	7,592	(128	) 124,130
Foreign government	27,035	796	—	27,831
Obligations of states and political subdivisions	1,208,776	38,217	(729	) 1,246,264
Corporate securities	1,763,427	42,188	(5,809	) 1,799,806
ABS	176,837	760	(373	) 177,224
CMBS <sup>1</sup>	177,932	2,438	(777	) 179,593
RMBS <sup>2</sup>	505,113	8,587	(2,426	) 511,274
AFS fixed income securities	3,975,786	100,578	(10,242	) 4,066,122
AFS equity securities	159,011	32,725	(336	) 191,400
Total AFS securities	\$4,134,797	133,303	(10,578	) 4,257,522

<sup>1</sup> CMBS includes government guaranteed agency securities with a fair value of \$12.9 million at March 31, 2015 and \$13.2 million at December 31, 2014.

<sup>2</sup> RMBS includes government guaranteed agency securities with a fair value of \$29.2 million at March 31, 2015 and \$32.4 million at December 31, 2014.

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.



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(c) The following tables summarize, for all securities in a net unrealized/unrecognized loss position at March 31, 2015 and December 31, 2014, the fair value and pre-tax net unrealized/unrecognized loss by asset class and by length of time those securities have been in a net loss position:

March 31, 2015	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	\$—	—	398	(2 )
Obligations of states and political subdivisions	75,935	(534 )	—	—
Corporate securities	93,912	(821 )	50,858	(718 )
ABS	25,684	(16 )	14,353	(89 )
CMBS	24,664	(55 )	15,682	(73 )
RMBS	50,977	(189 )	75,521	(991 )
Total fixed income securities	271,172	(1,615 )	156,812	(1,873 )
Equity securities	100,209	(3,269 )	—	—
Subtotal	\$371,381	(4,884 )	156,812	(1,873 )

(\$ 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	197	(2 )	1	—	—	—
ABS	—	—	—	2,003	(379 )	361
Subtotal	\$197	(2 )	1	2,003	(379 )	361
Total AFS and HTM	\$371,578	(4,886 )	1	158,815	(2,252 )	361

December 31, 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	\$7,567	(13 )	10,866	(115 )
Obligations of states and political subdivisions	47,510	(105 )	64,018	(624 )
Corporate securities	276,648	(1,734 )	153,613	(4,075 )
ABS	113,202	(178 )	15,618	(195 )
CMBS	12,799	(34 )	59,219	(743 )
RMBS	3,399	(8 )	138,724	(2,418 )
Total fixed income securities	461,125	(2,072 )	442,058	(8,170 )
Equity securities	5,262	(336 )	—	—
Subtotal	\$466,387	(2,408 )	442,058	(8,170 )

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(\$ 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	\$ 196	(3	) 1	—	—	—
ABS	—	—	—	2,235	(455	) 439
Subtotal	196	(3	) 1	2,235	(455	) 439
Total AFS and HTM	\$466,583	(2,411	) 1	444,293	(8,625	) 439

<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 March 31, 2015 compared to December 31, 2014:

March 31, 2015			December 31, 2014		
Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss	Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss
189	80% - 99%	\$6,776	350	80% - 99%	\$10,596
—	60% - 79%	—	—	60% - 79%	—
—	40% - 59%	—	—	40% - 59%	—
—	20% - 39%	—	—	20% - 39%	—
—	0% - 19%	—	—	0% - 19%	—
		\$6,776			\$10,596

The improvement in the number of securities in a loss position in our portfolio and the related loss amounts was mainly driven by a lower interest rate environment. During First Quarter 2015, interest rates on the 10-year U.S. Treasury Note fell by 25 basis points. This interest rate movement had a positive impact on the valuation of our fixed income securities portfolio, thus decreasing the number of securities in a loss position and the corresponding dollar amount of unrealized losses. 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 2014 Annual Report. Partially offsetting the improvement in fixed income securities was an increase in unrealized losses on our equity portfolio. Unrealized losses of \$3.3 million on this portfolio related to 28 securities with an average impairment severity of 3% of cost. The temporary dislocation in market value on these securities was driven by energy and utility-related holdings that are expected to recover in the near term.

We do not intend to sell any of the securities in the tables above, nor do we believe we will be required to sell any of these securities. We have also reviewed these securities under our OTTI policy, as described in Note 2. "Summary of Significant Accounting Policies" within Item 8. "Financial Statements and Supplementary Data." of our 2014 Annual Report, and have concluded that they are temporarily impaired. 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.



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(d) Fixed income securities at March 31, 2015, 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 the contractual maturities of HTM fixed income securities at March 31, 2015:

(\$ in thousands)	Carrying Value	Fair Value
Due in one year or less	\$124,997	126,670
Due after one year through five years	160,671	171,337
Due after five years through 10 years	10,889	13,086
Total HTM fixed income securities	\$296,557	311,093

Listed below are the contractual maturities of AFS fixed income securities at March 31, 2015:

(\$ in thousands)	Fair Value
Due in one year or less	\$416,983
Due after one year through five years	2,067,679
Due after five years through 10 years	1,605,398
Due after 10 years	84,182
Total AFS fixed income securities	\$4,174,242

(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		March 31, 2015
	March 31, 2015	December 31, 2014	Remaining Commitment
Alternative Investments			
Secondary private equity	\$20,208	21,807	7,040
Private equity	17,519	20,126	8,879
Energy/power generation	12,393	14,445	21,905
Real estate	11,986	11,452	10,016
Mezzanine financing	8,363	9,853	13,598
Distressed debt	7,569	8,679	2,982
Venture capital	6,236	6,606	350
Total alternative investments	84,274	92,968	64,770
Other securities	10,746	6,235	2,001
Total other investments	\$95,020	99,203	66,771

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 2014 Annual Report.

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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-month periods ended December 31 is as follows:

Income Statement Information (\$ in millions)	Quarter ended December 31,	
	2014	2013
Net investment income	\$77.0	65.1
Realized gains	160.5	63.3
Net change in unrealized (depreciation) appreciation	(518.0	) 505.9
Net (loss) income	\$(280.5	) 634.3
Selective's insurance subsidiaries' other investments (loss) income	\$(3.5	) 5.2

(f) We have pledged certain AFS fixed income securities as collateral related to: (i) our outstanding borrowing of \$60 million with the Federal Home Loan Bank of Indianapolis ("FHLBI"); and (ii) our reinsurance obligations related to our 2011 acquisition of our excess and surplus lines ("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 March 31, 2015:

(\$ in millions)	FHLBI Collateral	Reinsurance Collateral	State and Regulatory Deposits	Total
U.S. government and government agencies	\$7.7	—	25.2	32.9
Obligations of states and political subdivisions	—	5.0	—	5.0
Corporate securities	—	4.8	—	4.8
ABS	—	1.0	—	1.0
CMBS	1.7	—	—	1.7
RMBS	54.6	2.2	—	56.8
Total pledged as collateral	\$64.0	13.0	25.2	102.2

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

(\$ in thousands)	Quarter ended March 31,	
	2015	2014
Fixed income securities	\$30,967	31,028
Equity securities	1,792	1,449
Short-term investments	25	19
Other investments	(3,540	) 5,218
Investment expenses	(2,327	) (2,180
Net investment income earned	\$26,917	35,534

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

First Quarter 2015		Included in Other Comprehensive Income ("OCI")	Recognized in Earnings
(\$ in thousands)	Gross		
AFS fixed income securities			
Corporate securities	\$1,009	—	1,009
RMBS	1	—	1
Total AFS fixed income securities	1,010	—	1,010
AFS equity securities	\$1,084	—	1,084
OTTI losses	\$2,094	—	2,094
First Quarter 2014		Included in OCI	Recognized in Earnings
(\$ in thousands)	Gross		
AFS securities			
Equity securities	\$963	—	963
OTTI losses	\$963	—	963

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 2014 Annual Report.

The following table 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 March 31,	
	2015	2014
Balance, beginning of period	\$5,444	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	(4,431	) —
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	—	—
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	1,013	7,488

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

(\$ in thousands)	Quarter ended March 31,	
	2015	2014
HTM fixed income securities		
Gains	\$—	—
Losses	(1	) (11
AFS fixed income securities		
Gains	1,502	158
Losses	(112	) (112
AFS equity securities		
Gains	21,318	8,317
Losses	(1,076	) (171
Other investments		
Gains	—	—
Losses	(654	) —
Total net realized gains (excluding OTTI charges)	\$20,977	8,181

Realized gains and losses on the sale of investments are determined on the basis of the cost of the specific investments sold. Proceeds from the sale of AFS securities were \$138.4 million in First Quarter 2015 and \$62.8 million in First Quarter 2014. The \$21.0 million in net realized gains in First Quarter 2015 were primarily related to the sale of AFS equity securities due to a change in our dividend equity strategy from a quantitative, model-driven stock selection strategy to a fundamentally-based stock selection approach that incorporates an assessment of the sustainability and growth rate of a company's dividends and future cash flow. The \$8.2 million in net realized gains in First Quarter 2014 was primarily related to the sale of AFS equity securities due to the quantitative rebalancing of our dividend yield strategy holdings.

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## NOTE 5. Indebtedness

Of our ten insurance subsidiaries ("Insurance Subsidiaries"), we have two domiciled in Indiana ("Indiana Subsidiaries") that are members of the FHLBI. In January 2015, the Indiana Subsidiaries borrowed \$15 million in the aggregate from the FHLBI for general corporate purposes. The unpaid principal amount accrues interest of 0.63%, which is paid on the 15th of every month. The principal amount is due on July 22, 2016. For a summary of the Indiana Subsidiaries' borrowings from the FHLBI, refer to Note 10. "Indebtedness" in Item 8. "Financial Statements and Supplementary Data." of our 2014 Annual Report.

## NOTE 6. Fair Value Measurements

The following table presents the carrying amounts and estimated fair values of our financial instruments as of March 31, 2015 and December 31, 2014:

(\$ in thousands)	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Fixed income securities:				
HTM	\$296,557	311,093	318,137	333,961
AFS	4,174,242	4,174,242	4,066,122	4,066,122
Equity securities, AFS	211,571	211,571	191,400	191,400
Short-term investments	124,376	124,376	131,972	131,972
<b>Financial Liabilities</b>				
Notes payable:				
0.63% borrowings from FHLBI	15,000	14,994	—	—
1.25% borrowings from FHLBI	45,000	45,338	45,000	45,244
7.25% Senior Notes	49,896	60,407	49,896	59,181
6.70% Senior Notes	99,405	117,389	99,401	114,845
5.875% Senior Notes	185,000	189,440	185,000	185,000
Total notes payable	\$394,301			