SELECTIVE INSURANCE GROUP INC
Form 10-Q
August 01, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended: June 30, 2013
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 Organization)	(I.R.S. Employer Identification No.)

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

(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.
Yesx No o

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).
Yesx No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of June 30, 2013, there were 55,728,510 shares of common stock, par value $2.00 per share, outstanding.

Table of Contents

SELECTIVE INSURANCE GROUP, INC.
Table of Contents

PART II. OTHER INFORMATION

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SELECTIVE INSURANCE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

($ in thousands, except share amounts)	Unaudited June 30, 2013	December 31, 2012
ASSETS		
Investments:		
Fixed maturity securities, held-to-maturity – at carrying value (fair value: $507,625 – 2013; $594,661 – 2012)	$479,507	554,069
Fixed maturity securities, available-for-sale – at fair value (amortized cost: $3,363,994 – 2013; $3,130,683 – 2012)	3,419,811	3,296,013
Equity securities, available-for-sale – at fair value (cost: $142,434 – 2013; $132,441 – 2012)	172,064	151,382
Short-term investments (at cost which approximates fair value)	186,499	214,479
Other investments	109,077	114,076
Total investments (Note 5)	4,366,958	4,330,019
Cash	154	210
Interest and dividends due or accrued	36,376	35,984
Premiums receivable, net of allowance for uncollectible accounts of: $4,478 – 2013; $3,906 – 2012	568,523	484,388
Reinsurance recoverables, net	552,488	1,421,109
Prepaid reinsurance premiums	140,833	132,637
Current federal income tax	1,904	2,569
Deferred federal income tax	135,886	119,136
Property and equipment – at cost, net of accumulated depreciation and amortization of: $174,226 – 2013; $169,428 – 2012	48,841	47,131
Deferred policy acquisition costs	165,078	155,523
Goodwill	7,849	7,849
Other assets	87,737	57,661
Total assets	$6,112,627	6,794,216
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Reserve for loss and loss expenses	$3,270,114	4,068,941
Unearned premiums	1,048,011	974,706
Notes payable (Note 9)	392,400	307,387
Accrued salaries and benefits	102,223	152,396
Other liabilities	200,834	200,194
Total liabilities	$5,013,582	5,703,624
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: 98,910,399 – 2013; 98,194,224 – 2012	197,821	196,388

Additional paid-in capital	282,014	270,654
Retained earnings	1,158,861	1,125,154
Accumulated other comprehensive income (Note 11)	19,278	54,040
Treasury stock – at cost (shares: 43,181,889 – 2013; 43,030,776 – 2012)	(558,929)	(555,644)
Total stockholders' equity	1,099,045	1,090,592
Commitments and contingencies (Note 14)		
Total liabilities and stockholders' equity	$6,112,627	6,794,216

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

1

SELECTIVE INSURANCE GROUP, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME	Quarter ended June 30,		Six Months ended June 30,	
($ in thousands, except per share amounts)	2013	2012	2013	2012
Revenues:				
Net premiums earned	$426,252	392,212	847,192	771,041
Net investment income earned	34,003	34,006	66,873	66,634
Net realized gains:				
Net realized investment gains	5,709	272	11,013	5,051
Other-than-temporary impairments	(508)	(40)	(2,427)	(297)
Other-than-temporary impairments on fixed maturity securities recognized in other comprehensive income	(47)	(54)	(77)	(218)
Total net realized gains	5,154	178	8,509	4,536
Other income	3,536	2,511	6,320	6,044
Total revenues	468,945	428,907	928,894	848,255
Expenses:				
Loss and loss expense incurred	279,594	287,903	549,443	540,809
Policy acquisition costs	143,728	131,219	283,256	259,177
Interest expense	5,570	4,723	11,401	9,423
Other expenses	3,852	5,754	19,725	16,347
Total expenses	432,744	429,599	863,825	825,756
Income (loss) from continuing operations, before federal income tax	36,201	(692)	65,069	22,499
Federal income tax expense (benefit):				
Current	6,221	(500)	13,674	6,678
Deferred	2,858	(480)	1,968	(2,560)
Total federal income tax expense (benefit)	9,079	(980)	15,642	4,118
Net income from continuing operations	27,122	288	49,427	18,381
Loss on disposal of discontinued operations, net of tax of $(538)	—	—	(997)	—
Net income	$27,122	288	48,430	18,381
Earnings per share:				
Basic net income from continuing operations	$0.49	0.01	0.89	0.34
Basic net loss from discontinued operations	—	—	(0.02)	—
Basic net income	$0.49	0.01	0.87	0.34
Diluted net income from continuing operations	$0.48	0.01	0.88	0.33
Diluted net loss from discontinued operations	—	—	(0.02)	—
Diluted net income	$0.48	0.01	0.86	0.33
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 Contents

SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Quarter ended June 30,		Six Months ended June 30,	
($ in thousands)	2013	2012	2013	2012
Net income	$27,122	288	48,430	18,381
Other comprehensive income, net of tax:				
Unrealized (losses) gains on investment securities:				
Unrealized holding (losses) gains arising during period	(59,353)	5,101	(56,959)	17,974
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income	31	35	50	142
Amount reclassified into net income:				
Held-to-maturity securities	(399)	(456)	(865)	(1,017)
Non-credit other-than-temporary impairment	3	39	8	171
Realized gains on available for sale securities	(3,438)	(128)	(7,322)	(2,917)
Total unrealized (losses) gains on investment securities	(63,156)	4,591	(65,088)	14,353
Defined benefit pension and post-retirement plans:				
Net actuarial gain	—	—	28,600	—
Amounts reclassified into net income:				
Net actuarial loss	513	905	1,709	1,808
Prior service cost	—	24	6	49
Curtailment expense	—	—	11	—
Total defined benefit pension and post-retirement plans	513	929	30,326	1,857
Other comprehensive (loss) income	(62,643)	5,520	(34,762)	16,210
Comprehensive (loss) income	$(35,521)	5,808	13,668	34,591

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

Table of Contents

SELECTIVE INSURANCE GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

($ in thousands)	Six Months ended June 30, 2013	2012
Common stock:		
Beginning of year	$196,388	194,494
Dividend reinvestment plan (shares: 33,514 – 2013; 46,603 – 2012)	67	93
Stock purchase and compensation plans (shares: 682,661 – 2013; 667,500 – 2012)	1,366	1,334
End of period	197,821	195,921
Additional paid-in capital:		
Beginning of year	270,654	257,370
Dividend reinvestment plan	703	712
Stock purchase and compensation plans	10,657	7,647
End of period	282,014	265,729
Retained earnings:		
Beginning of year	1,125,154	1,116,319
Net income	48,430	18,381
Dividends to stockholders ($0.26 per share – 2013 and 2012)	(14,723)	(14,557)
End of period	1,158,861	1,120,143
Accumulated other comprehensive income:		
Beginning of year	54,040	42,294
Other comprehensive (loss) income	(34,762)	16,210
End of period	19,278	58,504
Treasury stock:		
Beginning of year	(555,644)	(552,149)
Acquisition of treasury stock (shares: 151,113 – 2013; 173,620– 2012)	(3,285)	(3,102)
End of period	(558,929)	(555,251)
Total stockholders' equity	$1,099,045	1,085,046

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

	Six Months ended June 30,	
($ in thousands)	2013	2012
Operating Activities		
Net income	$48,430	18,381
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,103	19,550
Loss on disposal of discontinued operations	997	—
Stock-based compensation expense	6,189	5,160
Undistributed losses of equity method investments	419	496
Net realized gains	(8,509)	(4,536)
Retirement income plan curtailment expense	16	—
Changes in assets and liabilities:		
Increase in reserve for losses and loss expenses, net of reinsurance recoverables	69,790	19,802
Increase in unearned premiums, net of prepaid reinsurance and advance premiums	65,225	75,172
Increase (decrease) in net federal income taxes	3,171	(3,058)
Increase in premiums receivable	(84,135)	(57,294)
Increase in deferred policy acquisition costs	(9,555)	(16,638)
Increase in interest and dividends due or accrued	(1,066)	(500)
Decrease in accrued salaries and benefits	(6,173)	(5,699)
Decrease in accrued insurance expenses	(5,478)	(4,500)
Other-net	(4,526)	5,823
Net adjustments	49,468	33,778
Net cash provided by operating activities	97,898	52,159
Investing Activities		
Purchase of fixed maturity securities, available-for-sale	(530,402)	(426,346)
Purchase of equity securities, available-for-sale	(42,546)	(40,430)
Purchase of other investments	(4,393)	(6,355)
Purchase of short-term investments	(1,116,873)	(795,707)
Purchase of subsidiary	—	255
Sale of subsidiary	1,225	445
Sale of fixed maturity securities, available-for-sale	6,851	37,699
Sale of short-term investments	1,144,853	876,928
Redemption and maturities of fixed maturity securities, held-to-maturity	48,186	57,152
Redemption and maturities of fixed maturity securities, available-for-sale	286,905	197,199
Sale of equity securities, available-for-sale	42,206	58,176
Distributions from other investments	6,077	8,443
Purchase of property and equipment	(6,761)	(6,793)
Net cash used in investing activities	(164,672)	(39,334)
Financing Activities		
Dividends to stockholders	(13,668)	(13,442)
Acquisition of treasury stock	(3,285)	(3,102)
Net proceeds from stock purchase and compensation plans	3,769	2,225
Proceeds from issuance of notes payable, net of debt issuance costs	178,435	—
Repayment of notes payable	(100,000)	—

Excess tax benefits from share-based payment arrangements	1,467	873
Net cash provided by (used in) financing activities	66,718	(13,446)
Net decrease in cash	(56)	(621)
Cash, beginning of year	210	762
Cash, end of period	$154	141

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

We classify our business into three operating segments:

- Our Standard Insurance Operations segment, which is comprised of both commercial lines ("Commercial Lines") and personal lines ("Personal Lines") business, sells property and casualty insurance products and services in the standard market, including flood insurance through the National Flood Insurance Program's ("NFIP") write-your-own ("WYO") program;
- Our E&S Insurance Operations segment, which is comprised of Commercial Lines property and casualty insurance products and services that are unavailable in the standard market due to market conditions or characteristics of the insured that are caused by the insured's claim history or the characteristics of their business; and
- Our Investments segment - invests the premiums collected by our Standard and E&S Insurance Operations, as well as amounts generated through our capital management strategies, which may include the issuance of debt and equity securities.

NOTE 2. Basis of Presentation
These interim unaudited consolidated financial statements (“Financial Statements”) include the accounts of the Parent and its subsidiaries, and have been prepared in conformity with: (i) U.S. generally accepted accounting principles (“GAAP”); and (ii) the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The preparation of the Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. All significant intercompany accounts and transactions between the Parent and its subsidiaries are eliminated in consolidation.

Certain amounts in our prior years' Financial Statements and related notes have been reclassified to conform to the 2013 presentation. Such reclassifications had no effect on our net income, stockholders' equity, or cash flows.

These Financial Statements reflect all adjustments that, in our opinion, are normal, recurring, and necessary for a fair presentation of our results of operations and financial condition. The Financial Statements cover the second quarters ended June 30, 2013 (“Second Quarter 2013”) and June 30, 2012 (“Second Quarter 2012”) and the six-month periods ended June 30, 2013 ("Six Months 2013") and June 30, 2012 ("Six Months 2012"). The Financial Statements do not include all of the information and disclosures required by GAAP and the SEC for audited 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, 2012 (“2012 Annual Report”).

NOTE 3. Adoption of Accounting Pronouncements
In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"), which adds new disclosure requirements for items reclassified out of Accumulated Other Comprehensive Income ("AOCI"). ASU 2013-02 requires entities to disclose additional information about reclassification adjustments, including: (i) changes in AOCI balances by component; and (ii) significant items reclassified out of AOCI. Prospective application of ASU 2013-02 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. We have included the disclosures required by ASU 2013-02 in the notes to our

Financial Statements, as required.

In July 2013, the FASB issued 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"), which states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

Table of Contents

This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance will not impact our financial condition or results of operation.

NOTE 4. Statements of Cash Flow

Cash paid during Six Months 2013 and 2012 for interest and federal income taxes was as follows:

	Six Months ended June 30,	
($ in thousands)	2013	2012
Cash paid during the period for:		
Interest	$10,295	9,389
Federal income tax	11,000	6,300

At June 30, 2013, included in "Other assets" on the Consolidated Balance Sheets was $13.6 million of cash received from the NFIP which is restricted to pay flood claims under the WYO program.

NOTE 5. Investments

(a) The amortized cost, net unrealized gain and losses, carrying value, unrecognized holding gains and losses, and fair values of held-to-maturity (“HTM”) fixed maturity securities as of June 30, 2013 and December 31, 2012 were as follows:

June 30, 2013

($ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	$5,292	172	5,464	194	—	5,658
Obligations of state and political subdivisions	421,460	4,947	426,407	20,520	(34)	446,893
Corporate securities	35,983	(643)	35,340	3,541	—	38,881
Asset-backed securities (“ABS”)	6,536	(824)	5,712	868	—	6,580
Commercial mortgage-backed securities (“CMBS”)	7,623	(1,039)	6,584	3,029	—	9,613
Total HTM fixed maturity securities	$476,894	2,613	479,507	28,152	(34)	507,625

December 31, 2012

($ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	$5,292	212	5,504	367	—	5,871
Obligations of state and political subdivisions	491,180	6,769	497,949	28,996	(23)	526,922
Corporate securities	38,285	(812)	37,473	4,648	—	42,121
ABS	6,980	(1,052)	5,928	1,170	—	7,098

CMBS	8,406	(1,191)	7,215	5,434	—	12,649
Total HTM fixed maturity securities	$550,143	3,926	554,069	40,615	(23)	594,661

Unrecognized holding gains and losses of HTM securities are not reflected in the Financial Statements, as they represent fair value fluctuations from the later of: (i) the date a security is designated as HTM; or (ii) the date that an other-than-temporary impairment (“OTTI”) charge is recognized on an HTM security, through the date of the balance sheet. Our HTM securities had an average duration of 2.3 years as of June 30, 2013.

During Six Months 2013, ten securities with a carrying value of $22.9 million and a net unrecognized gain position of $1.1 million were reclassified from an HTM designation to an available-for-sale (“AFS”) designation due to credit rating downgrades by Moody’s Investors Services ("Moody's") and/or Standard and Poor's Financial Services (“S&P”). These

Table of Contents

unexpected rating downgrades raised concerns about the issuers' credit worthiness, which changed our intention to hold these securities to maturity.

(b) The cost/amortized cost, unrealized gains and losses, and fair value of AFS securities as of June 30, 2013 and December 31, 2012 were as follows:

June 30, 2013

($ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	$165,844	12,519	(369)	177,994
Foreign government	28,802	995	(127)	29,670
Obligations of states and political subdivisions	884,615	28,521	(18,818)	894,318
Corporate securities	1,491,837	46,984	(14,850)	1,523,971
ABS	155,338	999	(911)	155,426
CMBS[1]	137,048	2,318	(3,782)	135,584
Residential mortgage-backed securities ("RMBS"[2])	500,510	8,906	(6,568)	502,848
AFS fixed maturity securities	3,363,994	101,242	(45,425)	3,419,811
AFS equity securities	142,434	30,395	(765)	172,064
Total AFS securities	$3,506,428	131,637	(46,190)	3,591,875

December 31, 2012

($ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	$241,874	17,219	(1)	259,092
Foreign government	28,813	1,540	(124)	30,229
Obligations of states and political subdivisions	773,953	44,398	(327)	818,024
Corporate securities	1,368,954	81,696	(402)	1,450,248
ABS	126,330	2,319	(9)	128,640
CMBS[1]	133,763	4,572	(1,216)	137,119
RMBS[2]	456,996	15,961	(296)	472,661
AFS fixed maturity securities	3,130,683	167,705	(2,375)	3,296,013
AFS equity securities	132,441	19,400	(459)	151,382
Total AFS securities	$3,263,124	187,105	(2,834)	3,447,395

[1] CMBS includes government guaranteed agency securities with a fair value of $39.9 million at June 30, 2013 and $48.9 million at December 31, 2012.
[2] RMBS includes government guaranteed agency securities with a fair value of $72.2 million at June 30, 2013 and $91.0 million at December 31, 2012.

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 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 June 30, 2013 and December 31, 2012, 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, 2013	Less than 12 months		12 months or longer	
($ in thousands)	Fair Value	Unrealized Losses[1]	Fair Value	Unrealized Losses[1]
AFS securities				
U.S. government and government agencies	$16,151	(369)	—	—
Foreign government	1,058	(10)	2,880	(117)
Obligations of states and political subdivisions	393,204	(18,818)	—	—
Corporate securities	431,753	(14,699)	2,952	(151)
ABS	98,136	(911)	—	—
CMBS	67,456	(3,340)	2,158	(442)
RMBS	220,814	(6,387)	1,626	(181)
Total fixed maturity securities	1,228,572	(44,534)	9,616	(891)
Equity securities	16,948	(765)	—	—
Subtotal	$1,245,520	(45,299)	9,616	(891)

	Less than 12 months			12 months or longer		
($ in thousands)	Fair Value	Unrealized Losses[1]	Unrecognized Gains[2]	Fair Value	Unrealized Losses[1]	Unrecognized Gains[2]
HTM securities						
Obligations of states and political subdivisions	$180	(3)	3	702	(28)	20
ABS	—	—	—	2,803	(709)	647
Subtotal	$180	(3)	3	3,505	(737)	667
Total AFS and HTM	$1,245,700	(45,302)	3	13,121	(1,628)	667

December 31, 2012	Less than 12 months		12 months or longer	
($ in thousands)	Fair Value	Unrealized Losses[1]	Fair Value	Unrealized Losses[1]
AFS securities				
U.S. government and government agencies	$518	(1)	—	—
Foreign government	—	—	2,871	(124)
Obligations of states and political subdivisions	32,383	(327)	—	—
Corporate securities	50,880	(402)	—	—
ABS	9,137	(9)	—	—
CMBS	7,637	(19)	11,830	(1,197)
RMBS	8,710	(59)	5,035	(237)
Total fixed maturity securities	109,265	(817)	19,736	(1,558)
Equity securities	15,901	(459)	—	—
Subtotal	$125,166	(1,276)	19,736	(1,558)

Table of Contents

($ in thousands)	Less than 12 months Fair Value	Unrealized Losses[1]	Unrecognized Gains[2]	12 months or longer Fair Value	Unrealized Losses[1]	Unrecognized Gains[2]
HTM securities						
Obligations of states and political subdivisions	$1,218	(33)	29	1,108	(47)	38
ABS	—	—	—	2,860	(840)	753
Subtotal	1,218	(33)	29	3,968	(887)	791
Total AFS and HTM	$126,384	(1,309)	29	23,704	(2,445)	791

[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.

As evidenced by the table below, our net unrealized/unrecognized loss positions increased by $43.3 million as of June 30, 2013 compared to December 31, 2012 as follows:

($ in thousands)

June 30, 2013 Number of Issues	% of Market/Book	Unrealized/ Unrecognized Loss	December 31, 2012 Number of Issues	% of Market/Book	Unrealized/ Unrecognized Loss
504	80% - 99%	$46,022	100	80% - 99%	2,701
1	60% - 79%	238	1	60% - 79%	233
—	40% - 59%	—	—	40% - 59%	—
—	20% - 39%	—	—	20% - 39%	—
—	0% - 19%	—	—	0% - 19%	—
		$46,260			2,934

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 2012 Annual Report.

At June 30, 2013, we had 505 securities in an aggregate unrealized/unrecognized loss position of $46.3 million, $1.0 million of which have been in a loss position for more than 12 months. During Second Quarter 2013, interest rates on the 10 year U.S. Treasury Note rose by 64 basis points. This interest rate movement has negatively impacted our fixed maturity securities portfolio's valuation, thus increasing the number of securities in a loss position and the corresponding dollar amount of unrealized losses. The increase in the unrealized losses does not correspond to any issuer specific credit concerns, rather just interest rate movements. For a discussion regarding the sensitivity of interest rate movements and the related impacts on the fixed maturity securities portfolio, refer to Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our 2012 Annual Report.

At December 31, 2012, we had 101 securities in an aggregate unrealized/unrecognized loss position of $2.9 million, $1.7 million of which had been in a loss position for more than 12 months. Securities that have had non-credit OTTI impairments comprised $0.9 million of the $1.7 million balance. The remainder of the $1.7 million balance is related to securities that were, on average, 5% impaired compared to their amortized cost.

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, 2013. 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 maturity securities at June 30, 2013, 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 maturity securities at June 30, 2013:

($ in thousands)	Carrying Value	Fair Value
Due in one year or less	$93,387	96,086
Due after one year through five years	348,188	369,227
Due after five years through 10 years	35,044	38,777
Due after 10 years	2,888	3,535
Total HTM fixed maturity securities	$479,507	507,625

Listed below are AFS fixed maturity securities at June 30, 2013:

($ in thousands)	Fair Value
Due in one year or less	$326,454
Due after one year through five years	1,840,956
Due after five years through 10 years	1,202,597
Due after 10 years	49,804
Total AFS fixed maturity securities	$3,419,811

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

Other Investments	Carrying Value		June 30, 2013
($ in thousands)	June 30, 2013	December 31, 2012	Remaining Commitment
Alternative Investments			
Secondary private equity	$26,489	28,032	7,527
Energy/power generation	18,417	18,640	7,825
Private equity	17,809	18,344	11,542
Mezzanine financing	12,868	12,692	19,712
Real estate	12,149	11,751	10,290
Distressed debt	12,106	12,728	2,929
Venture capital	7,378	7,477	400
Total alternative investments	107,216	109,664	60,225
Other securities	1,861	4,412	1,289
Total other investments	$109,077	114,076	61,514

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 2012 Annual Report.

Table of Contents

The following table sets forth aggregated summarized financial information for the partnerships in our alternative and other investments 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 quarter lag, the summarized financial statement information for the six-month periods ended March 31 is as follows:

Income Statement Information	Quarter ended March 31,		Six Months ended March 31,	
($ in millions)	2013	2012	2013	2012
Net investment income	$46.8	54.0	255.0	90.1
Realized (losses) gains	(22.1)	234.6	599.7	985.3
Net change in unrealized depreciation	378.8	53.4	(18.9)	(434.0)
Net income	$403.5	342.0	835.8	641.4
Selective's insurance subsidiaries' other investments income	$3.9	3.0	7.5	5.0

(f) At June 30, 2013, we had 32 fixed maturity securities, with a carrying value of $62.2 million, that were pledged as collateral for our outstanding borrowing of $58.0 million with the Federal Home Loan Bank of Indianapolis ("FHLBI"). This outstanding borrowing is included in "Notes payable" on the Consolidated Balance Sheets. In accordance with the terms of our agreement with the FHLBI, we retain all rights regarding these securities, which are included in the "U.S. government and government agencies," "RMBS," and "CMBS" classifications of our AFS fixed maturity securities portfolio.

In addition, certain bonds with a carrying value of $27.1 million were on deposit with various state and regulatory agencies to comply with insurance laws. We retain all rights regarding these securities, which are primarily included in the "U.S. government and government agencies" classification of our AFS fixed maturity securities portfolio.

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

	Quarter ended June 30,		Six Months ended June 30,	
($ in thousands)	2013	2012	2013	2012
Fixed maturity securities	$30,298	31,759	60,387	63,109
Equity securities	1,874	1,280	3,081	2,517
Short-term investments	29	29	81	67
Other investments	3,869	2,963	7,471	4,963
Miscellaneous income	—	25	—	64
Investment expenses	(2,067)	(2,050)	(4,147)	(4,086)
Net investment income earned	$34,003	34,006	66,873	66,634

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

Second Quarter 2013 ($ in thousands)	Gross	Included in Other Comprehensive Income ("OCI")	Recognized in Earnings
HTM fixed maturity securities			
ABS	$(44)	(47)	3
Total HTM fixed maturity securities	(44)	(47)	3
Equity securities	429	—	429
Other investments	123	—	123
OTTI losses	$508	(47)	555

Second Quarter 2012	Gross	Included in OCI

($ in thousands)			Recognized in Earnings
AFS fixed maturity securities			
ABS	$30	—	30
RMBS	10	(54)	64
OTTI losses	$40	(54)	94

12

Table of Contents

Six Months 2013 ($ in thousands)	Gross	Included in OCI	Recognized in Earnings
HTM fixed maturity securities			
ABS	$(44)	(47)	3
Total HTM fixed maturity securities	(44)	(47)	3
AFS fixed maturity securities			
RMBS	(22)	(30)	8
Total AFS fixed maturity 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

Six Months 2012 ($ in thousands)	Gross	Included in OCI	Recognized in Earnings
AFS fixed maturity securities			
ABS	$62	—	62
CMBS	108	—	108
RMBS	(44)	(218)	174
Total AFS fixed maturity securities	126	(218)	344
Equity securities	171	—	171
Total AFS securities	297	(218)	515
OTTI losses	$297	(218)	515

The majority of the OTTI charges in Six Months 2013 relate to an investment in a limited liability company within our other investments portfolio that has sustained significant losses for which we do not anticipate recovery. For a discussion of our evaluation for OTTI of fixed maturity 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 2012 Annual Report.

The following tables set forth, for the periods indicated, credit loss impairments on fixed maturity 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)	2013	2012
Balance, beginning of period	$7,486	6,711
Addition for the amount related to credit loss for which an OTTI was not previously recognized	—	—
Reductions for securities sold during the period	—	—
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	64
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	—	—
Balance, end of period	$7,488	6,775

13

Table of Contents

($ in thousands)	Six Months ended June 30, 2013	2012
Balance, beginning of period	$7,477	6,602
Addition for the amount related to credit loss for which an OTTI was not previously recognized	—	—
Reductions for securities sold during the period	—	—
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	173
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	—	—
Balance, end of period	$7,488	6,775

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

($ in thousands)	Quarter ended June 30, 2013	2012	Six Months ended June 30, 2013	2012
HTM fixed maturity securities				
Gains	$3	2	3	155
Losses	(12)	(25)	(49)	(106)
AFS fixed maturity securities				
Gains	967	368	1,918	773
Losses	(46)	(74)	(299)	(117)
AFS equity securities				
Gains	4,800	—	10,471	4,775
Losses	(3)	—	(171)	(428)
Short-term investments				
Losses	—	—	—	(2)
Other Investments				
Gains	—	1	—	1
Losses	—	—	(860)	—
Total other net realized investment gains	5,709	272	11,013	5,051
Total OTTI charges recognized in earnings	(555)	(94)	(2,504)	(515)
Total net realized gains	$5,154	178	8,509	4,536

Realized gains and losses on the sale of investments are determined on the basis of the cost of the specific investments sold. Of the $5.7 million and $11.0 million in net realized gains in Second Quarter and Six Months 2013, $4.7 million relates 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 and $4.3 million in Six Months 2012 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 $42.2 million in Second Quarter 2013 and $49.1 million in Six Months 2013, and $24.1 million and $95.9 million in in the same periods a year ago.

Table of Contents

NOTE 6. Fair Value Measurements

The following table presents the carrying amounts and estimated fair values of our financial instruments as of June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012	
($ in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Fixed maturity securities:				
HTM	$479,507	507,625	554,069	594,661
AFS	3,419,811	3,419,811	3,296,013	3,296,013
Equity securities, AFS	172,064	172,064	151,382	151,382
Short-term investments	186,499	186,499	214,479	214,479
Receivable for proceeds related to sale of Selective HR Solution (“Selective HR”)	—	—	2,705	2,705
Financial Liabilities				
Notes payable:				
2.90% borrowings from FHLBI	13,000	13,451	13,000	13,595
1.25% borrowings from FHLBI	45,000	44,927	45,000	45,590
7.50% Junior Notes	—	—	100,000	101,480
6.70% Senior Notes	99,486	109,000	99,475	107,707
7.25% Senior Notes	49,914	52,994	49,912	52,689
5.875% Senior Notes	185,000	170,644	—	—
Total notes payable	$392,400	391,016	307,387	321,061

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 2012 Annual Report. The 5.875% Senior Notes were valued based on a quoted market price (Level 1). The fair value at June 30, 2013 of the 6.70% Senior Notes due November 1, 2035 is based on a matrix pricing model prepared by an external pricing service due to the availability and nature of the pricing at the valuation date (Level 2).

Table of Contents

The following tables provide quantitative disclosures of our financial assets that were measured at fair value at June 30, 2013 and December 31, 2012:

June 30, 2013		Fair Value Measurements Using		
($ in thousands)	Assets Measured at Fair Value at 6/30/13	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)[1]	Significant Other Observable Inputs (Level 2)[1]	Significant Unobservable Inputs (Level 3)
Description				
Measured on a recurring basis:				
AFS:				
U.S. government and government agencies	$177,994	48,236	129,758	—
Foreign government	29,670	—	29,670	—
Obligations of states and political subdivisions	894,318	—	894,318	—
Corporate securities	1,523,971	—	1,523,971	—
ABS	155,426	—	155,426	—
CMBS	135,584	—	133,953	1,631
RMBS	502,848	—	502,848	—
Total AFS fixed maturity securities	3,419,811	48,236	3,369,944	1,631
Equity securities	172,064	169,164	—	2,900
Short-term investments	186,499	186,499	—	—
Measured on a non-recurring basis:				
ABS, HTM[2]	335	—	335	—
Total assets	$3,778,709	403,899	3,370,279	4,531

[1] There were no transfers of securities between Level 1 and Level 2.

[2] As of June 30, 2013, as the result of our OTTI analysis, we impaired one ABS HTM security down to fair value, which is typically not carried at fair value.

December 31, 2012		Fair Value Measurements Using		
($ in thousands)	Assets Measured at Fair Value at 12/31/12	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)[1]	Significant Other Observable Inputs (Level 2)[1]	Significant Unobservable Inputs (Level 3)
Description				
Measured on a recurring basis:				
AFS:				
U.S. government and government agencies	$259,092	115,861	123,442	19,789
Foreign government	30,229	—	30,229	—
Obligations of states and political subdivisions	818,024	—	818,024	—
Corporate securities	1,450,247	—	1,447,301	2,946
ABS	128,640	—	122,572	6,068

CMBS	137,119	—	129,957	7,162
RMBS	472,662	—	472,662	—
Total AFS fixed maturity securities	3,296,013	115,861	3,144,187	35,965
Equity securities	151,382	147,775	—	3,607
Short-term investments	214,479	214,479	—	—
Receivable for proceeds related to sale of Selective HR	2,705	—	—	2,705
Total assets	$3,664,579	478,115	3,144,187	42,277

[1] There were no transfers of securities between Level 1 and Level 2.

Table of Contents

The following tables provide a summary of the changes in the fair value of securities measured using Level 3 inputs and related quantitative information for the periods ended June 30, 2013 and December 31, 2012:

Six Months 2013

($ in thousands)	Government	Corporate	ABS	CMBS	Equity	Receivable for Proceeds Related to Sale of 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[1]	(537)	(7)	(266)	684	3,935	—	3,809
Net income[2,3]	(76)	—	—	351	—	(1,480)	(1,205)
Purchases	—	—	—	—	—	—	—
Sales	—	—	—	—	—	—	—
Issuances	—	—	—	—	—	—	—
Settlements	(1,847)	(168)	—	(1,581)	—	(225)	(3,821)
Transfers into Level 3	—	—	—	—	—	—	—
Transfers out of Level 3	(17,329)	(2,771)	(5,802)	(4,985)	(4,642)	(1,000)	(36,529)
Fair value, June 30, 2013	$—	—	—	1,631	2,900	—	4,531

[1] Amounts are reported in “Unrealized holding (losses) gains arising during period” on the Consolidated Statements of Comprehensive Income.
[2] Amounts are reported in “Net realized gains” for realized gains and “Net investment income earned” for amortization of securities on the Consolidated Statements of Income.
[3] 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.

December 31, 2012

($ in thousands)	Government	Corporate	ABS	CMBS	Equity	Receivable for Proceeds Related to Sale of Selective HR	Total
Fair value, December 31, 2011	$21,741	2,603	—	354	—	3,212	27,910
Total net (losses) gains for the period included in:							
OCI[1]	(22)	185	68	858	—	—	1,089
Net income[2,3]	(193)	—	—	(51)	—	244	—
Purchases	—	—	7,300	5,611	—	—	12,911
Sales	—	—	—	—	—	—	—
Issuances	—	—	—	—	—	—	—
Settlements	(1,737)	(630)	—	(624)	—	(751)	(3,742)

Transfers into Level 3	—	788	—	8,247	3,607	—	12,642
Transfers out of Level 3	—	—	(1,300)	(7,233)	—	—	(8,533)
Fair value, December 31, 2012	$19,789	2,946	6,068	7,162	3,607	2,705	42,277

[1] Amounts are reported in "Unrealized holding gains arising during period" on the Consolidated Statements of Comprehensive Income in our 2012 Annual Report.
[2] Amounts are reported in "Net realized gains (losses)" for realized gains and losses and "Net investment income earned" for amortization for the CMBS securities on the Consolidated Statements of Income in our 2012 Annual Report.
[3] Amounts are reported in "Other income" for the receivable related to the sale of Selective HR on the Consolidated Statements of Income in our 2012 Annual Report and are related to interest accretion on the receivable.

As discussed in Note 2. "Summary of Significant Accounting Policies," in Item 8. "Financial Statements and Supplementary Data." in our 2012 Annual Report, the fair value of our Level 3 fixed maturity securities is typically obtained through non-binding broker quotes based on unobservable inputs, which we review for reasonableness. At June 30, 2013 and December 31, 2012, fixed maturity securities with aggregate fair values of $1.6 million and $36.0 million, respectively, were measured using Level 3 inputs primarily due to the availability and nature of the pricing used at the valuation dates.

During Six Months 2013, fixed maturity securities with a fair value of $30.9 million were transferred out of Level 3 due to the availability of Level 2 pricing at June 30, 2013 that was not available previously.

Table of Contents

In 2012, fixed maturity securities with a fair value of $9.0 million were transferred into Level 3 during the year. These transfers were primarily related to securities that had been previously priced using Level 2 inputs, but due to the availability and nature of the pricing used at the valuation dates, were priced using Level 3 inputs at December 31, 2012. In addition, certain of these transfers related to securities that had previously been classified as HTM, and therefore not measured at fair value, for which available pricing at December 31, 2012 used Level 3 inputs. Securities with a fair value of $8.5 million were transferred out of Level 3 due to the availability of Level 2 pricing at December 31, 2012 that was not available previously.

Equity securities with fair values of $2.9 million and $3.6 million were measured using Level 3 inputs at June 30, 2013 and December 31, 2012, respectively. During 2012, two non-publicly traded equity securities were transferred into Level 3 due to the nature of the quotes used at the valuation date. One of these securities was transferred out of Level 3 and into Level 2 at March 31, 2013, as the pricing as of that date was based on a quoted price in an inactive market. This security was subsequently sold in Second Quarter 2013 for an amount that approximated the March 31, 2013 value. At each reporting date, we review the fair values on the remaining Level 3 security for reasonableness.

At December 31, 2012, the receivable related to the sale of Selective HR was contingent on the purchaser's ability to retain business subsequent to the sale. At that time, the fair value of this receivable was measured using unobservable inputs, the most significant of which was our assumption regarding the retention of business. In Six Months 2013, we reached an agreement with the purchaser to settle this receivable for an aggregate of $1.0 million, which was paid in two installments. As a result, the receivable was transferred out of Level 3 and we have subsequently received the $1.0 million. See Note 12. "Discontinued Operations" of this Form 10-Q for a discussion of the impairment charge that was recorded on this receivable in the first quarter of 2013.

Table of Contents

The following tables provide quantitative information regarding our financial assets and liabilities that were disclosed at fair value at June 30, 2013 and December 31, 2012:

June 30, 2013		Fair Value Measurements Using		
($ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 6/30/2013	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
HTM:				
Foreign government	$5,658	—	5,658	—
Obligations of states and political subdivisions	446,893	—	446,893	—
Corporate securities	38,881	—	38,881	—
ABS	6,245	—	5,049	1,196
CMBS	9,613	—	9,613	—
Total HTM fixed maturity securities	$507,290	—	506,094	1,196
Financial Liabilities				
Notes payable:				
2.90% borrowings from FHLBI	$13,451	—	13,451	—
1.25% borrowings from FHLBI	44,927	—	44,927	—
6.70% Senior Notes	109,000	—	109,000	—
7.25% Senior Notes	52,994	—	52,994	—
5.875% Senior Notes	170,644	170,644	—	—
Total notes payable	$391,016	170,644	220,372	—

December 31, 2012		Fair Value Measurements Using		
($ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 12/31/2012	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
HTM:				
Foreign government	$5,871	—	5,871	—
Obligations of states and political subdivisions	526,922	—	526,922	—
Corporate securities	42,121	—	37,289	4,832
ABS	7,097	—	5,698	1,399
CMBS	12,650	—	12,650	—
Total HTM fixed maturity securities	$594,661	—	588,430	6,231
Financial Liabilities				
Notes payable:				
2.90% borrowings from FHLBI	$13,595	—	13,595	—
1.25% borrowings from FHLBI	45,590	—	45,590	—
7.50% Junior Notes	101,480	101,480	—	—

6.70% Senior Notes	107,707	107,707	—	—
7.25% Senior Notes	52,689	—	52,689	—
Total notes payable	$321,061	209,187	111,874	—

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 2012 Annual Report.

	Quarter ended June 30,		Six Months ended June 30,	
($ in thousands)	2013	2012	2013	2012
Premiums written:				
Direct	$551,190	507,520	1,080,006	983,486
Assumed	4,378	4,747	12,860	26,736
Ceded	(93,391)	(86,704)	(180,565)	(164,487)
Net	$462,177	425,563	912,301	845,735
Premiums earned:				
Direct	$504,081	463,330	998,147	915,318
Assumed	8,951	16,039	21,414	31,088
Ceded	(86,780)	(87,157)	(172,369)	(175,365)
Net	$426,252	392,212	847,192	771,041
Loss and loss expense incurred:				
Direct	$338,954	301,451	704,600	553,654
Assumed	6,420	10,470	15,494	21,069
Ceded	(65,780)	(24,018)	(170,651)	(33,914)
Net	$279,594	287,903	549,443	540,809

The growth in direct premium written ("DPW") for our ten insurance subsidiaries ("Insurance Subsidiaries") in both Second Quarter and Six Months 2013 compared to Second Quarter and Six Months 2012 reflects: (i) pure price increases that we have achieved in our Standard Insurance Operations; and (ii) strong retention in our Standard Insurance Operations.

Direct premiums earned increases in Second Quarter and Six Months 2013 were consistent with the fluctuation in DPW for the twelve-month period ended June 30, 2013 as compared to the twelve-month period ended June 30, 2012.

Assumed premiums written for Six Months 2013 decreased compared to the same period last year as E&S business, which was previously written through a reinsurance fronting agreement, is now written directly by our Insurance Subsidiaries. Decreases in assumed premiums earned in Second Quarter and Six Months 2013 compared to Second Quarter and Six Months 2012 were driven by the E&S premiums.

Direct loss and loss expense incurred in Six Months 2013 included an increase of approximately $75 million related to flood losses covered under the NFIP for Hurricane Sandy, which occurred in October 2012. Total estimated gross flood losses for this storm were $1,127 million at June 30, 2013 and $1,052 million at December 31, 2012, of which approximately $1,108 million was paid through June 30, 2013.

As all flood losses are fully ceded under the NFIP, the increase in the direct loss and loss expenses drive the corresponding increase in our ceded losses. 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:

NFIP	Quarter ended June 30,		Six Months ended June 30,	
($ in thousands)	2013	2012	2013	2012
Ceded premiums written	$(62,461)	(60,525)	(119,168)	(112,249)
Ceded premiums earned	(56,450)	(52,768)	(111,777)	(104,673)
Ceded loss and loss expense incurred	(51,725)	(6,754)	(127,901)	8,168

In addition to the direct and ceded losses being higher in Six Months 2013, 2012 reflects the fact that Hurricane Irene and Tropical Storm Lee claims were settled for less than their original estimates.

Table of Contents

NOTE 8. Segment Information

The 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 net investment income and net realized gains and losses.

In computing the results of each segment, we do not make adjustments for interest expense, net general corporate expenses, or federal income taxes. We do not maintain separate investment portfolios for the segments and therefore, do not allocate assets to the segments.

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

Revenue by Segment	Quarter ended June 30,		Six Months ended June 30,	
($ in thousands)	2013	2012	2013	2012
Standard Insurance Operations:				
Net premiums earned:				
Commercial automobile	$76,706	71,540	151,053	142,024
Workers compensation	64,855	66,661	130,939	132,472
General liability	99,766	92,632	197,469	182,775
Commercial property	54,937	50,377	108,352	99,748
Businessowners' policies	18,625	17,266	37,165	34,123
Bonds	4,775	4,700	9,539	9,363
Other	2,993	3,113	5,985	6,281
Total standard Commercial Lines	322,657	306,289	640,502	606,786
Personal automobile	38,526	37,897	76,919	75,353
Homeowners	31,702	28,808	62,837	56,766
Other	3,320	3,251	6,828	6,446
Total standard Personal Lines	73,548	69,956	146,584	138,565
Total Standard Insurance Operations net premiums earned	396,205	376,245	787,086	745,351
Miscellaneous income	3,528	2,438	6,248	5,895
Total Standard Insurance Operations revenue	399,733	378,683	793,334	751,246
E&S Insurance Operations:				
Net premiums earned	30,047	15,967	60,106	25,690
Investments:				
Net investment income	34,003	34,006	66,873	66,634
Net realized investment gains	5,154	178	8,509	4,536
Total investment revenues	39,157	34,184	75,382	71,170
Total all segments	468,937	428,834	928,822	848,106
Other income	8	73	72	149
Total revenues from continuing operations	$468,945	428,907	928,894	848,255

Table of Contents

Income from Continuing Operations before Federal Income Tax	Quarter ended June 30,				Six Months ended June 30,			
($ in thousands)	2013		2012		2013		2012	
Standard Insurance Operations:								
Commercial Lines underwriting gain (loss)	$9,743		(14,424	)	15,845		(14,015	)
Personal Lines underwriting gain (loss)	(2,975	)	(7,438	)	2,998		(4,317	)
Total Standard Insurance Operations underwriting gain (loss), before federal income tax	6,768		(21,862	)	18,843		(18,332	)
GAAP combined ratio	98.3	%	105.8		97.6		102.5	
Statutory combined ratio	97.0	%	105.5		96.9		101.8	
E&S Insurance Operations:								
Underwriting loss	(2,285	)	(5,100	)	(2,199	)	(9,993	)
GAAP combined ratio	107.6	%	131.9		103.7		138.9	
Statutory combined ratio	106.8	%	116.1		102.6		118.0	
Investments:								
Net investment income	34,003		34,006		66,873		66,634	
Net realized investment gains	5,154		178		8,509		4,536	
Total investment income, before federal income tax	39,157		34,184		75,382		71,170	
Total all segments	43,640		7,222		92,026		42,845	
Interest expense	(5,570	)	(4,723	)	(11,401	)	(9,423	)
General corporate and other expenses	(1,869	)	(3,191	)	(15,556	)	(10,923	)
Income (loss) from continuing operations before federal income tax	$36,201		(692	)	65,069		22,499	

NOTE 9. Indebtedness

In the first quarter of 2013, we issued $185 million of 5.875% Senior Notes due 2043. The Senior Notes will pay interest on February 15, May 15, August 15, and November 15 of each year, beginning on May 15, 2013, and at maturity. The notes are callable by us on or after February 8, 2018, at a price equal to 100% of their principal outstanding amount, plus accrued and unpaid interest to, but excluding, the date of redemption. A portion of the proceeds from this debt issuance was used to fully redeem the $100 million aggregate principal amount of our 7.5% Junior Subordinated Notes due 2066, which had an associated $3.3 million pre-tax write-off for the remaining capitalized debt issuance costs on these notes. Of the remaining net proceeds, $57.1 million was used to make capital contributions to the Insurance Subsidiaries, while the balance was used for general corporate purposes. For additional information related to all our outstanding debt, refer to Note 10. "Indebtedness" in Item 8. "Financial Statements and Supplementary Data" of our 2012 Annual Report.

NOTE 10. Retirement Plans

The Retirement Income Plan for Selective Insurance Company of America and the Supplemental Excess Retirement Plan (jointly referred to as the "Retirement Income Plan") were amended in the first quarter of 2013 to curtail the accrual of additional benefits for all employees eligible to participate in the plans after March 31, 2016. The curtailment of the plans resulted in a net actuarial gain recognized in OCI of $44.0 million on a pre-tax basis.

As a result of the curtailment, the Retirement Income Plan was re-measured as of March 31, 2013. When determining the most appropriate discount rate to be used in the valuation, we consider, among other factors, our expected payout patterns of the Retirement Income Plan's obligations, as well as our investment strategy. We ultimately select the rate that we believe best represents our estimate of the inherent interest rate at which the Retirement Income Plan's liabilities can be effectively settled. The expected rate of return on plan assets at March 31, 2013 remained at 7.40%, consistent with our December 31, 2012 assumption. For re-measurement, we determined that the most appropriate discount rate was 4.66%, up slightly from 4.42% determined as of December 31, 2012.

Eligible employees impacted by the curtailment of the Retirement Income Plan began receiving, on April 5, 2013, an enhanced company contribution to the Selective Insurance Retirement Savings Plan of 4% of base salary, which is the enhanced company contribution currently provided to all employees not eligible to participate in the Retirement Income Plan.

Table of Contents

The funded status of the Retirement Income Plan recognized in the Consolidated Balance Sheets as of June 30, 2013, the valuation of which was updated as of March 31, 2013 as a result of the first quarter curtailment discussed above, and December 31, 2012, was as follows: