

SELECTIVE INSURANCE GROUP INC

Form 10-Q

July 27, 2017

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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: June 30, 2017

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)

(973) 948-3000

(Registrant's Telephone Number, Including Area Code)

07890

(Zip 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 ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Emerging growth company ☐ Smaller reporting company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

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 July 14, 2017, there were 58,364,187 shares of common stock, par value \$2.00 per share, outstanding.

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ITEM 1. FINANCIAL STATEMENTS.SELECTIVE INSURANCE GROUP, INC.  
CONSOLIDATED BALANCE SHEETS

|                                                                                                                           | Unaudited        |                      |
|---------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
|                                                                                                                           | June 30,<br>2017 | December 31,<br>2016 |
| (\$ in thousands, except share amounts)                                                                                   |                  |                      |
| <b>ASSETS</b>                                                                                                             |                  |                      |
| Investments:                                                                                                              |                  |                      |
| Fixed income securities, held-to-maturity – at carrying value (fair value: \$75,540 – 2017; \$105,211 – 2016)             | \$72,514         | 101,556              |
| Fixed income securities, available-for-sale – at fair value (amortized cost: \$4,923,005 – 2017; \$4,753,759 – 2016)      | 5,018,722        | 4,792,540            |
| Equity securities, available-for-sale – at fair value (cost: \$131,463 – 2017; \$120,889 – 2016)                          | 661,694          | 146,753              |
| Short-term investments (at cost which approximates fair value)                                                            | 133,706          | 221,701              |
| Other investments                                                                                                         | 116,411          | 102,397              |
| Total investments (Note 4 and 6)                                                                                          | 5,503,047        | 5,364,947            |
| Cash                                                                                                                      | 8,628            | 458                  |
| Interest and dividends due or accrued                                                                                     | 40,231           | 40,164               |
| Premiums receivable, net of allowance for uncollectible accounts of: \$6,627 – 2017; \$5,980 – 2016                       | 764,340          | 681,611              |
| Reinsurance recoverable, net of allowance for uncollectible accounts of: \$5,200 – 2017; \$5,500 – 2016                   | 601,887          | 621,537              |
| Prepaid reinsurance premiums                                                                                              | 151,898          | 146,282              |
| Current federal income tax                                                                                                | —                | 2,486                |
| Deferred federal income tax                                                                                               | 60,388           | 84,840               |
| Property and equipment – at cost, net of accumulated depreciation and amortization of: \$206,847 – 2017; \$198,729 – 2016 | 66,255           | 69,576               |
| Deferred policy acquisition costs                                                                                         | 234,903          | 222,564              |
| Goodwill                                                                                                                  | 7,849            | 7,849                |
| Other assets                                                                                                              | 88,778           | 113,534              |
| Total assets                                                                                                              | \$7,528,204      | 7,355,848            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                               |                  |                      |
| Liabilities:                                                                                                              |                  |                      |
| Reserve for losses and loss expenses (Note 8)                                                                             | \$3,731,221      | 3,691,719            |
| Unearned premiums                                                                                                         | 1,352,068        | 1,262,819            |
| Long-term debt                                                                                                            | 438,894          | 438,667              |
| Current federal income tax                                                                                                | 2,104            | —                    |
| Accrued salaries and benefits                                                                                             | 103,177          | 132,880              |
| Other liabilities                                                                                                         | 248,184          | 298,393              |
| Total liabilities                                                                                                         | \$5,875,648      | 5,824,478            |
| 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: 102,150,866 – 2017; 101,620,436 – 2016                                                                            | 204,302          | 203,241              |

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|                                                                            |             |            |
|----------------------------------------------------------------------------|-------------|------------|
| Additional paid-in capital                                                 | 359,982     | 347,295    |
| Retained earnings                                                          | 1,641,820   | 1,568,881  |
| Accumulated other comprehensive income (loss) (Note 11)                    | 24,497      | (15,950 )  |
| Treasury stock – at cost<br>(shares: 43,788,147 – 2017; 43,653,237 – 2016) | (578,045 )  | (572,097 ) |
| Total stockholders' equity                                                 | \$1,652,556 | 1,531,370  |
| Commitments and contingencies                                              |             |            |
| Total liabilities and stockholders' equity                                 | \$7,528,204 | 7,355,848  |

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

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| SELECTIVE INSURANCE GROUP, INC.                                                                      |  | Quarter ended June |         | Six Months ended June |           |
|------------------------------------------------------------------------------------------------------|--|--------------------|---------|-----------------------|-----------|
| UNAUDITED CONSOLIDATED STATEMENTS OF INCOME                                                          |  | 30,                |         | 30,                   |           |
| (\$ in thousands, except per share amounts)                                                          |  | 2017               | 2016    | 2017                  | 2016      |
| Revenues:                                                                                            |  |                    |         |                       |           |
| Net premiums earned                                                                                  |  | \$568,030          | 531,932 | 1,128,884             | 1,054,390 |
| Net investment income earned                                                                         |  | 41,430             | 31,182  | 78,849                | 61,951    |
| Net realized gains (losses):                                                                         |  |                    |         |                       |           |
| Net realized investment gains                                                                        |  | 2,951              | 2,314   | 5,381                 | 3,203     |
| Other-than-temporary impairments                                                                     |  | (1,211)            | (559)   | (4,686)               | (4,152)   |
| Other-than-temporary impairments on fixed income securities recognized in other comprehensive income |  | (6)                | 10      | (6)                   | 10        |
| Total net realized gains (losses)                                                                    |  | 1,734              | 1,765   | 689                   | (939)     |
| Other income                                                                                         |  | 3,291              | 3,868   | 6,532                 | 4,819     |
| Total revenues                                                                                       |  | 614,485            | 568,747 | 1,214,954             | 1,120,221 |
| Expenses:                                                                                            |  |                    |         |                       |           |
| Losses and loss expenses incurred                                                                    |  | 341,559            | 298,479 | 659,031               | 595,623   |
| Policy acquisition costs                                                                             |  | 196,824            | 190,731 | 393,052               | 373,958   |
| Interest expense                                                                                     |  | 6,081              | 5,620   | 12,187                | 11,226    |
| Other expenses                                                                                       |  | 11,092             | 11,606  | 24,181                | 25,228    |
| Total expenses                                                                                       |  | 555,556            | 506,436 | 1,088,451             | 1,006,035 |
| Income before federal income tax                                                                     |  | 58,929             | 62,311  | 126,503               | 114,186   |
| Federal income tax expense:                                                                          |  |                    |         |                       |           |
| Current                                                                                              |  | 17,785             | 18,318  | 32,058                | 32,402    |
| Deferred                                                                                             |  | (282)              | 392     | 2,579                 | 1,151     |
| Total federal income tax expense                                                                     |  | 17,503             | 18,710  | 34,637                | 33,553    |
| Net income                                                                                           |  | \$41,426           | 43,601  | 91,866                | 80,633    |
| Earnings per share:                                                                                  |  |                    |         |                       |           |
| Basic net income                                                                                     |  | \$0.71             | 0.75    | 1.57                  | 1.40      |
| Diluted net income                                                                                   |  | \$0.70             | 0.74    | 1.55                  | 1.38      |
| Dividends to stockholders                                                                            |  | \$0.16             | 0.15    | 0.32                  | 0.30      |

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

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| SELECTIVE INSURANCE GROUP, INC.<br>UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE<br>INCOME<br>(\$ in thousands) |  | Quarter ended<br>June 30, |          | Six Months ended<br>June 30, |         |
|----------------------------------------------------------------------------------------------------------------------|--|---------------------------|----------|------------------------------|---------|
|                                                                                                                      |  | 2017                      | 2016     | 2017                         | 2016    |
| Net income                                                                                                           |  | \$41,426                  | 43,601   | 91,866                       | 80,633  |
| Other comprehensive income, net of tax:                                                                              |  |                           |          |                              |         |
| Unrealized gains on investment securities:                                                                           |  |                           |          |                              |         |
| Unrealized holding gains arising during period                                                                       |  | 23,326                    | 36,188   | 40,087                       | 78,917  |
| Non-credit portion of other-than-temporary impairments recognized in other comprehensive income                      |  | 4                         | (6 )     | 4                            | (6 )    |
| Amounts reclassified into net income:                                                                                |  |                           |          |                              |         |
| Held-to-maturity securities                                                                                          |  | (28 )                     | (12 )    | (60 )                        | (59 )   |
| Realized (gains) losses on available-for-sale securities                                                             |  | (1,225 )                  | (1,145 ) | (244 )                       | 609     |
| Total unrealized gains on investment securities                                                                      |  | 22,077                    | 35,025   | 39,787                       | 79,461  |
| Defined benefit pension and post-retirement plans:                                                                   |  |                           |          |                              |         |
| Amounts reclassified into net income:                                                                                |  |                           |          |                              |         |
| Net actuarial loss                                                                                                   |  | 330                       | 985      | 660                          | 1,971   |
| Total defined benefit pension and post-retirement plans                                                              |  | 330                       | 985      | 660                          | 1,971   |
| Other comprehensive income                                                                                           |  | 22,407                    | 36,010   | 40,447                       | 81,432  |
| Comprehensive income                                                                                                 |  | \$63,833                  | 79,611   | 132,313                      | 162,065 |

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

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| SELECTIVE INSURANCE GROUP, INC.                                                |  | Six Months ended June |            |
|--------------------------------------------------------------------------------|--|-----------------------|------------|
| UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY                      |  | 30,                   |            |
| (\$ in thousands, except per share amounts)                                    |  | 2017                  | 2016       |
| Common stock:                                                                  |  |                       |            |
| Beginning of year                                                              |  | \$203,241             | 201,723    |
| Dividend reinvestment plan (shares: 15,419 – 2017; 20,808 – 2016)              |  | 31                    | 42         |
| Stock purchase and compensation plans (shares: 515,011 – 2017; 569,034 – 2016) |  | 1,030                 | 1,138      |
| End of period                                                                  |  | 204,302               | 202,903    |
| Additional paid-in capital:                                                    |  |                       |            |
| Beginning of year                                                              |  | 347,295               | 326,656    |
| Dividend reinvestment plan                                                     |  | 693                   | 696        |
| Stock purchase and compensation plans                                          |  | 11,994                | 12,757     |
| End of period                                                                  |  | 359,982               | 340,109    |
| Retained earnings:                                                             |  |                       |            |
| Beginning of year                                                              |  | 1,568,881             | 1,446,192  |
| Net income                                                                     |  | 91,866                | 80,633     |
| Dividends to stockholders (\$0.32 per share – 2017; \$0.30 per share – 2016)   |  | (18,927 )             | (17,583 )  |
| End of period                                                                  |  | 1,641,820             | 1,509,242  |
| Accumulated other comprehensive income:                                        |  |                       |            |
| Beginning of year                                                              |  | (15,950 )             | (9,425 )   |
| Other comprehensive income                                                     |  | 40,447                | 81,432     |
| End of period                                                                  |  | 24,497                | 72,007     |
| Treasury stock:                                                                |  |                       |            |
| Beginning of year                                                              |  | (572,097 )            | (567,105 ) |
| Acquisition of treasury stock (shares: 134,910 – 2017; 138,007 – 2016)         |  | (5,948 )              | (4,419 )   |
| End of period                                                                  |  | (578,045 )            | (571,524 ) |
| Total stockholders' equity                                                     |  | \$1,652,556           | 1,552,737  |

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.                                                   |  | Six Months ended |            |
|-----------------------------------------------------------------------------------|--|------------------|------------|
| UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS                                   |  | June 30,         |            |
| (\$ in thousands)                                                                 |  | 2017             | 2016       |
| Operating Activities                                                              |  |                  |            |
| Net income                                                                        |  | \$91,866         | 80,633     |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                  |            |
| Depreciation and amortization                                                     |  | 25,409           | 30,155     |
| Stock-based compensation expense                                                  |  | 8,372            | 7,203      |
| Undistributed (gains) losses of equity method investments                         |  | (3,575 )         | 1,677      |
| Loss on disposal of fixed assets                                                  |  | 998              | —          |
| Net realized (gains) losses                                                       |  | (689 )           | 939        |
| Changes in assets and liabilities:                                                |  |                  |            |
| Increase in reserve for losses and loss expenses, net of reinsurance recoverable  |  | 59,152           | 41,986     |
| Increase in unearned premiums, net of prepaid reinsurance                         |  | 83,633           | 89,109     |
| Decrease in net federal income taxes                                              |  | 7,263            | 2,380      |
| Increase in premiums receivable                                                   |  | (82,729 )        | (91,391 )  |
| Increase in deferred policy acquisition costs                                     |  | (12,339 )        | (15,395 )  |
| Increase in interest and dividends due or accrued                                 |  | (204 )           | (1,030 )   |
| Decrease in accrued salaries and benefits                                         |  | (29,703 )        | (48,603 )  |
| Decrease (increase) in other assets                                               |  | 24,953           | (3,877 )   |
| Decrease in other liabilities                                                     |  | (48,684 )        | (34,659 )  |
| Net cash provided by operating activities                                         |  | 123,723          | 59,127     |
| Investing Activities                                                              |  |                  |            |
| Purchase of fixed income securities, held-to-maturity                             |  | —                | (4,235 )   |
| Purchase of fixed income securities, available-for-sale                           |  | (1,194,142 )     | (411,538 ) |
| Purchase of equity securities, available-for-sale                                 |  | (22,115 )        | (16,796 )  |
| Purchase of other investments                                                     |  | (22,121 )        | (17,734 )  |
| Purchase of short-term investments                                                |  | (2,259,305 )     | (691,496 ) |
| Sale of fixed income securities, available-for-sale                               |  | 717,072          | 22,114     |
| Sale of short-term investments                                                    |  | 2,348,892        | 680,865    |
| Redemption and maturities of fixed income securities, held-to-maturity            |  | 28,730           | 44,615     |
| Redemption and maturities of fixed income securities, available-for-sale          |  | 300,430          | 264,244    |
| Sale of equity securities, available-for-sale                                     |  | 6,289            | 83,793     |
| Distributions from other investments                                              |  | 9,843            | 13,380     |
| Purchase of property and equipment                                                |  | (7,047 )         | (8,187 )   |
| Net cash used in investing activities                                             |  | (93,474 )        | (40,975 )  |
| Financing Activities                                                              |  |                  |            |
| Dividends to stockholders                                                         |  | (17,922 )        | (16,569 )  |
| Acquisition of treasury stock                                                     |  | (5,948 )         | (4,419 )   |
| Net proceeds from stock purchase and compensation plans                           |  | 4,045            | 4,368      |
| Proceeds from borrowings                                                          |  | 64,000           | 55,000     |
| Repayments of borrowings                                                          |  | (64,000 )        | (55,000 )  |
| Excess tax benefits from share-based payment arrangements                         |  | —                | 1,761      |
| Repayments of capital lease obligations                                           |  | (2,254 )         | (2,661 )   |
| Net cash used in financing activities                                             |  | (22,079 )        | (17,520 )  |

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|                         |         |       |
|-------------------------|---------|-------|
| Net increase in cash    | 8,170   | 632   |
| Cash, beginning of year | 458     | 898   |
| Cash, end of period     | \$8,628 | 1,530 |

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

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Basis of Presentation

As used herein, the "Company," "we," "us," or "our" refers to Selective Insurance Group, Inc. (the "Parent"), and its subsidiaries, except as expressly indicated or unless the context otherwise requires. Our interim unaudited consolidated financial statements ("Financial Statements") have been prepared by us in conformity with U.S. generally accepted accounting principles ("GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. The preparation of the Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. All significant intercompany accounts and transactions between the Parent and its subsidiaries are eliminated in consolidation.

Our Financial Statements reflect all adjustments that, in our opinion, are normal, recurring, and necessary for a fair presentation of our results of operations and financial condition. Our Financial Statements cover the second quarters ended June 30, 2017 ("Second Quarter 2017") and June 30, 2016 ("Second Quarter 2016") and the six-month periods ended June 30, 2017 ("Six Months 2017") and June 30, 2016 ("Six Months 2016"). The Financial Statements do not include all of the information and disclosures required by GAAP and the SEC for audited annual financial statements. Results of operations for any interim period are not necessarily indicative of results for a full year. Consequently, our Financial Statements should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Annual Report") filed with the SEC.

NOTE 2. Adoption of Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions. We adopted this guidance on January 1, 2017, which resulted in the following impacts on our consolidated financial statements:

Consolidated Statements of Income

The new standard requires that the tax effects of share-based compensation be recognized in the income tax provision as discrete items outside of the annual estimated expected tax rate. In addition, all excess tax benefits and tax deficiencies should be recognized as income tax benefit or expense in the income statement. Previously, these amounts were recorded in additional paid-in capital. In addition, in calculating potential common shares used to determine diluted earnings per share, GAAP requires us to use the treasury stock method. The new standard requires that assumed proceeds under the treasury stock method be modified to exclude the amount of excess tax benefits that would have been recognized in additional paid-in capital. These changes were adopted on a prospective basis. As a result of adoption, we recognized an income tax benefit in the Consolidated Statements of Income of \$0.4 million in Second Quarter 2017 and \$3.3 million in Six Months 2017 related to stock grants that have vested this year.

In recording share-based compensation expense, ASU 2016-09 allows companies to make a policy election as to whether they will include an estimate of awards expected to be forfeited or whether they will account for forfeitures as they occur. We have elected to include an estimate of forfeitures in the computation of our share-based compensation expense. As this treatment is consistent with previous guidance, this election had no impact on our consolidated financial statements.

Consolidated Statements of Cash Flows

ASU 2016-09 requires that excess tax benefits from share-based awards be reported as operating activities in the consolidated statement of cash flows. Previously, these cash flows were included in financing activities. We elected to apply this change on a prospective basis; therefore, no changes have been made to the prior periods disclosed in this report.

The standard also requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the consolidated statement of cash flows. This requirement has no impact to us as we have historically reported these cash flows as part of financing activities.

In October 2016, the FASB issued ASU 2016-17, Consolidation: Interests Held through Related Parties That Are Under Common Control ("ASU 2016-17"). ASU 2016-17 changes how a decision maker considers indirect interests in a variable interest entity ("VIE") held under common control in making the primary beneficiary determination. ASU 2016-17 was effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. The adoption of ASU 2016-17 did not impact us, as we are not the decision maker in any of the VIEs in which we are invested.

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Pronouncements to be effective in the future

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 provides guidance to improve certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically the guidance: (i) requires equity investments to be measured at fair value with changes in fair value recognized in earnings; (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost; (iv) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and (v) clarifies that the need for a valuation allowance on a deferred tax asset related to an available-for-sale ("AFS") security should be evaluated with other deferred tax assets.

ASU 2016-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Our adoption of this guidance will require a cumulative-effect adjustment to the balance sheet as of January 1, 2018 in an amount equal to the after-tax net unrealized gain or loss on our equity portfolio as of year-end 2017. If this guidance had been adopted as of the beginning of 2017, the cumulative-effect adjustment would have been approximately \$17 million and we would have recognized additional after-tax net income of approximately \$3 million or \$0.05 per diluted share, reflecting the change in fair value during Six Months 2017.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that fiscal year, with early adoption permitted. ASU 2016-02 requires the application of a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. While we are currently evaluating ASU 2016-02, we do not expect a material impact on our financial condition or results of operations from the adoption of this guidance.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses ("ASU 2016-13"). ASU 2016-13 will change the way entities recognize impairment of financial assets by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, including, among others, held-to-maturity debt securities, trade receivables, and reinsurance receivables. ASU 2016-13 requires a valuation allowance to be calculated on these financial assets and that they be presented on the financial statements net of the valuation allowance. The valuation allowance is a measurement of expected losses that is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This methodology is referred to as the current expected credit loss model. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2018. We are currently evaluating the impact of this guidance on our financial condition and results of operations.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows ("ASU 2016-15"). ASU 2016-15 adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows, including, but not limited to: (i) debt prepayment or debt extinguishment costs; (ii) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (iii) distributions received from equity method investees; and (iv) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this guidance on our statement of cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash ("ASU 2016-18"). ASU 2016-18, requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents in the reconciliation of beginning and ending cash on the statements of cash flows. This update also requires a reconciliation of the statement of the cash flows to the balance sheet if the balance sheet includes more than one line item of cash, cash equivalents, and restricted cash. ASU 2016-18 is effective, with retrospective adoption, for annual periods beginning after December 15, 2017, and interim periods within those annual periods. We currently have restricted cash associated with the National Flood Insurance Program ("NFIP") in "Other assets." This literature will impact the presentation of this item in both the Consolidated Balance Sheets and the Statements of Cash Flows.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 eliminates the second step of the two part goodwill impairment test, which

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required entities to determine the fair value of individual assets and liabilities of a reporting unit to measure the goodwill impairment. Under the new guidance, a goodwill impairment is calculated as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this update should be applied on a prospective basis for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect a material impact on our financial condition or results of operations from the adoption of this guidance.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). ASU 2017-07 requires that an employer report a pension plan's service cost in the same line item or line items as other compensation costs arising from services rendered by pertinent employees during the period. ASU 2017-07 also requires that other components of net benefit cost be presented in the income statement separately from the service cost component. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. ASU 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted at the beginning of an annual period. As our pension plan was frozen as of March 2016, we ceased accruing additional service fee costs at that time. Therefore, the application of this guidance is not anticipated to impact our financial condition, results of operations, or disclosures.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08"). ASU 2017-08 revises the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. ASU 2017-08 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018, with early adoption permitted. This ASU does not impact us, as we amortize premium on these callable debt securities to the earliest call date.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting ("ASU 2017-09"). ASU 2017-09 provides clarification about which changes to the terms or conditions of a share-based payment award would require the application of modification accounting. ASU 2017-09 is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The adoption of this guidance is not anticipated to impact us, as we currently record modifications in accordance with this ASU.

## NOTE 3. Statements of Cash Flows

Supplemental cash flow information was as follows:

| (\$ in thousands)                | Six Months<br>ended June 30, |        |
|----------------------------------|------------------------------|--------|
|                                  | 2017                         | 2016   |
| Cash paid during the period for: |                              |        |
| Interest                         | \$11,963                     | 10,986 |
| Federal income tax               | 27,000                       | 29,000 |

## Non-cash items:

|                                                                  |       |        |
|------------------------------------------------------------------|-------|--------|
| Exchange of fixed income securities, AFS                         | 1,029 | 17,702 |
| Corporate actions related to equity securities, AFS <sup>1</sup> | —     | 3,032  |
| Assets acquired under capital lease arrangements                 | 278   | 2,999  |
| Non-cash purchase of property and equipment                      | —     | 577    |

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

Included in "Other assets" on the Consolidated Balance Sheets was \$8.1 million at June 30, 2017 and \$8.9 million at June 30, 2016 of cash received from the NFIP, which is restricted to pay flood claims under the Write Your Own ("WYO") program.

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## NOTE 4. Investments

(a) Information regarding our held-to-maturity ("HTM") fixed income securities as of June 30, 2017 and December 31, 2016 was as follows:

June 30, 2017

| (\$ in thousands)                                      | Amortized<br>Cost | Net<br>Unrealized<br>Gains<br>(Losses) | Carrying<br>Value | Unrecognized<br>Holding<br>Gains | Unrecognized<br>Holding<br>Losses | Fair<br>Value |
|--------------------------------------------------------|-------------------|----------------------------------------|-------------------|----------------------------------|-----------------------------------|---------------|
| Obligations of states and political subdivisions       | \$ 53,734         | 185                                    | 53,919            | 1,703                            | —                                 | 55,622        |
| Corporate securities                                   | 18,714            | (119 )                                 | 18,595            | 1,323                            | —                                 | 19,918        |
| Total HTM fixed income securities<br>December 31, 2016 | \$ 72,448         | 66                                     | 72,514            | 3,026                            | —                                 | 75,540        |

| (\$ in thousands)                                 | Amortized<br>Cost | Net<br>Unrealized<br>Gains<br>(Losses) | Carrying<br>Value | Unrecognized<br>Holding<br>Gains | Unrecognized<br>Holding<br>Losses | Fair<br>Value |
|---------------------------------------------------|-------------------|----------------------------------------|-------------------|----------------------------------|-----------------------------------|---------------|
| Obligations of states and political subdivisions  | \$ 77,466         | 317                                    | 77,783            | 2,133                            | —                                 | 79,916        |
| Corporate securities                              | 22,711            | (143 )                                 | 22,568            | 1,665                            | (158 )                            | 24,075        |
| Commercial mortgage-backed securities<br>("CMBS") | 1,220             | (15 )                                  | 1,205             | 15                               | —                                 | 1,220         |
| Total HTM fixed income securities                 | \$ 101,397        | 159                                    | 101,556           | 3,813                            | (158 )                            | 105,211       |

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.

(b) Information regarding our AFS securities as of June 30, 2017 and December 31, 2016 was as follows:

June 30, 2017

| (\$ in thousands)                                                                          | Cost/<br>Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|--------------------------------------------------------------------------------------------|----------------------------|---------------------|----------------------|---------------|
| AFS fixed income securities:                                                               |                            |                     |                      |               |
| U.S. government and government agencies                                                    | \$66,932                   | 1,103               | (32 )                | 68,003        |
| Foreign government                                                                         | 18,157                     | 557                 | —                    | 18,714        |
| Obligations of states and political subdivisions                                           | 1,360,211                  | 45,641              | (1,086 )             | 1,404,766     |
| Corporate securities                                                                       | 1,782,993                  | 39,041              | (524 )               | 1,821,510     |
| Collateralized loan obligations and other asset-backed securities ("CLO<br>and other ABS") | 698,594                    | 4,108               | (178 )               | 702,524       |
| CMBS                                                                                       | 277,320                    | 2,128               | (243 )               | 279,205       |
| Residential mortgage-backed<br>securities ("RMBS")                                         | 718,798                    | 6,068               | (866 )               | 724,000       |
| Total AFS fixed income securities                                                          | 4,923,005                  | 98,646              | (2,929 )             | 5,018,722     |
| AFS equity securities:                                                                     |                            |                     |                      |               |
| Common stock                                                                               | 115,315                    | 30,108              | (987 )               | 144,436       |
| Preferred stock                                                                            | 16,148                     | 1,110               | —                    | 17,258        |
| Total AFS equity securities                                                                | 131,463                    | 31,218              | (987 )               | 161,694       |
| Total AFS securities                                                                       | \$5,054,468                | 129,864             | (3,916 )             | 5,180,416     |



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December 31, 2016

| (\$ in thousands)                                | Cost/<br>Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|--------------------------------------------------|----------------------------|---------------------|----------------------|---------------|
| AFS fixed income securities:                     |                            |                     |                      |               |
| U.S. government and government agencies          | \$75,139                   | 2,230               | (36 )                | 77,333        |
| Foreign government                               | 26,559                     | 322                 | (16 )                | 26,865        |
| Obligations of states and political subdivisions | 1,366,287                  | 18,610              | (5,304 )             | 1,379,593     |
| Corporate securities                             | 1,976,556                  | 27,057              | (5,860 )             | 1,997,753     |
| CLO and other ABS                                | 527,876                    | 1,439               | (355 )               | 528,960       |
| CMBS                                             | 256,356                    | 1,514               | (1,028 )             | 256,842       |
| RMBS                                             | 524,986                    | 3,006               | (2,798 )             | 525,194       |
| Total AFS fixed income securities                | 4,753,759                  | 54,178              | (15,397 )            | 4,792,540     |
| AFS equity securities:                           |                            |                     |                      |               |
| Common stock                                     | 104,663                    | 26,250              | (305 )               | 130,608       |
| Preferred stock                                  | 16,226                     | 274                 | (355 )               | 16,145        |
| Total AFS equity securities                      | 120,889                    | 26,524              | (660 )               | 146,753       |
| Total AFS securities                             | \$4,874,648                | 80,702              | (16,057 )            | 4,939,293     |

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 (loss)" ("AOCI") on the Consolidated Balance Sheets.

(c) The severity of impairment on securities in an unrealized/unrecognized loss position averaged 1% of amortized cost at both June 30, 2017 and December 31, 2016. Quantitative information regarding unrealized losses on our AFS portfolio is provided below.

| June 30, 2017                                    | Less than 12 months |                                | 12 months or longer |                                | Total      |                                |
|--------------------------------------------------|---------------------|--------------------------------|---------------------|--------------------------------|------------|--------------------------------|
| (\$ in thousands)                                | Fair Value          | Unrealized Losses <sup>1</sup> | Fair Value          | Unrealized Losses <sup>1</sup> | Fair Value | Unrealized Losses <sup>1</sup> |
| AFS fixed income securities:                     |                     |                                |                     |                                |            |                                |
| U.S. government and government agencies          | \$12,670            | (32 )                          | —                   | —                              | 12,670     | (32 )                          |
| Obligations of states and political subdivisions | 107,387             | (1,086 )                       | —                   | —                              | 107,387    | (1,086 )                       |
| Corporate securities                             | 72,991              | (517 )                         | 2,531               | (7 )                           | 75,522     | (524 )                         |
| CLO and other ABS                                | 156,406             | (178 )                         | —                   | —                              | 156,406    | (178 )                         |
| CMBS                                             | 42,671              | (243 )                         | —                   | —                              | 42,671     | (243 )                         |
| RMBS                                             | 179,293             | (860 )                         | 449                 | (6 )                           | 179,742    | (866 )                         |
| Total AFS fixed income securities                | 571,418             | (2,916 )                       | 2,980               | (13 )                          | 574,398    | (2,929 )                       |
| AFS equity securities:                           |                     |                                |                     |                                |            |                                |
| Common stock                                     | 18,423              | (987 )                         | —                   | —                              | 18,423     | (987 )                         |
| Total AFS equity securities                      | 18,423              | (987 )                         | —                   | —                              | 18,423     | (987 )                         |
| Total AFS                                        | \$589,841           | (3,903 )                       | 2,980               | (13 )                          | 592,821    | (3,916 )                       |

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| December 31, 2016                                | Less than 12 months |                                | 12 months or longer |                                | Total      |                                |
|--------------------------------------------------|---------------------|--------------------------------|---------------------|--------------------------------|------------|--------------------------------|
| (\$ in thousands)                                | Fair Value          | Unrealized Losses <sup>1</sup> | Fair Value          | Unrealized Losses <sup>1</sup> | Fair Value | Unrealized Losses <sup>1</sup> |
| AFS fixed income securities:                     |                     |                                |                     |                                |            |                                |
| U.S. government and government agencies          | \$6,419             | (36 )                          | —                   | —                              | 6,419      | (36 )                          |
| Foreign government                               | 13,075              | (16 )                          | —                   | —                              | 13,075     | (16 )                          |
| Obligations of states and political subdivisions | 306,509             | (5,304 )                       | —                   | —                              | 306,509    | (5,304 )                       |
| Corporate securities                             | 462,902             | (5,771 )                       | 4,913               | (89 )                          | 467,815    | (5,860 )                       |
| CLO and other ABS                                | 189,795             | (354 )                         | 319                 | (1 )                           | 190,114    | (355 )                         |
| CMBS                                             | 82,492              | (1,021 )                       | 1,645               | (7 )                           | 84,137     | (1,028 )                       |
| RMBS                                             | 279,480             | (2,489 )                       | 8,749               | (309 )                         | 288,229    | (2,798 )                       |
| Total AFS fixed income securities                | 1,340,672           | (14,991 )                      | 15,626              | (406 )                         | 1,356,298  | (15,397 )                      |
| AFS equity securities:                           |                     |                                |                     |                                |            |                                |
| Common stock                                     | 11,271              | (305 )                         | —                   | —                              | 11,271     | (305 )                         |
| Preferred stock                                  | 6,168               | (355 )                         | —                   | —                              | 6,168      | (355 )                         |
| Total AFS equity securities                      | 17,439              | (660 )                         | —                   | —                              | 17,439     | (660 )                         |
| Total AFS                                        | \$1,358,111         | (15,651 )                      | 15,626              | (406 )                         | 1,373,737  | (16,057 )                      |

<sup>1</sup> Gross unrealized losses include non-OTTI unrealized amounts and OTTI losses recognized in AOCI.

We do not intend to sell any of the securities in the tables above, nor do we believe we will be required to sell any of these securities. We have also reviewed these securities under our OTTI policy, as described in Note 2. "Summary of Significant Accounting Policies" within Item 8. "Financial Statements and Supplementary Data." of our 2016 Annual Report, and have concluded that they are temporarily impaired. This conclusion reflects our current judgment as to the financial position and future prospects of the entity that issued the investment security and underlying collateral.

(d) Fixed income securities at June 30, 2017, by contractual maturity, are shown below. Mortgage-backed securities ("MBS") are included in the maturity tables using the estimated average life of each security. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Listed below are the contractual maturities of fixed income securities at June 30, 2017:

|                                       | AFS         | HTM            |            |
|---------------------------------------|-------------|----------------|------------|
| (\$ in thousands)                     | Fair Value  | Carrying Value | Fair Value |
| Due in one year or less               | \$306,493   | 34,521         | 34,898     |
| Due after one year through five years | 2,095,055   | 29,648         | 31,498     |
| Due after five years through 10 years | 2,379,624   | 8,345          | 9,144      |
| Due after 10 years                    | 237,550     | —              | —          |
| Total fixed income securities         | \$5,018,722 | 72,514         | 75,540     |

(e) We evaluate the alternative investments and tax credit investments included in our other investments portfolio to determine whether those investments are VIEs and if so, whether consolidation is required. A VIE is an entity that either has equity investors that lack certain essential characteristics of a controlling financial interest or lacks sufficient funds to finance its own activities without financial support provided by other entities. We consider several significant factors in determining if our investments are VIEs and if we are the primary beneficiary, including whether we have: (i) the power to direct activities of the VIE; (ii) the ability to remove the decision maker of the VIE; (iii) the ability to participate in making decisions that are significant to the VIE; and (iv) the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE. We have determined that the investments

in our other investment portfolio are VIEs, but that we are not the primary beneficiary and therefore, consolidation is not required.

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The following table summarizes our other investment portfolio by strategy:

| Other Investments<br>(\$ in thousands) | June 30, 2017  |                      |                                       | December 31, 2016 |                      |                                       |
|----------------------------------------|----------------|----------------------|---------------------------------------|-------------------|----------------------|---------------------------------------|
|                                        | Carrying Value | Remaining Commitment | Maximum Exposure to Loss <sup>1</sup> | Carrying Value    | Remaining Commitment | Maximum Exposure to Loss <sup>1</sup> |
| Alternative Investments                |                |                      |                                       |                   |                      |                                       |
| Private equity                         | \$46,945       | 76,027               | 122,972                               | 41,135            | 76,774               | 117,909                               |
| Private credit                         | 29,942         | 57,391               | 87,333                                | 28,193            | 40,613               | 68,806                                |
| Real assets                            | 20,783         | 31,237               | 52,020                                | 14,486            | 22,899               | 37,385                                |
| Total alternative investments          | 97,670         | 164,655              | 262,325                               | 83,814            | 140,286              | 224,100                               |
| Other securities                       | 18,741         | —                    | 18,741                                | 18,583            | 3,400                | 21,983                                |
| Total other investments                | \$116,411      | 164,655              | 281,066                               | 102,397           | 143,686              | 246,083                               |

<sup>1</sup>The maximum exposure to loss includes both the carry value of these investments and the related unfunded commitments. In addition, tax credits that have been previously recognized in Other securities are subject to the risk of recapture, which we do not consider significant.

We do not have a future obligation to fund losses or debts on behalf of the investments above; however, we are contractually committed to make additional investments up to the remaining commitment outlined above. We have not provided any non-contractual financial support at any time during 2017 or 2016.

For a description of our 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 2016 Annual Report.

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

| Income Statement Information<br>(\$ in millions)                  | Quarter ended<br>June 30, |         | Six Months ended<br>June 30, |           |
|-------------------------------------------------------------------|---------------------------|---------|------------------------------|-----------|
|                                                                   | 2017                      | 2016    | 2017                         | 2016      |
| Net investment (loss) income                                      | \$(9.9)                   | \$(4.6) | \$(62.4)                     | \$37.0    |
| Realized gains                                                    | (70.2)                    | 193.2   | (304.3)                      | 981.1     |
| Net change in unrealized depreciation                             | 1,418.5                   | (253.9) | 1,890.0                      | (1,236.5) |
| Net gain                                                          | \$1,338.4                 | (65.3)  | 1,523.3                      | (218.4)   |
| Selective's insurance subsidiaries' other investments gain (loss) | \$5.2                     | (0.6)   | 6.8                          | (1.7)     |

(f) We have pledged certain AFS fixed income securities as collateral related to our relationships with the Federal Home Loan Bank of Indianapolis ("FHLBI") and the Federal Home Loan Bank of New York ("FHLBNY"). In addition, certain securities were on deposit with various state and regulatory agencies at June 30, 2017 to comply with insurance laws. We retain all rights regarding all securities pledged as collateral.

The following table summarizes the market value of these securities at June 30, 2017:

| (\$ in millions)                        | FHLBI<br>Collateral | FHLBNY<br>Collateral | State and<br>Regulatory<br>Deposits | Total |
|-----------------------------------------|---------------------|----------------------|-------------------------------------|-------|
| U.S. government and government agencies | \$ 3.1              | —                    | 23.9                                | 27.0  |

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|                                                  |         |      |      |       |
|--------------------------------------------------|---------|------|------|-------|
| Obligations of states and political subdivisions | —       | —    | 2.0  | 2.0   |
| CMBS                                             | 3.6     | 4.8  | —    | 8.4   |
| RMBS                                             | 60.6    | 51.9 | —    | 112.5 |
| Total pledged as collateral                      | \$ 67.3 | 56.7 | 25.9 | 149.9 |

(g) We did not have exposure to any credit concentration risk of a single issuer greater than 10% of our stockholders' equity, other than certain U.S. government-backed investments, as of June 30, 2017 or December 31, 2016.

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

|                              | Quarter ended |          | Six Months ended |          |
|------------------------------|---------------|----------|------------------|----------|
|                              | June 30,      |          | June 30,         |          |
| (\$ in thousands)            | 2017          | 2016     | 2017             | 2016     |
| Fixed income securities      | \$37,668      | 31,753   | \$74,559         | 63,397   |
| Equity securities            | 1,419         | 2,204    | 2,887            | 4,434    |
| Short-term investments       | 377           | 142      | 627              | 301      |
| Other investments            | 5,231         | (611 )   | 6,834            | (1,677 ) |
| Investment expenses          | (3,265 )      | (2,306 ) | (6,058 )         | (4,504 ) |
| Net investment income earned | \$41,430      | 31,182   | \$78,849         | 61,951   |

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

## Second Quarter 2017

| (\$ in thousands)                                | Gross   | Included in<br>Other<br>Comprehensive<br>Income ("OCI") | Recognized in<br>Earnings |
|--------------------------------------------------|---------|---------------------------------------------------------|---------------------------|
| AFS fixed income securities:                     |         |                                                         |                           |
| U.S. government and government agencies          | \$2     | —                                                       | 2                         |
| Obligations of states and political subdivisions | 239     | —                                                       | 239                       |
| Corporate securities                             | 381     | —                                                       | 381                       |
| CLO and other ABS                                | 62      | —                                                       | 62                        |
| CMBS                                             | 220     | —                                                       | 220                       |
| RMBS                                             | 71      | (6 )                                                    | 77                        |
| Total AFS fixed income securities                | 975     | (6 )                                                    | 981                       |
| AFS equity securities:                           |         |                                                         |                           |
| Common stock                                     | 46      | —                                                       | 46                        |
| Total AFS equity securities                      | 46      | —                                                       | 46                        |
| Other Investments                                | 190     | —                                                       | 190                       |
| Total OTTI losses                                | \$1,211 | \$ (6 )                                                 | \$ 1,217                  |

## Second Quarter 2016

| (\$ in thousands)                 | Gross  | Included<br>in OCI | Recognized in<br>Earnings |
|-----------------------------------|--------|--------------------|---------------------------|
| AFS fixed income securities:      |        |                    |                           |
| Corporate securities              | \$ 104 | —                  | 104                       |
| RMBS                              | 98     | 10                 | 88                        |
| Total AFS fixed income securities | 202    | 10                 | 192                       |
| AFS equity securities:            |        |                    |                           |
| Common stock                      | 357    | —                  | 357                       |
| Total AFS equity securities       | 357    | —                  | 357                       |
| Total OTTI losses                 | \$ 559 | 10                 | 549                       |

## Six Months 2017

| (\$ in thousands)                                | Gross | Included in<br>Other<br>Comprehensive<br>Income ("OCI") | Recognized in<br>Earnings |
|--------------------------------------------------|-------|---------------------------------------------------------|---------------------------|
| AFS fixed income securities:                     |       |                                                         |                           |
| U.S. government and government agencies          | \$31  | —                                                       | 31                        |
| Obligations of states and political subdivisions | 612   | —                                                       | 612                       |
| Corporate securities                             | 575   | —                                                       | 575                       |
| CLO and other ABS                                | 85    | —                                                       | 85                        |

|                                   |         |    |      |          |
|-----------------------------------|---------|----|------|----------|
| CMBS                              | 670     | —  |      | 670      |
| RMBS                              | 1,163   | (6 | )    | 1,169    |
| Total AFS fixed income securities | 3,136   | (6 | )    | 3,142    |
| AFS equity securities:            |         |    |      |          |
| Common stock                      | 1,360   | —  |      | 1,360    |
| Total AFS equity securities       | 1,360   | —  |      | 1,360    |
| Other Investments                 | 190     | —  |      | 190      |
| Total OTTI losses                 | \$4,686 | \$ | (6 ) | \$ 4,692 |

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| Six Months 2016<br>(\$ in thousands) | Gross   | Included<br>in OCI | Recognized in<br>Earnings |
|--------------------------------------|---------|--------------------|---------------------------|
| AFS fixed income securities:         |         |                    |                           |
| Corporate securities                 | \$1,077 | —                  | 1,077                     |
| RMBS                                 | 98      | 10                 | 88                        |
| Total AFS fixed income securities    | 1,175   | 10                 | 1,165                     |
| AFS equity securities:               |         |                    |                           |
| Common stock                         | 2,974   | —                  | 2,974                     |
| Preferred stock                      | 3       | —                  | 3                         |
| Total AFS equity securities          | 2,977   | —                  | 2,977                     |
| Total OTTI losses                    | \$4,152 | 10                 | 4,142                     |

For a discussion of our evaluation for OTTI refer to Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2016 Annual Report.

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

| (\$ in thousands)                                 | Quarter ended<br>June 30, |        | Six Months<br>ended June 30, |        |
|---------------------------------------------------|---------------------------|--------|------------------------------|--------|
|                                                   | 2017                      | 2016   | 2017                         | 2016   |
| HTM fixed income securities                       |                           |        |                              |        |
| Gains                                             | \$44                      | 3      | 44                           | 3      |
| Losses                                            | —                         | —      | (1 )                         | (1 )   |
| AFS fixed income securities                       |                           |        |                              |        |
| Gains                                             | 2,715                     | 365    | 6,267                        | 985    |
| Losses                                            | (153 )                    | (5 )   | (1,740)                      | (41 )  |
| AFS equity securities                             |                           |        |                              |        |
| Gains                                             | 350                       | 2,171  | 350                          | 2,501  |
| Losses                                            | —                         | (220 ) | —                            | (240 ) |
| Other investments                                 |                           |        |                              |        |
| Gains                                             | —                         | —      | 480                          | —      |
| Losses                                            | (5 )                      | —      | (19 )                        | (4 )   |
| Total net realized gains (excluding OTTI charges) | \$2,951                   | 2,314  | 5,381                        | 3,203  |

Realized gains and losses on the sale of investments are determined on the basis of the cost of the specific investments sold. Proceeds from the sale of AFS securities were \$123.1 million and \$88.7 million in Second Quarter 2017 and Second Quarter 2016, respectively, and \$723.4 million and \$105.9 million in Six Months 2017 and Six Months 2016, respectively. This increase was driven by higher trading volume in our fixed income securities portfolio related to the recent hiring of new external investment managers.

**NOTE 5. Indebtedness**

Our long-term debt balance has not changed since December 31, 2016. However, on February 28, 2017, Selective Insurance Company of America ("SICA") borrowed \$64 million in short-term funds from the FHLBNY at an interest rate of 0.75%. This borrowing was repaid on March 21, 2017.

For detailed information on our indebtedness, see Note 10. "Indebtedness" in Item 8. "Financial Statements and Supplementary Data." of our 2016 Annual Report.

**NOTE 6. Fair Value Measurements**

Our financial assets are measured at fair value as disclosed on the Consolidated Balance Sheets. The fair values of our long-term debt have improved since December 31, 2016, but not by more than 5% in the aggregate. For a discussion of the fair value and hierarchy of the techniques used to value our financial assets and liabilities, refer to Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2016 Annual Report.

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The following tables provide quantitative disclosures of our financial assets that were measured at fair value at June 30, 2017 and December 31, 2016:

June 30, 2017

| June 30, 2017                                    |                                            | Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1) <sup>1</sup> |                                                            |  |                                           |
|--------------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|--|-------------------------------------------|
| Description                                      | Assets Measured at Fair Value at 6/30/2017 | Active Markets for Identical Assets/Liabilities (Level 1) <sup>1</sup>                                                | Significant Other Observable Inputs (Level 2) <sup>1</sup> |  | Significant Unobservable Inputs (Level 3) |
|                                                  |                                            |                                                                                                                       |                                                            |  |                                           |
| Measured on a recurring basis:                   |                                            |                                                                                                                       |                                                            |  |                                           |
| AFS fixed income securities:                     |                                            |                                                                                                                       |                                                            |  |                                           |
| U.S. government and government agencies          | \$68,003                                   | 24,828                                                                                                                | 43,175                                                     |  | —                                         |
| Foreign government                               | 18,714                                     | —                                                                                                                     | 18,714                                                     |  | —                                         |
| Obligations of states and political subdivisions | 1,404,766                                  | —                                                                                                                     | 1,404,766                                                  |  | —                                         |
| Corporate securities                             | 1,821,510                                  | —                                                                                                                     | 1,821,510                                                  |  | —                                         |
| CLO and other ABS                                | 702,524                                    | —                                                                                                                     | 702,524                                                    |  | —                                         |
| CMBS                                             | 279,205                                    | —                                                                                                                     | 279,205                                                    |  | —                                         |
| RMBS                                             | 724,000                                    | —                                                                                                                     | 724,000                                                    |  | —                                         |
| Total AFS fixed income securities                | 5,018,722                                  | 24,828                                                                                                                | 4,993,894                                                  |  | —                                         |
| AFS equity securities:                           |                                            |                                                                                                                       |                                                            |  |                                           |
| Common stock                                     | 144,436                                    | 135,966                                                                                                               | —                                                          |  | 8,470                                     |
| Preferred stock                                  | 17,258                                     | 17,258                                                                                                                | —                                                          |  | —                                         |
| Total AFS equity securities                      | 161,694                                    | 153,224                                                                                                               | —                                                          |  | 8,470                                     |
| Total AFS securities                             | 5,180,416                                  | 178,052                                                                                                               | 4,993,894                                                  |  | 8,470                                     |
| Short-term investments                           | 133,706                                    | 133,706                                                                                                               | —                                                          |  | —                                         |
| Total assets measured at fair value              | \$5,314,122                                | 311,758                                                                                                               | 4,993,894                                                  |  | 8,470                                     |

December 31, 2016

| December 31, 2016                           |                                                                           | Fair Value Measurements Using Quoted Prices                |                                           |   |
|---------------------------------------------|---------------------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------|---|
| Assets Measured at Fair Value at 12/31/2016 | in Active Markets for Identical Assets/Liabilities (Level 1) <sup>1</sup> | Significant Other Observable Inputs (Level 2) <sup>1</sup> | Significant Unobservable Inputs (Level 3) |   |
| (\$ in thousands)                           |                                                                           |                                                            |                                           |   |
| Description                                 |                                                                           |                                                            |                                           |   |
| Measured on a recurring basis:              |                                                                           |                                                            |                                           |   |
| AFS fixed income securities:                |                                                                           |                                                            |                                           |   |
| U.S. government and government agencies     | \$77,333                                                                  | 27,520                                                     | 49,813                                    | — |
| Foreign government                          | 26,865                                                                    | —                                                          | 26,865                                    | — |

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|                                                  |             |         |           |       |
|--------------------------------------------------|-------------|---------|-----------|-------|
| Obligations of states and political subdivisions | 1,379,593   | —       | 1,379,593 | —     |
| Corporate securities                             | 1,997,753   | —       | 1,997,753 | —     |
| CLO and other ABS                                | 528,960     | —       | 528,960   | —     |
| CMBS                                             | 256,842     | —       | 256,842   | —     |
| RMBS                                             | 525,194     | —       | 525,194   | —     |
| Total AFS fixed income securities                | 4,792,540   | 27,520  | 4,765,020 | —     |
| AFS equity securities:                           |             |         |           |       |
| Common stock                                     | 130,608     | 122,932 | —         | 7,676 |
| Preferred stock                                  | 16,145      | 16,145  | —         | —     |
| Total AFS equity securities                      | 146,753     | 139,077 | —         | 7,676 |
| Total AFS securities                             | 4,939,293   | 166,597 | 4,765,020 | 7,676 |
| Short-term investments                           | 221,701     | 221,701 | —         | —     |
| Total assets measured at fair value              | \$5,160,994 | 388,298 | 4,765,020 | 7,676 |

<sup>1</sup> There were no transfers of securities between Level 1 and Level 2.

There were no material changes in the fair value of securities measured using Level 3 inputs since December 31, 2016.

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The following tables provide quantitative information regarding our financial assets and liabilities that were disclosed at fair value at June 30, 2017 and December 31, 2016:

| June 30, 2017                                    | Assets/<br>Liabilities<br>Disclosed<br>at<br>Fair Value<br>at<br>6/30/2017  | Fair Value Measurements Using                                                                             |                                                           |                                                    |
|--------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                                  |                                                                             | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets/<br>Liabilities<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (\$ in thousands)                                |                                                                             |                                                                                                           |                                                           |                                                    |
| Financial Assets                                 |                                                                             |                                                                                                           |                                                           |                                                    |
| HTM:                                             |                                                                             |                                                                                                           |                                                           |                                                    |
| Obligations of states and political subdivisions | \$ 55,622                                                                   | —                                                                                                         | 55,622                                                    | —                                                  |
| Corporate securities                             | 19,918                                                                      | —                                                                                                         | 13,960                                                    | 5,958                                              |
| Total HTM fixed income securities                | \$ 75,540                                                                   | —                                                                                                         | 69,582                                                    | 5,958                                              |
| Financial Liabilities                            |                                                                             |                                                                                                           |                                                           |                                                    |
| Long-term debt:                                  |                                                                             |                                                                                                           |                                                           |                                                    |
| 7.25% Senior Notes                               | \$ 58,690                                                                   | —                                                                                                         | 58,690                                                    | —                                                  |
| 6.70% Senior Notes                               | 112,573                                                                     | —                                                                                                         | 112,573                                                   | —                                                  |
| 5.875% Senior Notes                              | 188,767                                                                     | 188,767                                                                                                   | —                                                         | —                                                  |
| 1.61% borrowings from FHLBNY                     | 24,521                                                                      | —                                                                                                         | 24,521                                                    | —                                                  |
| 1.56% borrowings from FHLBNY                     | 24,462                                                                      | —                                                                                                         | 24,462                                                    | —                                                  |
| 3.03% borrowings from FHLBI                      | 60,837                                                                      | —                                                                                                         | 60,837                                                    | —                                                  |
| Total long-term debt                             | \$ 469,850                                                                  | 188,767                                                                                                   | 281,083                                                   | —                                                  |
| December 31, 2016                                |                                                                             |                                                                                                           |                                                           |                                                    |
|                                                  | Assets/<br>Liabilities<br>Disclosed<br>at<br>Fair Value<br>at<br>12/31/2016 | Fair Value Measurements Using                                                                             |                                                           |                                                    |
|                                                  |                                                                             | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets/<br>Liabilities<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (\$ in thousands)                                |                                                                             |                                                                                                           |                                                           |                                                    |
| Financial Assets                                 |                                                                             |                                                                                                           |                                                           |                                                    |
| HTM:                                             |                                                                             |                                                                                                           |                                                           |                                                    |
| Obligations of states and political subdivisions | \$ 79,916                                                                   | —                                                                                                         | 79,916                                                    | —                                                  |
| Corporate securities                             | 24,075                                                                      | —                                                                                                         | 16,565                                                    | 7,510                                              |
| CMBS                                             | 1,220                                                                       | —                                                                                                         | 1,220                                                     | —                                                  |
| Total HTM fixed income securities                | \$ 105,211                                                                  | —                                                                                                         | 97,701                                                    | 7,510                                              |

Financial Liabilities

Long-term debt:

|                              |            |         |         |   |
|------------------------------|------------|---------|---------|---|
| 7.25% Senior Notes           | \$ 56,148  | —       | 56,148  | — |
| 6.70% Senior Notes           | 108,333    | —       | 108,333 | — |
| 5.875% Senior Notes          | 176,860    | 176,860 | —       | — |
| 1.61% borrowings from FHLBNY | 24,286     | —       | 24,286  | — |
| 1.56% borrowings from FHLBNY | 24,219     | —       | 24,219  | — |
| 3.03% borrowings from FHLBI  | 59,313     | —       | 59,313  | — |
| Total long-term debt         | \$ 449,159 | 176,860 | 272,299 | — |

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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 2016 Annual Report.

|                                 | Quarter ended June<br>30, |           | Six Months ended June<br>30, |            |
|---------------------------------|---------------------------|-----------|------------------------------|------------|
| (\$ in thousands)               | 2017                      | 2016      | 2017                         | 2016       |
| Premiums written:               |                           |           |                              |            |
| Direct                          | \$706,408                 | 665,862   | 1,390,228                    | 1,312,140  |
| Assumed                         | 6,488                     | 7,788     | 12,179                       | 14,108     |
| Ceded                           | (99,082 )                 | (95,510 ) | (189,889 )                   | (182,749 ) |
| Net                             | \$613,814                 | 578,140   | 1,212,518                    | 1,143,499  |
| Premiums earned:                |                           |           |                              |            |
| Direct                          | \$654,588                 | 612,406   | 1,301,316                    | 1,219,067  |
| Assumed                         | 6,063                     | 7,171     | 11,842                       | 13,441     |
| Ceded                           | (92,621 )                 | (87,645 ) | (184,274 )                   | (178,118 ) |
| Net                             | \$568,030                 | 531,932   | 1,128,884                    | 1,054,390  |
| Loss and loss expense incurred: |                           |           |                              |            |
| Direct                          | \$389,550                 | 362,064   | 731,672                      | 723,703    |
| Assumed                         | 7,766                     | 6,140     | 12,203                       | 12,495     |
| Ceded                           | (55,757 )                 | (69,725 ) | (84,844 )                    | (140,575 ) |
| Net                             | \$341,559                 | 298,479   | 659,031                      | 595,623    |

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:

|                                      | Quarter ended June<br>30, |          | Six Months ended<br>June 30, |           |
|--------------------------------------|---------------------------|----------|------------------------------|-----------|
| (\$ in thousands)                    | 2017                      | 2016     | 2017                         | 2016      |
| Ceded to NFIP                        |                           |          |                              |           |
| Ceded premiums written               | \$(63,808)                | (63,906) | (120,142)                    | (117,154) |
| Ceded premiums earned                | (57,655 )                 | (56,667) | (114,932)                    | (113,481) |
| Ceded loss and loss expense incurred | (15,140 )                 | (24,261) | (21,681 )                    | (64,979 ) |

## NOTE 8. Reserves for Losses and Loss Expenses

The table below provides a roll forward of reserves for losses and loss expenses for beginning and ending reserve balances:

|                                                                                        | Six Months ended June<br>30, |           |
|----------------------------------------------------------------------------------------|------------------------------|-----------|
| (\$ in thousands)                                                                      | 2017                         | 2016      |
| Gross reserves for losses and loss expenses, at beginning of year                      | \$3,691,719                  | 3,517,728 |
| Less: reinsurance recoverable on unpaid losses and loss expenses, at beginning of year | 611,200                      | 551,019   |
| Net reserves for losses and loss expenses, at beginning of year                        | 3,080,519                    | 2,966,709 |
| Incurred losses and loss expenses for claims occurring in the:                         |                              |           |
| Current year                                                                           | 684,877                      | 624,159   |
| Prior years                                                                            | (25,846 )                    | (28,536 ) |
| Total incurred losses and loss expenses                                                | 659,031                      | 595,623   |
| Paid losses and loss expenses for claims occurring in the:                             |                              |           |
| Current year                                                                           | 171,724                      | 146,849   |

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|                                                                                   |             |           |
|-----------------------------------------------------------------------------------|-------------|-----------|
| Prior years                                                                       | 425,521     | 402,255   |
| Total paid losses and loss expenses                                               | 597,245     | 549,104   |
| Net reserves for losses and loss expenses, at end of period                       | 3,142,305   | 3,013,228 |
| Add: Reinsurance recoverable on unpaid losses and loss expenses, at end of period | 588,916     | 576,941   |
| Gross reserves for losses and loss expenses at end of period                      | \$3,731,221 | 3,590,169 |

Prior year development in Six Months 2017 of \$25.8 million was primarily driven by favorable prior year casualty reserve development of \$37.4 million in our general liability line of business and \$15.3 million in our workers compensation line of business. This was partially offset by unfavorable casualty reserve development of \$21.0 million in our commercial automobile line of business and \$4.0 million in our personal automobile line of business.

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Prior year development in Six Months 2016 of \$28.5 million was primarily due to favorable casualty reserve development of \$22.0 million in our general liability line of business and \$21.0 million in our workers compensation line of business. This was partially offset by unfavorable casualty reserve development of \$13.0 million in our commercial automobile line of business and \$3.0 million in our E&S segment.

**NOTE 9. Segment Information**

The disaggregated results of our four reportable segments are used by senior management to manage our operations. These reportable segments are evaluated as follows:

Our Standard Commercial Lines, Standard Personal Lines, and Excess and Surplus ("E&S") Lines are evaluated based on statutory underwriting results (net premiums earned, incurred losses and loss expenses, policyholder dividends, policy acquisition costs, and other underwriting expenses), and statutory combined ratios.

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; however, we do partially allocate taxes to various segments. Furthermore, we do not maintain separate investment portfolios for the segments and therefore, do not allocate assets to the segments.

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

| Revenue by Segment<br>(\$ in thousands) | Quarter ended<br>June 30, |         | Six Months ended<br>June 30, |         |
|-----------------------------------------|---------------------------|---------|------------------------------|---------|
|                                         | 2017                      | 2016    | 2017                         | 2016    |
| <b>Standard Commercial Lines:</b>       |                           |         |                              |         |
| Net premiums earned:                    |                           |         |                              |         |
| Commercial automobile                   | \$108,316                 | 98,896  | 215,445                      | 194,315 |
| Workers compensation                    | 79,460                    | 75,251  | 158,786                      | 151,251 |
| General liability                       | 141,503                   | 129,283 | 281,487                      | 257,368 |
| Commercial property                     | 78,052                    | 73,591  | 154,443                      | 143,769 |
| Businessowners' policies                | 24,989                    | 24,651  | 49,834                       | 48,555  |
| Bonds                                   | 6,986                     | 5,665   | 13,484                       | 11,129  |
| Other                                   | 4,288                     | 3,940   | 8,529                        | 7,779   |
| Miscellaneous income                    | 3,016                     | 3,567   | 5,876                        | 4,257   |
| Total Standard Commercial Lines revenue | 446,610                   | 414,844 | 887,884                      | 818,423 |
| <b>Standard Personal Lines:</b>         |                           |         |                              |         |
| Net premiums earned:                    |                           |         |                              |         |
| Personal automobile                     | 37,663                    | 35,881  | 74,613                       | 71,661  |
| Homeowners                              | 32,467                    | 33,411  | 65,167                       | 66,311  |
| Other                                   | 1,542                     | 1,532   | 3,093                        | 3,057   |
| Miscellaneous income                    | 275                       | 301     | 656                          | 561     |
| Total Standard Personal Lines revenue   | 71,947                    | 71,125  | 143,529                      | 141,590 |
| <b>E&amp;S Lines:</b>                   |                           |         |                              |         |
| Net premiums earned:                    |                           |         |                              |         |
| Commercial liability                    | 39,054                    | 36,940  | 76,966                       | 73,796  |
| Commercial property                     | 13,710                    | 12,891  | 27,037                       | 25,399  |
| Miscellaneous income                    | —                         | —       | —                            | 1       |
| Total E&S Lines revenue                 | 52,764                    | 49,831  | 104,003                      | 99,196  |
| <b>Investments:</b>                     |                           |         |                              |         |

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|                                        |           |         |           |           |
|----------------------------------------|-----------|---------|-----------|-----------|
| Net investment income                  | 41,430    | 31,182  | 78,849    | 61,951    |
| Net realized investment gains (losses) | 1,734     | 1,765   | 689       | (939 )    |
| Total Investments revenue              | 43,164    | 32,947  | 79,538    | 61,012    |
| Total revenues                         | \$614,485 | 568,747 | 1,214,954 | 1,120,221 |

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|                                                     | Quarter ended June 30, |          | Six Months ended June 30, |           |
|-----------------------------------------------------|------------------------|----------|---------------------------|-----------|
|                                                     | 2017                   | 2016     | 2017                      | 2016      |
| Income Before Federal Income Tax                    |                        |          |                           |           |
| (\$ in thousands)                                   |                        |          |                           |           |
| Standard Commercial Lines:                          |                        |          |                           |           |
| Underwriting gain                                   | \$34,759               | 40,173   | 77,305                    | 71,105    |
| GAAP combined ratio                                 | 92.2                   | % 90.2   | 91.2                      | 91.3      |
| Statutory combined ratio                            | 90.6                   | 88.6     | 89.5                      | 89.1      |
| Standard Personal Lines:                            |                        |          |                           |           |
| Underwriting (loss) gain                            | \$(5,768 )             | 6,125    | (662 )                    | 14,730    |
| GAAP combined ratio                                 | 108.0                  | % 91.4   | 100.5                     | 89.6      |
| Statutory combined ratio                            | 105.9                  | 89.9     | 99.8                      | 90.1      |
| E&S Lines:                                          |                        |          |                           |           |
| Underwriting gain (loss)                            | \$1,319                | (2,521 ) | 2,889                     | (1,103 )  |
| GAAP combined ratio                                 | 97.5                   | % 105.1  | 97.2                      | 101.1     |
| Statutory combined ratio                            | 97.0                   | 102.7    | 96.5                      | 100.6     |
| Investments:                                        |                        |          |                           |           |
| Net investment income                               | \$41,430               | 31,182   | 78,849                    | 61,951    |
| Net realized investment losses                      | 1,734                  | 1,765    | 689                       | (939 )    |
| Total investment income, before federal income tax  | 43,164                 | 32,947   | 79,538                    | 61,012    |
| Tax on investment income                            | 11,734                 | 8,275    | 21,336                    | 14,538    |
| Total investment income, after federal income tax   | \$31,430               | 24,672   | 58,202                    | 46,474    |
| Reconciliation of Segment Results to Income         | Quarter ended          |          | Six Months ended          |           |
| Before Federal Income Tax                           | June 30,               |          | June 30,                  |           |
| (\$ in thousands)                                   | 2017                   | 2016     | 2017                      | 2016      |
| Underwriting gain (loss), before federal income tax |                        |          |                           |           |
| Standard Commercial Lines                           | \$34,759               | 40,173   | 77,305                    | 71,105    |
| Standard Personal Lines                             | (5,768 )               | 6,125    | (662 )                    | 14,730    |
| E&S Lines                                           | 1,319                  | (2,521 ) | 2,889                     | (1,103 )  |
| Investment income, before federal income tax        | 43,164                 | 32,947   | 79,538                    | 61,012    |
| Total all segments                                  | 73,474                 | 76,724   | 159,070                   | 145,744   |
| Interest expense                                    | (6,081 )               | (5,620 ) | (12,187 )                 | (11,226 ) |
| General corporate and other expenses                | (8,464 )               | (8,793 ) | (20,380 )                 | (20,332 ) |
| Income, before federal income tax                   | \$58,929               | 62,311   | 126,503                   | 114,186   |

## NOTE 10. Retirement Plans

SICA's primary pension plan is the Retirement Income Plan for Selective Insurance Company of America (the "Pension Plan"). SICA also sponsors the Supplemental Excess Retirement Plan (the "Excess Plan") and a life insurance benefit plan. All plans are closed to new entrants and benefits ceased accruing under the Pension Plan and the Excess Plan after March 31, 2016. For more information concerning SICA's retirement plans, refer to Note 14. "Retirement Plans" in Item 8. "Financial Statements and Supplementary Data." of our 2016 Annual Report.

The following tables provide information regarding the Pension Plan:

|                   | Pension Plan  |      | Pension Plan   |      |
|-------------------|---------------|------|----------------|------|
|                   | Quarter ended |      | Six Months     |      |
|                   | June 30,      |      | ended June 30, |      |
|                   | 2017          | 2016 | 2017           | 2016 |
| (\$ in thousands) |               |      |                |      |

Net Periodic Benefit Cost:

|                                                 |           |         |         |         |
|-------------------------------------------------|-----------|---------|---------|---------|
| Service cost                                    | \$—       | —       | —       | 1,606   |
| Interest cost                                   | 3,110     | 3,101   | 6,221   | 6,203   |
| Expected return on plan assets                  | (4,855 )  | (3,988) | (9,709) | (7,976) |
| Amortization of unrecognized net actuarial loss | 482       | 1,481   | 963     | 2,961   |
| Total net periodic cost                         | \$(1,263) | 594     | (2,525) | 2,794   |

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|                                                          | Pension Plan<br>Six Months<br>ended June<br>30,<br>2017    2016 |        |
|----------------------------------------------------------|-----------------------------------------------------------------|--------|
| Weighted-Average Expense Assumptions:                    |                                                                 |        |
| Discount rate                                            | 4.41 %                                                          | 4.69 % |
| Effective interest rate for calculation of service cost  | n/a                                                             | 4.52   |
| Effective interest rate for calculation of interest cost | 3.83                                                            | 4.02   |
| Expected return on plan assets                           | 6.24                                                            | 6.37   |
| Rate of compensation increase                            | n/a                                                             | 4.00   |

## NOTE 11. Comprehensive Income

The components of comprehensive income, both gross and net of tax, for Second Quarter and Six Months 2017 and 2016 are as follows:

## Second Quarter 2017

| (\$ in thousands)                                       | Gross    | Tax    | Net      |
|---------------------------------------------------------|----------|--------|----------|
| Net income                                              | \$58,929 | 17,503 | 41,426   |
| Components of OCI:                                      |          |        |          |
| Unrealized gains on investment securities:              |          |        |          |
| Unrealized holding gains during period                  | 35,887   | 12,561 | 23,326   |
| Non-credit portion of OTTI recognized in OCI            | 6        | 2      | 4        |
| Amounts reclassified into net income:                   |          |        |          |
| HTM securities                                          | (43 )    | (15 )  | (28 )    |
| Realized gains on AFS securities                        | (1,885 ) | (660 ) | (1,225 ) |
| Total unrealized gains on investment securities         | 33,965   | 11,888 | 22,077   |
| Defined benefit pension and post-retirement plans:      |          |        |          |
| Amounts reclassified into net income:                   |          |        |          |
| Net actuarial loss                                      | 508      | 178    | 330      |
| Total defined benefit pension and post-retirement plans | 508      | 178    | 330      |
| Other comprehensive income                              | 34,473   | 12,066 | 22,407   |
| Comprehensive income                                    | \$93,402 | 29,569 | 63,833   |

## Second Quarter 2016

| (\$ in thousands)                                       | Gross     | Tax    | Net      |
|---------------------------------------------------------|-----------|--------|----------|
| Net income                                              | \$62,311  | 18,710 | 43,601   |
| Components of OCI:                                      |           |        |          |
| Unrealized gains on investment securities:              |           |        |          |
| Unrealized holding gains during period                  | 55,675    | 19,487 | 36,188   |
| Non-credit portion of OTTI recognized in OCI            | (10 )     | (4 )   | (6 )     |
| Amounts reclassified into net income:                   |           |        |          |
| HTM securities                                          | (19 )     | (7 )   | (12 )    |
| Realized gains on AFS securities                        | (1,762 )  | (617 ) | (1,145 ) |
| Total unrealized gains on investment securities         | 53,884    | 18,859 | 35,025   |
| Defined benefit pension and post-retirement plans:      |           |        |          |
| Amounts reclassified into net income:                   |           |        |          |
| Net actuarial loss                                      | 1,517     | 532    | 985      |
| Total defined benefit pension and post-retirement plans | 1,517     | 532    | 985      |
| Other comprehensive income                              | 55,401    | 19,391 | 36,010   |
| Comprehensive income                                    | \$117,712 | 38,101 | 79,611   |



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## Six Months 2017

(\$ in thousands)

|                                                         | Gross     | Tax    | Net     |
|---------------------------------------------------------|-----------|--------|---------|
| Net income                                              | \$126,503 | 34,637 | 91,866  |
| Components of OCI:                                      |           |        |         |
| Unrealized gains on investment securities:              |           |        |         |
| Unrealized holding gains during period                  | 61,672    | 21,585 | 40,087  |
| Non-credit portion of OTTI recognized in OCI            | 6         | 2      | 4       |
| Amounts reclassified into net income:                   |           |        |         |
| HTM securities                                          | (92)      | (32)   | (60)    |
| Realized gains on AFS securities                        | (375)     | (131)  | (244)   |
| Total unrealized gains on investment securities         | 61,211    | 21,424 | 39,787  |
| Defined benefit pension and post-retirement plans:      |           |        |         |
| Amounts reclassified into net income:                   |           |        |         |
| Net actuarial loss                                      | 1,015     | 355    | 660     |
| Total defined benefit pension and post-retirement plans | 1,015     | 355    | 660     |
| Other comprehensive income                              | 62,226    | 21,779 | 40,447  |
| Comprehensive income                                    | \$188,729 | 56,416 | 132,313 |
| Six Months 2016                                         |           |        |         |
| (\$ in thousands)                                       | Gross     | Tax    | Net     |
| Net income                                              | \$114,186 | 33,553 | 80,633  |
| Components of OCI:                                      |           |        |         |
| Unrealized gains on investment securities:              |           |        |         |
| Unrealized holding gains during period                  | 121,412   | 42,495 | 78,917  |
| Non-credit portion of OTTI recognized in OCI            | (10)      | (4)    | (6)     |
| Amounts reclassified into net income:                   |           |        |         |
| HTM securities                                          | (91)      | (32)   | (59)    |
| Realized losses on AFS securities                       | 937       | 328    | 609     |
| Total unrealized gains on investment securities         | 122,248   | 42,787 | 79,461  |
| Defined benefit pension and post-retirement plans:      |           |        |         |
| Amounts reclassified into net income:                   |           |        |         |
| Net actuarial loss                                      | 3,033     | 1,062  | 1,971   |
| Total defined benefit pension and post-retirement plans | 3,033     | 1,062  | 1,971   |
| Other comprehensive income                              | 125,281   | 43,849 | 81,432  |
| Comprehensive income                                    | \$239,467 | 77,402 | 162,065 |

The balances of, and changes in, each component of AOCI (net of taxes) as of June 30, 2017 were as follows:  
June 30, 2017

|                                | Net Unrealized Gain on Investment Securities |             |           |                      | Defined Benefit Pension and Post-Retirement Plans | Total AOCI |
|--------------------------------|----------------------------------------------|-------------|-----------|----------------------|---------------------------------------------------|------------|
| (\$ in thousands)              | OTTI Related                                 | HTM Related | All Other | Investments Subtotal |                                                   |            |
| Balance, December 31, 2016     | \$(150)                                      | 102         | 42,170    | 42,122               | (58,072)                                          | (15,950)   |
| OCI before reclassifications   | 4                                            | —           | 40,087    | 40,091               | —                                                 | 40,091     |
| Amounts reclassified from AOCI | —                                            | (60)        | (244)     | (304)                | 660                                               | 356        |
| Net current period OCI         | 4                                            | (60)        | 39,843    | 39,787               | 660                                               | 40,447     |
| Balance, June 30, 2017         | \$(146)                                      | 42          | 82,013    | 81,909               | (57,412)                                          | 24,497     |



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The reclassifications out of AOCI were as follows:

| (\$ in thousands)                                         | Quarter ended<br>June 30, |         | Six Months<br>ended June 30, |         | Affected Line Item in the Unaudited<br>Consolidated Statement of Income |
|-----------------------------------------------------------|---------------------------|---------|------------------------------|---------|-------------------------------------------------------------------------|
|                                                           | 2017                      | 2016    | 2017                         | 2016    |                                                                         |
| HTM related                                               |                           |         |                              |         |                                                                         |
| Unrealized losses on HTM disposals                        | 17                        | 60      | 30                           | 88      | Net realized gains (losses)                                             |
| Amortization of net unrealized gains<br>on HTM securities | (60 )                     | (79 )   | (122 )                       | (179 )  | Net investment income earned                                            |
|                                                           | (43 )                     | (19 )   | (92 )                        | (91 )   | Income before federal income tax                                        |
|                                                           | 15                        | 7       | 32                           | 32      | Total federal income tax expense                                        |
|                                                           | (28 )                     | (12 )   | (60 )                        | (59 )   | Net income                                                              |
| Realized (gains) losses on AFS and<br>OTTI                |                           |         |                              |         |                                                                         |
| Realized (gains) losses on AFS<br>disposals and OTTI      | (1,885)                   | (1,762) | (375 )                       | 937     | Net realized gains (losses)                                             |
|                                                           | (1,885)                   | (1,762) | (375 )                       | 937     | Income before federal income tax                                        |
|                                                           | 660                       | 617     | 131                          | (328 )  | Total federal income tax expense                                        |
|                                                           | (1,225)                   | (1,145) | (244 )                       | 609     | Net income                                                              |
| Defined benefit pension and<br>post-retirement life plans |                           |         |                              |         |                                                                         |
| Net actuarial loss                                        | 111                       | 329     | 221                          | 658     | Losses and loss expenses incurred                                       |
|                                                           | 397                       | 1,188   | 794                          | 2,375   | Policy acquisition costs                                                |
| Total defined benefit pension and<br>post-retirement life | 508                       | 1,517   | 1,015                        | 3,033   | Income before federal income tax                                        |
|                                                           | (178 )                    | (532 )  | (355 )                       | (1,062) | Total federal income tax expense                                        |
|                                                           | 330                       | 985     | 660                          | 1,971   | Net income                                                              |
| Total reclassifications for the period                    | \$(923)                   | (172 )  | 356                          | 2,521   | Net income                                                              |

## NOTE 12. Related Party Transactions

BlackRock, Inc., a leading publicly traded investment management firm ("BlackRock"), has purchased our common shares in the ordinary course of its investment business and has previously filed Schedules 13G/A with the SEC. On April 10, 2017, BlackRock filed a Schedule 13G/A reporting beneficial ownership as of March 31, 2017, of 12.7% of our common stock. In connection with purchasing our common shares, BlackRock filed the necessary filings with insurance regulatory authorities. On the basis of those filings, BlackRock is deemed not to be a controlling person for the purposes of applicable insurance law.

We are required to disclose related party information for our transactions with BlackRock. BlackRock is highly regulated, serves its clients as a fiduciary, and has a diverse platform of active (alpha) and index (beta) investment strategies across asset classes that enables it to tailor investment outcomes and asset allocation solutions for clients. BlackRock also offers the BlackRock Solutions® investment and risk management technology platform, Aladdin®, risk analytics, advisory and technology services and solutions to a broad base of institutional and wealth management investors. In Second Quarter 2017 and Six Months 2017, we incurred BlackRock-related expenses of \$0.5 million and \$1.0 million for services rendered, respectively. No material expenses were incurred with BlackRock in Second Quarter 2016 and Six Months 2016. Amounts payable for such services at June 30, 2017 and December 31, 2016, were \$0.9 million and \$0.4 million, respectively. All contracts with BlackRock were consummated in the ordinary course of business on an arm's-length basis.

We have no additional material transactions with related parties other than those disclosed in Note 16. "Related Party Transactions" included in Item 8. "Financial Statements and Supplementary Data." of our 2016 Annual Report.

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NOTE 13. 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 ten insurance subsidiaries ("Insurance Subsidiaries") as either: (i) liability insurers defending or providing indemnity for third-party claims brought against our customers; or (ii) insurers defending first-party coverage claims brought against them. We account for such activity through the establishment of unpaid losses and loss expense reserves. We expect that any potential ultimate liability in such ordinary course claims litigation will not be material to our consolidated financial condition, results of operations, or cash flows after consideration of provisions made for potential losses and costs of defense.

From time to time, our Insurance Subsidiaries also are named as defendants 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. Similarly, our Insurance Subsidiaries are also named from time-to-time in individual actions seeking extra-contractual damages, punitive damages, or penalties, some of which allege bad faith in the handling of insurance claims. We believe that we have valid defenses to these cases. We expect that any potential ultimate liability in any such lawsuit will not be material to our consolidated financial condition, after consideration of provisions made for estimated losses. Nonetheless, given the inherent unpredictability of litigation and the large or indeterminate amounts sought in certain of these actions, an adverse outcome in certain matters could possibly have a material adverse effect on our consolidated results of operations or cash flows in particular quarterly or annual periods.

As of June 30, 2017, we do not believe the Company was involved in any legal action that could have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

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

Forward-Looking Statements

As used herein, the "Company," "we," "us," or "our" refers to Selective Insurance Group, Inc. (the "Parent"), and its subsidiaries, except as expressly indicated or unless the context otherwise requires. 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

The Parent, through its ten insurance subsidiaries, collectively referred to as the "Insurance Subsidiaries," offers property and casualty insurance products in the standard and excess and surplus ("E&S") marketplaces. We classify our business into four reportable segments, which are as follows:

Standard Commercial Lines;  
Standard Personal Lines;  
E&S Lines; and  
Investments.

For further details regarding these segments, refer to Note 9. "Segment Information" in Item 1. "Financial Statements." of this Form 10-Q and Note 11. "Segment Information" in Item 8. "Financial Statements and Supplementary Data." of our Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Annual Report").

Our Standard Commercial and Standard Personal Lines products and services are written through nine of our Insurance Subsidiaries, some of which write flood business through the Write Your Own ("WYO") program of the National Flood Insurance Program ("NFIP"). Our E&S products and services are written through one subsidiary, Mesa Underwriters Specialty Insurance Company ("MUSIC"). This subsidiary provides us with a nationally-authorized non-admitted platform to offer insurance products and services to customers who have not obtained coverage in the standard marketplace.

The following is Management's Discussion and Analysis ("MD&A") of the consolidated results of operations and financial condition, as well as 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 2016 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;

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Financial Highlights of Results for the second quarters ended June 30, 2017 ("Second Quarter 2017") and June 30, 2016 ("Second Quarter 2016") and the six-month periods ended June 30, 2017 ("Six Months 2017") and June 30, 2016 ("Six Months 2016");

Results of Operations and Related Information by Segment;

Federal Income Taxes;

Financial Condition, Liquidity, and Capital Resources;

Ratings;

Off-Balance Sheet Arrangements; and

Contractual Obligations, Contingent Liabilities, and Commitments.

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## Critical Accounting Policies and Estimates

Our 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 that were most critical to the preparation of the consolidated financial statements involved the following: (i) reserves for loss and loss expenses; (ii) pension and post-retirement benefit plan actuarial assumptions; (iii) investment valuation and other-than-temporary-impairments ("OTTI"); 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 pages 37 through 45 of our 2016 Annual Report.

Financial Highlights of Results for Second Quarter and Six Months 2017 and Second Quarter and Six Months 2016<sup>1</sup>

| (\$ and shares in thousands, except per share amounts)      | Quarter ended June 30, |         | Change % or Points |       | Six Months ended June 30, |           | Change % or Points |     |
|-------------------------------------------------------------|------------------------|---------|--------------------|-------|---------------------------|-----------|--------------------|-----|
|                                                             | 2017                   | 2016    |                    |       | 2017                      | 2016      |                    |     |
| Generally Accepted Accounting Principles ("GAAP") measures: |                        |         |                    |       |                           |           |                    |     |
| Revenues                                                    | \$614,485              | 568,747 | 8                  | %     | \$1,214,954               | 1,120,221 | 8                  | %   |
| After-tax net investment income                             | 30,303                 | 23,525  | 29                 |       | 57,754                    | 47,085    | 23                 |     |
| Pre-tax net income                                          | 58,929                 | 62,311  | (5)                | )     | 126,503                   | 114,186   | 11                 |     |
| Net income                                                  | 41,426                 | 43,601  | (5)                | )     | 91,866                    | 80,633    | 14                 |     |
| Diluted net income per share                                | 0.70                   | 0.74    | (5)                | )     | 1.55                      | 1.38      | 12                 |     |
| Diluted weighted-average outstanding shares                 | 59,222                 | 58,598  | 1                  |       | 59,185                    | 58,552    | 1                  |     |
| GAAP combined ratio                                         | 94.7                   | % 91.8  | 2.9                | pts   | 93.0                      | % 92.0    | 1.0                | pts |
| Statutory combined ratio                                    | 93.1                   | 90.1    | 3.0                |       | 91.4                      | 90.4      | 1.0                |     |
| Invested assets per dollar of stockholders' equity          | \$3.33                 | 3.39    | (2)                | ) %   | \$3.33                    | 3.39      | (2)                | ) % |
| After-tax yield on investments                              | 2.2                    | % 1.8   | 0.4                | pts   | 2.1                       | % 1.8     | 0.3                | pts |
| Annualized return on average equity ("ROE")                 | 10.2                   | 11.5    | (1.3)              | )     | 11.5                      | 10.9      | 0.6                |     |
| Non-GAAP measures:                                          |                        |         |                    |       |                           |           |                    |     |
| Operating income <sup>2</sup>                               | \$40,299               | 42,454  | (5)                | ) %   | \$91,418                  | 81,244    | 13                 | %   |
| Diluted operating income per share <sup>2</sup>             | 0.68                   | 0.72    | (6)                | )     | 1.54                      | 1.39      | 11                 |     |
| Annualized operating ROE <sup>2</sup>                       | 9.9                    | % 11.2  | (1.3)              | ) pts | 11.5                      | % 11.0    | 0.5                | pts |

<sup>1</sup> Refer to the Glossary of Terms attached to our 2016 Annual Report as Exhibit 99.1 for definitions of terms used in this Form 10-Q.

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 OTTI that are charged to earnings and the results of discontinued operations, could distort the analysis of trends.

Reconciliations of net income, net income per share, and annualized ROE to operating income, operating income per share, and annualized operating ROE, respectively, are provided in the tables below:

| Reconciliation of net income to operating income<br>(\$ in thousands) | Quarter ended June 30, |          | Six Months ended June 30, |        |
|-----------------------------------------------------------------------|------------------------|----------|---------------------------|--------|
|                                                                       | 2017                   | 2016     | 2017                      | 2016   |
| Net income                                                            | \$41,426               | 43,601   | 91,866                    | 80,633 |
| Exclude: Net realized (gains) losses                                  | (1,734 )               | (1,765 ) | (689 )                    | 939    |

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|                                                                      |                              |         |                                 |         |
|----------------------------------------------------------------------|------------------------------|---------|---------------------------------|---------|
| Exclude: Tax on net realized (gains) losses                          | 607                          | 618     | 241                             | (328 )  |
| Operating income                                                     | \$40,299                     | 42,454  | 91,418                          | 81,244  |
| Reconciliation of net income per share to operating income per share | Quarter ended<br>June 30,    |         | Six Months<br>ended June<br>30, |         |
|                                                                      | 2017                         | 2016    | 2017                            | 2016    |
| Diluted net income per share                                         | \$0.70                       | 0.74    | 1.55                            | 1.38    |
| Exclude: Net realized (gains) losses per share                       | (0.03 )                      | (0.03 ) | (0.01 )                         | 0.02    |
| Exclude: Tax on net realized (gains) losses per share                | 0.01                         | 0.01    | —                               | (0.01 ) |
| Diluted operating income per share                                   | \$0.68                       | 0.72    | 1.54                            | 1.39    |
| Reconciliation of annualized ROE to annualized operating ROE         | Quarter<br>ended June<br>30, |         | Six Months<br>ended June<br>30, |         |
|                                                                      | 2017                         | 2016    | 2017                            | 2016    |
| Annualized ROE                                                       | 10.2 %                       | 11.5    | 11.5                            | 10.9    |
| Exclude: Net realized (gains) losses                                 | (0.4 )                       | (0.5 )  | (0.1 )                          | 0.1     |
| Exclude: Tax on net realized (gains) losses                          | 0.1                          | 0.2     | 0.1                             | —       |
| Annualized operating ROE                                             | 9.9 %                        | 11.2    | 11.5                            | 11.0    |

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Our Six Months 2017 results continue to reflect our hard work to drive renewal pure price increases within our Standard Commercial and Personal Lines segments as well as our E&S segment, generate new business, and improve the underlying profitability of our book of business through various underwriting and claims initiatives. Our net premiums written ("NPW") growth of 6% in Six Months 2017 was driven by our strong franchise value with our "ivy league" distribution partners. Over the past eight years, our Standard Commercial Lines renewal pure price increases have cumulatively outperformed the Willis Towers Watson Commercial Lines Pricing (or CLIPs) survey by approximately 1,800 basis points, while maintaining high retention rates. In addition, NPW growth was aided by the appointment of 46 retail agents in 2016 and 10 retail agents in Six Months 2017, which is exclusive of 25 agents that have been appointed in our expansion states. These expansion state agents will begin generating premium for us in the second half of 2017.

In addition to the cumulative pure renewal price increases we have achieved over the past several years, we have benefited from underwriting and claims process enhancements, as well as a shift in our business mix towards higher quality accounts. For example, our workers compensation book of business, which represents approximately 20% of our Standard Commercial Lines business, continues to benefit from the steps we have taken in recent years to increase premium rates and improve the business mix by shifting towards lower hazard and smaller accounts from higher hazard and larger accounts. Additionally, claims initiatives, such as having an increased focus on reducing workers compensation medical costs through more favorable Preferred Provider Organization ("PPO") contracts and greater PPO penetration, have helped improve profitability of this line. The workers compensation statutory combined ratio was a profitable 86.9% in Six Months 2017. Our E&S segment has also seen some improvement in underwriting results as we have continued to deploy our corporate claims practices into this smaller operation; although we have not yet met our financial targets for this segment. For a full discussion of the claims initiatives that we have deployed, refer to the "Reserves for Loss and Loss Expenses" section within Critical Accounting Policies in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2016 Annual Report.

After-tax net investment income grew 23% in Six Months 2017 compared to Six Months 2016, driven by higher yields on our fixed income portfolio and improved returns on our alternative investments. In 2016, we determined that a more active management approach to our investment portfolio was necessary to maximize the risk-adjusted after-tax income and total return of the portfolio in an investment environment of low interest rates, while maintaining a similar level of credit quality and duration risk. We have increased our long-term target risk asset allocation and modestly increased our exposure to non-investment grade fixed income securities, private equity investments, and private credit strategies to further diversify our allocation within risk assets. Our risk assets, which include public equities, non-investment grade fixed income securities, private equity investments, and other limited partnership private investments, represented 7% of our total invested assets at June 30, 2017 and may increase to approximately 10% over time.

The improvements to our underwriting profitability and the more active management of our investment portfolio contributed to our long-term goal of generating an operating ROE that is approximately 300 basis points in excess of our weighted average cost of capital over time. Our annualized operating ROE increased in Six Months 2017 to 11.5%, compared to 11.0% in Six Months 2016, mainly due to the increase in investment income mentioned above. Our annualized ROE and operating ROE contributions by component are as follows:

|                                | Quarter    |        | Six Months |        |
|--------------------------------|------------|--------|------------|--------|
|                                | ended June |        | ended June |        |
|                                | 30,        |        | 30,        |        |
|                                | 2017       | 2016   | 2017       | 2016   |
| ROE                            | 4.9        | % 7.5  | 6.5        | % 7.5  |
| Insurance segments             | 7.5        | 6.2    | 7.3        | 6.4    |
| Investment income <sup>1</sup> | (2.5 )     | (2.5 ) | (2.3 )     | (2.9 ) |
| Other                          |            |        |            |        |

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|                                                                       |        |        |      |        |
|-----------------------------------------------------------------------|--------|--------|------|--------|
| Net realized gains (losses) <sup>1</sup> , net of tax at 35%          | 0.3    | 0.3    | —    | (0.1 ) |
| Annualized ROE                                                        | 10.2   | 11.5   | 11.5 | 10.9   |
| Exclude: Net realized gains (losses) <sup>1</sup> , net of tax at 35% | (0.3 ) | (0.3 ) | —    | 0.1    |
| Annualized operating ROE                                              | 9.9    | % 11.2 | 11.5 | % 11.0 |
| Weighted average cost of capital, as of the prior year-end            | 8.5    | % 8.7  | 8.5  | % 8.7  |

<sup>1</sup> Investment segment results are the combination of "Net investment income earned" and "Net realized losses".

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## Insurance Segments

The key metric in understanding our insurance segments' contribution to annualized operating ROE is the GAAP combined ratio. The following table provides a quantitative foundation for analyzing this ratio:

| All Lines                          | Quarter ended June 30, |         | Change % or Points |     | Six Months ended June 30, |           | Change % or Points |     |
|------------------------------------|------------------------|---------|--------------------|-----|---------------------------|-----------|--------------------|-----|
| (\$ in thousands)                  | 2017                   | 2016    |                    |     | 2017                      | 2016      |                    |     |
| GAAP Insurance Operations Results: |                        |         |                    |     |                           |           |                    |     |
| NPW                                | \$613,814              | 578,140 | 6                  | %   | \$1,212,518               | 1,143,499 | 6                  | %   |
| Net premiums earned ("NPE")        | 568,030                | 531,932 | 7                  |     | 1,128,884                 | 1,054,390 | 7                  |     |
| Less:                              |                        |         |                    |     |                           |           |                    |     |
| Losses and loss expenses incurred  | 341,559                | 298,479 | 14                 |     | 659,031                   | 595,623   | 11                 |     |
| Net underwriting expenses incurred | 194,237                | 188,058 | 3                  |     | 388,494                   | 370,764   | 5                  |     |
| Dividends to policyholders         | 1,924                  | 1,618   | 19                 |     | 1,827                     | 3,271     | (44)               | )   |
| Underwriting gain                  | \$30,310               | 43,777  | (31)               | ) % | \$79,532                  | 84,732    | (6)                | ) % |
| GAAP Ratios:                       |                        |         |                    |     |                           |           |                    |     |
| Loss and loss expense ratio        | 60.2                   | % 56.1  | 4.1                | pts | 58.4                      | % 56.5    | 1.9                | pts |
| Underwriting expense ratio         | 34.2                   | 35.4    | (1.2)              | )   | 34.4                      | 35.2      | (0.8)              | )   |
| Dividends to policyholders ratio   | 0.3                    | 0.3     | —                  |     | 0.2                       | 0.3       | (0.1)              | )   |
| Combined ratio                     | 94.7                   | 91.8    | 2.9                |     | 93.0                      | 92.0      | 1.0                |     |
| Statutory Ratios:                  |                        |         |                    |     |                           |           |                    |     |
| Loss and loss expense ratio        | 60.0                   | 56.0    | 4.0                |     | 58.2                      | 56.4      | 1.8                |     |
| Underwriting expense ratio         | 32.8                   | 33.8    | (1.0)              | )   | 33.0                      | 33.7      | (0.7)              | )   |
| Dividends to policyholders ratio   | 0.3                    | 0.3     | —                  |     | 0.2                       | 0.3       | (0.1)              | )   |
| Combined ratio                     | 93.1                   | % 90.1  | 3.0                | pts | 91.4                      | % 90.4    | 1.0                | pts |

The GAAP combined ratio increased by 2.9 points in Second Quarter 2017 and 1.0 point in Six Months 2017 compared to the same periods last year, driven by:

| (\$ in millions)                                  | Second Quarter 2017               |                                       |     | Second Quarter 2016               |                                       |     | Change in Ratio |
|---------------------------------------------------|-----------------------------------|---------------------------------------|-----|-----------------------------------|---------------------------------------|-----|-----------------|
|                                                   | Losses and Loss Expenses Incurred | Impact on Loss and Loss Expense Ratio |     | Losses and Loss Expenses Incurred | Impact on Loss and Loss Expense Ratio |     |                 |
| Catastrophe losses                                | \$29.3                            | 5.2                                   | pts | \$8.4                             | 1.6                                   | pts | 3.6 pts         |
| Non-catastrophe property losses                   | 73.3                              | 12.9                                  |     | 64.3                              | 12.1                                  |     | 0.8             |
| Favorable prior year casualty reserve development | (14.3)                            | (2.5)                                 | )   | (10.0)                            | (1.9)                                 | )   | (0.6)           |
| Total                                             | 88.3                              | 15.6                                  |     | 62.7                              | 11.8                                  |     | 3.8             |
| (\$ in millions)                                  | Six Months 2017                   |                                       |     | Six Months 2016                   |                                       |     | Change in Ratio |
|                                                   | Losses and Loss Expenses Incurred | Impact on Loss and Loss Expense Ratio |     | Losses and Loss Expenses Incurred | Impact on Loss and Loss Expense Ratio |     |                 |
| Catastrophe losses                                | \$41.5                            | 3.7                                   | pts | \$22.8                            | 2.2                                   | pts | 1.5 pts         |
| Non-catastrophe property losses                   | 144.7                             | 12.8                                  |     | 130.8                             | 12.4                                  |     | 0.4             |
| Favorable prior year casualty reserve development | (28.7)                            | (2.5)                                 | )   | (27.0)                            | (2.6)                                 | )   | 0.1             |

|       |       |      |       |      |     |
|-------|-------|------|-------|------|-----|
| Total | 157.5 | 14.0 | 126.6 | 12.0 | 2.0 |
|-------|-------|------|-------|------|-----|

The Second Quarter 2017 catastrophe losses included \$11.9 million of development, or 2.1 points, from prior period storms. The most significant of these were three hail storms that occurred in March 2017 that added \$8.8 million, or 1.5 points, to Second Quarter 2017 losses.

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Details of the favorable prior year casualty reserve development were as follows:

| (Favorable)/Unfavorable Prior Year Casualty Reserve Development<br>(\$ in millions) | Quarter ended<br>June 30, |           | Six Months<br>ended June<br>30, |        |
|-------------------------------------------------------------------------------------|---------------------------|-----------|---------------------------------|--------|
|                                                                                     | 2017                      | 2016      | 2017                            | 2016   |
| General liability                                                                   | \$(15.0)                  | (11.0)    | (37.4)                          | (22.0) |
| Commercial automobile                                                               | 15.0                      | 8.0       | 21.0                            | 13.0   |
| Workers compensation                                                                | (15.3 )                   | (9.0 )    | (15.3 )                         | (21.0) |
| Bonds                                                                               | (2.0 )                    | —         | (2.0 )                          | —      |
| Total Standard Commercial Lines                                                     | (17.3 )                   | (12.0)    | (33.7)                          | (30.0) |
| Homeowners                                                                          | 1.0                       | —         | 1.0                             | —      |
| Personal automobile                                                                 | 2.0                       | —         | 4.0                             | —      |
| Total Standard Personal Lines                                                       | 3.0                       | —         | 5.0                             | —      |
| E&S                                                                                 | —                         | 2.0       | —                               | 3.0    |
| Total (favorable) prior year casualty reserve development                           | \$(14.3)                  | (10.0)    | (28.7)                          | (27.0) |
| (Favorable) impact on loss ratio                                                    | (2.5 )                    | pts(1.9 ) | (2.5 )                          | (2.6 ) |

For a qualitative discussion of this reserve development, please refer to the respective insurance segment section below in

"Results of Operations and Related Information by Segment."

Improvements in the GAAP underwriting expense ratio in Second Quarter 2017 of 1.2 points and Six Months 2017 of 0.8 points compared to the same periods last year included the following:

- A 0.3-point and 0.2-point decrease in supplemental commissions to our distribution partners in Second Quarter 2017 and Six Months 2017, respectively; and

A 0.3-point and 0.4-point decrease in pension expense in Second Quarter 2017 and Six Months 2017, respectively. As our pension plan ceased accruing benefits on March 31, 2016, we extended the amortization period for the net actuarial loss from the average remaining service life of active participants to the average remaining life expectancy of plan participants. This reduced amortization, coupled with interest costs in the quarter, did not fully offset the expected return on our pension assets, thereby creating the benefit that reduced our overall expense ratio. For additional information on our pension plan, refer to Note 10. "Retirement Plans" in Item 1. "Financial Statements." of this Form 10-Q.

#### Investments Segment

In total, our investment segment contributed 7.8 points to our overall annualized ROE in Second Quarter 2017 and 7.3 points in Six Months 2017, compared to 6.5 points and 6.3 points in Second Quarter and Six Months 2016, respectively. These increases were driven by improved yields on our fixed income securities portfolio. Additionally, our alternative investment portfolio reported pre-tax income of \$5.2 million in Second Quarter 2017 and \$6.8 million in Six Months 2017 compared to pre-tax losses of \$0.6 million and \$1.7 million in Second Quarter and Six Months 2016, respectively, which were negatively impacted by the energy sector in the prior year.

#### Other

Our other expenses, which are primarily comprised of expenses at the holding company level, reduced our overall annualized ROE by 2.5 points in both Second Quarter 2017 and Second Quarter 2016 and 2.3 points in Six Months 2017 compared to 2.9 points in Six Months 2016. The year-to-date variance was driven primarily by the tax effects of share-based compensation, which benefited our overall annualized ROE by 0.4 points in Six Months 2017. We do not expect this tax benefit to be replicated throughout the remainder of 2017. We had expected expense reductions and increased stability related to our share-based payment awards beginning in 2017, as we have restructured our 2017 awards to be more aligned with grant date fair value expense treatment and lowered the allocation to awards that require fair value adjustments subsequent to grant date. However, the 16% increase in our stock price during Six Months 2017 has resulted in fair value adjustments to our outstanding awards during Six Months 2017 that have offset the savings associated with the structural changes made to the awards granted in 2017.

For additional information on the tax effects of share-based compensation, refer to Note 2. "Adoption of Accounting Pronouncements" in Item 1. "Financial Statements." of this Form 10-Q.

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### Outlook

In 2017, we continue to focus on seeking out additional growth opportunities in our insurance operations while achieving rate and working towards our profit targets. We have been able to achieve NPW growth that has exceeded the industry's growth rate, while at the same time generating solid underwriting margins. In addition, we have about a 1.3% standard commercial lines market share in the 22 states in which we operate and our long-term goal is to increase this market share to approximately 3%. By offering our distribution partners superior technology solutions and customer experience, we are targeting a 12% share of the standard commercial lines business within our independent agencies, which we refer to as our "share of wallet." As of June 30, 2017, our share of wallet with agencies with which we have an established relationship was 8%. We are also seeking to increase our agency appointments over time to represent a 25% market share of the states in which we are fully operational, from our current 18% share. We believe our relationships with our distribution partners are among the strongest in the industry and underpin our success. During Six Months 2017, we appointed 35 of the 85 new agents we are planning for this year, net of agency terminations.

Our expansion plans are well on track for Arizona and New Hampshire. We have appointed a total of 25 agents in these states, with appointments in each state controlling about 25% of that state's available commercial lines premium. We began quoting business during Second Quarter 2017, with policies being effective on or after July 1, 2017. Our approach to entering these states has been consistent with our agent franchise business model, which is predicated around our field-based underwriting, claims, and customer service.

In our Investments segment, we generated after-tax net investment income of \$57.8 million in Six Months 2017 and are on track to meet our full-year guidance outlined below. Our challenge in 2017 is navigating the increased market volatility that may accompany uncertainty regarding fiscal and monetary policy changes. For instance, the potential impact of limiting or eliminating tax-advantage municipal bond interest may be significant to the returns of our municipal bond portfolio. Likewise, a reduction in the corporate tax rate or a border-adjustment tax may have significant repercussions in the marketplace. Weighing these risks when seeking new opportunities, and managing the risks for existing positions and sectors in the portfolio, will be a key focus throughout the remainder of the year.

In summary, we are positioning ourselves for a more competitive environment with a focus on generating adequate returns for our shareholders. We are preparing ourselves for changes in a period of heightened uncertainty surrounding interest rates, tax law changes, legislative changes, and inflation. We also have a number of internal strategic initiatives in place to enhance our technological offerings to our agents while improving the overall customer experience.

After two quarters of better than expected results, we are revising our full-year expectations to the following:

• A statutory combined ratio, excluding catastrophe losses, of 89.5%, an improvement of 100 basis points from our original guidance. This assumes no additional prior year casualty reserve development;

• Catastrophe losses of 3.5 points;

• After-tax investment income of \$113 million, up from our original guidance of \$110 million; and

• Weighted average shares of 59.2 million.

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## Results of Operations and Related Information by Segment

## Standard Commercial Lines

|                                    | Quarter ended June 30, |         | Change % or Points |     | Six Months ended June 30, |         | Change % or Points |     |
|------------------------------------|------------------------|---------|--------------------|-----|---------------------------|---------|--------------------|-----|
| (\$ in thousands)                  | 2017                   | 2016    |                    |     | 2017                      | 2016    |                    |     |
| GAAP Insurance Operations Results: |                        |         |                    |     |                           |         |                    |     |
| NPW                                | \$478,917              | 449,008 | 7                  | %   | \$962,465                 | 904,071 | 6                  | %   |
| NPE                                | 443,594                | 411,277 | 8                  |     | 882,008                   | 814,166 | 8                  |     |
| Less:                              |                        |         |                    |     |                           |         |                    |     |
| Losses and loss expenses incurred  | 252,876                | 221,618 | 14                 |     | 494,440                   | 444,968 | 11                 |     |
| Net underwriting expenses incurred | 154,035                | 147,868 | 4                  |     | 308,436                   | 294,822 | 5                  |     |
| Dividends to policyholders         | 1,924                  | 1,618   | 19                 |     | 1,827                     | 3,271   | (44)               | )   |
| Underwriting gain                  | \$34,759               | 40,173  | (13)               | ) % | \$77,305                  | 71,105  | 9                  | %   |
| GAAP Ratios:                       |                        |         |                    |     |                           |         |                    |     |
| Loss and loss expense ratio        | 57.1                   | % 53.9  | 3.2                | pts | 56.0                      | % 54.7  | 1.3                | pts |
| Underwriting expense ratio         | 34.7                   | 35.9    | (1.2)              | )   | 35.0                      | 36.2    | (1.2)              | )   |
| Dividends to policyholders ratio   | 0.4                    | 0.4     | —                  |     | 0.2                       | 0.4     | (0.2)              | )   |
| Combined ratio                     | 92.2                   | 90.2    | 2.0                |     | 91.2                      | 91.3    | (0.1)              | )   |
| Statutory Ratios:                  |                        |         |                    |     |                           |         |                    |     |
| Loss and loss expense ratio        | 56.9                   | 53.8    | 3.1                |     | 56.0                      | 54.5    | 1.5                |     |
| Underwriting expense ratio         | 33.3                   | 34.4    | (1.1)              | )   | 33.3                      | 34.2    | (0.9)              | )   |
| Dividends to policyholders ratio   | 0.4                    | 0.4     | —                  |     | 0.2                       | 0.4     | (0.2)              | )   |
| Combined ratio                     | 90.6                   | % 88.6  | 2.0                | pts | 89.5                      | % 89.1  | 0.4                | pts |

The increases in NPW in Second Quarter and Six Months 2017 compared to Second Quarter and Six Months 2016 were driven by: (i) direct new business; (ii) renewal pure price increases; and (iii) solid retention.

|                              | Quarter ended June 30, |      | Six Months ended June 30, |       |
|------------------------------|------------------------|------|---------------------------|-------|
| (\$ in millions)             | 2017                   | 2016 | 2017                      | 2016  |
| Retention                    | 83                     | % 83 | 83                        | % 83  |
| Renewal pure price increases | 3.1                    | 2.6  | 3.1                       | 2.7   |
| Direct new business          | \$98.0                 | 95.5 | \$187.5                   | 183.2 |

The NPE increases in Second Quarter and Six Months 2017 compared to Second Quarter and Six Months 2016 were consistent with the fluctuation in NPW for the twelve-month period ended June 30, 2017 compared with the twelve-month period ended June 30, 2016.

The GAAP loss and loss expense ratio increased 3.2 points in Second Quarter 2017 compared to Second Quarter 2016 and 1.3 points in Six Months 2017 compared to Six Months 2016, reflecting the following items, which were partially offset by underwriting improvements, claims initiatives, and earned rate that outpaced loss costs:

|                  | Second Quarter 2017               |                                 | Second Quarter 2016               |                                 | Change in Ratio |
|------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------|
| (\$ in millions) | Losses and Loss Expenses Incurred | Impact on Loss and Loss Expense | Losses and Loss Expenses Incurred | Impact on Loss and Loss Expense |                 |

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|                                                   | Ratio                                 |       |     |  | Ratio                                 |       |     |                 |
|---------------------------------------------------|---------------------------------------|-------|-----|--|---------------------------------------|-------|-----|-----------------|
| Catastrophe losses                                | \$17.0                                | 3.8   | pts |  | \$3.6                                 | 0.9   | pts | 2.9 pts         |
| Non-catastrophe property losses                   | 48.2                                  | 10.9  |     |  | 41.6                                  | 10.1  |     | 0.8             |
| Favorable prior year casualty reserve development | (17.3)                                | (3.9) | )   |  | (12.0)                                | (2.9) | )   | (1.0)           |
| Total                                             | 47.9                                  | 10.8  |     |  | 33.2                                  | 8.1   |     | 2.7             |
|                                                   | Six Months 2017                       |       |     |  | Six Months 2016                       |       |     |                 |
|                                                   | Losses and Loss Expenses Incurred     |       |     |  | Losses and Loss Expenses Incurred     |       |     |                 |
|                                                   | Impact on Loss and Loss Expense Ratio |       |     |  | Impact on Loss and Loss Expense Ratio |       |     |                 |
| (\$ in millions)                                  |                                       |       |     |  |                                       |       |     | Change in Ratio |
| Catastrophe losses                                | \$23.9                                | 2.7   | pts |  | \$15.3                                | 1.9   | pts | 0.8 pts         |
| Non-catastrophe property losses                   | 98.0                                  | 11.1  |     |  | 85.2                                  | 10.5  |     | 0.6             |
| Favorable prior year casualty reserve development | (33.7)                                | (3.8) | )   |  | (30.0)                                | (3.7) | )   | (0.1)           |
| Total                                             | 88.2                                  | 10.0  |     |  | 70.5                                  | 8.7   |     | 1.3             |

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For additional information regarding the favorable prior year casualty reserve development by line of business, see the "Financial Highlights of Results for Second Quarter and Six Months 2017 and Second Quarter and Six Months 2016" section above and the line of business discussions below.

The decreases in the GAAP underwriting expense ratio in both the quarter and year-to-date periods of 1.2 points were primarily attributable to: (i) lower pension expense of 0.3 points in the quarter and 0.4 points in the year-to-date period; and (ii) lower supplemental commissions to our distribution partners of approximately 0.2 points in both periods. In addition, labor expenses decreased as a percentage of premium as we recognized productivity gains relative to the growth of our business.

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

## General Liability

|                                                    | Quarter ended June 30, |         | Change<br>% or<br>Points | Six Months ended June 30, |         | Change<br>% or<br>Points |  |
|----------------------------------------------------|------------------------|---------|--------------------------|---------------------------|---------|--------------------------|--|
| (\$ in thousands)                                  | 2017                   | 2016    |                          | 2017                      | 2016    |                          |  |
| Statutory NPW                                      | \$158,721              | 145,489 | 9 %                      | \$313,858                 | 290,195 | 8 %                      |  |
| Direct new business                                | 30,012                 | 28,865  | 4                        | 56,919                    | 54,976  | 4                        |  |
| Retention                                          | 84                     | %83     | 1 pts                    | 84                        | %83     | 1 pts                    |  |
| Renewal pure price increases                       | 2.9                    | 1.6     | 1.3                      | 2.6                       | 1.8     | 0.8                      |  |
| Statutory NPE                                      | \$141,503              | 129,283 | 9 %                      | \$281,487                 | 257,368 | 9 %                      |  |
| Statutory combined ratio                           | 78.4                   | %83.5   | (5.1 ) pts               | 75.8                      | %83.4   | (7.6 ) pts               |  |
| % of total statutory Standard Commercial Lines NPW | 33                     | 32      |                          | 33                        | 32      |                          |  |

The statutory combined ratio decrease in Second Quarter and Six Months 2017 compared to Second Quarter and Six Months 2016 was driven primarily by: (i) favorable prior year casualty reserve development, as illustrated in the tables below; (ii) lower supplemental commissions to our distribution partners of 0.3 points in each period; and (iii) lower pension expense of 0.3 points in the quarter and 0.5 points in the year-to-date period.

|                                                   | Second Quarter 2017  |                                | Second Quarter 2016  |                                | Change     |
|---------------------------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|------------|
| (\$ in millions)                                  | (Benefit)<br>Expense | Impact on<br>Combined<br>Ratio | (Benefit)<br>Expense | Impact on<br>Combined<br>Ratio | Points     |
| Favorable prior year casualty reserve development | \$(15.0)             | (10.6 ) pts                    | \$(11.0)             | (8.5 ) pts                     | (2.1 ) pts |

|                                                   | Six Months 2017      |                                | Six Months 2016      |                                | Change     |
|---------------------------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|------------|
| (\$ in millions)                                  | (Benefit)<br>Expense | Impact on<br>Combined<br>Ratio | (Benefit)<br>Expense | Impact on<br>Combined<br>Ratio | Points     |
| Favorable prior year casualty reserve development | \$(37.4)             | (13.3 ) pts                    | \$(22.0)             | (8.5 ) pts                     | (4.8 ) pts |

The significant drivers of the development were as follows:

Second Quarter and Six Months 2017: Development was primarily attributable to lower claims frequencies and severities primarily in accident years 2015 and prior, particularly in the products liability and excess liability segments.

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Second Quarter and Six Months 2016: Development was primarily attributable to lower claims frequencies and severities in the 2012 through 2014 accident years, particularly in the products liability and excess liability segments.

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## Commercial Automobile

|                                                    | Quarter ended June 30, |         | Change<br>% or<br>Points |     | Six Months ended June 30, |         | Change<br>% or<br>Points |     |
|----------------------------------------------------|------------------------|---------|--------------------------|-----|---------------------------|---------|--------------------------|-----|
| (\$ in thousands)                                  | 2017                   | 2016    |                          |     | 2017                      | 2016    |                          |     |
| Statutory NPW                                      | \$119,063              | 108,888 | 9                        | %   | \$236,449                 | 217,096 | 9                        | %   |
| Direct new business                                | 20,990                 | 20,682  | 1                        |     | 39,550                    | 39,272  | 1                        |     |
| Retention                                          | 84                     | %84     | —                        | pts | 84                        | %84     | —                        | pts |
| Renewal pure price increases                       | 6.9                    | 4.8     | 2.1                      |     | 6.7                       | 4.9     | 1.8                      |     |
| Statutory NPE                                      | \$108,316              | 98,896  | 10                       | %   | \$215,445                 | 194,315 | 11                       | %   |
| Statutory combined ratio                           | 114.1                  | %107.0  | 7.1                      | pts | 109.9                     | %106.0  | 3.9                      | pts |
| % of total statutory Standard Commercial Lines NPW | 25                     | 24      |                          |     | 25                        | 24      |                          |     |

The increases in the statutory combined ratio in Second Quarter and Six Months 2017 compared to the prior year periods were driven by:

Unfavorable prior year casualty reserve development that was higher by 5.7 points in Second Quarter 2017 and 3.0 points in Six Months 2017. This development was mainly due to higher casualty claim frequency, and some increases in claim severity, in accident years 2015 and 2016; and

Catastrophe losses that were higher by 0.6 points in Second Quarter 2017 and 0.3 points in Six Months 2017.

Quantitative information regarding the development and catastrophe losses is as follows:

|                                                     | Second Quarter 2017           |      |     | Second Quarter 2016           |     |     | Change in Ratio |     |
|-----------------------------------------------------|-------------------------------|------|-----|-------------------------------|-----|-----|-----------------|-----|
| (\$ in millions)                                    | Impact on Loss Incurred Ratio |      |     | Impact on Loss Incurred Ratio |     |     |                 |     |
| Unfavorable prior year casualty reserve development | \$15.0                        | 13.8 | pts | \$8.0                         | 8.1 | pts | 5.7             | pts |
| Catastrophe losses                                  | 0.9                           | 0.8  |     | 0.2                           | 0.2 |     | 0.6             |     |
| Total                                               | 15.9                          | 14.6 |     | 8.2                           | 8.3 |     | 6.3             |     |
|                                                     | Six Months 2017               |      |     | Six Months 2016               |     |     | Change in Ratio |     |
| (\$ in millions)                                    | Impact on Loss Incurred Ratio |      |     | Impact on Loss Incurred Ratio |     |     |                 |     |
| Unfavorable prior year casualty reserve development | \$21.0                        | 9.7  | pts | \$13.0                        | 6.7 | pts | 3.0             | pts |
| Catastrophe losses                                  | 1.1                           | 0.5  |     | 0.3                           | 0.2 |     | 0.3             |     |
| Total                                               | 22.1                          | 10.2 |     | 13.3                          | 6.9 |     | 3.3             |     |

## Workers Compensation

|                              | Quarter ended June 30, |        | Change<br>% or<br>Points |       | Six Months ended June 30, |         | Change<br>% or<br>Points |       |
|------------------------------|------------------------|--------|--------------------------|-------|---------------------------|---------|--------------------------|-------|
| (\$ in thousands)            | 2017                   | 2016   |                          |       | 2017                      | 2016    |                          |       |
| Statutory NPW                | \$81,354               | 79,074 | 3                        | %     | \$173,194                 | 170,386 | 2                        | %     |
| Direct new business          | 17,269                 | 17,081 | 1                        |       | 34,306                    | 34,811  | (1)                      | )     |
| Retention                    | 83                     | %84    | (1)                      | ) pts | 83                        | %84     | (1)                      | ) pts |
| Renewal pure price increases | 0.5                    | 1.3    | (0.8)                    | )     | 0.6                       | 1.5     | (0.9)                    | )     |
| Statutory NPE                | \$79,460               | 75,251 | 6                        | %     | \$158,786                 | 151,251 | 5                        | %     |

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|                                                    |      |       |            |      |       |     |     |
|----------------------------------------------------|------|-------|------------|------|-------|-----|-----|
| Statutory combined ratio                           | 78.3 | %87.7 | (9.4 ) pts | 86.9 | %84.3 | 2.6 | pts |
| % of total statutory Standard Commercial Lines NPW | 17   | 18    |            | 18   | 19    |     |     |

The variances in the statutory combined ratio in Second Quarter and Six Months 2017 compared to the same prior year periods were due primarily to: (i) prior year casualty reserve development, as shown in the tables below; (ii) lower supplemental commissions to our distribution partners of 0.8 points in the quarter and 0.6 points in the year-to-date period; and (iii) lower pension expense of 0.4 points in the quarter and 0.6 points in the year-to-date period.

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|                                                   | Second Quarter 2017     |                          | Second Quarter 2016     |                          |               |
|---------------------------------------------------|-------------------------|--------------------------|-------------------------|--------------------------|---------------|
| (\$ in millions)                                  | (Benefit Expense Ratio) | Impact on Combined Ratio | (Benefit Expense Ratio) | Impact on Combined Ratio | Change Points |
| Favorable prior year casualty reserve development | \$(15.3)                | (19.3 ) pts              | \$(9.0)                 | (12.0 ) pts              | (7.3 ) pts    |
|                                                   | Six Months 2017         |                          | Six Months 2016         |                          |               |
| (\$ in millions)                                  | (Benefit Expense Ratio) | Impact on Combined Ratio | (Benefit Expense Ratio) | Impact on Combined Ratio | Change Points |
| Favorable prior year casualty reserve development | \$(15.3)                | (9.6 ) pts               | \$(21.0)                | (13.9 ) pts              | 4.3 pts       |

The significant drivers of the development were as follows:

• Second Quarter and Six Months 2017: Development was primarily due to lower severities in accident years 2016 and prior.

• Second Quarter and Six Months 2016: Development was primarily due to lower severities in accident years 2013 and prior.

For more information regarding the initiatives that we have undertaken regarding this line of business, refer to the Standard Market Workers Compensation Line of Business discussion within the Reserves for Losses and Loss Expenses section of "Critical Accounting Policies and Estimates" of our 2016 Annual Report.

## Commercial Property

|                                                    | Quarter ended |               | Change      | Six Months ended |               | Change      |
|----------------------------------------------------|---------------|---------------|-------------|------------------|---------------|-------------|
| (\$ in thousands)                                  | June 30, 2017 | June 30, 2016 | % or Points | June 30, 2017    | June 30, 2016 | % or Points |
| Statutory NPW                                      | \$81,971      | 79,354        | 3 %         | \$162,474        | 154,998       | 5 %         |
| Direct new business                                | 19,850        | 20,339        | (2 )        | 37,163           | 38,149        | (3 )        |
| Retention                                          | 82            | %82           | — pts       | 82               | %82           | — pts       |
| Renewal pure price increases                       | 1.6           | 2.7           | (1.1 )      | 2.0              | 2.5           | (0.5 )      |
| Statutory NPE                                      | \$78,052      | 73,591        | 6 %         | \$154,443        | 143,769       | 7 %         |
| Statutory combined ratio                           | 101.4         | %78.2         | 23.2 pts    | 93.7             | %84.8         | 8.9 pts     |
| % of total statutory Standard Commercial Lines NPW | 17            | 18            |             | 17               | 17            |             |

The fluctuation in the statutory combined ratio in Second Quarter and Six Months 2017 compared to Second Quarter and Six Months 2016 was driven by the following:

|                                 | Second Quarter 2017     |                          | Second Quarter 2016     |                          | Change             |
|---------------------------------|-------------------------|--------------------------|-------------------------|--------------------------|--------------------|
| (\$ in millions)                | (Benefit Expense Ratio) | Impact on Combined Ratio | (Benefit Expense Ratio) | Impact on Combined Ratio | % or Points        |
| Catastrophe losses              | \$14.4                  | 18.5 pts                 | \$2.9                   | 4.0 pts                  | 14.5 pts           |
| Non-catastrophe property losses | 31.0                    | 39.7                     | 23.2                    | 31.5                     | 8.2                |
| Total                           | 45.4                    | 58.2                     | 26.1                    | 35.5                     | 22.7               |
|                                 | Six Months 2017         |                          | Six Months 2016         |                          |                    |
| (\$ in millions)                | (Benefit Expense Ratio) | Impact on Combined Ratio | (Benefit Expense Ratio) | Impact on Combined Ratio | Change % or Points |

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|                                 |        |      |     |        |      |     |     |     |
|---------------------------------|--------|------|-----|--------|------|-----|-----|-----|
| Non-catastrophe property losses | \$58.1 | 37.6 | pts | \$46.3 | 32.2 | pts | 5.4 | pts |
| Catastrophe losses              | 20.5   | 13.3 |     | 13.1   | 9.1  |     | 4.2 |     |
| Total                           | 78.6   | 50.9 |     | 59.4   | 41.3 |     | 9.6 |     |

The increase in catastrophe losses in Second Quarter 2017 included \$7.4 million, or 9.4 points, related to prior period storms. The most significant of these were three hail storms from March 2017 that added \$5.5 million, or 7.0 points, to Second Quarter 2017 losses. The increase in non-catastrophe property losses in Second Quarter and Six Months 2017 was driven by higher fire and weather-related losses than in Second Quarter and Six Months 2016, reflecting volatility from period to period that is normally associated with our commercial property line of business.

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## Standard Personal Lines

|                                    | Quarter ended<br>June 30, |        | Change<br>% or |     | Six Months ended<br>June 30, |         | Change<br>% or |     |
|------------------------------------|---------------------------|--------|----------------|-----|------------------------------|---------|----------------|-----|
| (\$ in thousands)                  | 2017                      | 2016   | Points         |     | 2017                         | 2016    | Points         |     |
| GAAP Insurance Operations Results: |                           |        |                |     |                              |         |                |     |
| NPW                                | \$78,107                  | 75,576 | 3              | %   | \$142,803                    | 137,545 | 4              | %   |
| NPE                                | 71,672                    | 70,824 | 1              |     | 142,873                      | 141,029 | 1              |     |
| Less:                              |                           |        |                |     |                              |         |                |     |
| Losses and loss expenses incurred  | 54,725                    | 42,212 | 30             |     | 99,015                       | 81,907  | 21             |     |
| Net underwriting expenses incurred | 22,715                    | 22,487 | 1              |     | 44,520                       | 44,392  | —              |     |
| Underwriting (loss) gain           | \$(5,768)                 | 6,125  | (194)          | %   | \$(662)                      | 14,730  | 104            | %   |
| GAAP Ratios:                       |                           |        |                |     |                              |         |                |     |
| Loss and loss expense ratio        | 76.3                      | %59.6  | 16.7           | pts | 69.3                         | %58.1   | 11.2           | pts |
| Underwriting expense ratio         | 31.7                      | 31.8   | (0.1)          | )   | 31.2                         | 31.5    | (0.3)          | )   |
| Combined ratio                     | 108.0                     | 91.4   | 16.6           |     | 100.5                        | 89.6    | 10.9           |     |
| Statutory Ratios:                  |                           |        |                |     |                              |         |                |     |
| Loss and loss expense ratio        | 76.4                      | 59.6   | 16.8           |     | 69.3                         | 58.1    | 11.2           |     |
| Underwriting expense ratio         | 29.5                      | 30.3   | (0.8)          | )   | 30.5                         | 32.0    | (1.5)          | )   |
| Combined ratio                     | 105.9                     | %89.9  | 16.0           | pts | 99.8                         | %90.1   | 9.7            | pts |

The increases in NPW in Second Quarter and Six Months 2017 compared to Second Quarter and Six Months 2016 were due primarily to: (i) an increase in new business; (ii) renewal pure price increases; and (iii) improving retention.

|                              | Quarter<br>ended June<br>30, |      | Six Months<br>ended June<br>30, |      |
|------------------------------|------------------------------|------|---------------------------------|------|
| (\$ in millions)             | 2017                         | 2016 | 2017                            | 2016 |
| New business                 | \$13.2                       | 9.6  | \$24.6                          | 17.0 |
| Retention                    | 84                           | %83  | 84                              | %82  |
| Renewal pure price increases | 2.6                          | 5.2  | 2.7                             | 5.1  |

The NPE increases in Second Quarter and Six Months 2017 compared to Second Quarter and Six Months 2016 were consistent with the fluctuations in NPW for the twelve-month period ended June 30, 2017 compared with the twelve-month period ended June 30, 2016.

The GAAP loss and loss expense ratio increased 16.7 points in Second Quarter 2017 compared to Second Quarter 2016 and 11.2 points in Six Months 2017 compared to Six Months 2016. The quantitative breakout of these drivers were as follows:

|                                                     | Second Quarter<br>2017                        |                                          |     | Second Quarter<br>2016                        |                                          |     | Change in Ratio |
|-----------------------------------------------------|-----------------------------------------------|------------------------------------------|-----|-----------------------------------------------|------------------------------------------|-----|-----------------|
| (\$ in millions)                                    | Losses<br>and<br>Loss<br>Expenses<br>Incurred | Impact<br>on<br>Loss<br>Expense<br>Ratio |     | Losses<br>and<br>Loss<br>Expenses<br>Incurred | Impact<br>on<br>Loss<br>Expense<br>Ratio |     |                 |
| Catastrophe losses                                  | \$9.4                                         | 13.0                                     | pts | \$2.1                                         | 3.0                                      | pts | 10.0            |
| Unfavorable prior year casualty reserve development | 3.0                                           | 4.2                                      |     | —                                             | —                                        |     | 4.2             |
| Non-catastrophe property losses                     | 20.0                                          | 27.9                                     |     | 18.4                                          | 25.9                                     |     | 2.0             |

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|                                                     |                 |          |                 |          |                 |        |
|-----------------------------------------------------|-----------------|----------|-----------------|----------|-----------------|--------|
| Flood claims handling fees                          | (0.8 )          | (1.1 )   | (0.9 )          | (1.3 )   | 0.2             |        |
| Total                                               | 31.6            | 44.0     | 19.6            | 27.6     | 16.4            |        |
|                                                     | Six Months 2017 |          | Six Months 2016 |          |                 |        |
|                                                     | Losses          | Impact   | Losses          | Impact   |                 |        |
|                                                     | and             | on       | and             | on       |                 |        |
|                                                     | Loss            | Loss and | Loss            | Loss and |                 |        |
|                                                     | Expenses        | Loss     | Expenses        | Loss     |                 |        |
|                                                     | Incurred        | Expense  | Incurred        | Expense  |                 |        |
|                                                     | Ratio           |          | Ratio           |          |                 |        |
| (\$ in millions)                                    |                 |          |                 |          | Change in Ratio |        |
| Catastrophe losses                                  | \$13.3          | 9.3      | pts             | \$4.3    | 3.1             | pts6.2 |
| Unfavorable prior year casualty reserve development | 5.0             | 3.5      |                 | —        | —               | 3.5    |
| Non-catastrophe property losses                     | 36.4            | 25.4     |                 | 34.7     | 24.6            | 0.8    |
| Flood claims handling fees                          | (1.4 )          | (1.0 )   |                 | (2.0 )   | (1.4 )          | 0.4    |
| Total                                               | 53.3            | 37.2     |                 | 37.0     | 26.3            | 10.9   |

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The prior year casualty reserve development in Second Quarter and Six Months 2017 was primarily driven by increased frequency and severity in the personal automobile liability line for accident year 2016.

The GAAP expense ratio remained relatively flat in Second Quarter and Six Months 2017 compared to Second Quarter and Six Months 2016.

## E&amp;S Insurance Operations

|                                    | Quarter ended<br>June 30, |         | Change<br>% or<br>Points |       | Six Months ended<br>June 30, |         | Change<br>% or<br>Points |       |
|------------------------------------|---------------------------|---------|--------------------------|-------|------------------------------|---------|--------------------------|-------|
| (\$ in thousands)                  | 2017                      | 2016    |                          |       | 2017                         | 2016    |                          |       |
| GAAP Insurance Operations Results: |                           |         |                          |       |                              |         |                          |       |
| NPW                                | \$56,790                  | 53,556  | 6                        | %     | \$107,250                    | 101,883 | 5                        | %     |
| NPE                                | 52,764                    | 49,831  | 6                        |       | 104,003                      | 99,195  | 5                        |       |
| Less:                              |                           |         |                          |       |                              |         |                          |       |
| Losses and loss expenses incurred  | 33,958                    | 34,649  | (2)                      | )     | 65,576                       | 68,748  | (5)                      | )     |
| Net underwriting expenses incurred | 17,487                    | 17,703  | (1)                      | )     | 35,538                       | 31,550  | 13                       |       |
| Underwriting gain (loss)           | \$1,319                   | (2,521) | 152                      | %     | \$2,889                      | (1,103) | 362                      | %     |
| GAAP Ratios:                       |                           |         |                          |       |                              |         |                          |       |
| Loss and loss expense ratio        | 64.4                      | %69.5   | (5.1)                    | ) pts | 63.0                         | %69.3   | (6.3)                    | ) pts |
| Underwriting expense ratio         | 33.1                      | 35.6    | (2.5)                    | )     | 34.2                         | 31.8    | 2.4                      |       |
| Combined ratio                     | 97.5                      | 105.1   | (7.6)                    | )     | 97.2                         | 101.1   | (3.9)                    | )     |
| Statutory Ratios:                  |                           |         |                          |       |                              |         |                          |       |
| Loss and loss expense ratio        | 64.3                      | 69.6    | (5.3)                    | )     | 63.2                         | 69.3    | (6.1)                    | )     |
| Underwriting expense ratio         | 32.7                      | 33.1    | (0.4)                    | )     | 33.3                         | 31.3    | 2.0                      |       |
| Combined ratio                     | 97.0                      | %102.7  | (5.7)                    | ) pts | 96.5                         | %100.6  | (4.1)                    | ) pts |

The increase in NPW in Second Quarter and Six Months 2017 compared to Second Quarter and Six Months 2016 was due primarily to new business and price increases as follows:

|                     | Quarter<br>ended June<br>30, |      | Six Months<br>ended June<br>30, |      |
|---------------------|------------------------------|------|---------------------------------|------|
| (\$ in millions)    | 2017                         | 2016 | 2017                            | 2016 |
| Direct new business | \$24.9                       | 25.4 | 48.7                            | 47.9 |
| Price increases     | 3.7                          | %4.3 | 5.6                             | %4.1 |

The NPE increases in Second Quarter and Six Months 2017, compared to Second Quarter and Six Months 2016, were consistent with the fluctuations in NPW for the twelve-month period ended June 30, 2017 compared with the twelve-month period ended June 30, 2016.

The GAAP loss and loss expense ratio decreased 5.1 points in Second Quarter 2017 and 6.3 points in Six Months 2017 compared to the same prior year periods reflecting underwriting improvements, claims initiatives, and earned rate that outpaced loss costs, which in total decreased current year loss costs by approximately 2.5 points in the quarter and 3.5 points in the year-to-date period, along with the following:

|                  | Second Quarter 2017                                                           |  | Second Quarter 2016                                                           |  | Change<br>in<br>Ratio |
|------------------|-------------------------------------------------------------------------------|--|-------------------------------------------------------------------------------|--|-----------------------|
| (\$ in millions) | Losses<br>and Impact on<br>Loss and Loss Expense<br>Expense Ratio<br>Incurred |  | Losses<br>and Impact on<br>Loss and Loss Expense<br>Expense Ratio<br>Incurred |  |                       |

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|                                                     |          |              |         |     |
|-----------------------------------------------------|----------|--------------|---------|-----|
| Non-catastrophe property losses                     | \$5.19.7 | pts \$4.48.7 | pts 1.0 | pts |
| Catastrophe losses                                  | 3.0 5.7  | 2.7 5.4      | 0.3     |     |
| Unfavorable prior year casualty reserve development | — —      | 2.0 4.0      | (4.0 )  |     |
| Total                                               | 8.1 15.4 | 9.1 18.1     | (2.7 )  |     |

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| (\$ in millions)                                    | Six Months 2017                                                         |       | Six Months 2016                                                         |       | Change<br>in<br>Ratio |     |
|-----------------------------------------------------|-------------------------------------------------------------------------|-------|-------------------------------------------------------------------------|-------|-----------------------|-----|
|                                                     | Losses<br>and Impact on<br>Loss and Loss Expense<br>Expense<br>Incurred | Ratio | Losses<br>and Impact on<br>Loss and Loss Expense<br>Expense<br>Incurred | Ratio |                       |     |
| Catastrophe losses                                  | \$4.4                                                                   | 4.2   | pts \$3.2                                                               | 3.2   | pts 1.0               | pts |
| Unfavorable prior year casualty reserve development | —                                                                       | —     | 3.0                                                                     | 3.0   | (3.0)                 | )   |
| Non-catastrophe property losses                     | 10.4                                                                    | 10.0  | 10.8                                                                    | 10.9  | (0.9)                 | )   |
| Total                                               | 14.8                                                                    | 14.2  | 17.0                                                                    | 17.1  | (2.9)                 | )   |

There was a 2.5-point decrease in the GAAP underwriting expense ratio in Second Quarter 2017 compared to Second Quarter 2016, driven primarily by the growth in premiums earned, which has more than outpaced the increase in fixed expenses, and lower supplemental commissions to our wholesale general agents of 0.8 points. These were partially offset by a higher allocation of corporate support services to this segment.

The 2.4-point increase in the GAAP underwriting expense ratio in Six Months 2017 compared to Six Months 2016 was driven by a lower cash incentive plan payment in the first quarter of 2016 for employees in this segment based on 2015 underwriting results and a higher allocation of corporate support services to this segment in 2017.

#### Reinsurance

We have successfully completed negotiations of our July 1, 2017 excess of loss treaties, which provide coverage for our Standard Commercial Lines, Standard Personal Lines, and E&S Lines. The renewal of these treaties included some enhancements in terms and conditions, with the same structure as the expiring treaties as follows:

#### Property Excess of Loss

The property excess of loss treaty ("Property Treaty") provides \$58.0 million of coverage in excess of a \$2.0 million retention:

- The per occurrence cap on the first and second layers is \$84.0 million.
- The first layer has unlimited reinstatements and a limit of \$8.0 million in excess of \$2.0 million.
- The annual aggregate limit, for the \$30.0 million in excess of \$10.0 million second layer, is \$120.0 million.
- A third layer has a limit of \$20.0 million in excess of \$40.0 million, with an annual aggregate limit of approximately \$75.5 million.
- The Property Treaty excludes nuclear, biological, chemical, and radiological ("NBCR") terrorism losses.

#### Casualty Excess of Loss

The casualty excess of loss treaty ("Casualty Treaty") provides \$88.0 million of coverage in excess of a \$2.0 million retention:

- The first through sixth layers provide coverage for 100% of up to \$88.0 million in excess of a \$2.0 million retention.
- The Casualty Treaty includes a \$25.0 million limit, per life, on our workers compensation business, which remains unchanged from the prior treaty.
- The Casualty Treaty excludes NBCR terrorism losses and has annual aggregate non-NBCR terrorism limits of \$208.0 million.

#### Investments

The primary objective of the investment portfolio is to maximize risk-adjusted after-tax income and total return of the portfolio, while maintaining our historic credit quality and duration risk profile. Our investment philosophy includes certain return and risk objectives for the fixed income, equity, and other investment portfolios. After-tax yield and

income generation are key drivers to our investment strategy, which we believe will be obtained through more active management of the portfolio.

Total Invested Assets

| (\$ in thousands)                                  | June 30,<br>2017 | December 31,<br>2016 | Change<br>% or<br>Points |
|----------------------------------------------------|------------------|----------------------|--------------------------|
| Total invested assets                              | \$5,503,047      | 5,364,947            | 3 %                      |
| Invested assets per dollar of stockholders' equity | 3.33             | 3.50                 | (5 )                     |
| Unrealized gain – before tax                       | 126,014          | 64,803               | 94                       |
| Unrealized gain – after tax                        | 81,909           | 42,122               | 94                       |

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The increase in invested assets at June 30, 2017 compared to December 31, 2016 was primarily driven by operating cash flow of \$123.7 million, and an increase in unrealized gains of \$61.2 million. The \$61.2 million change in unrealized gains was driven by our fixed income securities portfolio, which was favorably impacted by tightening credit spreads and a decrease in risk-free rates.

**Fixed Income Securities**

At June 30, 2017, our fixed income securities portfolio represented 93% of our total invested assets, largely unchanged compared to December 31, 2016. The effective duration and spread duration of the fixed income securities portfolio as of June 30, 2017 was 3.7 years and 4.4 years, respectively, including short-term investments. The Insurance Subsidiaries' liability duration is approximately 4.0 years. Effective duration provides an approximate measure of the portfolio's price sensitivity to a change in interest rates, while spread duration provides an approximate measure of the portfolio's price sensitivity to spread changes, which are the differences between the yields on particular debt instruments and the yields of U.S. Treasury debt securities with similar maturities. The effective and spread durations of the fixed income securities portfolio are monitored and managed to maximize yield while managing interest rate risk and credit risk, respectively, at an acceptable level. We maintain a well-diversified portfolio across sectors, credit quality, and maturities that affords us ample liquidity. Every purchase or sale is made with the intent of maximizing risk-adjusted investment returns in the current market environment while balancing capital preservation.

Our fixed income securities portfolio had a weighted average credit rating of "AA-" with 97% of the securities in the portfolio being investment grade quality at both June 30, 2017 and December 31, 2016. Within our fixed income securities portfolio, we maintained an allocation of non-investment grade high-yield securities, which represented 3% of our fixed income securities portfolio as of both June 30, 2017 and December 31, 2016. The sector composition and credit quality of our major asset categories within our fixed income securities portfolio did not significantly change from December 31, 2016. However, we have recently increased our exposure to floating rate fixed income securities, which is largely reflective of our increased allocation to collateralized loan obligations ("CLO"). Floating rate securities represented approximately 17% of our fixed income securities portfolio as of June 30, 2017, compared to 13% as of December 31, 2016. The increase in floating rate instruments, which are primarily indexed to the 90-day LIBOR, will increase the sensitivity of changes to our book yield and investment income.

For details regarding the credit quality of our portfolio, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." of our 2016 Annual Report.

**Net Investment Income**

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

|                                                       | Quarter ended June 30, |          | Six Months ended June 30, |           |
|-------------------------------------------------------|------------------------|----------|---------------------------|-----------|
| (\$ in thousands)                                     | 2017                   | 2016     | 2017                      | 2016      |
| Fixed income securities                               | \$37,668               | 31,753   | 74,559                    | 63,397    |
| Equity securities                                     | 1,419                  | 2,204    | 2,887                     | 4,434     |
| Short-term investments                                | 377                    | 142      | 627                       | 301       |
| Other investments                                     | 5,231                  | (611 )   | 6,834                     | (1,677 )  |
| Investment expenses                                   | (3,265 )               | (2,306 ) | (6,058 )                  | (4,504 )  |
| Net investment income earned – before tax             | 41,430                 | 31,182   | 78,849                    | 61,951    |
| Net investment income tax expense                     | (11,127 )              | (7,657 ) | (21,095 )                 | (14,866 ) |
| Net investment income earned – after tax              | \$30,303               | 23,525   | 57,754                    | 47,085    |
| Effective tax rate                                    | 26.9 %                 | 24.6     | 26.8                      | 24.0      |
| Annualized after-tax yield on fixed income securities | 2.2                    | 2.0      | 2.2                       | 2.0       |
| Annualized after-tax yield on investment portfolio    | 2.2                    | 1.8      | 2.1                       | 1.8       |

The increase in net investment income in both Second Quarter 2017 and Six Months 2017 was driven primarily by our fixed income securities portfolio, which benefited from improved new money reinvestment yields, our increased allocation to non-investment grade securities, and repositioning within the investment grade fixed income portfolio. In addition, income from our alternative investment portfolio increased in both periods due to valuation improvements in the private equity and energy-related sectors.

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## Realized Gains and Losses

Our general philosophy for sales of securities is to reduce our exposure to securities and sectors based on economic evaluations and when the fundamentals for that security or sector have deteriorated, or to opportunistically trade out of securities to other securities with better economic return characteristics. Net realized gains (losses) for the indicated periods were as follows:

|                                    | Quarter ended June 30, |       | Six Months ended June 30, |       |
|------------------------------------|------------------------|-------|---------------------------|-------|
| (\$ in thousands)                  | 2017                   | 2016  | 2017                      | 2016  |
| Net realized gains, excluding OTTI | \$2.9                  | 2.3   | 5.4                       | 3.2   |
| OTTI                               | (1.2 )                 | (0.5) | (4.7)                     | (4.1) |
| Total net realized gains (losses)  | 1.7                    | 1.8   | 0.7                       | (0.9) |

For further discussion of our realized gains and losses, as well as our OTTI methodology, see Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2016 Annual Report. For additional information about our OTTI charges, see Note 4. "Investments" in Item 1. "Financial Statements." of this Form 10-Q.

## Federal Income Taxes

The following table provides information regarding federal income taxes:

|                            | Quarter ended June 30, |      | Six Months ended June 30, |      |
|----------------------------|------------------------|------|---------------------------|------|
| (\$ in millions)           | 2017                   | 2016 | 2017                      | 2016 |
| Federal income tax expense | \$17.5                 | 18.7 | 34.6                      | 33.6 |
| Effective tax rate         | 29.7 %                 | 30.0 | 27.4                      | 29.4 |

The effective tax rate in the table above differs from the statutory tax rate of 35% primarily because of tax-advantaged interest

and dividend income. The decrease in our effective tax rate in Second Quarter and Six Months 2017 compared to Second Quarter and Six Months 2016 was driven primarily by our adoption of ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-based Payment Accounting ("ASU 2016-09") on January 1, 2017, which requires that the tax effects of share-based compensation be recognized in the income tax provision as discrete items outside of the annual estimated expected tax rate. All excess tax benefits and tax deficiencies are recognized as income tax benefit or expense in the income statement and reduced our effective tax rate by 0.6 points and 2.6 points in Second Quarter and Six Months 2017, respectively. Previously, these amounts were recorded in additional paid-in capital. For further information on our adoption of ASU 2016-09, refer to Note 2. "Adoption of Accounting Pronouncements" in Item 1. "Financial Statements." of this Form 10-Q.

We believe that our future effective tax rate will continue to be impacted by similar items, assuming no significant changes to

tax laws. However, the U.S. federal income tax structure is currently under significant debate as a result of the last Presidential election. We are unable to provide an estimate of the magnitude of potential changes.

## Financial Condition, Liquidity, and Capital Resources

Capital resources and liquidity reflect our ability to generate cash flows from business operations, borrow funds at competitive rates, and raise new capital to meet operating and growth needs.

### Liquidity

We manage liquidity with a focus on generating sufficient cash flows to meet the short-term and long-term cash requirements of our business operations. Our cash and short-term investment position of \$142 million at June 30, 2017 was comprised of \$21 million at the Parent and \$121 million at the Insurance Subsidiaries. Short-term investments are generally maintained in "AAA" rated money market funds approved by the National Association of Insurance Commissioners. The Parent maintains a fixed income security investment portfolio containing high-quality, highly-liquid government and corporate fixed income securities. This portfolio amounted to \$84 million at June 30, 2017, compared to \$74 million at December 31, 2016.

### Sources of Liquidity

Sources of cash for the Parent have historically consisted of dividends from the Insurance Subsidiaries, the investment portfolio discussed above, borrowings under lines of credit and loan agreements with certain Insurance Subsidiaries, and the issuance of stock and debt securities. We continue to monitor these sources, giving consideration to our long-term liquidity and capital preservation strategies.

Table of Contents**Insurance Subsidiary Dividends**

We currently anticipate that the Insurance Subsidiaries will pay \$80 million in total dividends to the Parent in 2017, of which \$40 million was paid during Six Months 2017. As of June 30, 2017, our allowable ordinary maximum dividend was \$199 million for 2017, which is a \$6 million increase from December 31, 2016 due to an Indiana regulation change regarding the calculation of ordinary dividends, which impacted two of our insurance subsidiaries.

Any dividends to the Parent are subject to the approval and/or review of the insurance regulators in the respective Insurance Subsidiaries' domiciliary states and are generally payable only from earned surplus as reported in the statutory annual statements of those subsidiaries as of the preceding December 31. Although past dividends have historically been met with regulatory approval, there is no assurance that future dividends that may be declared will be approved. For additional information regarding dividend restrictions, refer to Note 19. "Statutory Financial Information, Capital Requirements, and Restrictions on Dividends and Transfers of Funds" in Item 8. "Financial Statements and Supplementary Data." of our 2016 Annual Report.

The Insurance Subsidiaries generate liquidity through insurance float, which is created by collecting premiums and earning investment income before losses are paid. The period of the float can extend over many years. Our investment portfolio consists of maturity dates that continually provide a source of cash flows for claims payments in the ordinary course of business. The effective duration of the fixed income securities portfolio, including short-term investments, was 3.7 years as of June 30, 2017, while the liabilities of the Insurance Subsidiaries have a duration of 4.0 years. As protection for the capital resources of the Insurance Subsidiaries, we purchase reinsurance coverage for significantly large claims or catastrophes that may occur during the year.

**Line of Credit**

The Parent's line of credit with Wells Fargo Bank, National Association, as administrative agent, and Branch Banking and Trust Company (BB&T) (referred to as our "Line of Credit"), was renewed effective December 1, 2015 with a borrowing capacity of \$30 million, which can be increased to \$50 million with the approval of both lending partners. This Line of Credit expires on December 1, 2020 and has an interest rate which varies and is based on, among other factors, the Parent's debt ratings. There were no balances outstanding under the Line of Credit at June 30, 2017 or at any time during 2017.

The Line of Credit agreement contains representations, warranties, and covenants that are customary for credit facilities of this type, including, without limitation, financial covenants under which we are obligated to maintain a minimum consolidated net worth, a minimum combined statutory surplus, and a maximum ratio of consolidated debt to total capitalization, as well as covenants limiting our ability to: (i) merge or liquidate; (ii) incur debt or liens; (iii) dispose of assets; (iv) make certain investments and acquisitions; and (v) engage in transactions with affiliates.

The table below outlines information regarding certain of the covenants in the Line of Credit:

|                                           | Required as of June 30, 2017 | Actual as of June 30, 2017 |
|-------------------------------------------|------------------------------|----------------------------|
| Consolidated net worth                    | Not less than \$1.1 billion  | \$1.7 billion              |
| Statutory surplus                         | Not less than \$750 million  | \$1.7 billion              |
| Debt-to-capitalization ratio <sup>1</sup> | Not to exceed 35%            | 21.2%                      |
| A.M. Best financial strength rating       | Minimum of A-                | A                          |

<sup>1</sup> Calculated in accordance with the Line of Credit agreement.

Several of our Insurance Subsidiaries are members of certain branches of the Federal Home Loan Bank, which provides those subsidiaries with additional access to liquidity. Membership is as follows:

| Branch                                           | Insurance Subsidiary Member                                                                                                                 |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Federal Home Loan Bank of Indianapolis ("FHLBI") | Selective Insurance Company of South Carolina ("SICSC") <sup>1</sup><br>Selective Insurance Company of the Southeast ("SICSE") <sup>1</sup> |

|                                               |                                                   |
|-----------------------------------------------|---------------------------------------------------|
| Federal Home Loan Bank of New York ("FHLBNY") | Selective Insurance Company of America ("SICA")   |
|                                               | Selective Insurance Company of New York ("SICNY") |

<sup>1</sup>These subsidiaries are jointly referred to as the "Indiana Subsidiaries" as they are domiciled in Indiana.

The Line of Credit permits aggregate borrowings from the FHLBI and the FHLBNY up to 10% of the respective member company's admitted assets for the previous year end. Additionally, as SICNY is domiciled in New York, this company's borrowings from the FHLBNY are limited to the lower of 5% of admitted assets for the most recently completed fiscal quarter or 10% of admitted assets for the previous year end.

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All borrowings from both the FHLBI and the FHLBNY are required to be secured by investments pledged as collateral. For additional information regarding collateral outstanding, refer to Note 4. "Investments" in Item 1. "Financial Statements." of this Form 10-Q. The following table provides information on the remaining capacity for Federal Home Loan Bank borrowings as of June 30, 2017 based on these restrictions, as well as the amount of additional stock that would need to be purchased to allow these member companies to borrow their remaining capacity:

| (\$ in millions) | Admitted Assets | Borrowing Limitation | Amount Borrowed | Remaining Capacity | Additional Stock Requirements |
|------------------|-----------------|----------------------|-----------------|--------------------|-------------------------------|
| SICSC            | \$ 644.9        | \$ 64.5              | 32.0            | 32.5               | 1.4                           |
| SICSE            | 490.7           | 49.1                 | 28.0            | 21.1               | 0.9                           |
| SICA             | 2,314.2         | 231.4                | 50.0            | 181.4              | 8.2                           |
| SICNY            | 427.4           | 21.4                 | —               | 21.4               | 1.0                           |
| Total            |                 | \$ 366.4             | 110.0           | 256.4              | 11.5                          |

**Short-term Borrowings**

In the first quarter of 2017, SICA borrowed \$64 million from the FHLBNY, which was repaid on March 21, 2017. For further information regarding this borrowing, see Note 5. "Indebtedness" in Item 1. "Financial Statements." of this Form 10-Q.

**Intercompany Loan Agreements**

The Parent has lending agreements with the Indiana Subsidiaries that have been approved by the Indiana Department of Insurance, which provide additional liquidity to the Parent. Similar to the Line of Credit agreement, these lending agreements limit borrowings by the Parent from the Indiana Subsidiaries to 10% of the admitted assets of the respective Indiana Subsidiary. The following table provides information on the Parent's borrowings and remaining borrowing capacity from the Indiana Subsidiaries:

| (\$ in millions)    | Admitted Assets as of December 31, 2016 | Borrowing Limitation | Amount Borrowed | Remaining Capacity |
|---------------------|-----------------------------------------|----------------------|-----------------|--------------------|
| As of June 30, 2017 |                                         |                      |                 |                    |
| SICSC               | \$ 644.9                                | \$ 64.5              | 27.0            | 37.5               |
| SICSE               | 490.7                                   | 49.1                 | 18.0            | 31.1               |
| Total               |                                         | \$ 113.6             | 45.0            | 68.6               |

**Capital Market Activities**

The Parent had no private or public issuances of stock or debt instruments during Six Months 2017.

**Uses of Liquidity**

The liquidity generated from the sources discussed above is used, among other things, to pay dividends to our shareholders. Dividends on shares of the Parent's common stock are declared and paid at the discretion of the Board of Directors based on our operating results, financial condition, capital requirements, contractual restrictions, and other relevant factors.

Our ability to meet our interest and principal repayment obligations on our debt, as well as our ability to continue to pay dividends to our stockholders, is dependent on liquidity at the Parent coupled with the ability of the Insurance Subsidiaries to pay dividends, if necessary, and/or the availability of other sources of liquidity to the Parent. Our next principal debt repayment is due in 2021.

Restrictions on the ability of the Insurance Subsidiaries to declare and pay dividends, without alternative liquidity options, could materially affect our ability to service debt and pay dividends on common stock.

#### Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks, and facilitate continued business growth. At June 30, 2017, we had GAAP stockholders' equity and statutory surplus of \$1.7 billion. With total debt of \$438.9 million, our debt-to-capital ratio was approximately 21.0% at June 30, 2017.

Our cash requirements include, but are not limited to, principal and interest payments on various notes payable, dividends to stockholders, payment of claims, payment of commitments under limited partnership agreements and capital expenditures, as well as other operating expenses, which include commissions to our distribution partners, labor costs, premium taxes, general and administrative expenses, and income taxes. For further details regarding our cash requirements, refer to the section below entitled, "Contractual Obligations, Contingent Liabilities, and Commitments."

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We continually monitor our cash requirements and the amount of capital resources that we maintain at the holding company and operating subsidiary levels. As part of our long-term capital strategy, we strive to maintain capital metrics, relative to the macroeconomic environment, that support our targeted financial strength. Based on our analysis and market conditions, we may take a variety of actions, including, but not limited to, contributing capital to the Insurance Subsidiaries in our insurance operations, issuing additional debt and/or equity securities, repurchasing shares of the Parent's common stock, and increasing stockholders' dividends.

Our capital management strategy is intended to protect the interests of the policyholders of the Insurance Subsidiaries and our stockholders, while enhancing our financial strength and underwriting capacity.

Book value per share increased by 7% to \$28.32 as of June 30, 2017, from \$26.42 as of December 31, 2016, due to \$1.55 in net income and \$0.68 in unrealized gains on our investment portfolio, partially offset by \$0.32 in dividends to our shareholders.

### Ratings

We are rated by major rating agencies that issue opinions on our financial strength, operating performance, strategic position, and ability to meet policyholder obligations. We believe that our ability to write insurance business is most influenced by our rating from A.M. Best. We have been rated "A" or higher by A.M. Best for the past 87 years. A downgrade from A.M. Best to a rating below "A-" is an event of default under our Line of Credit and could affect our ability to write new business with customers and/or distribution partners, some of whom are required (under various third-party agreements) to maintain insurance with a carrier that maintains a specified A.M. Best minimum rating.

Our ratings have not changed from those reported in our "Ratings" section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." in our 2016 Annual Report and continue to be as follows:

| NRSRO                                    | Financial Strength Rating | Outlook |
|------------------------------------------|---------------------------|---------|
| A.M. Best                                | A                         | Stable  |
| Moody's Investor Services ("Moody's")    | A2                        | Stable  |
| Fitch Ratings ("Fitch")                  | A+                        | Stable  |
| Standard & Poor's Global Ratings ("S&P") | A                         | Stable  |

In Second Quarter 2017, Fitch reaffirmed our "A+" rating with a "stable" outlook. In taking this action, Fitch cited our strong underwriting results, solid capitalization with growth in stockholders' equity, stable leverage metrics, and stable interest coverage metrics.

Our S&P, Moody's, and Fitch financial strength and associated credit ratings affect our ability to access capital markets. The interest rate on our Line of Credit varies and is based on, among other factors, the Parent's debt ratings. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed. It is possible that positive or negative ratings actions by one or more of the rating agencies may occur in the future.

### Off-Balance Sheet Arrangements

At June 30, 2017 and December 31, 2016, we did not have any material relationships with unconsolidated entities or financial partnerships, such entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any material financing, liquidity, market, or credit risk that could arise if we had engaged in such relationships.

### Contractual Obligations, Contingent Liabilities, and Commitments

Our future cash payments associated with: (i) loss and loss expense reserves; (ii) contractual obligations pursuant to operating leases for office space and equipment; and (iii) debt have not materially changed since December 31, 2016. As of June 30, 2017, we had contractual obligations that expire at various dates through 2030 that may require us to invest up to \$165 million in alternative and other investments. There is no certainty that any such additional investment will be required. Additionally, as of June 30, 2017, we had contractual obligations that expire in 2019 to invest \$12.0 million in a non-publicly traded common stock within our AFS portfolio. We expect to have the capacity to repay and/or refinance these obligations as they come due.

We have issued no material guarantees on behalf of others and have no trading activities involving non-exchange traded contracts accounted for at fair value. For additional details on transactions with related parties, see Note 12. "Related Party Transactions" in Item 1. "Financial Statements." of this Form 10-Q.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in the information about market risk set forth in our 2016 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. In performing this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework ("COSO Framework") in 2013. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are: (i) effective in recording, processing, summarizing, and reporting information on a timely basis that we are required to disclose in the reports that we file or submit under the Exchange Act; and (ii) effective in ensuring that information that we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. No changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) of the Exchange Act) occurred during Six Months 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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 our customers; or (ii) insurers defending first-party coverage claims brought against them. We account for such activity through the establishment of unpaid losses and loss expense reserves. We expect that any potential ultimate liability in such ordinary course claims litigation will not be material to our consolidated financial condition, results of operations, or cash flows after consideration of provisions made for potential losses and costs of defense.

From time to time, our insurance subsidiaries also are named as defendants 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. Similarly, our Insurance Subsidiaries are also named from time-to-time in individual actions seeking extra-contractual damages, punitive damages, or penalties, some of which allege bad faith in the handling of insurance claims. We believe that we have valid defenses to these cases. We expect that any potential ultimate liability in any such lawsuit will not be material to our consolidated financial condition, after consideration of provisions made for estimated losses. Nonetheless, given the inherent unpredictability of litigation and the large or indeterminate amounts sought in certain of these actions, an adverse outcome in certain matters could possibly have a material adverse effect on our consolidated results of operations or cash flows in particular quarterly or annual periods.

As of June 30, 2017, we do not believe the Company was involved in any legal action that could have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

ITEM 1A. RISK FACTORS.

Certain risk factors exist that can have a significant impact on our business, liquidity, capital resources, results of operations, financial condition, and debt ratings. These risk factors might affect, alter, or change actions that we might take in executing our long-term capital strategy, including but not limited to, contributing capital to any or all of the

Insurance Subsidiaries, issuing additional debt and/or equity securities, repurchasing our equity securities, redeeming our fixed income securities, or increasing or decreasing stockholders' dividends. We operate in a continually changing business environment and new risk factors emerge from time to time. Consequently, we can neither predict such new risk factors nor assess the potential future impact, if any, they might have on our business. There have been no material changes from the risk factors disclosed in Item 1A. "Risk Factors." in our 2016 Annual Report.

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## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table provides information regarding our purchases of our common stock in Second Quarter 2017:

| Period             | Total<br>Number of<br>Shares<br>Purchased <sup>1</sup> | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Announced<br>Programs |
|--------------------|--------------------------------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| April 1 – 30, 2017 | 792                                                    | \$ 50.14                              | —                                                                                            | —                                                                                                       |
| May 1 - 31, 2017   | 4,835                                                  | 51.74                                 | —                                                                                            | —                                                                                                       |
| June 1 - 30, 2017  | 1,636                                                  | 49.78                                 | —                                                                                            | —                                                                                                       |
| Total              | 7,263                                                  | \$ 51.12                              | —                                                                                            | —                                                                                                       |

<sup>1</sup>During Second Quarter 2017, 2,428 shares were purchased from employees in connection with the vesting of restricted stock units and 4,835 shares were purchased from employees in connection with option exercises. These repurchases were made to satisfy tax withholding obligations and/or option costs with respect to those employees. These shares were not purchased as part of any publicly announced program. The shares that were purchased in connection with the vesting of restricted stock units were purchased at fair market value as defined in the Selective Insurance Group, Inc. 2014 Omnibus Stock Plan and the Selective Insurance Group, Inc. 2005 Omnibus Stock Plan As Amended and Restated Effective as of May 1, 2010. The shares purchased in connection with the option exercises were purchased at the current market prices of our common stock on the dates the options were exercised.

## ITEM 6. EXHIBITS.

## Exhibit No.

- \* 11 Statement Re: Computation of Per Share Earnings.
- \* 31.1 Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
- \* 31.2 Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
- \* 32.1 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
- \* 32.2 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
- \*\* 101.INS XBRL Instance Document.
- \*\* 101.SCH XBRL Taxonomy Extension Schema Document.
- \*\* 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- \*\* 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- \*\* 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- \*\* 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- \* Filed herewith.
- \*\* Furnished and not filed herewith.



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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

SELECTIVE INSURANCE GROUP, INC.

Registrant

By: /s/ Gregory E. Murphy  
Gregory E. Murphy  
Chairman of the Board and Chief Executive Officer

By: /s/ Mark A. Wilcox  
Mark A. Wilcox  
Executive Vice President and Chief Financial Officer  
(principal financial officer)