

SELECTIVE INSURANCE GROUP INC  
Form 10-Q  
July 28, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2011

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  
(State or Other Jurisdiction of Incorporation or  
Organization)

22-2168890  
(I.R.S. Employer Identification No.)

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

07890  
(Zip Code)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes

No

As of June 30, 2011, there were 54,164,792 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

(\$ in thousands, except share amounts)

	Unaudited June 30, 2011	December 31, 2010
<b>ASSETS</b>		
Investments:		
Fixed maturity securities, held-to-maturity – at carrying value (fair value: \$1,120,977 – 2011; \$1,256,294 – 2010)	\$1,070,578	1,214,324
Fixed maturity securities, available-for-sale – at fair value (amortized cost: \$2,442,579 – 2011; \$2,285,988 – 2010)	2,525,237	2,342,742
Equity securities, available-for-sale – at fair value (cost of: \$128,187 – 2011; \$58,039 – 2010)	136,577	69,636
Short-term investments (at cost which approximates fair value)	142,809	161,155
Other investments	132,137	137,865
Total investments	4,007,338	3,925,722
Cash	185	645
Interest and dividends due or accrued	36,596	37,007
Premiums receivable, net of allowance for uncollectible accounts of: \$4,054 – 2011; \$4,691 – 2010	467,122	414,105
Reinsurance recoverables, net	338,122	318,752
Prepaid reinsurance premiums	115,943	110,327
Current federal income tax	7,304	11,200
Deferred federal income tax	87,899	93,234
Property and equipment – at cost, net of accumulated depreciation and amortization of: \$156,209 – 2011; \$151,704 – 2010	39,998	41,775
Deferred policy acquisition costs	216,185	209,627
Goodwill	7,849	7,849
Other assets	45,107	61,529
Total assets	\$5,369,648	5,231,772
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Reserve for losses and loss expenses	\$2,898,592	2,830,058
Unearned premiums	858,627	823,596
Notes payable	262,346	262,333
Accrued salaries and benefits	100,378	100,933
Other liabilities	148,671	143,743
Total liabilities	\$4,268,614	4,160,663
Stockholders' Equity:		
Preferred stock of \$0 par value per share: Authorized shares: 5,000,000; no shares issued or outstanding	\$-	-
Common stock of \$2 par value per share Authorized shares: 360,000,000 Issued: 96,987,900 – 2011; 96,362,667 – 2010	193,976	192,725
Additional paid-in capital	252,189	244,613
Retained earnings	1,185,659	1,176,155
Accumulated other comprehensive income	21,144	7,024
Treasury stock – at cost (shares: 42,823,108 – 2011; 42,686,204 – 2010)	(551,934 )	(549,408 )

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Total stockholders' equity	1,101,034	1,071,109
Commitments and contingencies		
Total liabilities and stockholders' equity	\$5,369,648	5,231,772

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 June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
<b>Revenues:</b>				
Net premiums earned	\$355,580	352,190	706,923	708,392
Net investment income earned	39,345	36,545	82,818	71,251
<b>Net realized gains (losses):</b>				
Net realized investment gains	2,315	2,920	8,705	11,096
Other-than-temporary impairments	163	(6,162 )	(369 )	(12,235 )
Other-than-temporary impairments on fixed maturity securities recognized in other comprehensive income	(332 )	(22 )	(430 )	(2,189 )
Total net realized gains (losses)	2,146	(3,264 )	7,906	(3,328 )
Other income	2,499	2,247	5,379	4,515
Total revenues	399,570	387,718	803,026	780,830
<b>Expenses:</b>				
Losses and loss expenses incurred	274,555	239,980	523,761	494,123
Policy acquisition costs	113,843	116,099	227,273	232,101
Interest expense	4,559	4,655	9,116	9,497
Other expenses	5,392	4,136	13,883	14,614
Total expenses	398,349	364,870	774,033	750,335
Income from continuing operations, before federal income tax	1,221	22,848	28,993	30,495
<b>Federal income tax (benefit) expense:</b>				
Current	3,111	1,322	7,387	10,166
Deferred	(4,215 )	1,435	(2,268 )	(6,355 )
Total federal income tax (benefit) expense	(1,104 )	2,757	5,119	3,811
Net income from continuing operations	2,325	20,091	23,874	26,684
Loss on disposal of discontinued operations, net of tax of \$(713) for Second Quarter 2010 and \$(1,139) for Six Months 2010	-	(1,325 )	-	(2,115 )
Net income	\$2,325	18,766	23,874	24,569
<b>Earnings per share:</b>				
Basic net income from continuing operations	\$0.04	0.37	0.44	0.50
Basic net loss from disposal of discontinued operations	-	(0.02 )	-	(0.04 )
Basic net income	\$0.04	0.35	0.44	0.46
Diluted net income from continuing operations	\$0.04	0.37	0.43	0.49
Diluted net loss from disposal of discontinued operations	-	(0.02 )	-	(0.04 )
Diluted net income	\$0.04	0.35	0.43	0.45

Dividends to stockholders	\$0.13	0.13	0.26	0.26
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The accompanying notes are an integral part of these unaudited interim consolidated financial statements.



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

(\$ in thousands, except per share amounts)	2011	Six Months ended June 30,		2010
<b>Common stock:</b>				
Beginning of year	\$ 192,725			191,646
Dividend reinvestment plan (shares: 47,488 – 2011; 53,272 – 2010)	95			107
Stock purchase and compensation plans (shares: 577,745 – 2011; 218,525 – 2010)	1,156			437
End of period	193,976			192,190
<b>Additional paid-in capital:</b>				
Beginning of year	244,613			231,933
Dividend reinvestment plan	716			733
Stock purchase and compensation plans	6,860			6,675
End of period	252,189			239,341
<b>Retained earnings:</b>				
Beginning of year	1,176,155			1,138,978
Net income	23,874	23,874		24,569
Dividends to stockholders (\$0.26 per share – 2011 and 2010)	(14,370 )			(14,160 )
End of period	1,185,659			1,149,387
<b>Accumulated other comprehensive income (loss):</b>				
Beginning of year	7,024			(12,460 )
<b>Other comprehensive income, increase in:</b>				
<b>Unrealized gains on investment securities:</b>				
Non-credit portion of other-than-temporary impairment losses recognized in other comprehensive income, net of deferred income tax	389			3,830
Other net unrealized gains on investment securities, net of deferred income tax	12,246			25,044
Total unrealized gains on investment securities	12,635	12,635		28,874
Defined benefit pension plans, net of deferred income tax	1,485	1,485		1,412
End of period	21,144			17,826
Comprehensive income		37,994		54,855
<b>Treasury stock:</b>				
Beginning of year	(549,408 )			(547,722 )
Acquisition of treasury stock (shares: 136,904 – 2011; 97,816 – 2010)	(2,526 )			(1,518 )
End of period	(551,934 )			(549,240 )
Total stockholders' equity	\$ 1,101,034			1,049,504

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.

## SELECTIVE INSURANCE GROUP, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW

Six Months ended  
June 30,

(\$ in thousands)	2011	2010
<b>Operating Activities</b>		
Net income	\$23,874	24,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,261	14,805
Loss on disposal of discontinued operations	-	2,115
Stock-based compensation expense	5,286	5,762
Undistributed income of equity method investments	(726 )	(4,841 )
Net realized (gains) losses	(7,906 )	3,328
Changes in assets and liabilities:		
Increase in reserves for losses and loss expenses, net of reinsurance recoverables	49,164	48,870
Increase in unearned premiums, net of prepaid reinsurance and advance premiums	30,183	13,252
Decrease (increase) in net federal income tax recoverable	1,628	(9,380 )
Increase in premiums receivable	(53,017 )	(22,519 )
(Increase) decrease in deferred policy acquisition costs	(6,558 )	401
Decrease (increase) in interest and dividends due or accrued	514	(206 )
Decrease in accrued salaries and benefits	(555 )	(80 )
Decrease in accrued insurance expenses	(7,045 )	(10,003 )
Other-net	8,694	(7,862 )
Net adjustments	35,923	33,642
Net cash provided by operating activities	59,797	58,211
<b>Investing Activities</b>		
Purchase of fixed maturity securities, available-for-sale	(252,529 )	(396,076 )
Purchase of equity securities, available-for-sale	(123,141 )	(30,974 )
Purchase of other investments	(7,715 )	(11,150 )
Purchase of short-term investments	(694,764 )	(956,904 )
Sale of subsidiary	670	788
Sale of fixed maturity securities, available-for-sale	64,104	128,110
Sale of short-term investments	713,111	826,853
Redemption and maturities of fixed maturity securities, held-to-maturity	99,560	171,900
Redemption and maturities of fixed maturity securities, available-for-sale	66,805	165,513
Sale of equity securities, available-for-sale	59,663	56,247
Distributions from other investments	14,046	15,152
Sale of other investments	16,357	-
Purchase of property and equipment	(2,843 )	(2,570 )
Net cash used in investing activities	(46,676 )	(33,111 )
<b>Financing Activities</b>		
Dividends to stockholders	(13,225 )	(12,999 )
Acquisition of treasury stock	(2,526 )	(1,518 )
Principal payment of notes payable	-	(12,300 )
Net proceeds from stock purchase and compensation plans	2,355	2,310
Excess tax benefits from share-based payment arrangements	(185 )	(813 )

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Net cash used in financing activities	(13,581 )	(25,320 )
Net decrease in cash	(460 )	(220 )
Cash, beginning of year	645	811
Cash, end of period	\$185	591

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

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 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 “SIGL.”

We classify our business into two operating segments:

- Insurance Operations, which sells property and casualty insurance products and services primarily in 22 states in the Eastern and Midwestern U.S.; and
- Investments.

NOTE 2. Basis of Presentation

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

These Financial Statements reflect all adjustments that, in our opinion, are normal, recurring, and necessary for a fair presentation of our results of operations and financial condition. The Financial Statements cover the second quarters ended June 30, 2011 (“Second Quarter 2011”) and June 30, 2010 (“Second Quarter 2010”) and the six-month periods ended June 30, 2011 (“Six Months 2011”) and June 30, 2010 (“Six Months 2010”). The Financial Statements do not include all of the information and disclosures required by GAAP and the SEC for audited financial statements. Results of operations for any interim period are not necessarily indicative of results for a full year. Consequently, the Financial Statements should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2010 (“2010 Annual Report”).

NOTE 3. Reclassification

Certain prior year amounts in these Financial Statements and related footnotes have been reclassified to conform to the current year presentation. Such reclassifications had no effect on our net income, stockholders’ equity, or cash flows.

NOTE 4. Adoption of Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This guidance requires: (i) separate disclosure of significant transfers between Level 1 and Level 2 of the fair value hierarchy and reasons for the transfers; (ii) disclosure, on a gross basis, of purchases, sales, issuances, and net settlements within Level 3 of the fair value hierarchy; (iii) disclosures by class of assets and liabilities; and (iv) a description of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This guidance is effective for reporting periods beginning after December 15, 2009, except for the Level 3 disclosure requirements, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those fiscal years. We have included the disclosures required by this guidance in our notes to the consolidated financial statements, where appropriate.



In December 2010, the FASB issued ASU 2010-28 Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This guidance modifies Step 1 of the goodwill impairment test, which assesses whether the carrying amount of a reporting unit exceeds its fair value, for reporting units with zero or negative carrying amounts. It requires that an entity perform Step 2 of the goodwill impairment test, which determines if goodwill has been impaired and measures the amount of impairment, if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider the qualitative factors within existing guidance that would require goodwill of a reporting unit to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This guidance is effective for interim and annual periods beginning after December 15, 2010. The adoption of this guidance did not impact our financial condition or results of operations.

In December 2010, the FASB issued ASU 2010-29 Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This guidance relates to disclosure of pro forma information for business combinations that have occurred in the current reporting period. It requires that an entity presenting comparative financial statements include revenue and earnings of the combined entity as though the combination had occurred as of the beginning of the comparable prior annual period only. This guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance did not impact our financial condition or results of operations.

Pronouncements to be effective in the future

In October 2010, the FASB issued ASU 2010-26, Financial Services-Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (“ASU 2010-26”). This guidance requires that only costs that are incremental or directly related to the successful acquisition of new or renewal insurance contracts are to be capitalized as a deferred acquisition cost. This would include, among other items, sales commissions paid to agents, premium taxes, and the portion of employee salaries and benefits directly related to time spent on acquired contracts. This guidance is effective, either with a prospective or retrospective application, for interim and annual periods beginning after December 15, 2011, with early adoption permitted. Although we continue to evaluate the impact of this guidance, we anticipate that ASU 2010-26 would have an after-tax impact on our stockholders’ equity of approximately \$55 million, or about \$1 of book value per share. The adoption of this guidance is not expected to have a material impact on our results of operations on either a historical or prospective basis.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (“ASU 2011-04”), which changes the wording used to describe the requirements in U.S. GAAP for measuring fair value and disclosing information about fair value measurements to improve consistency in the application and description of fair value between GAAP and International Financial Reporting Standards. ASU 2011-04 clarifies how the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets, and are not relevant when measuring the fair value of financial assets or liabilities. In addition, ASU 2011-04 expands the disclosures for unobservable inputs for Level 3 fair value measurements, requiring quantitative information to be disclosed related to: (i) the valuation processes used; (ii) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs; and (iii) use of a nonfinancial asset in a way that differs from the asset’s highest and best use. ASU 2011-04 is effective prospectively for interim and annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on our financial condition, results of operations, or current disclosures.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (“ASU 2011-05”). ASU 2011-05 requires that all nonowner changes in stockholders’ equity be presented either

in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 also requires financial statement presentation of reclassification adjustments for items that are reclassified from other comprehensive income to net income. This guidance, which only changes financial statement presentation, is effective, on a retrospective basis, for interim and annual periods beginning after December 15, 2011.



## NOTE 5.

## Statements of Cash Flow

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

(\$ in thousands)	Six Months ended June 30,	
	2011	2010
Cash paid during the period for:		
Interest	\$ 9,103	9,649
Federal income tax	3,673	14,000

## NOTE 6.

## Investments

(a) The following table provides information related to our held-to-maturity (“HTM”) securities:

June 30, 2011						
(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
U.S. government and government agencies	\$86,479	4,280	90,759	6,336	-	97,095
Foreign government	5,292	330	5,622	-	(167)	5,455
Obligations of states and political subdivisions	779,013	17,284	796,297	25,828	(594)	821,531
Corporate securities	72,739	(3,023)	69,716	8,027	(8)	77,735
Asset-backed securities (“ABS”)	10,238	(2,255)	7,983	1,803	(510)	9,276
Commercial mortgage-backed securities (“CMBS”)1	42,784	(6,181)	36,603	7,470	(218)	43,855
Residential mortgage-backed securities (“RMBS”)2	62,769	829	63,598	2,432	-	66,030
Total HTM fixed maturity securities	\$1,059,314	11,264	1,070,578	51,896	(1,497)	1,120,977
December 31, 2010						
(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
U.S. government and government agencies	\$93,411	4,695	98,106	5,023	-	103,129
Foreign government	5,292	368	5,660	-	(30)	5,630
Obligations of states and political subdivisions	874,388	22,183	896,571	16,845	(1,132)	912,284
Corporate securities	76,663	(3,990)	72,673	9,705	(313)	82,065
ABS	12,947	(2,422)	10,525	1,847	(444)	11,928
CMBS1	54,909	(7,354)	47,555	7,483	(109)	54,929
RMBS2	82,191	1,043	83,234	3,095	-	86,329
Total HTM fixed maturity securities	\$1,199,801	14,523	1,214,324	43,998	(2,028)	1,256,294

1 CMBS includes government guaranteed agency securities with a carrying value of \$5.0 million at June 30, 2011 and \$8.9 million at December 31, 2010.

2 RMBS includes government guaranteed agency securities with a carrying value of \$6.9 million at June 30, 2011 and \$4.0 million at December 31, 2010.

Unrecognized holding gains/losses of HTM securities are not reflected in the consolidated 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 3.2 years as of June 30, 2011 and 3.4 years as of December 31, 2010.

(b) The following table provides information related to our available-for-sale (“AFS”) securities:

June 30, 2011

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies <sup>1</sup>	\$ 288,760	8,223	(52 )	296,931
Foreign government	29,768	477	(145 )	30,100
Obligations of states and political subdivisions	512,957	29,665	(6 )	542,616
Corporate securities	1,047,110	35,518	(4,125 )	1,078,503
ABS	77,573	760	(128 )	78,205
CMBS <sup>2</sup>	105,706	4,599	(1,181 )	109,124
RMBS <sup>3</sup>	380,705	10,565	(1,512 )	389,758
AFS fixed maturity securities	2,442,579	89,807	(7,149 )	2,525,237
AFS equity securities	128,187	10,053	(1,663 )	136,577
Total AFS securities	\$ 2,570,766	99,860	(8,812 )	2,661,814

December 31, 2010

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies <sup>1</sup>	\$ 312,384	8,292	(147 )	320,529
Foreign government	19,035	280	(349 )	18,966
Obligations of states and political subdivisions	512,013	22,534	(650 )	533,897
Corporate securities	973,835	28,674	(8,784 )	993,725
ABS	48,558	514	(339 )	48,733
CMBS <sup>2</sup>	103,374	4,024	(2,923 )	104,475
RMBS <sup>3</sup>	316,789	7,871	(2,243 )	322,417
AFS fixed maturity securities	2,285,988	72,189	(15,435 )	2,342,742
AFS equity securities	58,039	11,597	-	69,636
Total AFS securities	\$ 2,344,027	83,786	(15,435 )	2,412,378

<sup>1</sup> U.S. government includes corporate securities fully guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) with a fair value of \$98.9 million at June 30, 2011 and \$121.0 million at December 31, 2010.

<sup>2</sup> CMBS includes government guaranteed agency securities with a fair value of \$72.3 million at June 30, 2011 and \$71.9 million at December 31, 2010.

<sup>3</sup> RMBS includes government guaranteed agency securities with a fair value of \$94.7 million at June 30, 2011 and \$91.1 million at December 31, 2010.

Unrealized gains/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.

During Six Months 2011, 18 securities, with a carrying value of \$46.6 million in a net unrecognized gain position of \$1.2 million, were reclassified from the HTM category to AFS due to recent credit rating downgrades by either Moody's Investors Service, Standard and Poor's Financial Services, or Fitch Ratings. These unexpected rating downgrades raised significant concerns about the issuers' credit worthiness, which changed our intention to hold these securities to maturity.

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(c) The following tables summarize, for all securities in a net unrealized/unrecognized loss position at June 30, 2011 and December 31, 2010, the fair value and gross pre-tax net unrealized/unrecognized loss by asset class and by length of time those securities have been in a net loss position:

June 30, 2011	Less than 12 months		12 months or longer	
(\$ in thousands)	Fair Value	Unrealized Losses <sup>1</sup>	Fair Value	Unrealized Losses <sup>1</sup>
<b>AFS securities</b>				
U.S. government and government agencies <sup>2</sup>	\$ 4,051	(52 )	-	-
Foreign government	15,355	(145 )	-	-
Obligations of states and political subdivisions	-	-	305	(6 )
Corporate securities	254,600	(4,125 )	-	-
ABS	25,317	(56 )	765	(72 )
CMBS	8,064	(33 )	10,362	(1,148 )
RMBS	68,028	(888 )	7,201	(624 )
Total fixed maturity securities	375,415	(5,299 )	18,633	(1,850 )
Equity securities	51,650	(1,663 )	-	-
Subtotal	\$ 427,065	(6,962 )	18,633	(1,850 )

(\$ in thousands)	Less than 12 months			12 months or longer		
	Fair Value	Unrealized Losses <sup>1</sup>	Unrecognized Gains (Losses) <sup>3</sup>	Fair Value	Unrealized Losses <sup>1</sup>	Unrecognized Gains <sup>3</sup>
<b>HTM securities</b>						
Obligations of states and political subdivisions	\$ 13,127	(549 )	476	23,379	(1,630 )	1,312
ABS	-	-	-	3,364	(1,635 )	340
CMBS	-	-	-	6,438	(3,554 )	1,137
RMBS	-	-	-	112	(38 )	18
Subtotal	\$ 13,127	(549 )	476	33,293	(6,857 )	2,807
Total AFS and HTM	\$ 440,192	(7,511 )	476	51,926	(8,707 )	2,807

December 31, 2010	Less than 12 months		12 months or longer	
(\$ in thousands)	Fair Value	Unrealized Losses <sup>1</sup>	Fair Value	Unrealized Losses <sup>1</sup>
<b>AFS securities</b>				
U.S. government and government agencies <sup>2</sup>	\$ 3,956	(147 )	-	-
Foreign government	10,776	(349 )	-	-
Obligations of states and political subdivisions	40,410	(650 )	-	-
Corporate securities	362,502	(8,784 )	-	-
ABS	30,297	(273 )	880	(66 )
CMBS	5,453	(271 )	11,115	(2,652 )
RMBS	70,934	(1,098 )	20,910	(1,145 )
Total fixed maturity securities	524,328	(11,572 )	32,905	(3,863 )

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Equity securities	-	-	-	-
Subtotal	\$ 524,328	(11,572 )	32,905	(3,863 )

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(\$ in thousands)	Fair Value	Less than 12 months		12 months or longer		
		Unrealized (Losses) Gains <sup>1</sup>	Unrecognized Gains (Losses) <sup>3</sup>	Fair Value	Unrealized Losses <sup>1</sup>	Unrecognized Gains <sup>3</sup>
HTM securities						
Obligations of states and political subdivisions	\$21,036	(381 )	45	27,855	(1,969 )	670
Corporate securities	1,985	(434 )	420	-	-	-