

SELECTIVE INSURANCE GROUP INC
Form 10-Q
October 29, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended: September 30, 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 October 15, 2015, there were 57,195,450 shares of common stock, par value \$2.00 per share, outstanding.

Table of Contents

SELECTIVE INSURANCE GROUP, INC.
Table of Contents

Page No.

PART I. FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets as of September 30, 2015 (Unaudited) and December 31, 2014</u>	<u>1</u>
	<u>Unaudited Consolidated Statements of Income for the Quarter and Nine Months Ended September 30, 2015 and 2014</u>	<u>2</u>
	<u>Unaudited Consolidated Statements of Comprehensive Income for the Quarter and Nine Months Ended September 30, 2015 and 2014</u>	<u>3</u>
	<u>Unaudited Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2015 and 2014</u>	<u>4</u>
	<u>Unaudited Consolidated Statements of Cash Flow for the Nine Months Ended September 30, 2015 and 2014</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>28</u>
	<u>Introduction</u>	<u>28</u>
	<u>Critical Accounting Policies and Estimates</u>	<u>29</u>
	<u>Financial Highlights of Results for Third Quarter and Nine Months 2015 and Third Quarter and Nine Months 2014</u>	<u>29</u>
	<u>Results of Operations and Related Information by Segment</u>	<u>33</u>
	<u>Federal Income Taxes</u>	<u>45</u>
	<u>Financial Condition, Liquidity, Short-term Borrowings, and Capital Resources</u>	<u>45</u>
	<u>Ratings</u>	<u>48</u>
	<u>Off-Balance Sheet Arrangements</u>	<u>48</u>
	<u>Contractual Obligations, Contingent Liabilities, and Commitments</u>	<u>48</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>49</u>

PART II. OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>50</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>50</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>52</u>
<u>Signatures</u>		<u>53</u>

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

	Unaudited	
	September 30, 2015	December 31, 2014
(\$ in thousands, except share amounts)		
ASSETS		
Investments:		
Fixed income securities, held-to-maturity – at carrying value (fair value: \$240,388 – 2015; \$333,961 – 2014)	\$229,869	318,137
Fixed income securities, available-for-sale – at fair value (amortized cost: \$4,273,771 – 2015; \$3,975,786 – 2014)	4,351,046	4,066,122
Equity securities, available-for-sale – at fair value (cost: \$220,820 – 2015; \$159,011 – 2014)	221,951	191,400
Short-term investments (at cost which approximates fair value)	125,855	131,972
Other investments	85,146	99,203
Total investments (Note 4)	5,013,867	4,806,834
Cash	15,113	23,959
Interest and dividends due or accrued	38,009	38,901
Premiums receivable, net of allowance for uncollectible accounts of: \$4,612 – 2015; \$4,137 – 2014	653,966	558,778
Reinsurance recoverables, net	561,364	581,548
Prepaid reinsurance premiums	148,634	146,993
Deferred federal income tax	93,062	98,449
Property and equipment – at cost, net of accumulated depreciation and amortization of: \$184,406 – 2015; \$172,183 – 2014	65,657	59,416
Deferred policy acquisition costs	213,666	185,608
Goodwill	7,849	7,849
Other assets	86,930	73,215
Total assets	\$6,898,117	6,581,550
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Reserve for loss and loss expenses	\$3,517,751	3,477,870
Unearned premiums	1,218,884	1,095,819
Notes payable	394,309	379,297
Current federal income tax	12,607	3,921
Accrued salaries and benefits	158,044	158,382
Other liabilities	237,500	190,675
Total liabilities	\$5,539,095	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: 100,673,864 – 2015; 99,947,933 – 2014	201,348	199,896

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Additional paid-in capital	320,987	305,385
Retained earnings	1,409,536	1,313,440
Accumulated other comprehensive (loss) income (Note 10)	(6,039	) 19,788
Treasury stock – at cost (shares: 43,492,212 – 2015; 43,353,181 – 2014)	(566,810	) (562,923
Total stockholders' equity	\$1,359,022	1,275,586
Commitments and contingencies		
Total liabilities and stockholders' equity	\$6,898,117	6,581,550

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

1

Table of Contents

SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (\$ in thousands, except per share amounts)	Quarter ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Revenues:				
Net premiums earned	\$507,390	462,639	1,473,822	1,382,759
Net investment income earned	32,061	34,292	91,208	106,600
Net realized gains:				
Net realized investment gains	1,590	15,231	23,598	28,370
Other-than-temporary impairments	(1,282	) —	(7,827	) (1,382
Total net realized gains	308	15,231	15,771	26,988
Other income	698	3,196	5,521	14,931
Total revenues	540,457	515,358	1,586,322	1,531,278
Expenses:				
Loss and loss expense incurred	285,161	270,932	861,721	889,273
Policy acquisition costs	174,802	158,101	509,295	462,540
Interest expense	5,489	5,558	16,458	16,544
Other expenses	9,166	5,441	29,954	22,990
Total expenses	474,618	440,032	1,417,428	1,391,347
Income before federal income tax	65,839	75,326	168,894	139,931
Federal income tax expense:				
Current	9,141	7,373	29,128	22,692
Deferred	9,702	14,791	19,294	16,762
Total federal income tax expense	18,843	22,164	48,422	39,454
Net income	\$46,996	53,162	120,472	100,477
Earnings per share:				
Basic net income	\$0.82	0.94	2.11	1.79
Diluted net income	\$0.81	0.93	2.08	1.75
Dividends to stockholders	\$0.14	0.13	0.42	0.39

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 COMPREHENSIVE INCOME (\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Net income	\$46,996	53,162	120,472	100,477
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) arising during period	5,442	(8,988	) (18,132	) 41,767
Amount reclassified into net income:				
Held-to-maturity securities	(63	) (243	) (353	) (683
Non-credit other-than-temporary impairments	—	780	232	1,085
Realized gains on available-for-sale securities	(199	) (10,683	) (10,906	) (18,637
Total unrealized gains (losses) on investment securities	5,180	(19,134	) (29,159	) 23,532
Defined benefit pension and post-retirement plans:				
Amounts reclassified into net income:				
Net actuarial loss	1,110	247	3,332	742
Total defined benefit pension and post-retirement plans	1,110	247	3,332	742
Other comprehensive income (loss)	6,290	(18,887	) (25,827	) 24,274
Comprehensive income	\$53,286	34,275	94,645	124,751

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

Table of Contents

SELECTIVE INSURANCE GROUP, INC.		Nine Months ended September 30,	
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY		2015	2014
(\$ in thousands)			
Common stock:			
Beginning of year		\$199,896	198,240
Dividend reinvestment plan (shares: 38,947 – 2015; 44,322 – 2014)		78	89
Stock purchase and compensation plans (shares: 686,984 – 2015; 588,858 – 2014)		1,374	1,178
End of period		201,348	199,507
Additional paid-in capital:			
Beginning of year		305,385	288,182
Dividend reinvestment plan		1,014	957
Stock purchase and compensation plans		14,588	11,286
End of period		320,987	300,425
Retained earnings:			
Beginning of year		1,313,440	1,202,015
Net income		120,472	100,477
Dividends to stockholders (\$0.42 per share – 2015; \$0.39 per share – 2014)		(24,376)	(22,344)
End of period		1,409,536	1,280,148
Accumulated other comprehensive (loss) income:			
Beginning of year		19,788	24,851
Other comprehensive (loss) income		(25,827)	24,274
End of period		(6,039)	49,125
Treasury stock:			
Beginning of year		(562,923)	(559,360)
Acquisition of treasury stock (shares: 139,031 – 2015; 130,573 – 2014)		(3,887)	(2,920)
End of period		(566,810)	(562,280)
Total stockholders' equity		\$1,359,022	1,266,925

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

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

Table of Contents

SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW (\$ in thousands)	Nine Months ended September 30,	
	2015	2014
Operating Activities		
Net income	\$120,472	100,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43,868	31,059
Sale of renewal rights	—	(8,000)
Stock-based compensation expense	7,626	7,421
Undistributed losses (gains) of equity method investments	781	(131)
Net realized gains	(15,771)	(26,988)
Changes in assets and liabilities:		
Increase in reserve for loss and loss expenses, net of reinsurance recoverables	60,065	86,887
Increase in unearned premiums, net of prepaid reinsurance	121,424	68,935
Decrease in net federal income taxes	27,980	33,596
Increase in premiums receivable	(95,188)	(66,816)
Increase in deferred policy acquisition costs	(28,058)	(16,700)
Decrease (increase) in interest and dividends due or accrued	979	(82)
Decrease in accrued salaries and benefits	(338)	(13,958)
Increase (decrease) in accrued insurance expenses	7,154	(12,545)
Increase (decrease) in other assets and other liabilities	8,039	(25,036)
Net adjustments	138,561	57,642
Net cash provided by operating activities	259,033	158,119
Investing Activities		
Purchase of fixed income securities, available-for-sale	(731,154)	(560,493)
Purchase of equity securities, available-for-sale	(192,717)	(185,529)
Purchase of other investments	(6,589)	(8,498)
Purchase of short-term investments	(1,084,794)	(1,082,192)
Sale of fixed income securities, available-for-sale	22,323	35,499
Sale of short-term investments	1,090,911	1,074,850
Redemption and maturities of fixed income securities, held-to-maturity	79,972	56,375
Redemption and maturities of fixed income securities, available-for-sale	403,510	336,939
Sale of equity securities, available-for-sale	148,228	186,001
Distributions from other investments	22,038	13,514
Purchase of property and equipment	(11,869)	(9,178)
Sale of renewal rights	—	8,000
Net cash used in investing activities	(260,141)	(134,712)
Financing Activities		
Dividends to stockholders	(22,848)	(20,899)
Acquisition of treasury stock	(3,887)	(2,920)
Net proceeds from stock purchase and compensation plans	6,016	3,554
Proceeds from borrowings	15,000	—
Excess tax benefits from share-based payment arrangements	1,498	1,024
Repayments of capital lease obligations	(3,517)	(1,858)
Net cash used in financing activities	(7,738)	(21,099)

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Net (decrease) increase in cash	(8,846) 2,308
Cash, beginning of year	23,959	193
Cash, end of period	\$15,113	2,501

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

5

Table of Contents

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 U.S. generally accepted accounting principles ("GAAP") and 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.

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 third quarters ended September 30, 2015 ("Third Quarter 2015") and September 30, 2014 ("Third Quarter 2014") and the nine-month periods ended September 30, 2015 ("Nine Months 2015") and September 30, 2014 ("Nine Months 2014"). 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, 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 amendments in ASU 2014-12 may be applied either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and all modified awards thereafter. 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 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. As the requirements of this literature are disclosure only, ASU 2014-15 will not impact our financial condition or results of operations.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 affects 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. The amendments in ASU 2015-02 may be applied either retrospectively or by applying a modified retrospective approach, which would include recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. 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.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires debt issuance costs to be netted against the related debt liability in the balance sheet rather than presented as a separate asset. However, ASU 2015-03 does not address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Therefore, in August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (“ASU 2015-15”). ASU 2015-15 clarifies that, in the absence of authoritative guidance on line-of-credit arrangements within ASU 2015-03, the SEC would not object to the deferral and presentation of debt issuance costs as an asset and the subsequent amortization of the deferred costs over the term of the line-of-credit arrangement.

Table of Contents

ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted, and should be applied on a retrospective basis. As the requirement of ASU 2015-03 is disclosure only, the adoption of this guidance will not impact our financial condition or results of operations.

ASU 2015-15 is effective upon adoption of ASU 2015-03. While we are currently evaluating ASU 2015-15, we do not expect a material impact on our financial condition or results of operations from the adoption of this guidance.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"). ASU 2015-05 provides guidance to customers with cloud computing arrangements that include a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The amendments in ASU 2015-05 can be adopted either prospectively, to all arrangements entered into or materially modified after the effective date, or retrospectively. While we are currently evaluating ASU 2015-05, we do not expect a material impact on our financial condition or results of operations from the adoption of this guidance.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) ("ASU 2015-07"). ASU 2015-07 provides guidance that investments for which the practical expedient is used to measure fair value at net asset value per share ("NAV") must be removed from the fair value hierarchy. Instead, those investments must be included as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. ASU 2015-07 also includes disclosure requirements for investments for which the NAV practical expedient was used to determine fair value. ASU 2015-07 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The amendments in ASU 2015-07 should be applied retrospectively to all periods presented. As the requirements of this literature are disclosure only, the application of this guidance will not impact our financial condition or results of operations.

In May 2015, the FASB issued ASU 2015-09, Disclosures about Short-Duration Contracts ("ASU 2015-09"). ASU 2015-09 requires companies that issue short duration contracts to disclose additional information, including: (i) incurred and paid claims development tables; (ii) frequency and severity of claims; and (iii) information about material changes in judgments made in calculating the liability for unpaid claim adjustment expenses, including reasons for the change and the effects on the financial statements. ASU 2015-09 is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. The amendments in ASU 2015-09 should be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. As the requirements of this literature are disclosure only, the application of this guidance will not impact our financial condition or results of operations.

NOTE 3. Statements of Cash Flow

Supplemental cash flow information is as follows:

(\$ in thousands)	Nine Months ended September 30,	
	2015	2014
Cash paid during the period for:		
Interest	\$ 13,843	14,089
Federal income tax	18,500	4,699

Non-cash items:

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Tax-free exchange of fixed income securities, available-for-sale ("AFS")	35,425	14,954
Tax-free exchange of fixed income securities, held-to-maturity ("HTM")	10,045	4,288
Corporate actions related to equity securities, AFS ¹	4,239	334
Assets acquired under capital lease arrangements	6,933	4,853

¹Examples of such corporate actions include non-cash acquisitions and stock splits.

Included in "Other assets" on the Consolidated Balance Sheet was \$9.9 million at September 30, 2015 and \$8.1 million at September 30, 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.

7

Table of Contents

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 September 30, 2015 and December 31, 2014 were as follows:

September 30, 2015

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Obligations of states and political subdivisions	\$205,443	1,108	206,551	7,423	—	213,974
Corporate securities	18,147	(241)	17,906	2,467	—	20,373
Asset-backed securities (“ABS”)	1,209	(157)	1,052	158	—	1,210
Commercial mortgage-backed securities (“CMBS”)	4,656	(296)	4,360	471	—	4,831
Total HTM fixed income securities	\$229,455	414	229,869	10,519	—	240,388

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
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 1.5 years as of September 30, 2015.

Table of Contents

(b) The cost/amortized cost, unrealized gains and losses, and fair value of AFS securities as of September 30, 2015 and December 31, 2014 were as follows:

September 30, 2015

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AFS fixed income securities:				
U.S. government and government agencies	\$ 109,062	6,069	(1	) 115,130
Foreign government	19,030	657	—	19,687
Obligations of states and political subdivisions	1,303,188	35,552	(545	) 1,338,195
Corporate securities	1,859,834	35,222	(8,882	) 1,886,174
ABS	255,716	1,312	(105	) 256,923
CMBS ¹	220,009	2,450	(457	) 222,002
Residential mortgage-backed securities ("RMBS" ²)	506,932	7,400	(1,397	) 512,935
Total AFS fixed income securities	4,273,771	88,662	(11,387	) 4,351,046
AFS equity securities:				
Common stock	208,995	13,542	(12,340	) 210,197
Preferred stock	11,825	46	(117	) 11,754
Total AFS equity securities	220,820	13,588	(12,457	) 221,951
Total AFS securities	\$4,494,591	102,250	(23,844	) 4,572,997

December 31, 2014

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AFS fixed income securities:				
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 ¹	177,932	2,438	(777	) 179,593
RMBS ²	505,113	8,587	(2,426	) 511,274
Total AFS fixed income securities	3,975,786	100,578	(10,242	) 4,066,122
AFS equity securities:				
Common stock	159,011	32,725	(336	) 191,400
Total AFS equity securities	159,011	32,725	(336	) 191,400
Total AFS securities	\$4,134,797	133,303	(10,578	) 4,257,522

¹ CMBS includes government guaranteed agency securities with a fair value of \$7.4 million at September 30, 2015 and \$13.2 million at December 31, 2014.

² RMBS includes government guaranteed agency securities with a fair value of \$22.5 million at September 30, 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 (loss) income ("AOCI") on the Consolidated Balance Sheets.

Table of Contents

(c) The following tables summarize, for all securities in a net unrealized/unrecognized loss position at September 30, 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:

September 30, 2015	Less than 12 months		12 months or longer	
(\$ in thousands)	Fair Value	Unrealized Losses ¹	Fair Value	Unrealized Losses ¹
AFS fixed income securities:				
U.S. government and government agencies	\$—	—	399	(1)
Obligations of states and political subdivisions	96,861	(545)	—	—
Corporate securities	430,481	(7,187)	50,552	(1,695)
ABS	55,856	(71)	12,530	(34)
CMBS	59,004	(367)	15,561	(90)
RMBS	95,254	(457)	65,417	(940)
Total AFS fixed income securities	737,456	(8,627)	144,459	(2,760)
AFS equity securities:				
Common stock	133,601	(12,340)	—	—
Preferred stock	8,562	(117)	—	—
Total AFS equity securities	142,163	(12,457)	—	—
Subtotal	\$879,619	(21,084)	144,459	(2,760)

(\$ in thousands)	Less than 12 months			12 months or longer		
	Fair Value	Unrealized Losses ¹	Unrecognized Gains ²	Fair Value	Unrealized Losses ¹	Unrecognized Gains ²
HTM securities:						
ABS	\$—	—	—	942	(157)	153
Subtotal	\$—	—	—	942	(157)	153
Total AFS and HTM	\$879,619	(21,084)	—	145,401	(2,917)	153

December 31, 2014	Less than 12 months		12 months or longer	
(\$ in thousands)	Fair Value	Unrealized Losses ¹	Fair Value	Unrealized Losses ¹
AFS fixed income 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 AFS fixed income securities	461,125	(2,072)	442,058	(8,170)
AFS equity securities:				
Common stock	5,262	(336)	—	—
Total AFS equity securities	5,262	(336)	—	—
Subtotal	\$466,387	(2,408)	442,058	(8,170)

Table of Contents

(\$ in thousands)	Less than 12 months			12 months or longer		
	Fair Value	Unrealized Losses ¹	Unrecognized Gains ²	Fair Value	Unrealized Losses ¹	Unrecognized Gains ²
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

¹ 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.

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

The table below provides our net unrealized/unrecognized loss positions by impairment severity as of September 30, 2015 compared with December 31, 2014:

September 30, 2015			December 31, 2014		
Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss	Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss
389	80% - 99%	\$21,841	350	80% - 99%	\$10,596
4	60% - 79%	2,007	—	60% - 79%	—
—	40% - 59%	—	—	40% - 59%	—
—	20% - 39%	—	—	20% - 39%	—
—	0% - 19%	—	—	0% - 19%	—
		\$23,848			\$10,596

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.

Table of Contents

(d) Fixed income securities at September 30, 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 September 30, 2015:

(\$ in thousands)	Carrying Value	Fair Value
Due in one year or less	\$102,507	103,945
Due after one year through five years	116,833	123,960
Due after five years through 10 years	10,529	12,483
Total HTM fixed income securities	\$229,869	240,388

Listed below are the contractual maturities of AFS fixed income securities at September 30, 2015:

(\$ in thousands)	Fair Value
Due in one year or less	\$501,398
Due after one year through five years	2,180,671
Due after five years through 10 years	1,589,038
Due after 10 years	79,939
Total AFS fixed income securities	\$4,351,046

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

Other Investments (\$ in thousands)	Carrying Value		September 30, 2015
	September 30, 2015	December 31, 2014	Remaining Commitment
Alternative Investments			
Secondary private equity	\$17,503	21,807	7,095
Private equity	15,792	20,126	23,826
Energy/power generation	11,643	14,445	16,857
Real estate	8,854	11,452	9,919
Mezzanine financing	6,948	9,853	13,383
Distressed debt	6,889	8,679	3,048
Venture capital	6,539	6,606	150
Total alternative investments	74,168	92,968	74,278
Other securities	10,978	6,235	2,269
Total other investments	\$85,146	99,203	76,547

For a full 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.

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

Income Statement Information (\$ in millions)	Quarter ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014

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Net investment income	\$44.1	81.3	\$139.6	167.0
Realized gains (losses)	385.2	(26.1) 977.7	171.5
Net change in unrealized (depreciation) appreciation	(222.2	) 628.6	(1,089.0	) 1,471.0
Net income	\$207.1	683.8	\$28.3	1,809.5
Selective's insurance subsidiaries' other investments income (loss)	\$1.3	3.9	\$(0.8	) 12.7

12

Table of Contents

(f) We have pledged certain AFS fixed income securities as collateral related to our: (i) outstanding borrowing of \$60 million with the Federal Home Loan Bank of Indianapolis ("FHLBI"); and (ii) 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 September 30, 2015:

(\$ in millions)	FHLBI Collateral	Reinsurance Collateral	State and Regulatory Deposits	Total
U.S. government and government agencies	\$7.7	—	24.4	32.1
Obligations of states and political subdivisions	—	5.0	—	5.0
Corporate securities	—	4.8	—	4.8
CMBS	1.4	—	—	1.4
RMBS	55.5	1.9	—	57.4
Total pledged as collateral	\$64.6	11.7	24.4	100.7

(g) The Company did not have exposure to any credit concentration risk of a single issuer greater than 10% of the Company's stockholders' equity, other than certain U.S. government agencies, as of September 30, 2015 or December 31, 2014.

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

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Fixed income securities	\$30,601	30,706	\$92,227	95,515
Equity securities	2,370	1,909	6,546	5,094
Short-term investments	24	15	72	48
Other investments	1,337	3,906	(781	) 12,677
Investment expenses	(2,271	) (2,244	) (6,856	) (6,734
Net investment income earned	\$32,061	34,292	\$91,208	106,600

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

Third Quarter 2015 (\$ in thousands)	Gross	Included in Other Comprehensive Income ("OCI")	Recognized in Earnings
AFS fixed income securities:			
Corporate securities	\$253	—	253
Total AFS fixed income securities	253	—	253
AFS equity securities:			
Common stock	1,029	—	1,029
Total AFS equity securities	1,029	—	1,029
Total OTTI losses	\$1,282	—	1,282

Table of Contents