

SELECTIVE INSURANCE GROUP INC
Form 10-Q
April 24, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended: March 31, 2014
or

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

For the transition period from _____ to _____

Commission File Number: 001-33067

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

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

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

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

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

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

Yes No

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

Yes No

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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 March 31, 2014, there were 56,219,199 shares of common stock, par value \$2.00 per share, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SELECTIVE INSURANCE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	Unaudited	
	March 31, 2014	December 31, 2013
(\$ in thousands, except share amounts)		
ASSETS		
Investments:		
Fixed income securities, held-to-maturity – at carrying value (fair value: \$403,536 – 2014; \$416,981 – 2013)	\$382,056	392,879
Fixed income securities, available-for-sale – at fair value (amortized cost: \$3,748,456 – 2014; \$3,675,977 – 2013)	3,815,853	3,715,536
Equity securities, available-for-sale – at fair value (cost: \$162,370 – 2014; \$155,350 – 2013)	197,687	192,771
Short-term investments (at cost which approximates fair value)	137,733	174,251
Other investments	106,720	107,875
Total investments (Note 5)	4,640,049	4,583,312
Cash	245	193
Interest and dividends due or accrued	36,967	37,382
Premiums receivable, net of allowance for uncollectible accounts of: \$3,771 – 2014; \$4,442 – 2013	553,912	524,870
Reinsurance recoverables, net	574,621	550,897
Prepaid reinsurance premiums	141,603	143,000
Current federal income tax	—	512
Deferred federal income tax	113,061	122,613
Property and equipment – at cost, net of accumulated depreciation and amortization of: \$181,959 – 2014; \$179,192 – 2013	53,725	50,834
Deferred policy acquisition costs	177,678	172,981
Goodwill	7,849	7,849
Other assets	70,526	75,727
Total assets	\$6,370,236	6,270,170
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Reserve for loss and loss expenses	\$3,432,432	3,349,770
Unearned premiums	1,078,012	1,059,155
Notes payable	392,420	392,414
Current federal income tax	3,249	—
Accrued salaries and benefits	89,558	111,427
Other liabilities	189,034	203,476
Total liabilities	\$5,184,705	5,116,242
Stockholders' Equity:		
Preferred stock of \$0 par value per share:	\$—	—
Authorized shares 5,000,000; no shares issued or outstanding		
Common stock of \$2 par value per share:		
Authorized shares 360,000,000		

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Issued: 99,536,697 – 2014; 99,120,235 – 2013	199,073	198,240
Additional paid-in capital	294,365	288,182
Retained earnings	1,212,577	1,202,015
Accumulated other comprehensive income (Note 10)	41,529	24,851
Treasury stock – at cost (shares: 43,317,498– 2014; 43,198,622 – 2013)	(562,013	) (559,360)
Total stockholders' equity	1,185,531	1,153,928
Commitments and contingencies		
Total liabilities and stockholders' equity	\$6,370,236	6,270,170

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (\$ in thousands, except per share amounts)	Quarter ended March 31,	
	2014	2013
Revenues:		
Net premiums earned	\$456,495	420,940
Net investment income earned	35,534	32,870
Net realized gains:		
Net realized investment gains	8,181	5,304
Other-than-temporary impairments	(963	) (1,919
Other-than-temporary impairments on fixed income securities recognized in other comprehensive income	—	(30
Total net realized gains	7,218	3,355
Other income	9,824	2,784
Total revenues	509,071	459,949
Expenses:		
Loss and loss expense incurred	320,546	269,849
Policy acquisition costs	149,266	139,528
Interest expense	5,561	5,831
Other expenses	8,614	15,873
Total expenses	483,987	431,081
Income from continuing operations, before federal income tax	25,084	28,868
Federal income tax expense (benefit):		
Current	6,538	7,453
Deferred	572	(890
Total federal income tax expense	7,110	6,563
Net income from continuing operations	17,974	22,305
Loss on disposal of discontinued operations, net of tax of \$(538) - 2013	—	(997
Net income	\$17,974	21,308
Earnings per share:		
Basic net income from continuing operations	\$0.32	0.40
Basic net loss from discontinued operations	—	(0.02
Basic net income	\$0.32	0.38
Diluted net income from continuing operations	\$0.31	0.40
Diluted net loss from discontinued operations	—	(0.02
Diluted net income	\$0.31	0.38
Dividends to stockholders	\$0.13	0.13

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (\$ in thousands)	Quarter ended March 31,		
	2014	2013	
Net income	\$17,974	21,308	
Other comprehensive income, net of tax:			
Unrealized gains (losses) on investment securities:			
Unrealized holding gains arising during period	21,426	2,394	
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income	—	20	
Amount reclassified into net income:			
Held-to-maturity securities	(296) (466)
Non-credit other-than-temporary impairments	—	4)
Realized gains on available for sale securities	(4,699) (3,884)
Total unrealized gains (losses) on investment securities	16,431	(1,932)
Defined benefit pension and post-retirement plans:			
Net actuarial gain	—	28,600	
Amounts reclassified into net income:			
Net actuarial loss	247	1,196	
Prior service cost	—	6	
Curtailed expense	—	11	
Total defined benefit pension and post-retirement plans	247	29,813	
Other comprehensive income	16,678	27,881	
Comprehensive income	\$34,652	49,189	

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

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SELECTIVE INSURANCE GROUP, INC.		Three Months ended March 31,	
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY			
(\$ in thousands)		2014	2013
Common stock:			
Beginning of year		\$198,240	196,388
Dividend reinvestment plan (shares: 15,283 – 2014; 17,314 – 2013)		31	35
Stock purchase and compensation plans (shares: 401,179 – 2014; 496,647 – 2013)		802	993
End of period		199,073	197,416
Additional paid-in capital:			
Beginning of year		288,182	270,654
Dividend reinvestment plan		320	349
Stock purchase and compensation plans		5,863	5,714
End of period		294,365	276,717
Retained earnings:			
Beginning of year		1,202,015	1,125,154
Net income		17,974	21,308
Dividends to stockholders (\$0.13 per share – 2014 and 2013)		(7,412)	(7,351)
End of period		1,212,577	1,139,111
Accumulated other comprehensive income:			
Beginning of year		24,851	54,040
Other comprehensive income		16,678	27,881
End of period		41,529	81,921
Treasury stock:			
Beginning of year		(559,360)	(555,644)
Acquisition of treasury stock (shares: 118,876 – 2014; 146,436 – 2013)		(2,653)	(3,176)
End of period		(562,013)	(558,820)
Total stockholders' equity		\$1,185,531	1,136,345

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

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW (\$ in thousands)	Three Months ended March 31,	
	2014	2013
Operating Activities		
Net income	\$17,974	21,308
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,578	13,148
Sale of renewal rights	(8,000)) —
Loss on disposal of discontinued operations	—	997
Stock-based compensation expense	4,176	3,692
Undistributed (gains) losses of equity method investments	(33)	) 426
Net realized gains	(7,218)	) (3,355)
Retirement income plan curtailment expense	—	16
Changes in assets and liabilities:		
Increase in reserve for loss and loss expenses, net of reinsurance recoverables	58,938	38,556
Increase in unearned premiums, net of prepaid reinsurance and advance premiums	19,875	30,106
Decrease in net federal income taxes	4,332	5,290
Increase in premiums receivable	(29,042)	) (36,202)
Increase in deferred policy acquisition costs	(4,697)	) (2,963)
Decrease in interest and dividends due or accrued	414	384
Decrease in accrued salaries and benefits	(21,869)	) (4,528)
Decrease in accrued insurance expenses	(26,957)	) (12,378)
Other-net	17,293	(26,357)
Net adjustments	17,790	6,832
Net cash provided by operating activities	35,764	28,140
Investing Activities		
Purchase of fixed income securities, available-for-sale	(182,809)	) (308,289)
Purchase of equity securities, available-for-sale	(61,360)	) (2)
Purchase of other investments	(4,615)	) (2,329)
Purchase of short-term investments	(398,348)	) (644,274)
Sale of subsidiary	—	225
Sale of fixed income securities, available-for-sale	1,302	6,851
Sale of short-term investments	434,865	695,313
Redemption and maturities of fixed income securities, held-to-maturity	9,396	28,644
Redemption and maturities of fixed income securities, available-for-sale	104,358	124,975
Sale of equity securities, available-for-sale	61,523	—
Distributions from other investments	5,704	3,447
Purchase of property and equipment	(5,699)	) (3,673)
Sale of renewal rights	8,000	—
Net cash used in investing activities	(27,683)	) (99,112)
Financing Activities		
Dividends to stockholders	(6,948)	) (6,824)
Acquisition of treasury stock	(2,653)	) (3,176)
Net proceeds from stock purchase and compensation plans	1,261	1,164
Proceeds from issuance of notes payable, net of debt issuance costs	—	178,623

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Repayment of notes payable	—	(100,000)
Excess tax benefits from share-based payment arrangements	770	1,271
Repayments of capital lease obligations	(459)	—
Net cash (used in) provided by financing activities	(8,029)	71,058
Net increase in cash	52	86
Cash, beginning of year	193	210
Cash, end of period	\$245	296

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

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Organization

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

We classify our business into three operating segments:

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

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

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

NOTE 2. Basis of Presentation

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

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

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

NOTE 3. Adoption of Accounting Pronouncements

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

An NOL carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position; or
The entity does not intend to use the deferred tax asset for this purpose. If either of these conditions exists, an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset.

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

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Pronouncements to be effective in the future

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

ASU 2014-01 is effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance will not have a material impact on our financial condition or results of operations.

NOTE 4. Statements of Cash Flow

Cash paid during the period for interest and federal income taxes was as follows:

(\$ in thousands)	Three Months ended March 31,	
	2014	2013
Cash paid during the period for:		
Interest	\$2,973	1,964
Federal income tax	2,000	—
Non-cash items:		
Tax-free exchange of fixed income securities, AFS	—	8,470
Tax-free exchange of fixed income securities, HTM	15	7,168

At March 31, 2014, included in "Other assets" on the Consolidated Balance Sheets was \$6.1 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 gains and losses, carrying value, unrecognized holding gains and losses, and fair value of held-to-maturity ("HTM") fixed income securities as of March 31, 2014 and December 31, 2013 were as follows:

March 31, 2014

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	\$5,292	110	5,402	150	—	5,552
Obligations of state and political subdivisions	344,360	3,475	347,835	16,472	—	364,307
Corporate securities	21,903	(341)	21,562	2,902	—	24,464
Asset-backed securities ("ABS")	3,347	(621)	2,726	640	—	3,366
Commercial mortgage-backed	5,353	(822)	4,531	1,316	—	5,847

securities ("CMBS")

Total HTM fixed income securities	\$380,255	1,801	382,056	21,480	—	403,536
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December 31, 2013

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

Unrecognized holding gains and losses of HTM securities are not reflected in the Financial Statements, as they represent fair value fluctuations from the later of: (i) the date a security is designated as HTM; or (ii) the date that an other-than-temporary impairment (“OTTI”) charge is recognized on an HTM security, through the date of the balance sheet. Our HTM securities had an average duration of 2.2 years as of March 31, 2014.

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

March 31, 2014

(\$ in thousands)	Cost/Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	\$161,428	10,007	(370)	171,065
Foreign government	31,538	912	(29)	32,421
Obligations of states and political subdivisions	963,237	26,617	(10,687)	979,167
Corporate securities	1,777,186	48,305	(9,793)	1,815,698
ABS	131,386	908	(360)	131,934
CMBS ¹	172,386	4,686	(2,256)	174,816
Residential mortgage-backed securities (“RMBS ² ”)	511,295	7,210	(7,753)	510,752
AFS fixed income securities	3,748,456	98,645	(31,248)	3,815,853
AFS equity securities	162,370	35,434	(117)	197,687
Total AFS securities	\$3,910,826	134,079	(31,365)	4,013,540

December 31, 2013

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

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AFS equity securities	155,350	37,517	(96) 192,771
Total AFS securities	\$3,831,327	128,951	(51,971) 3,908,307

¹ CMBS includes government guaranteed agency securities with a fair value of \$24.5 million at March 31, 2014 and \$30.0 million at December 31, 2013.

² RMBS includes government guaranteed agency securities with a fair value of \$48.2 million at March 31, 2014 and \$55.2 million at December 31, 2013.

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

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

March 31, 2014	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	\$13,119	(370)) —	—
Foreign government	1,753	(9)	) 2,978	(20)
Obligations of states and political subdivisions	373,064	(9,984)	) 20,096	(703)
Corporate securities	464,163	(8,636)	) 17,713	(1,157)
ABS	23,855	(360)) —	—
CMBS	72,437	(1,962)	) 7,466	(294)
RMBS	221,314	(7,294)	) 4,823	(459)
Total fixed income securities	1,169,705	(28,615)	) 53,076	(2,633)
Equity securities	1,938	(117)) —	—
Subtotal	\$1,171,643	(28,732)	) 53,076	(2,633)

(\$ 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	\$—	—	—	445	(19)	) 18
ABS	—	—	—	2,495	(621)	) 592
Subtotal	\$—	—	—	2,940	(640)	) 610
Total AFS and HTM	\$1,171,643	(28,732)	) —	56,016	(3,273)	) 610

December 31, 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	\$16,955	(500)	) 507	(4)
Foreign government	2,029	(30)	) 2,955	(42)
Obligations of states and political subdivisions	442,531	(19,120)	) 13,530	(905)
Corporate securities	511,100	(15,911)	) 14,771	(1,138)
ABS	68,725	(468)) —	—
CMBS	100,396	(2,950)	) 6,298	(516)
RMBS	268,943	(10,031)	) 2,670	(260)
Total fixed income securities	1,410,679	(49,010)) 40,731	(2,865)
Equity securities	1,124	(96)) —	—
Subtotal	\$1,411,803	(49,106)) 40,731	(2,865)

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(\$ 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	\$65	(5	) 5	441	(20	) 14
ABS	—	—	—	2,490	(655	) 621
Subtotal	65	(5	) 5	2,931	(675	) 635
Total AFS and HTM	\$1,411,868	(49,111	) 5	43,662	(3,540	) 635

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 improved by \$20.6 million as of March 31, 2014 compared to December 31, 2013 as follows:

(\$ in thousands)

March 31, 2014			December 31, 2013		
Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss	Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss
466	80% - 99%	\$31,395	556	80% - 99%	\$51,835
—	60% - 79%	—	1	60% - 79%	176
—	40% - 59%	—	—	40% - 59%	—
—	20% - 39%	—	—	20% - 39%	—
—	0% - 19%	—	—	0% - 19%	—
		\$31,395			\$52,011

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

At March 31, 2014, we had 466 securities in an aggregate unrealized/unrecognized loss position of \$31.4 million, \$2.7 million of which have been in a loss position for more than 12 months. At December 31, 2013, we had 557 securities in an aggregate unrealized/unrecognized loss position of \$52.0 million, \$2.9 million of which had been in a loss position for more than 12 months. During First Quarter 2014, interest rates on the 10-year U.S. Treasury Note fell by 31 basis points. This interest rate movement had a positive impact on our fixed income securities portfolio's valuation, thus decreasing the number of securities in a loss position and the corresponding dollar amount of unrealized losses. For a discussion regarding the sensitivity of interest rate movements and the related impacts on the fixed income securities portfolio, refer to Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our 2013 Annual Report.

We do not intend to sell any securities in an unrealized/unrecognized loss position, nor do we believe we will be required to sell these securities, and therefore we have concluded that they are temporarily impaired as of March 31, 2014. This conclusion reflects our current judgment as to the financial position and future prospects of the entity that issued the investment security and underlying collateral. If our judgment about an individual security changes in the future, we may ultimately record a credit loss after having originally concluded that one did not exist, which could

have a material impact on our net income and financial position in future periods.

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(d) Fixed income securities at March 31, 2014, by contractual maturity, are shown below. Mortgage-backed securities ("MBS") are included in the maturity tables using the estimated average life of each security. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Listed below are HTM fixed income securities at March 31, 2014:

(\$ in thousands)	Carrying Value	Fair Value
Due in one year or less	\$80,337	81,332
Due after one year through five years	270,608	287,045
Due after five years through 10 years	31,111	35,159
Total HTM fixed income securities	\$382,056	403,536

Listed below are AFS fixed income securities at March 31, 2014:

(\$ in thousands)	Fair Value
Due in one year or less	\$425,744
Due after one year through five years	1,991,515
Due after five years through 10 years	1,345,666
Due after 10 years	52,928
Total AFS fixed income securities	\$3,815,853

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

Other Investments (\$ in thousands)	Carrying Value		March 31, 2014
	March 31, 2014	December 31, 2013	Remaining Commitment
Alternative Investments			
Secondary private equity	\$23,595	25,618	6,479
Private equity	21,117	20,192	9,959
Energy/power generation	17,978	17,361	6,984
Mezzanine financing	13,831	12,738	15,038
Distressed debt	10,882	11,579	2,971
Real estate	10,728	11,698	10,178
Venture capital	7,019	7,025	350
Total alternative investments	105,150	106,211	51,959
Other securities	1,570	1,664	597
Total other investments	\$106,720	107,875	52,556

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

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The following table sets forth gross summarized financial information for our other investments portfolio, including the portion not owned by us. The investments are carried under the equity method of accounting. The last line of the table below reflects our share of the aggregate income, which is the portion included in our Financial Statements. As the majority of these investments reports results to us on a quarter lag, the summarized financial statement information for the three-month periods ended December 31 is as follows:

Income Statement Information (\$ in millions)	Quarter ended December 31,	
	2013	2012
Net investment income	\$65.1	204.8
Realized gains	63.3	593.4
Net change in unrealized appreciation (depreciation)	505.9	(417.5)
Net income	\$634.3	380.7
Selective's insurance subsidiaries' other investments income	\$5.2	3.6

(f) At March 31, 2014, we had fixed income securities, with a carrying value of \$61.8 million, that were pledged as collateral for our outstanding borrowing of \$58 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 income securities portfolio.

Also at March 31, 2014, we had fixed income securities, with a carrying value of \$22.3 million, and short-term investments with a carrying value of \$0.2 million, that collateralize reinsurance obligations related to our 2011 acquisition of our E&S book of business. Similar to the FHLBI collateral discussion above, we retain all rights regarding these investments. These fixed income securities are included in the "Municipal," "Corporate," "U.S. government and government agencies," "RMBS," and "ABS" classifications of our AFS fixed income securities portfolio.

In addition, fixed income securities with a carrying value of \$26.2 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 income securities portfolio.

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

(\$ in thousands)	Quarter ended March 31,	
	2014	2013
Fixed income securities	\$31,028	30,089
Equity securities	1,449	1,207
Short-term investments	19	52
Other investments	5,218	3,602
Investment expenses	(2,180)	(2,080)
Net investment income earned	\$35,534	32,870

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

First Quarter 2014 (\$ in thousands)	Gross	Included in Other Comprehensive Income ("OCI")	Recognized in Earnings
AFS securities			
Equity securities	\$963	—	963
Total AFS Securities	963	—	963

OTTI losses	\$963	—	963
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First Quarter 2013 (\$ in thousands)	Gross	Included in OCI	Recognized in Earnings
AFS fixed income securities			
RMBS	\$ (22	) (30	) 8
Total AFS fixed income securities	(22	) (30	) 8
Equity securities	217	—	217
Total AFS securities	195	(30	) 225
Other investments	1,724	—	1,724
OTTI losses	\$ 1,919	(30	) 1,949

The OTTI charges in First Quarter 2014 relate to equity securities for which we have the intent to sell. The majority of the OTTI charges in First Quarter 2013 related to an investment in a limited liability company within our other investments portfolio that had sustained significant losses for which we did not anticipate recovery. For a discussion of our evaluation for OTTI of fixed income securities, short-term investments, equity securities, and other investments, refer to Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data" of our 2013 Annual Report.

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

(\$ in thousands)	Quarter ended March 31,	
	2014	2013
Balance, beginning of period	\$7,488	7,477
Addition for the amount related to credit loss for which an OTTI was not previously recognized	—	—
Reductions for securities sold during the period	—	—
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	—	9
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	—	—
Balance, end of period	\$7,488	7,486

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

(\$ in thousands)	Quarter ended March 31,		
	2014	2013	
HTM fixed income securities			
Gains	\$—	—	
Losses	(11) (37)
AFS fixed income securities			
Gains	158	951	
Losses	(112) (253)
AFS equity securities			
Gains	8,317	5,671	
Losses	(171) (168)
Other investments			

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Gains	—	—	
Losses	—	(860)
Total other net realized investment gains	8,181	5,304	
Total OTTI charges recognized in earnings	(963) (1,949)
Total net realized gains	\$7,218	3,355	

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Realized gains and losses on the sale of investments are determined on the basis of the cost of the specific investments sold. The \$8.2 million and \$5.3 million in net realized gains in First Quarter 2014 and First Quarter 2013, respectively, were primarily related to the sale of AFS equity securities due to a rebalancing of our equity portfolio.

Proceeds from the sale of AFS securities were \$62.8 million in First Quarter 2014 and \$6.9 million in First Quarter 2013.

NOTE 6. Fair Value Measurements

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

(\$ in thousands)	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Fixed income securities:				
HTM	\$ 382,056	403,536	392,879	416,981
AFS	3,815,853	3,815,853	3,715,536	3,715,536
Equity securities, AFS	197,687	197,687	192,771	192,771
Short-term investments	137,733	137,733	174,251	174,251
Financial Liabilities				
Notes payable:				
2.90% borrowings from FHLBI	13,000	13,243	13,000	13,319
1.25% borrowings from FHLBI	45,000	45,226	45,000	45,259
7.25% Senior Notes	49,917	53,065	49,916	50,887
6.70% Senior Notes	99,503	102,810	99,498	98,247
5.875% Senior Notes	185,000	165,316	185,000	146,298
Total notes payable	\$ 392,420	379,660	392,414	354,010

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

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

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

March 31, 2014

Description (\$ in thousands)	Assets Measured at Fair Value at 3/31/2014	Fair Value Measurements Using Quoted Prices in		
		Active Markets for Identical Assets/ Liabilities (Level 1) ¹	Significant Other Observable Inputs (Level 2) ¹	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
AFS:				
U.S. government and government agencies	\$ 171,065	51,796	119,269	—
Foreign government	32,421	—	32,421	—
Obligations of states and political subdivisions	979,167	—	979,167	—
Corporate securities	1,815,698	—	1,815,698	—
ABS	131,934	—	131,934	—
CMBS	174,816	—	174,816	—
RMBS	510,752	—	510,752	—
Total AFS fixed income securities	3,815,853	51,796	3,764,057	—
Equity securities	197,687	194,787	—	2,900
Total AFS Securities	4,013,540	246,583	3,764,057	2,900
Short-term investments	137,733	137,733	—	—
Total assets measured at fair value	\$4,151,273	384,316	3,764,057	2,900

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

December 31, 2013

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

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

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

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There have been no changes in the fair value of securities measured using Level 3 prices during First Quarter 2014. The following table provides a summary of these changes during 2013: December 31, 2013

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

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

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

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 in our 2013 Annual Report.

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

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

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

March 31, 2014		Fair Value Measurements Using Quoted Prices in		
(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 3/31/2014	Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
HTM:				
Foreign government	\$5,552	—	5,552	—
Obligations of states and political subdivisions	364,307	—	364,307	—
Corporate securities	24,464	—	24,464	—
ABS	3,366	—	3,366	—
CMBS	5,847	—	5,847	—
Total HTM fixed income securities	\$403,536	—	403,536	—
Financial Liabilities				
Notes payable:				
2.90% borrowings from FHLBI	\$13,243	—	13,243	—
1.25% borrowings from FHLBI	45,226	—	45,226	—
7.25% Senior Notes	53,065	—	53,065	—
6.70% Senior Notes	102,810	—	102,810	—
5.875% Senior Notes	165,316	165,316	—	—
Total notes payable	\$379,660	165,316	214,344	—
December 31, 2013		Fair Value Measurements Using Quoted Prices in		
(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 12/31/2013	Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
HTM:				
Foreign government	\$5,591	—	5,591	—
Obligations of states and political subdivisions	369,756	—	369,756	—
Corporate securities	30,274	—	30,274	—
ABS	3,415	—	3,415	—
CMBS	7,945	—	7,945	—
Total HTM fixed income securities	\$416,981	—	416,981	—
Financial Liabilities				
Notes payable:				
2.90% borrowings from FHLBI	\$13,319	—	13,319	—
1.25% borrowings from FHLBI	45,259	—	45,259	—

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

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NOTE 7. Reinsurance

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

(\$ in thousands)	Quarter ended March 31,	
	2014	2013
Premiums written:		
Direct	\$557,891	528,816
Assumed	7,850	8,482
Ceded	(88,991	) (87,174
Net	\$476,750	450,124
Premiums earned:		
Direct	\$536,700	494,066
Assumed	10,185	12,463
Ceded	(90,390	) (85,589
Net	\$456,495	420,940
Loss and loss expense incurred:		
Direct	\$358,349	365,646
Assumed	7,479	9,074
Ceded	(45,282	) (104,871
Net	\$320,546	269,849

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

Direct premiums earned increases in First Quarter 2014 were consistent with the fluctuation in DPW for the twelve-month period ended March 31, 2014 as compared to the twelve-month period ended March 31, 2013.

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

NFIP (\$ in thousands)	Quarter ended March 31,	
	2014	2013
Ceded premiums written	\$(57,303	) (56,707
Ceded premiums earned	(58,286) (55,327
Ceded loss and loss expense incurred	(7,379) (76,176

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NOTE 8. Segment Information

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

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

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

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

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

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

Revenue by Segment (\$ in thousands)	Quarter ended March 31,	
	2014	2013
Standard Insurance Operations:		
Net premiums earned:		
Commercial automobile	\$82,216	74,347
Workers compensation	69,413	66,084
General liability	108,818	97,703
Commercial property	60,186	53,415
Businessowners' policies	20,869	18,540
Bonds	4,756	4,764
Other	3,183	2,992
Total Standard Commercial Lines	349,441	317,845
Personal automobile	38,226	38,393
Homeowners	33,298	31,135
Other	3,294	3,508
Total Standard Personal Lines	74,818	73,036
Total Standard Insurance Operations net premiums earned	424,259	390,881
Miscellaneous income	9,819	2,720
Total Standard Insurance Operations revenue	434,078	393,601
E&S Insurance Operations:		
Net premiums earned	32,236	30,059
Investments:		
Net investment income	35,534	32,870

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Net realized investment gains	7,218	3,355
Total investment revenues	42,752	36,225
Total all segments	509,066	459,885
Other income	5	64
Total revenues from continuing operations	\$509,071	459,949

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Income from Continuing Operations before Federal Income Tax (\$ in thousands)	Quarter ended March 31,		
	2014	2013	
Standard Insurance Operations:			
Commercial Lines underwriting (loss) gain	\$(3,630	) 6,102	
Personal Lines underwriting (loss) gain	(2,360	) 5,973	
Total Standard Insurance Operations underwriting (loss) gain, before federal income tax	(5,990	) 12,075	
GAAP combined ratio	101.4	% 96.9	%
Statutory combined ratio	101.1	% 96.8	%
E&S Insurance Operations:			
Underwriting gain	975	86	
GAAP combined ratio	97.0	% 99.7	%
Statutory combined ratio	97.9	% 98.2	%
Investments:			
Net investment income	35,534	32,870	
Net realized investment gains	7,218	3,355	
Total investment income, before federal income tax	42,752	36,225	
Tax on investment income	11,575	9,205	
Total investment income, after federal income tax	31,177	27,020	
Reconciliation of Segment Results to Income from Continuing Operations, before Federal Income Tax (\$ in thousands)			Quarter ended March 31,
	2014	2013	
Standard Insurance Operations underwriting (loss) gain, before federal income tax	\$(5,990	) 12,075	
E&S Insurance Operations underwriting gain, before federal income tax	975	86	
Investment income, before federal income tax	42,752	36,225	
Total all segments	37,737	48,386	
Interest expense	(5,561	) (5,831)
General corporate and other expenses	(7,092	) (13,687)
Income from continuing operations, before federal income tax	\$25,084	28,868	

NOTE 9. Retirement Plans

The following table shows the net periodic benefit cost related to the Retirement Income Plan for Selective Insurance Company of America ("Retirement Income Plan") and the life insurance benefits provided to eligible Selective Insurance Company of America retirees (referred to as the "Retirement Life Plan"). For more information concerning these plans, refer to Note 15. "Retirement Plans" in Item 8. "Financial Statements and Supplementary Data." of our 2013 Annual Report.

(\$ in thousands)	Retirement Income Plan		Retirement Life Plan	
	Quarter ended March 31, 2014	2013	Quarter ended March 31, 2014	2013
Components of Net Periodic Benefit Cost:				
Net Periodic Benefit Cost:				
Service cost	\$1,627	2,449	—	—
Interest cost	3,254	3,303	73	70
Expected return on plan assets	(3,919) (3,848) —	—
Amortization of unrecognized prior service cost	—	10	—	—

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Amortization of unrecognized net actuarial loss	367	1,822	13	18
Curtailment expense	—	16	—	—
Total net periodic cost	\$1,329	3,752	86	88

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	Retirement Income Plan		Retirement Life Plan	
	Quarter ended March 31,		Quarter ended March 31,	
	2014	2013	2014	2013
Weighted-Average Expense Assumptions:				
Discount rate	5.16	% 4.42	4.85	% 4.42
Expected return on plan assets	6.92	7.40	—	—
Rate of compensation increase	4.00	4.00	—	—

We presently anticipate contributing \$9.8 million to the Retirement Income Plan in 2014, \$2.7 million of which has been funded as of March 31, 2014.

NOTE 10. Comprehensive Income

The components of comprehensive income, both gross and net of tax, for First Quarter 2014 and 2013 are as follows:

First Quarter 2014

(\$ in thousands)	Gross	Tax	Net
Net income	\$25,084	7,110	17,974
Components of OCI:			
Unrealized gains on investment securities:			
Unrealized holding gains during the period	32,964	11,538	21,426
Amounts reclassified into net income:			
HTM securities	(456)	) (160)	) (296)
Realized gains on AFS securities	(7,229)	) (2,530)	) (4,699)
Net unrealized gains	25,279	8,848	16,431
Defined benefit pension and post-retirement plans:			
Amounts reclassified into net income:			
Net actuarial loss	380	133	247
Prior service cost	—	—	—
Defined benefit pension and post-retirement plans	380	133	247
Other comprehensive income	25,659	8,981	16,678
Comprehensive income	\$50,743	16,091	34,652

First Quarter 2013

(\$ in thousands)	Gross	Tax	Net
Net income	\$27,333	6,025	21,308
Components of OCI:			
Unrealized gains on investment securities:			
Unrealized holding gains during the period	3,684	1,290	2,394
Non-credit OTTI recognized in OCI	30	10	20
Amounts reclassified into net income:			
HTM securities	(717)	) (251)	) (466)
Non-credit OTTI	7	3	4
Realized gains on AFS securities	(5,976)	) (2,092)	) (3,884)
Net unrealized losses	(2,972)	) (1,040)	) (1,932)
Defined benefit pension and post-retirement plans:			
Net actuarial losses	44,000	15,400	28,600
Amounts reclassified into net income:			
Net actuarial loss	1,840	644	1,196
Prior service cost	10	4	6
Curtailment expense	16	5	11

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Defined benefit pension and post-retirement plans	45,866	16,053	29,813
Other comprehensive income	42,894	15,013	27,881
Comprehensive income	\$70,227	21,038	49,189

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The balances of, and changes in, each component of AOCI (net of taxes) as of March 31, 2014 are as follows:

March 31, 2014 (\$ in thousands)	Net Unrealized (Loss) Gain on Investment Securities				Defined Benefit Pension and Post-Retirement Plans	Total AOCI
	OTTI Related	HTM Related	All Other	Investments Subtotal		
Balance, December 31, 2013	\$(1,599)	) 1,467	51,635	51,503	(26,652)	) 24,851
OCI before reclassifications	—	—	21,426	21,426	—	21,426
Amounts reclassified from AOCI	—	(296)	) (4,699)	) (4,995)	) 247	(4,748)
Net current period OCI	—	(296)	) 16,727	16,431	247	16,678
Balance, March 31, 2014	\$(1,599)	) 1,171	68,362	67,934	(26,405)	) 41,529

The reclassifications out of AOCI for First Quarter 2014 are as follows:

(\$ in thousands)	Quarter ended March 31, 2014	Affected Line Item in the Unaudited Consolidated Statement of Income
HTM related		
Unrealized losses on HTM disposals	24	Net realized gains
Amortization of net unrealized gains on HTM securities	(480)	) Net investment income earned
	(456)	) Income from continuing operations, before federal income tax
	160	Total federal income tax expense
	(296)	) Net income
Realized gains and losses on AFS		
Realized gains on AFS disposals and OTTI	(7,229)	) Net realized gains
	(7,229)	) Income from continuing operations, before federal income tax
	2,530	Total federal income tax expense
	(4,699)	) Net income
Defined benefit pension and post-retirement life plans		
Net actuarial loss	87	Loss and loss expense incurred
	293	Policy acquisition costs
Total defined benefit pension and post-retirement life plans	380	Income from continuing operations, before federal income tax
	(133)) Total federal income tax expense
	247	Net income
Total reclassifications for the period	\$(4,748)) Net income

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Note 11. Litigation

In the ordinary course of conducting business, we are named as defendants in various legal proceedings. Most of these proceedings are claims litigation involving our Insurance Subsidiaries as either: (i) liability insurers defending or providing indemnity for third-party claims brought against insureds; or (ii) insurers defending first-party coverage claims brought against them. We account for such activity through the establishment of unpaid loss and loss expense reserves. We expect that the ultimate liability, if any, with respect to such ordinary course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to our consolidated financial condition, results of operations, or cash flows.

Our Insurance Subsidiaries are also from time to time involved in other legal actions, some of which assert claims for substantial amounts. These actions include, among others, putative class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, improper reimbursement of medical providers paid under workers compensation and personal and commercial automobile insurance policies. Our Insurance Subsidiaries also are involved from time to time in individual actions in which extra-contractual damages, punitive damages, or penalties are sought, such as claims alleging bad faith in the handling of insurance claims. We believe that we have valid defenses to these cases. We expect that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to our consolidated financial condition. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, an adverse outcome in certain matters could, from time to time, have a material adverse effect on our consolidated results of operations or cash flows in particular quarterly or annual periods.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

In this Quarterly Report on Form 10-Q, we discuss and make statements regarding our intentions, beliefs, current expectations, and projections regarding our company's future operations and performance. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are often identified by words such as "anticipates," "believes," "expects," "will," "should," and "intends" and their negatives. We caution prospective investors that such forward-looking statements are not guarantees of future performance. Risks and uncertainties are inherent in our future performance. Factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, those discussed under Item 1A. "Risk Factors" below in Part II "Other Information." These risk factors may not be exhaustive. We operate in a continually changing business environment and new risk factors emerge from time to time. We can neither predict such new risk factors nor can we assess the impact, if any, of such new risk factors on our businesses or the extent to which any factor or combination of factors may cause actual results to differ materially from those expressed or implied in any forward-looking statements in this report. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this report might not occur. We make forward-looking statements based on currently available information and assume no obligation to update these statements due to changes in underlying factors, new information, future developments, or otherwise.

Introduction

We classify our business into three operating segments:

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

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

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

Our Standard Insurance Operations products and services are sold through nine subsidiaries that write Commercial Lines and Personal Lines business, some of which write flood business through the NFIP's WYO program.

Our E&S Insurance Operations products and services are sold through one subsidiary. This subsidiary, Mesa Underwriters Specialty Insurance Company ("MUSIC"), provides us with a nationally-authorized non-admitted platform to write commercial and personal E&S lines business.

Our ten insurance subsidiaries are collectively referred to as the "Insurance Subsidiaries."

The purpose of Management's Discussion and Analysis ("MD&A") is to provide an understanding of the consolidated results of operations and financial condition and known trends and uncertainties that may have a material impact in future periods. Consequently, investors should read the MD&A in conjunction with the consolidated financial statements in our 2013 Annual Report filed with the U.S. Securities and Exchange Commission ("SEC").

In the MD&A, we will discuss and analyze the following:

Critical Accounting Policies and Estimates;

Financial Highlights of Results for First Quarter 2014 and First Quarter 2013;

Results of Operations and Related Information by Segment;

Federal Income Taxes;

• Financial Condition, Liquidity, Short-term Borrowings, and Capital Resources;

Ratings;

Off-Balance Sheet Arrangements; and
Contractual Obligations, Contingent Liabilities, and Commitments.

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Critical Accounting Policies and Estimates

These unaudited interim consolidated financial statements include amounts based on our informed estimates and judgments for those transactions that are not yet complete. Such estimates and judgments affect the reported amounts in the consolidated financial statements. Those estimates and judgments most critical to the preparation of the consolidated financial statements involve the following: (i) reserves for loss and loss expenses; (ii) pension and post-retirement benefit plan actuarial assumptions; (iii) other-than-temporary investment impairments; and (iv) reinsurance. These estimates and judgments require the use of assumptions about matters that are highly uncertain and, therefore, are subject to change as facts and circumstances develop. If different estimates and judgments had been applied, materially different amounts might have been reported in the financial statements. For additional information regarding our critical accounting policies, refer to our 2013 Annual Report, pages 44 through 52.

Financial Highlights of Results for First Quarter 2014 and First Quarter 2013¹

(\$ and shares in thousands, except per share amounts)	Quarter ended March 31,		Change % or Points	
	2014	2013		
Generally Accepted Accounting Principles ("GAAP") measures:				
Revenues	\$509,071	459,949	11	%
Pre-tax net investment income	35,534	32,870	8	
Pre-tax net income	25,084	27,333	(8))
Net income	17,974	21,308	(16))
Diluted net income per share	0.31	0.38	(18))
Diluted weighted-average outstanding shares	57,172	56,455	1	
GAAP combined ratio	101.1	% 97.1	4.0	pts
Statutory combined ratio ²	100.8	% 96.8	4.0	
Return on average equity	6.1	% 7.7	(1.6))
Non-GAAP measures:				
Operating income ³	\$13,283	20,124	(34)) %
Diluted operating income per share ³	0.23	0.36	(36))
Operating return on average equity ³	4.5	% 7.2	(2.7)	) pts

¹ Refer to the Glossary of Terms attached to our 2013 Annual Report as Exhibit 99.1 for definitions of terms used in this Form 10-Q.

The statutory combined ratio for First Quarter 2013 included 1.3 points related to the Retirement Income Plan amendments that curtailed the accrual of additional benefits for all eligible employees participating in the plans after March 31, 2016.

Operating income is used as an important financial measure by us, analysts, and investors, because the realization of investment gains and losses on sales in any given period is largely discretionary as to timing. In addition, these realized investment gains and losses, as well as other-than-temporary impairments ("OTTI") that are charged to earnings and the results of discontinued operations, could distort the analysis of trends. See below for a reconciliation of operating income to net income in accordance with GAAP. Operating return on average equity is calculated by dividing annualized operating income by average stockholders' equity.

The following table reconciles operating income and net income for the periods presented above:

(\$ in thousands, except per share amounts)	Quarter ended March 31,	
	2014	2013
Operating income	\$13,283	20,124
Net realized gains, net of tax	4,691	2,181

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Loss on disposal of discontinued operations, net of tax	—	(997)
Net income	\$17,974	21,308	
Diluted operating income per share	\$0.23	0.36	
Diluted net realized gains per share	0.08	0.04	
Diluted net loss from disposal of discontinued operations per share	—	(0.02)
Diluted net income per share	\$0.31	0.38	

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Over the long term, we target a return on average equity that is three points higher than our cost of capital, or 12%, excluding the impact of realized gains and losses, which is referred to as operating return on average equity. Our operating return on average equity was 4.5% in First Quarter 2014 compared to 7.2% in First Quarter 2013. Our operating return on average equity contribution by component is as follows:

Operating Return on Average Equity	Quarter ended March 31,		
	2014	2013	
Standard Insurance Operations	(1.3	)% 2.8	%
E&S Insurance Operations	0.2	% —	
Investments	9.1	% 8.9	%
Other	(3.5	)% (4.5)%
Total	4.5	% 7.2	%

Our operating return on average equity in First Quarter 2014 reflects a higher GAAP combined ratio of 101.1% compared to 97.1% in First Quarter 2013. Extreme winter weather was a significant driver of our First Quarter 2014 results. Information concerning these property losses, as well as other variances are as follows:

- Catastrophe losses for First Quarter 2014 were \$34 million, or 7.5 points, compared to \$1.6 million, or 0.4 points, in First Quarter 2013. The majority of these catastrophe losses were attributed to weather events defined by Insurance Services Office property claims service ("PCS") as CATs 31 and 32 in January, which brought freezing temperatures and snowstorms to our 22-state standard lines footprint.

Non-catastrophe property losses in First Quarter 2014 that were at one of the highest levels that we have experienced in recent years. The impact varied by line but, for both standard lines and E&S, non-catastrophe property losses for First Quarter 2014 were approximately \$91 million, or 20 points, on our total combined ratio. This was about 5 points higher than First Quarter 2013 and 6 points higher than the non-catastrophe property loss quarterly average over the last three-year period. These non-catastrophe property losses were primarily the result of roof collapses, frozen pipes, and fires which were often related to the extreme weather experienced throughout our footprint states.

Partially offsetting these losses were:

Renewal pure price increases of 7.6% that we achieved in full-year 2013, which are currently earning in at about 7.3%. This earned rate is above the loss cost trend of approximately 3%. After taking into account the incremental expenses associated with the additional premium, the net benefit to the combined ratio is about 2.5 points.

Favorable prior year casualty development in First Quarter 2014 that was \$14 million, or 3.1 points, compared to favorable prior year casualty development of \$2 million, or 0.4 points, in First Quarter 2013. We experienced stable workers compensation trends in the quarter with no development either favorable or unfavorable. The level of releases in First Quarter 2014 was driven by improving claim trends within our general liability line of business for the 2009 through 2012 accident years.

\$8 million, or 1.8 points, in other income for the March 2014 sale of the renewal rights to our self-insured group, or "SIG," book of pooled public entity business. Although we did not solicit buyers, we decided to sell this very small and specialized book of business when the opportunity presented itself because it had significant production outside of our standard lines footprint, and proved difficult to grow. We, however, have retained our substantial individual risk public entity book of business and we will continue to look for opportunities to grow it.

The remaining fluctuation in our operating return on average equity was driven by reduced corporate expenses that included the following: (i) the First Quarter 2013 redemption of our previously outstanding 7.50% Junior Subordinated Notes due 2066, that resulted in capitalized debt issue costs of \$3.3 million, pre-tax, being charged to expense; and (ii) reduced long-term employee compensation expense associated with changes in our stock price. These items are captured within the "Other" component in the table above.

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The following table provides a quantitative foundation for analyzing our overall Insurance Subsidiaries' underwriting results:

All Lines (\$ in thousands)	Quarter ended March 31,		Change % or Points	
	2014	2013		
GAAP Insurance Operations Results:				
Net premiums written ("NPW")	\$476,750	450,124	6	%
Net premiums earned ("NPE")	456,495	420,940	8	
Less:				
Loss and loss expense incurred	320,546	269,849	19	
Net underwriting expenses incurred	139,726	137,844	1	
Dividends to policyholders	1,238	1,086	14	
Underwriting (loss) gain	\$(5,015)	12,161	(141)) %
GAAP Ratios:				
Loss and loss expense ratio	70.2	% 64.1	6.1	pts
Underwriting expense ratio	30.6	32.7	(2.1))
Dividends to policyholders ratio	0.3	0.3	—	
Combined ratio	101.1	97.1	4.0	
Statutory Ratios:				
Loss and loss expense ratio ¹	70.2	64.1	6.1	
Underwriting expense ratio ¹	30.3	32.4	(2.1))
Dividends to policyholders ratio	0.3	0.3	—	
Combined ratio ¹	100.8	% 96.8	4.0	pts

¹ Statutory ratios for First Quarter 2013 included 0.3 points in the loss and loss expense ratio, 1.0 points in the underwriting ratio, and 1.3 points in the combined ratio related to the Retirement Income Plan amendments that curtailed the accrual of additional benefits for all eligible employees participating in the plans after March 31, 2016.

The growth in NPW for our Insurance Subsidiaries in First Quarter 2014 compared to First Quarter 2013 was primarily driven by renewal pure price increases and strong retention in our Standard Commercial Lines Insurance Operations.

NPE increases in First Quarter 2014 were consistent with the fluctuations in NPW for the twelve-month period ended March 31, 2014 compared to the twelve-month period ended March 31, 2013.

The increase in the combined ratio for First Quarter 2014 was primarily driven by property results that were impacted by extreme winter weather. For a discussion on these property losses as well as other variances, see the discussion above.

Outlook

In their 2013 year-end review, dated February 4, 2014, A.M. Best and Company ("A.M. Best") projected an industry combined ratio of 99.4% for 2014. Their report cited: "In looking ahead to 2014, A.M. Best expects premiums to continue growing through price increases, but the pace of these rate changes are expected to slow and temper growth in premium." Underwriting results should improve slightly on the rate level achieved in recent years, although less favorable development of prior years' loss reserves is anticipated. In addition, a more normal level of catastrophe losses could increase combined ratios by almost 200 basis points, and the industry will continue to be challenged by the relatively low investment yields that are expected to persist through 2014, as well as the slow recovery from the recession of 2007 through 2009.

Although A.M. Best is continuing to maintain its negative outlook for the commercial lines market reflecting "the uncertainty around loss-reserve development and continued low profit margins driven by low investment yields," it anticipates a 99.9% statutory combined ratio driven by: (i) a more normal level of catastrophe losses; (ii) less favorable loss-reserve development; and (iii) loss trends that are partially offset by lower pricing. For personal lines, A.M. Best maintains a stable outlook in the coming year reflecting ongoing stability of the auto line and successful carriers continuing to enhance the granularity of their home pricing models. Standard & Poor's ("S&P"), while maintaining a stable outlook on the property and casualty industry, believes that "rate increases will lose steam and fail to outpace loss cost trends" in 2014.

In early 2012, we laid out a three-year plan to achieve overall annual renewal pure price increases of 5% to 8%. Our expectation for full-year 2014 is 6% to 7%, and we achieved 6.4% in First Quarter 2014. In addition, we are revising our previously disclosed expectations for our Standard Personal Lines and our E&S Lines as we are currently expecting this business, as well as our Standard Commercial Lines business, to each achieve renewal pure price increases of 6% to 7% for

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full-year 2014. In our Standard Commercial Lines, we have achieved renewal pure price increases for 20 consecutive quarters, including 6.4% for First Quarter 2014, 7.6% for full-year 2013, and 6.3% for full-year 2012. The 7.6% renewal pure price increase in 2013 translated into earned price increases of 7.3% in First Quarter 2014 which is above loss cost trends of approximately 3%. The 6% to 7% overall renewal pure price increases that we expect to achieve in 2014 are also above loss cost trends, and will continue to add to profitability in 2015. Furthermore in First Quarter 2014, we achieved renewal pure price increases of 6.8% in our Standard Personal Lines, and 4.1% in our E&S Lines.

Our First Quarter 2014 statutory combined ratio, excluding catastrophes, was 93.3%, which is in line with our stated full-year 2014 goal of 92%. The catastrophe losses in First Quarter 2014 of \$34 million added 7.5 points to our statutory combined ratio, compared to our full-year catastrophe loss expectation of four points. This increased level of catastrophe losses was related to extreme winter weather, primarily driven by weather events defined by PCS as CATs 31 and 32 in January.

The yield on the 10-year U.S. Treasury Notes fell by 31 basis points in First Quarter 2014. The continued low interest rate environment has several significant impacts on our business, some of which are beneficial and some of which present a challenge to us. The benefits include lower inflation rates that suppress loss trends, as well as reduce our cost of capital. However, the interest rate environment presents a significant challenge in generating after-tax return on our investment portfolio as fixed income securities mature and money is re-invested at lower rates. Because maturing and called bonds generally carry a higher book yield than is available in the current market, we expect the yield on the overall investment portfolio to continue to decline, albeit at a less significant pace than we have been experiencing.

In 2014, we expect to generate:

- A full-year combined ratio of 92% excluding catastrophe losses and assuming no additional prior year casualty reserve development;
- Four points of catastrophe losses for the year;
- After-tax investment income of approximately \$100 million; and
- Weighted-average shares of approximately 57.4 million.

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Results of Operations and Related Information by Segment

Insurance Operations

Standard Insurance Operations

Our Standard Insurance Operations segment, which represents 93% of our combined insurance operations NPW, sells insurance products and services primarily in 22 states in the Eastern and Midwestern U.S. and the District of Columbia, through approximately 1,100 independent retail insurance agencies. This segment consists of two components: (i) Commercial Lines, which markets primarily to businesses and represents approximately 83% of the segment's NPW; and (ii) Personal Lines, including our flood business, which markets primarily to individuals and represents approximately 17% of the segment's NPW.

(\$ in thousands)	Quarter ended March 31,		Change % or Points	
	2014	2013		
GAAP Insurance Operations Results:				
NPW	\$446,688	421,744	6	%
NPE	424,259	390,881	9	
Less:				
Loss and loss expense incurred	300,666	250,731	20	
Net underwriting expenses incurred	128,345	126,989	1	
Dividends to policyholders	1,238	1,086	14	
Underwriting (loss) gain	\$(5,990)	12,075	(150)) %
GAAP Ratios:				
Loss and loss expense ratio	70.9	% 64.1	6.8	pts
Underwriting expense ratio	30.2	32.5	(2.3))
Dividends to policyholders ratio	0.3	0.3	—	
Combined ratio	101.4	96.9	4.5	
Statutory Ratios:				
Loss and loss expense ratio ¹	70.9	64.2	6.7	
Underwriting expense ratio ¹	29.9	32.3	(2.4))
Dividends to policyholders ratio	0.3	0.3	—	
Combined ratio ¹	101.1	% 96.8	4.3	pts

Statutory ratios for First Quarter 2013 included 0.3 points in the loss and loss expense ratio, 1.1 points in the underwriting ratio, and 1.4 points in the combined ratio related to the Retirement Income Plan amendments that curtailed the accrual of additional benefits for all eligible employees participating in the plans after March 31, 2016.

The improvements in NPW in First Quarter 2014 compared to First Quarter 2013 include the following:

(\$ in millions)	Quarter ended March 31, 2014		Quarter ended March 31, 2013		
	Renewal Pure Price Increase	Retention	Renewal Pure Price Increase	Retention	
Standard Commercial Lines	6.4	% 84	% 7.5	% 83	%
Standard Personal Lines	6.8	82	8.5	87	

The decrease in the Standard Personal Lines retention was driven by targeted actions that we have taken to reduce our exposure to certain coverages that have historically been less profitable for us. Excluding the impact of these targeted actions, retention remains strong and comparable to last year.

NPE increases in First Quarter 2014 were consistent with the fluctuations in NPW for the twelve-month period ended March 31, 2014 as compared to the twelve-month period ended March 31, 2013.

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The GAAP loss and loss expense ratio increased 6.8 points in First Quarter 2014 compared to First Quarter 2013. The increase in this ratio was primarily driven by extreme winter weather, including: (i) an increased level of catastrophe losses; and (ii) higher non-catastrophe property losses. These losses were partially offset by: (i) Standard Insurance Operations renewal pure price increases that amounted to 6.5% in First Quarter 2014 and 7.6% in full year 2013, the earning of which exceeds our 3% projected loss trend; and (ii) favorable prior year casualty reserve development.

Quantitative information regarding the property losses and the reserve development is as follows:

(\$ in millions)	First Quarter 2014		First Quarter 2013		Change in Ratio
	Loss and Loss Expense Incurred	Impact on Loss and Loss Expense Ratio	Loss and Loss Expense Incurred	Impact on Loss and Loss Expense Ratio	
Catastrophe losses	\$34.2	8.1 pts	1.3	0.3 pts	7.8
Non-catastrophe property losses	86.2	20.3	60.7	15.5	4.8
Favorable prior year casualty reserve development	(14.0)	)(3.3)	(2.5)	)(0.6)	(2.7)

The breakdown of favorable prior year casualty reserve development in our Standard Insurance Operations by line of business is as follows:

Favorable/(Unfavorable) Prior Year Casualty Reserve Development (\$ in millions)	Quarter ended March 31,		
	2014	2013	
General liability	\$11.0	4.0	
Commercial automobile	—	—	
Workers compensation	—	(7.5)	
Businessowners' policies	1.0	3.0	
Homeowners	—	1.5	
Personal automobile	2.0	1.0	
Other	\$—	0.5	
Total favorable prior year casualty reserve development	\$14.0	2.5	
Favorable impact on loss ratio	3.3	pts 0.6	pts

Favorable prior year casualty reserve development of \$14 million in First Quarter 2014 was driven by improving claim trends for the 2009 through 2012 accident years on our general liability line of business. Excluding the impact of the workers compensation line of business prior year development in First Quarter 2013, the remainder of the casualty lines experienced a level of development comparable in First Quarter 2014 to First Quarter 2013.

The improvement in the GAAP underwriting expense ratio of 2.3 points in First Quarter 2014 compared to First Quarter 2013 was primarily driven by income generated from the renewal rights sale of our SIG book of business for \$8 million, or 1.9 points. For additional information regarding the sale, see Note 8. "Segment Information" in Item 1. "Financial Statements" of this Form 10-Q.

Table of ContentsReview of Underwriting Results by Line of Business
Standard Commercial Lines

(\$ in thousands)	Quarter ended March 31,		Change % or Points	
	2014	2013		
GAAP Insurance Operations Results:				
NPW	\$379,350	353,189	7	%
NPE	349,441	317,845	10	
Less:				
Loss and loss expense incurred	242,639	203,139	19	
Net underwriting expenses incurred	109,194	107,518	2	
Dividends to policyholders	1,238	1,086	14	
Underwriting (loss) gain	\$(3,630)	6,102	159	%
GAAP Ratios:				
Loss and loss expense ratio	69.4	% 63.9	5.5	pts
Underwriting expense ratio	31.2	33.9	(2.7))
Dividends to policyholders ratio	0.4	0.3	0.1	
Combined ratio	101.0	98.1	2.9	
Statutory Ratios:				
Loss and loss expense ratio ¹	69.4	63.9	5.5	
Underwriting expense ratio ¹	30.5	33.4	(2.9))
Dividends to policyholders ratio	0.4	0.3	0.1	
Combined ratio ¹	100.3	% 97.6	2.7	pts

¹ Statutory ratios for First Quarter 2013 included 0.4 points in the loss and loss expense ratio, 1.0 points in the underwriting ratio, and 1.4 points in the combined ratio related to the Retirement Income Plan amendments that curtailed the accrual of additional benefits for all employees eligible to participate in the plans after March 31, 2016.

The increase in NPW in First Quarter 2014 compared to First Quarter 2013 is primarily the result of the following:

(\$ in millions)	Quarter ended March 31,	
	2014	2013
Retention	84	% 83
Renewal pure price increases	6.4	7.5

NPE increases in First Quarter 2014 were consistent with the fluctuations in NPW for the twelve-month period ended March 31, 2014 compared to the twelve-month period ended March 31, 2013.

The GAAP loss and loss expense ratio increased 5.5 points in First Quarter 2014 compared to First Quarter 2013 driven by extreme winter weather, including: (i) an increased level of catastrophe losses; and (ii) higher non-catastrophe property losses. These losses were partially offset by the following: (i) renewal pure price increases that averaged 6.4% in First Quarter 2014 and 7.6% in full-year 2013, the earning of which exceeds our projected loss trend of approximately 3%; and (ii) favorable prior year casualty reserve development. Quantitative information regarding the property losses and the reserve development is as follows:

(\$ in millions)	First Quarter 2014		First Quarter 2013		Change in Ratio	
	Losses Incurred	Impact on Loss Ratio	Losses Incurred	Impact on Loss Ratio		
Catastrophe losses	\$25.9	7.4	pts 0.7	0.2	pts 7.2	pts
Non-catastrophe property losses	58.8	16.8	37.0	11.6	5.2	
	(12.0)	)(3.5	)(0.5	)(0.1	)(3.4)

Favorable prior year casualty
reserve development

The improvement in the GAAP underwriting expense ratio of 2.7 points in First Quarter 2014 compared to First Quarter 2013 was primarily driven by the income generated from the renewal rights sale of our SIG book of business for \$8 million, or 2.3 points. For additional information regarding the sale, see Note 8. "Segment Information" in Item 1. "Financial Statements" of this Form 10-Q.

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The following is a discussion of our most significant standard Commercial Lines of business and their respective statutory results:

General Liability

(\$ in thousands)	Quarter ended March 31,		Change % or Points	
	2014	2013		
Statutory NPW	\$119,504	109,405	9	%
Direct new business	19,835	19,781	—	
Retention	84	% 83	1	pts
Renewal pure price increases	7.6	% 8.5	(0.9)
Statutory NPE	108,818	97,703	11	%
Statutory combined ratio	80.7	% 95.9	(15.2	)pts
% of total statutory standard Commercial Lines NPW	32	% 31		

The growth in NPW and NPE for our general liability business in First Quarter 2014 reflects renewal pure price increases and strong retention.

The statutory combined ratio improvement for First Quarter 2014 was driven by renewal pure price increases of 7.6% that continue to outpace loss cost trends on this line as well as the following:

(\$ in millions)	First Quarter 2014		First Quarter 2013		Change Points	
	(Benefit) Expense	Impact on Combined Ratio	(Benefit) Expense	Impact on Combined Ratio		
Favorable prior year casualty reserve development	\$(11.0	)(10.1	)pts (4.0	)(4.1	)pts (6.0	)pts
Sale of SIG renewal rights	(2.1	)(1.8	)	—	(1.8)
Retirement Income Plan curtailment charge	—	—	1.4	1.3	(1.3)

Commercial Automobile

(\$ in thousands)	Quarter ended March 31,		Change % or Points	
	2014	2013		
Statutory NPW	\$89,122	81,872	9	%
Direct new business	14,806	14,904	(1)
Retention	83	% 83	—	pts
Renewal pure price increases	6.2	% 7.0	(0.8)
Statutory NPE	82,216	74,347	11	%
Statutory combined ratio	94.9	% 98.0	(3.1	)pts
% of total statutory standard Commercial Lines NPW	23	% 23		

The growth in NPW and NPE for our commercial automobile business in First Quarter 2014 reflects renewal pure price increases and strong retention.

The statutory combined ratio improvement for First Quarter 2014 is primarily driven by the following: (i) earned price increases that are outpacing loss costs on this line of business; (ii) income of 1.7 points related to the the renewal rights sale of our SIG book of business; and (iii) the Retirement Income Plan curtailment charge that increased the overall combined ratio by 1.3 points for First Quarter 2013.

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Workers Compensation

(\$ in thousands)	Quarter ended March 31,		Change	
	2014	2013	% or Points	
Statutory NPW	\$75,971	75,405	1	%
Direct new business	13,658	13,879	(2)
Retention	82	% 82	—	pts
Renewal pure price increases	4.9	% 8.1	(3.2)
Statutory NPE	69,413	66,084	5	%
Statutory combined ratio	105.9	% 118.9	(13.0	)pts
% of total statutory standard Commercial Lines NPW	20	% 21		

First Quarter 2014 NPW remained consistent with First Quarter 2013. NPE increases in First Quarter 2014 were consistent with the fluctuations in NPW for the twelve-month period ended March 31, 2014 compared to the twelve-month period ended March 31, 2013.

While we continue to view workers compensation in the context of an overall account, we remain very focused on improving this competitive line of business through underwriting, where we achieved renewal pure price increases of 4.9% for First Quarter 2014. We are applying all the underwriting tools we have to move pricing higher and write the best risks. We also have a number of claims initiatives aimed at proactively managing return-to-work programs and higher severity claims.

The improvement in the statutory combined ratio was primarily attributable to the following:

(\$ in millions)	First Quarter 2014		First Quarter 2013		Change		
	(Benefit) Expense	Impact on Combined Ratio	(Benefit) Expense	Impact on Combined Ratio	Points		
Unfavorable prior year casualty reserve development	\$—	— pts	\$7.4	11.1	pts (11.1	) pts
Sale of SIG renewal rights	(1.5)(2.0)	—	—	(2.0)
Retirement Income Plan curtailment charge	—	—	1.2	1.7	(1.7)	

The First Quarter 2013 unfavorable prior year casualty reserve development was primarily driven by development on the 2012 accident year and a single large claim prior to 2003.

Commercial Property

(\$ in thousands)	Quarter ended March 31,		Change	
	2014	2013	% or Points	
Statutory NPW	\$64,096	57,760	11	%
Direct new business	14,495	14,385	1	
Retention	83	% 82	1	pts
Renewal pure price increases	5.5	% 5.6	(0.1)
Statutory NPE	60,186	53,415	13	%
Statutory combined ratio	131.4	% 86.6	44.8	pts
% of total statutory standard Commercial Lines NPW	17	% 16		

NPW and NPE increased in First Quarter 2014 compared to First Quarter 2013 primarily due to renewal pure price increases and strong retention.

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The increase in the statutory combined ratio in First Quarter 2014 compared to the same prior year period was due to:

(\$ in millions)	First Quarter 2014		First Quarter 2013		Change	
	(Benefit) Expense	Impact on Combined Ratio	(Benefit) Expense	Impact on Combined Ratio	% or Points	
Catastrophe losses	\$18.9	31.5	pts 1.8	3.4	pts 28.1	pts
Non-catastrophe property losses	36.4	60.5	20.6	38.6	21.9	
Sale of SIG renewal rights	(1.4	)(2.2	) —	—	(2.2)
Retirement Income Plan curtailment charge	—	—	0.8	1.5	(1.5)

Standard Personal Lines

(\$ in thousands)	Quarter ended March 31,		Change	
	2014	2013	% or Points	
GAAP Insurance Operations Results:				
NPW	\$67,338	68,555	(2) %
NPE	74,818	73,036	2	
Less:				
Loss and loss expense incurred	58,027	47,592	22	
Net underwriting expenses incurred	19,151	19,471	(2)
Underwriting (loss) gain	\$(2,360	) 5,973	(140) %
GAAP Ratios:				
Loss and loss expense ratio	77.6	% 65.2	12.4	pts
Underwriting expense ratio	25.6	26.6	(1.0)
Combined ratio	103.2	91.8	11.4	
Statutory Ratios:				
Loss and loss expense ratio ¹	77.6	65.3	12.3	
Underwriting expense ratio ¹	26.9	27.1	(0.2)
Combined ratio ¹	104.5	% 92.4	12.1	pts

¹ Statutory ratios for First Quarter 2013 included 0.1 points in the loss and loss expense ratio, 1.2 points in the underwriting ratio, and 1.3 points in the combined ratio related to the Retirement Income Plan amendments that curtailed the accrual of additional benefits for all employees eligible to participate in the plans after March 31, 2016.

The decrease in NPW is primarily driven by a decrease in new business of \$1.9 million. Partially offsetting this decrease are the following:

(\$ in millions)	Quarter ended March 31,	
	2014	2013
Retention	82	% 87
Renewal pure price increase	6.8	8.5

The decrease in retention was driven by targeted actions that we have taken to reduce our exposure to certain coverages that have historically been less profitable for us. Excluding the impact of these targeted actions, retention remains strong and comparable to last year.

NPE increases in First Quarter 2014 compared to First Quarter 2013, are consistent with the fluctuations in NPW for the twelve-month period ended March 31, 2014 as compared to the twelve-month period ended March 31, 2013.

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The variance in the loss and loss expense ratios was driven by extreme winter weather, including: (i) an increased level of catastrophe losses; and (ii) higher non-catastrophe property losses. Partially offsetting these losses were renewal pure price increases of 6.8% for First Quarter 2014 and 7.8% for full-year 2013, the earning of which exceeds our projected loss cost trend for the casualty component of our Personal Lines. Quantitative information regarding the property losses are as follows:

(\$ in millions)	First Quarter 2014		First Quarter 2013		Change in Ratio
	Loss and Loss Expense Incurred	Impact on Loss and Loss Expense Ratio	Loss and Loss Expense Incurred	Impact on Loss and Loss Expense Ratio	
Catastrophe losses	\$8.3	11.1 pts	0.5	0.7 pts	10.4 pts
Non-catastrophe property losses	27.4	36.6	23.8	32.5	4.1

The improvement in the GAAP underwriting expense ratio was driven by higher direct premiums written in our flood business coupled with an increase in the flood expense allowance for issuing and servicing policies, which results in a larger commission being received from the NFIP year over year.

E&S Insurance Operations

Our E&S Insurance Operations segment, which represents 7% of our combined insurance operations NPW, sells Commercial Lines insurance products and services in all 50 states and the District of Columbia through approximately 85 wholesale general agents. Insurance policies in this segment typically cover business risks with unique characteristics, such as the nature of the business or its claim history, that have not obtained coverage in the standard commercial marketplace. E&S insurers have more flexibility in coverage terms and rates compared to standard market insurers, generally resulting in policies with higher rates, and terms and conditions that are customized for specific risks.

(\$ in thousands)	Quarter ended March 31,		Change % or Points
	2014	2013	
GAAP Insurance Operations Results:			
NPW	\$30,062	28,380	6 %
NPE	32,236	30,059	7
Less:			
Loss and loss expense incurred	19,880	19,118	4
Net underwriting expenses incurred	11,381	10,855	5
Underwriting gain	\$975	86	1,034 %
GAAP Ratios:			
Loss and loss expense ratio	61.7	% 63.6	(1.9) pts
Underwriting expense ratio	35.3	36.1	(0.8)
Combined ratio	97.0	99.7	(2.7)
Statutory Ratios:			
Loss and loss expense ratio	61.7	63.6	(1.9)
Underwriting expense ratio	36.2	34.6	1.6
Combined ratio	97.9	% 98.2	(0.3) pts

The improvement in the combined ratio in First Quarter 2014 was driven by significant underwriting actions that we have implemented to improve profitability, including achieving new business pricing of 6.4% and renewal pure price increases of 4.1% in First Quarter 2014, partially offset by non-catastrophe property losses that were 6.8 points higher than last year. In addition, on a GAAP basis, the underwriting expense ratio benefited by the impact of a lower than

anticipated supplemental commissions payment to wholesale general agents of \$1.1 million from First Quarter 2013. While the recognition of this benefit was immediate on a statutory basis, as evident in the lower statutory underwriting expense ratio in First Quarter 2013, the commission adjustment was deferred and amortized as part of policy acquisition costs on a GAAP basis.

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Investments

Our investment philosophy includes certain return and risk objectives for the fixed income, equity, and other investment portfolios. Although yield and income generation remain the key drivers to our investment strategy, our overall philosophy is to invest with a long-term horizon along with predominantly a “buy-and-hold” approach. The primary fixed income portfolio return objective is to maximize after-tax investment yield and income while balancing risk. A secondary objective is to meet or exceed a weighted-average benchmark of public fixed income indices. Within the equity portfolio, the high dividend yield strategy is designed to generate consistent dividend income while maintaining an expected tracking error to the S&P 500 Index. Additional equity strategies are focused on meeting or exceeding strategy specific benchmarks of public equity indices. The return objective of the other investment portfolio, which includes alternative investments, is to meet or exceed the S&P 500 Index.

Total Invested Assets

(\$ in thousands)	March 31, 2014	December 31, 2013	Change	%
Total invested assets	\$4,640,049	4,583,312	1	%
Unrealized gain – before tax	104,515	79,236	32	
Unrealized gain – after tax	67,935	51,504	32	

The increase in our investment portfolio compared to year-end 2013 was primarily due to: (i) cash flows provided by operating activities of \$35.8 million; and (ii) an increase in pre-tax unrealized gains of \$25.3 million. These gains were driven by increases in the market value of our fixed income securities portfolio as interest rates decreased during First Quarter 2014. During First Quarter 2014, interest rates on the 10-year U.S. Treasury Note fell by 31 basis points. While the decrease in interest rates benefited the unrealized gains on our portfolio, our after-tax purchase yield was only 1.9% during First Quarter 2014, thereby putting pressure on existing investment income yields within the portfolio.

We structure our portfolio conservatively with a focus on: (i) asset diversification; (ii) investment quality; (iii) liquidity, particularly to meet the cash obligations of our insurance operations segments; (iv) consideration of taxes; and (v) preservation of capital. We believe that we have a high quality and liquid investment portfolio. The breakdown of our investment portfolio is as follows:

	March 31, 2014	December 31, 2013
U.S. government obligations	4	% 4
Foreign government obligations	1	1
State and municipal obligations	29	28
Corporate securities	39	39
Mortgage-backed securities (“MBS”)	15	15
Asset-backed securities (“ABS”)	3	3
Total fixed income securities	91	90
Equity securities	4	4
Short-term investments	3	4
Other investments	2	2
Total	100	% 100

Fixed Income Securities

The average duration of the fixed income securities portfolio as of March 31, 2014 was 3.5 years, including short-term investments, compared to the Insurance Subsidiaries’ liability duration of approximately 3.8 years. The current duration of the fixed income securities portfolio is within our historical range, and is monitored and managed to maximize yield while managing interest rate risk at an acceptable level. We are experiencing continued pressure on the yields within our fixed income securities portfolio, as higher yielding bonds that are either maturing or have been

sold are being replaced with lower yielding bonds that are currently available in the marketplace. We manage liquidity with a laddered maturity structure and an appropriate level of short-term investments to avoid liquidation of available-for-sale ("AFS") fixed income securities in the ordinary course of business. We typically have a long investment time horizon, and every purchase or sale is made with the intent of maximizing risk adjusted investment returns in the current market environment while balancing capital preservation.

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Our fixed income securities portfolio had a weighted average credit rating of “AA-” as of March 31, 2014. The following table presents the credit ratings of our fixed income securities portfolio:

Fixed Income Security Rating	March 31, 2014	December 31, 2013
Aaa/AAA	16	% 15
Aa/AA	45	45
A/A	25	26
Baa/BBB	13	13
Ba/BB or below	1	1
Total	100	% 100

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The following table summarizes the fair value, unrealized gain (loss) balances, and the weighted average credit qualities of our AFS fixed income securities at March 31, 2014 and December 31, 2013:

(\$ in millions)	March 31, 2014			December 31, 2013		
	Fair Value	Unrealized Gain (Loss)	Weighted Average Credit Quality	Fair Value	Unrealized Gain (Loss)	Weighted Average Credit Quality
AFS Fixed Income Portfolio:						
U.S. government obligations	\$171.1	9.6	AA+	173.4	10.1	AA+
Foreign government obligations	32.4	0.9	AA-	30.6	0.8	AA-
State and municipal obligations	979.2	15.9	AA+	951.6	5.2	AA
Corporate securities	1,815.7	38.5	A	1,734.9	27.0	A
ABS	131.9	0.5	AAA	140.9	0.5	AAA
MBS	685.6	1.9	AA+	684.1	(4.0)	AA+
Total AFS fixed income portfolio	\$3,815.9	67.3	AA-	3,715.5	39.6	AA-
State and Municipal Obligations:						
General obligations	\$478.6	7.2	AA+	472.0	2.6	AA+
Special revenue obligations	500.6	8.7	AA	479.6	2.6	AA
Total state and municipal obligations	\$979.2	15.9	AA+	951.6	5.2	AA
Corporate Securities:						
Financial	\$568.5	13.2	A	534.1	11.7	A
Industrials	135.9	4.4	A-	135.1	3.7	A-
Utilities	155.1	1.7	A-	146.5	(0.3)	A-
Consumer discretionary	213.9	5.1	A-	190.6	2.7	A-
Consumer staples	176.4	3.7	A	171.9	3.0	A
Healthcare	174.7	4.2	A	168.5	3.1	A
Materials	104.1	2.3	A-	101.2	1.4	A-
Energy	104.2	1.7	A-	93.7	0.9	A-
Information technology	125.5	0.7	A+	121.2	(0.6)	A+
Telecommunications services	50.0	1.1	BBB+	64.7	1.0	BBB+
Other	7.4	0.4	AA+	7.4	0.4	AA+
Total corporate securities	\$1,815.7	38.5	A	1,734.9	27.0	A
ABS:						
ABS	\$131.5	0.5	AAA	140.4	0.4	AAA
Sub-prime ABS ¹	0.4	—	D	0.5	0.1	D
Total ABS	131.9	0.5	AAA	140.9	0.5	AAA
MBS:						
Government guaranteed agency commercial mortgage-backed securities ("CMBS")	\$24.5	0.5	AA+	30.0	0.9	AA+
Other agency CMBS	10.6	(0.2)	AA+	9.1	(0.3)	AA+
Non-agency CMBS	139.7	2.1	AA+	132.2	(1.5)	AA+
Government guaranteed agency residential MBS ("RMBS")	48.3	1.3	AA+	55.2	1.4	AA+
Other agency RMBS	417.6	(2.3)	AA+	411.5	(5.1)	AA+

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Non-agency RMBS	40.5	0.4	A-	41.4	0.6	A-
Alternative-A (“Alt-A”) RMBS	4.4	0.1	A	4.7	—	A
Total MBS	\$685.6	1.9	AA+	684.1	(4.0) AA+

¹Subprime ABS consists of one security whose issuer is currently expected by rating agencies to default on its obligations. We define sub-prime exposure as exposure to direct and indirect investments in non-agency residential mortgages with average FICO[®] scores below 650.

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The following tables provide information regarding our held-to-maturity ("HTM") fixed income securities and their credit qualities at March 31, 2014 and December 31, 2013:

March 31, 2014

(\$ in millions)	Fair Value	Carry Value	Unrecognized Holding Gain (Loss)	Unrealized Gain (Loss) in Accumulated Other Comprehensive Income ("AOCI")	Total Unrealized/Unrecognized Gain (Loss)	Weighted Average Credit Quality
HTM Fixed Income Portfolio:						
Foreign government obligations	\$5.6	5.4	0.2	0.1	0.3	AA+
State and municipal obligations	364.3	347.9	16.4	3.4	19.8	AA
Corporate securities	24.5	21.6	2.9	(0.3)	2.6	A+
ABS	3.3	2.7	0.6	(0.6)	—	AA+
MBS	5.8	4.5	1.3	(0.8)	0.5	AAA
Total HTM fixed income portfolio	\$403.5	382.1	21.4	1.8	23.2	AA
State and Municipal Obligations:						
General obligations	\$117.5	112.6	4.9	1.7	6.6	AA
Special revenue obligations	246.8	235.3	11.5	1.7	13.2	AA
Total state and municipal obligations	\$364.3	347.9	16.4	3.4	19.8	AA
Corporate Securities:						
Financial	\$2.3	1.9	0.4	(0.1)	0.3	A-
Industrials	7.1	6.0	1.1	(0.2)	0.9	A+
Utilities	13.6	12.2	1.4	—	1.4	A+
Consumer discretionary	1.5	1.5	—	—	—	AA
Total corporate securities	\$24.5	21.6	2.9	(0.3)	2.6	A+
ABS:						
ABS	\$0.8	0.8	—	—	—	AA
Alt-A ABS	2.5	1.9	0.6	(0.6)	—	AAA
Total ABS	\$3.3	2.7	0.6	(0.6)	—	AA+
MBS:						
Non-agency CMBS	\$5.8	4.5	1.3	(0.8)	0.5	AAA
Total MBS	\$5.8	4.5	1.3	(0.8)	0.5	AAA

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December 31, 2013

(\$ in millions)	Fair Value	Carry Value	Unrecognized Holding Gain (Loss)	Unrealized Gain (Loss) in AOCI	Total Unrealized/Unrecognized Gain (Loss)	Weighted Average Credit Quality
HTM Portfolio:						
Foreign government obligations	\$5.6	5.4	0.2	0.1	0.3	AA+
State and municipal obligations	369.8	352.2	17.6	4.0	21.6	AA
Corporate securities	30.3	27.8	2.5	(0.3)	) 2.2	A
ABS	3.4	2.8	0.6	(0.6)	) —	AA+
MBS	7.9	4.7	3.2	(0.9)	) 2.3	AA-
Total HTM portfolio	\$417.0	392.9	24.1	2.3	26.4	AA
State and Municipal Obligations:						
General obligations	\$118.5	113.1	5.4	2.0	7.4	AA
Special revenue obligations	251.3	239.1	12.2	2.0	14.2	AA
Total state and municipal obligations	\$369.8	352.2	17.6	4.0	21.6	AA
Corporate Securities:						
Financial	\$7.3	6.8	0.5	(0.1)	) 0.4	BBB+
Industrials	7.8	6.8	1.0	(0.2)	) 0.8	A+
Utilities	13.2	12.2	1.0	—	1.0	A+
Consumer discretionary	2.0	2.0	—	—	—	AA
Total corporate securities	\$30.3	27.8	2.5	(0.3)	) 2.2	A
ABS:						
ABS	\$0.9	0.9	—	—	—	A
Alt-A ABS	2.5	1.9	0.6	(0.6)	) —	AAA
Total ABS	\$3.4	2.8	0.6	(0.6)	) —	AA+
MBS:						
Non-agency CMBS	\$7.9	4.7	3.2	(0.9)	) 2.3	AA-
Total MBS	\$7.9	4.7	3.2	(0.9)	) 2.3	AA-

A portion of our AFS and HTM municipal bonds contain insurance enhancements. The following table provides information regarding these insurance-enhanced securities as of March 31, 2014:

Insurers of Municipal Bond Securities

(\$ in thousands)	Fair Value	Ratings with Insurance	Ratings without Insurance
National Public Finance Guarantee Corporation, a subsidiary of MBIA, Inc.	\$196,191	AA-	AA-
Assured Guaranty	142,463	AA	AA-
Ambac Financial Group, Inc.	58,800	AA	AA
Other	10,631	AA	A+
Total	\$408,085	AA	AA-

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The following table details the top 10 state exposures of the municipal bond portion of our fixed income securities portfolio at March 31, 2014:

State Exposures of Municipal Bonds

(\$ in thousands)	General Obligation		Special Revenue	Fair Value	% of Total	Weighted Average Credit Quality
	Local	State				
Texas ¹	\$56,190	1,075	46,854	104,119	8%	AA+
Washington	35,566	6,811	47,510	89,887	7%	AA
New York	9,740	—	79,184	88,924	7%	AA+
Florida	—	15,267	49,597	64,864	5%	AA
Arizona	7,850	—	53,368			