

SELECTIVE INSURANCE GROUP INC  
Form 10-Q  
October 26, 2018  
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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: September 30, 2018  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33067  
SELECTIVE INSURANCE GROUP, INC.  
(Exact Name of Registrant as Specified in Its Charter)

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

40 Wantage Avenue  
Branchville, New Jersey 07890  
(Address of Principal Executive Offices) (Zip Code)  
(973) 948-3000  
(Registrant's Telephone Number, Including Area Code)

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically 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  Smaller reporting company   
Emerging growth 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 October 15, 2018, there were 58,888,985 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	
	September 30, 2018	December 31, 2017
(\$ in thousands, except share amounts)		
<b>ASSETS</b>		
Investments:		
Fixed income securities, held-to-maturity – at carrying value (fair value: \$46,240 – 2018; \$44,100 – 2017)	\$ 44,582	42,129
Fixed income securities, available-for-sale – at fair value (amortized cost: \$5,216,964 – 2018; \$5,076,716 – 2017)	5,190,156	5,162,522
Equity securities – at fair value (cost: \$134,530 – 2018; \$143,811 – 2017)	157,867	182,705
Short-term investments (at cost which approximates fair value)	304,572	165,555
Other investments	163,930	132,268
Total investments (Note 4 and 6)	5,861,107	5,685,179
Cash	446	534
Restricted cash	12,386	44,176
Interest and dividends due or accrued	41,016	40,897
Premiums receivable, net of allowance for uncollectible accounts of: \$10,100 – 2018; \$10,000 – 2017	826,923	747,029
Reinsurance recoverable, net of allowance for uncollectible accounts of: \$4,500 – 2018; \$4,600 – 2017	603,827	594,832
Prepaid reinsurance premiums	167,108	153,493
Current federal income tax	—	3,243
Deferred federal income tax	52,347	31,990
Property and equipment – at cost, net of accumulated depreciation and amortization of: \$227,639 – 2018; \$213,227 – 2017	64,225	63,959
Deferred policy acquisition costs	258,033	235,055
Goodwill	7,849	7,849
Other assets	91,485	78,195
Total assets	\$ 7,986,752	7,686,431
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Reserve for loss and loss expense (Note 8)	\$ 3,925,155	3,771,240
Unearned premiums	1,483,794	1,349,644
Long-term debt	439,436	439,116
Current federal income tax	12,133	—
Accrued salaries and benefits	95,352	131,850
Other liabilities	292,362	281,624
Total liabilities	\$ 6,248,232	5,973,474
Stockholders' Equity:		
Preferred stock of \$0 par value per share:	\$ —	—
Authorized shares 5,000,000; no shares issued or outstanding		
Common stock of \$2 par value per share:		
Authorized shares 360,000,000		

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Issued: 102,786,738 – 2018; 102,284,564 – 2017	205,573	204,569
Additional paid-in capital	385,451	367,717
Retained earnings	1,824,607	1,698,613
Accumulated other comprehensive (loss) income (Note 11)	(92,576	) 20,170
Treasury stock – at cost (shares: 43,897,753 – 2018; 43,789,442 – 2017)	(584,535	) (578,112 )
Total stockholders' equity	\$ 1,738,520	1,712,957
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 7,986,752	7,686,431

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (\$ in thousands, except per share amounts)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Revenues:				
Net premiums earned	\$614,277	572,055	1,810,941	1,700,939
Net investment income earned	52,443	40,446	141,227	119,295
Net realized and unrealized (losses) gains:				
Net realized investment (losses) gains on disposals	(751	) 6,871	4,034	12,252
Other-than-temporary impairments	(1,426	) (43	) (5,459	) (4,729
Other-than-temporary impairments on fixed income securities recognized in other comprehensive income	—	(30	) —	(36
Unrealized losses on equity securities	(2,610	) —	(15,563	) —
Total net realized and unrealized (losses) gains	(4,787	) 6,798	(16,988	) 7,487
Other income	2,538	1,994	7,896	8,526
Total revenues	664,471	621,293	1,943,076	1,836,247
Expenses:				
Loss and loss expense incurred	379,199	344,587	1,130,468	1,003,618
Amortization of deferred policy acquisition costs	124,511	118,143	368,265	350,071
Other insurance expenses	80,108	78,874	244,342	243,799
Interest expense	6,073	6,085	18,350	18,272
Corporate expenses	7,450	6,289	22,065	26,669
Total expenses	597,341	553,978	1,783,490	1,642,429
Income before federal income tax	67,130	67,315	159,586	193,818
Federal income tax expense:				
Current	10,314	16,859	23,529	48,917
Deferred	1,381	3,738	2,878	6,317
Total federal income tax expense	11,695	20,597	26,407	55,234
Net income	\$55,435	46,718	133,179	138,584
Earnings per share:				
Basic net income	\$0.94	0.80	2.26	2.37
Diluted net income	\$0.93	0.79	2.23	2.34
Dividends to stockholders	\$0.18	0.16	0.54	0.48

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Net income	\$55,435	46,718	133,179	138,584
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on investment securities:				
Unrealized holding (losses) gains arising during period	(17,036 )	10,874	(103,389)	50,961
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income	—	19	—	23
Amounts reclassified into net income:				
Held-to-maturity securities	(6 )	(35 )	(22 )	(95 )
Non-credit other-than-temporary impairments	—	25	—	25
Realized losses (gains) on disposals of available-for-sale securities	8,563	(4,394 )	14,424	(4,638 )
Total unrealized (losses) gains on investment securities	(8,479 )	6,489	(88,987 )	46,276
Defined benefit pension and post-retirement plans:				
Amounts reclassified into net income:				
Net actuarial loss	420	329	1,260	989
Total defined benefit pension and post-retirement plans	420	329	1,260	989
Other comprehensive (loss) income	(8,059 )	6,818	(87,727 )	47,265
Comprehensive income	\$47,376	53,536	45,452	185,849

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



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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (\$ in thousands, except per share amounts)	Nine Months ended September 30,	
	2018	2017
Common stock:		
Beginning of year	\$204,569	203,241
Dividend reinvestment plan (shares: 17,683 – 2018; 22,278 – 2017)	35	45
Stock purchase and compensation plans (shares: 484,491 – 2018; 537,588 – 2017)	969	1,075
End of period	205,573	204,361
Additional paid-in capital:		
Beginning of year	367,717	347,295
Dividend reinvestment plan	1,013	1,025
Stock purchase and compensation plans	16,721	14,417
End of period	385,451	362,737
Retained earnings:		
Beginning of year, as previously reported	1,698,613	1,568,881
Cumulative effect adjustment due to adoption of equity security guidance, net of tax (Note 2)	30,726	—
Cumulative effect adjustment due to adoption of stranded deferred tax guidance (Note 2)	(5,707	) —
Balance at beginning of year, as adjusted	1,723,632	1,568,881
Net income	133,179	138,584
Dividends to stockholders (\$0.54 per share – 2018; \$0.48 per share – 2017)	(32,204	) (28,424 )
End of period	1,824,607	1,679,041
Accumulated other comprehensive (loss) income:		
Beginning of year, as previously reported	20,170	(15,950 )
Cumulative effect adjustment due to adoption of equity security guidance, net of tax (Note 2)	(30,726	) —
Cumulative effect adjustment due to adoption of stranded deferred tax guidance (Note 2)	5,707	—
Balance at beginning of year, as adjusted	(4,849	) (15,950 )
Other comprehensive (loss) income	(87,727	) 47,265
End of period	(92,576	) 31,315
Treasury stock:		
Beginning of year	(578,112	) (572,097 )
Acquisition of treasury stock (shares: 108,311 – 2018; 136,012 – 2017)	(6,423	) (6,005 )
End of period	(584,535	) (578,102 )
Total stockholders' equity	\$1,738,520	1,699,352

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

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



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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (\$ in thousands)	Nine Months ended September 30, 2018      2017	
Operating Activities		
Net income	\$ 133,179	138,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,961	38,163
Stock-based compensation expense	12,150	10,139
Undistributed gains of equity method investments	(4,243 )	(4,247 )
Distributions in excess of current year income of equity method investments	3,210	552
Loss on disposal of fixed assets	62	998
Net realized and unrealized losses (gains)	16,988	(7,487 )
Changes in assets and liabilities:		
Increase in reserve for loss and loss expense, net of reinsurance recoverable	144,920	104,429
Increase in unearned premiums, net of prepaid reinsurance	120,535	115,855
Decrease in net federal income taxes	18,339	15,674
Increase in premiums receivable	(79,894 )	(88,175 )
Increase in deferred policy acquisition costs	(22,978 )	(19,592 )
Decrease (increase) in interest and dividends due or accrued	72	(1,088 )
Decrease in accrued salaries and benefits	(36,498 )	(19,804 )
Increase in other assets	(13,881 )	(6,304 )
(Decrease) increase in other liabilities	(34,437 )	12,621
Net cash provided by operating activities	292,485	290,318
Investing Activities		
Purchase of fixed income securities, held-to-maturity	(7,150 )	—
Purchase of fixed income securities, available-for-sale	(1,974,253 )	(1,517,474 )
Purchase of equity securities	(57,834 )	(44,480 )
Purchase of other investments	(47,238 )	(34,586 )
Purchase of short-term investments	(2,711,360 )	(3,025,824 )
Sale of fixed income securities, available-for-sale	1,382,677	811,991
Sale of short-term investments	2,572,399	3,032,802
Redemption and maturities of fixed income securities, held-to-maturity	3,923	36,092
Redemption and maturities of fixed income securities, available-for-sale	456,037	439,616
Sale of equity securities	79,676	19,007
Sale of other investments	3,497	—
Distributions from other investments	23,420	17,041
Purchase of property and equipment	(11,150 )	(11,806 )
Net cash used in investing activities	(287,356 )	(277,621 )
Financing Activities		
Dividends to stockholders	(30,694 )	(26,915 )
Acquisition of treasury stock	(6,423 )	(6,005 )
Net proceeds from stock purchase and compensation plans	5,001	4,744
Proceeds from borrowings	130,000	64,000
Repayments of borrowings	(130,000 )	(64,000 )
Repayments of capital lease obligations	(4,891 )	(3,267 )

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Net cash used in financing activities	(37,007 )	(31,443 )
Net decrease in cash and restricted cash	(31,878 )	(18,746 )
Cash and restricted cash, beginning of year	44,710	37,405
Cash and restricted cash, end of period	\$12,832	18,659

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.

Certain amounts in our prior years' Financial Statements and related notes have been reclassified to conform to the 2018 presentation. Specifically, we reclassified restricted cash balances related to our participation in the National Flood Insurance Program ("NFIP") from other assets in our consolidated balance sheet into a separate line item on the face of that statement. Additionally, refer to Note 2. "Adoption of Accounting Pronouncements" below for a discussion of the retroactive restatements that are included in these financial statements in relation to the adoption of new accounting pronouncements for the treatment of restricted cash and distributions from equity method investments on the consolidated statements of cash flows.

Our Financial Statements reflect all adjustments that, in our opinion, are normal, recurring, and necessary for a fair presentation of our results of operations and financial condition. Our Financial Statements cover the third quarters ended September 30, 2018 ("Third Quarter 2018") and September 30, 2017 ("Third Quarter 2017") and the nine-month periods ended September 30, 2018 ("Nine Months 2018") and September 30, 2017 ("Nine Months 2017"). 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, 2017 ("2017 Annual Report") filed with the SEC.

NOTE 2. Adoption of Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 securities held in our investment portfolio 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.

We adopted ASU 2016-01 in the first quarter of 2018 and recognized a \$30.7 million cumulative-effect adjustment to the opening balances of accumulated other comprehensive income ("AOCI") and retained earnings, which represents the after-tax net unrealized gain on our equity portfolio as of December 31, 2017. Additionally, beginning in the first quarter of 2018, changes in unrealized gains or losses on this portfolio are no longer recorded to AOCI, but are instead recognized in income through "Unrealized losses on equity securities" on our Consolidated Statements of Income. See

Note 4 (j) below for information regarding unrealized equity losses recognized in income in Third Quarter and Nine Months 2018.

There were two accounting updates that we adopted with a retrospective transition in the first quarter of 2018 that related to our statements of cash flows. These accounting updates impacted our categorization of distributions from equity method investees (ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15")) and the presentation of restricted cash (ASU 2016-18, Statement of Cash Flows: Restricted Cash ("ASU 2016-18")). These ASUs are discussed below and the discussions are followed with a table presenting the impact of the prior period restatements.

In August 2016, the FASB issued ASU 2016-15. As mentioned above, this ASU adds guidance on the categorization of distributions from equity method investees within the statement of cash flows. In accordance with this guidance, we made an accounting policy election to classify these distributions using the cumulative earnings approach. This election resulted in a restatement to operating and investing cash flows as outlined in the table below. ASU 2016-15 also added or clarified guidance on the cash flow classification of certain cash receipts and payments, including, but not limited to: (i) debt prepayment or debt

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extinguishment costs; (ii) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; and (iii) separately identifiable cash flows and application of the predominance principle. The updated guidance for these topics did not impact our statement of cash flows.

In November 2016, the FASB issued ASU 2016-18. ASU 2016-18 requires restricted cash and restricted cash equivalents to 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 containing cash, cash equivalents, and restricted cash. We have restricted cash related to our participation in the NFIP, which we had previously reported as part of "Other assets" on the Consolidated Balance Sheet. Beginning in the first quarter of 2018, we are reporting restricted cash in its own line item on the Consolidated Balance Sheets to aid in the reconciliation of the amounts presented on the Consolidated Statements of Cash Flows. We have also restated prior year balances on the Consolidated Balance Sheets to conform to the current year presentation.

The adoption of this guidance resulted in a restatement of operating cash flows in Nine Months 2017 to remove the impact of the change in restricted cash from operating activities and include the restricted cash balance in the reconciliation of beginning and ending cash balances on the Statements of Cash Flows. In addition, we have included the required reconciliation in Note 3. "Statements of Cash Flows" below.

ASU 2016-15 and ASU 2016-18 resulted in the following line item restatements within operating and investing cash flows on the Statements of Cash Flows:

(\$ in thousands)	September 30, 2017	
	Prior to Adoption	After Adoption
Undistributed gains of equity method investments	\$(5,157)	(4,247 )
Distributions in excess of current year income of equity method investments	—	552
Decrease (increase) in other assets	12,678	(6,304 )
Net cash provided by operating activities	307,838	290,318
Distributions from other investments	18,503	17,041
Net cash used in investing activities	(276,159)	(277,621)

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 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 adopted ASU 2017-04 in the first quarter of 2018 and it had no impact on us.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income ("ASU 2018-02"). ASU 2018-02 allows a one-time reclassification from AOCI to retained earnings for the stranded tax assets that were created in AOCI from the enactment of the Tax Cuts and Jobs Act of 2017 ("Tax Reform"). We adopted ASU 2018-02 in the first quarter of 2018 and recognized a \$5.7 million cumulative-effect adjustment for the deferred tax charge to income in the fourth quarter of 2017 that was associated with net unrealized gains on our investment portfolio and pension plan resulting from the enactment of Tax Reform.

Pronouncements to be effective in the future

The FASB has issued new leasing guidance through ASU 2016-02, Leases, which was issued in February 2016, as well as additional implementation guidance that was issued in 2018 (collectively referred to as "ASU 2016-02"). ASU 2016-02 requires all lessees to recognize assets and liabilities on their balance sheets for the rights and obligations created by leases with terms longer than 12 months. For leases with a term of 12 months or less, an accounting policy election is allowed to recognize lease expense on a straight-line basis over the lease term. Under the new lease guidance, we expect an increase in assets and liabilities as we will recognize operating leases for office space, fleet vehicles, and equipment on our balance sheet for the first time. However, these increases will not have a material impact to our financial condition. ASU 2016-02 allows for certain practical expedients, accounting policy elections, and a transition method election. We currently plan to adopt practical expedients related to reassessing: (i) whether our existing contracts are, or contain, leases; (ii) lease classification for existing leases; and (iii) initial direct costs for existing leases. Additionally, we plan to adopt accounting policy elections to: (i)

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aggregate lease and non-lease components of a contract into a single lease component; and (ii) expense short-term leases on a straight-line basis over the lease term. We will be adopting ASU 2016-02 on January 1, 2019 with a cumulative-effect adjustment to the opening balance of retained earnings as of that date. We do not anticipate the impact of this guidance to be material to our financial condition or results of operations.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"). The amendments in ASU 2018-07 expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We do not anticipate the adoption of this guidance to have a material impact on our financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). ASU 2018-13 modifies the disclosure requirements for fair value measurements. The modifications removed the following disclosure requirements: (i) the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy; (ii) the policy for timing of transfers between levels; and (iii) the valuation processes for Level 3 fair value measurements. This ASU added the following disclosure requirements: (i) the changes in unrealized gains and losses for the period included in other comprehensive income ("OCI") for recurring Level 3 fair value measurements held at the end of the reporting period; and (ii) the range and weighted average of significant observable inputs used to develop Level 3 fair value measurements. This update is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. As the requirements of this literature are disclosure only, ASU 2018-13 will not impact our financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General: Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans ("ASU 2018-14"). ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. These modifications include: (i) removing the requirement to disclose the amount in AOCI expected to be recognized as components of net periodic benefit cost over the next fiscal year; and (ii) adding the requirement to disclose an explanation of the reasons for significant gains or losses related to changes in the benefit obligation for the period. This update is effective for fiscal years ending after December 15, 2020, with early adoption permitted. As the requirements of this literature are disclosure only, ASU 2018-14 will not impact our financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of this guidance on our financial condition or results of operations.

NOTE 3. Statements of Cash Flows

Supplemental cash flow information was as follows:

	Nine Months ended	
	September 30, 2018	2017
(\$ in thousands)		
Cash paid during the period for:		

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Interest	\$15,449	15,356
Federal income tax	7,193	39,000

Non-cash items:

Corporate actions related to fixed income securities, AFS <sup>1</sup>	32,757	6,192
Corporate actions related to equity securities <sup>1</sup>	944	4,725
Assets acquired under capital lease arrangements	4,114	278

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

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The following table provides a reconciliation of cash and restricted cash reported within the Consolidated Balance Sheets that equate to the amount reported in the Consolidated Statements of Cash Flows:

(\$ in thousands)	September 30, 2018	December 31, 2017
Cash	\$ 446	534
Restricted cash	12,386	44,176
Total cash and restricted cash shown in the Statements of Cash Flows	\$ 12,832	44,710

Amounts included in restricted cash represent cash received from the NFIP, which is restricted to pay flood claims under the Write Your Own Program.

## NOTE 4. Investments

(a) Information regarding our held-to-maturity ("HTM") fixed income securities as of September 30, 2018 and December 31, 2017 was as follows:

September 30, 2018

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Obligations of states and political subdivisions	\$ 21,834	36	21,870	526	—	22,396
Corporate securities	22,798	(86 )	22,712	1,132	—	23,844
Total HTM fixed income securities	\$ 44,632	(50 )	44,582	1,658	—	46,240

December 31, 2017

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Obligations of states and political subdivisions	\$ 25,154	84	25,238	1,023	—	26,261
Corporate securities	16,996	(105 )	16,891	1,003	(55 )	17,839
Total HTM fixed income securities	\$ 42,150	(21 )	42,129	2,026	(55 )	44,100

Unrecognized holding gains and losses of HTM securities are not reflected in the Financial Statements, as they represent fair value fluctuations from the date a security is designated as HTM through the date of the balance sheet.

(b) Information regarding our AFS securities as of September 30, 2018 and December 31, 2017 was as follows:  
September 30, 2018

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AFS fixed income securities:				
U.S. government and government agencies	\$97,304	306	(1,148 )	96,462
Foreign government	18,015	88	(120 )	17,983
Obligations of states and political subdivisions	1,161,322	10,848	(7,261 )	1,164,909
Corporate securities	1,662,613	6,342	(19,302 )	1,649,653
Collateralized loan obligations and other asset-backed securities ("CLO and other ABS")	772,738	4,571	(2,540 )	774,769
Commercial mortgage-backed securities ("CMBS")	495,208	328	(5,987 )	489,549
Residential mortgage-backed securities ("RMBS")	1,009,764	2,670	(15,603 )	996,831
Total AFS securities	\$5,216,964	25,153	(51,961 )	5,190,156



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December 31, 2017

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AFS fixed income securities:				
U.S. government and government agencies	\$49,326	647	(233 )	49,740
Foreign government	18,040	526	(11 )	18,555
Obligations of states and political subdivisions	1,539,307	44,245	(582 )	1,582,970
Corporate securities	1,588,339	30,891	(1,762 )	1,617,468
CLO and other ABS	789,152	6,508	(202 )	795,458
CMBS	382,727	1,563	(841 )	383,449
RMBS	709,825	6,487	(1,430 )	714,882
Total AFS fixed income securities	5,076,716	90,867	(5,061 )	5,162,522
AFS equity securities:				
Common stock	129,696	38,287	(226 )	167,757
Preferred stock	14,115	904	(71 )	14,948
Total AFS equity securities	143,811	39,191	(297 )	182,705
Total AFS securities	\$5,220,527	130,058	(5,358 )	5,345,227

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 other-than-temporary impairment ("OTTI") charge is recognized on an AFS security, through the date of the balance sheet. These unrealized gains and losses are recorded in AOCI on the Consolidated Balance Sheets. As of the first quarter of 2018, equity securities are no longer required to be included in the table above with the adoption of new accounting guidance through which unrealized gains and losses on equity securities are no longer recognized in AOCI, but are instead recognized through income. Refer to Note 2. "Adoption of Accounting Pronouncements" for additional information regarding the adoption of ASU 2016-01.

(c) The severity of impairment on securities in an unrealized/unrecognized loss position averaged approximately 2% of amortized cost at September 30, 2018 and approximately 1% at December 31, 2017. Quantitative information regarding unrealized losses on our AFS portfolio is provided below. Our HTM portfolio had \$0.2 million of unrealized/unrecognized losses at September 30, 2018, and \$0.1 million of unrealized/unrecognized losses at December 31, 2017.

September 30, 2018	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	\$26,414	(843 )	8,497	(305 )	34,911	(1,148 )
Foreign government	7,281	(120 )	—	—	7,281	(120 )
Obligations of states and political subdivisions	411,980	(7,008 )	6,397	(253 )	418,377	(7,261 )
Corporate securities	1,140,349	(19,052 )	6,373	(250 )	1,146,722	(19,302 )
CLO and other ABS	497,809	(2,479 )	4,335	(61 )	502,144	(2,540 )
CMBS	376,359	(5,940 )	2,340	(47 )	378,699	(5,987 )
RMBS	699,336	(14,727 )	19,183	(876 )	718,519	(15,603 )
Total AFS securities	\$3,159,528	(50,169 )	47,125	(1,792 )	3,206,653	(51,961 )

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December 31, 2017 (\$ in thousands)	Less than 12 months		12 months or longer		Total	
	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	\$23,516	(233)	250	—	23,766	(233)
Foreign government	1,481	(11)	—	—	1,481	(11)
Obligations of states and political subdivisions	107,514	(422)	14,139	(160)	121,653	(582)
Corporate securities	238,326	(1,744)	3,228	(18)	241,554	(1,762)
CLO and other ABS	74,977	(196)	1,655	(6)	76,632	(202)
CMBS	154,267	(773)	5,214	(68)	159,481	(841)
RMBS	269,485	(1,285)	11,200	(145)	280,685	(1,430)
Total AFS fixed income securities	869,566	(4,664)	35,686	(397)	905,252	(5,061)
AFS equity securities:						
Common stock	4,727	(226)	—	—	4,727	(226)
Preferred stock	3,833	(71)	—	—	3,833	(71)
Total AFS equity securities	8,560	(297)	—	—	8,560	(297)
Total AFS	\$878,126	(4,961)	35,686	(397)	913,812	(5,358)

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

The increase in the less than 12 months unrealized loss position was due to higher interest rates, with a 94-basis point increase in 2-year U.S. Treasury Note yields and a 66-basis point increase in 10-year U.S. Treasury Note yields during the nine-month period ending September 30, 2018. We do not currently intend to sell any of the securities in the tables above, nor will we be required to sell any of these securities. Considering these factors, and in accordance with our review of 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 2017 Annual Report, we have concluded that they are temporarily impaired as we believe: (i) they will mature at par value; (ii) they have not incurred a credit impairment; and (iii) future values of these securities will fluctuate with changes in interest rates. 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 September 30, 2018, by contractual maturity, are shown below. Mortgage-backed securities 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 September 30, 2018:

(\$ in thousands)	AFS	HTM	
	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$176,545	14,017	14,150
Due after one year through five years	2,107,663	20,518	21,926
Due after five years through 10 years	2,759,167	10,047	10,164
Due after 10 years	146,781	—	—
Total fixed income securities	\$5,190,156	44,582	46,240

(e) The following table summarizes our other investment portfolio by strategy:

Other Investments	September 30, 2018	December 31, 2017
(\$ in thousands)		

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	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	\$75,508	99,346	174,854	52,251	99,026	151,277
Private credit	37,525	85,747	123,272	37,743	94,959	132,702
Real assets	25,214	33,088	58,302	25,379	27,014	52,393
Total alternative investments	138,247	218,181	356,428	115,373	220,999	336,372
Other securities	25,683	—	25,683	16,895	—	16,895
Total other investments	\$163,930	218,181	382,111	132,268	220,999	353,267

<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.

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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 2018 or 2017.

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 nine-month periods ended June 30 is included in our Third Quarter and Nine Months results. This information is as follows:

Income Statement Information	Quarter ended		Nine Months	
	September 30,		ended September 30,	
(\$ in millions)	2018	2017	2018	2017
Net investment income (loss)	\$11.9	0.6	(29.9 )	(61.8 )
Realized gains (losses)	124.8	43.3	1,348.3	(261.0 )
Net change in unrealized appreciation	1,434.3	1,296.3	695.8	3,186.3
Net gain	\$1,571.0	1,340.2	2,014.2	2,863.5
Selective's insurance subsidiaries' alternative investments gain	\$7.1	2.7	10.6	9.5

(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 September 30, 2018 to comply with insurance laws. We retain all rights regarding all securities pledged as collateral.

The following table summarizes the market value of these securities at September 30, 2018:

(\$ in millions)	FHLBI	FHLBNY	State and	Total
	Collateral	Collateral	Regulatory	
			Deposits	
U.S. government and government agencies	\$ —	—	22.2	22.2
Obligations of states and political subdivisions	—	—	3.8	3.8
CMBS	7.2	9.4	—	16.6
RMBS	57.8	76.3	—	134.1
Total pledged as collateral	\$ 65.0	85.7	26.0	176.7

(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 September 30, 2018 or December 31, 2017.

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

(\$ in thousands)	Quarter ended		Nine Months	
	September 30,		ended September 30,	
	2018	2017	2018	2017
Fixed income securities	\$45,088	38,865	130,903	113,424
Equity securities	2,079	1,605	5,876	4,492
Short-term investments	867	396	2,001	1,023
Other investments	7,211	2,659	10,868	9,493
Investment expenses	(2,802 )	(3,079 )	(8,421 )	(9,137 )



Net investment income earned \$52,443 40,446 141,227 119,295

(i) OTTI charges were \$1.4 million and \$0.1 million in Third Quarter 2018 and Third Quarter 2017, respectively, and \$5.5 million and \$4.8 million in Nine Months 2018 and Nine Months 2017, respectively. All of the OTTI charges in 2018 and a majority of the charges in 2017 were related to securities for which we had the intent to sell, with each security type's charge not exceeding 1% of its amortized cost. 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 2017 Annual Report.

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(j) Net realized and unrealized gains and losses (excluding OTTI charges) for Third Quarter and Nine Months 2018 and 2017 included the following:

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Net realized (losses) gains on the disposals of securities:				
Fixed income securities	\$ (9,413)	1,996	(13,922 )	6,566
Equity securities	8,665	4,875	17,960	5,225
Short-term investments	2	—	1	—
Other investments	(5 )	—	(5 )	461
Net realized gains on the disposal of securities	(751 )	6,871	4,034	12,252
OTTI charges	(1,426 )	(73 )	(5,459 )	(4,765 )
Net realized (losses) gains	(2,177 )	6,798	(1,425 )	7,487
Unrealized (losses) recognized in income on equity securities <sup>1</sup>	(2,610 )	—	(15,563 )	—
Total net realized and unrealized investment (losses) gains	\$ (4,787)	6,798	\$ (16,988)	7,487

<sup>1</sup>Includes unrealized holding gains (losses) of: (i) \$5.5 million in Third Quarter 2018 and \$4.2 million in Nine Months 2018 on equity securities remaining in our portfolio as of September 30, 2018; and (ii) \$(8.1) million in Third Quarter 2018 and \$(19.8) million in Nine Months 2018 on equity securities sold during the respective periods.

The components of net realized gains on disposals of securities for the periods indicated were as follows:

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
HTM fixed income securities				
Gains	\$—	—	2	44
Losses	—	—	—	(1 )
AFS fixed income securities				
Gains	462	2,070	5,056	8,337
Losses	(9,875)	(74 )	(18,980)	(1,814 )
Equity securities				
Gains	10,584	4,875	20,209	5,225
Losses	(1,919)	—	(2,249 )	—
Short-term investments				
Gains	3	—	6	2
Losses	(1 )	—	(5 )	(2 )
Other investments				
Gains	—	—	—	480
Losses	(5 )	—	(5 )	(19 )
Total net realized gains (losses) on disposals of securities	\$ (751)	6,871	4,034	12,252

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 sales of AFS fixed income securities were \$444.4 million and \$94.9 million in Third Quarter 2018 and Third Quarter 2017, respectively, and \$1,382.7 million and \$812.0 million in Nine Months 2018 and Nine Months 2017, respectively. Proceeds from the sales of equity securities were \$36.1 million and \$12.7 million in Third Quarter 2018 and Third Quarter 2017, respectively, and \$79.7 million and \$19.0 million in Nine Months 2018 and Nine Months 2017, respectively.

NOTE 5. Indebtedness

Our long-term debt balance has not changed materially since December 31, 2017. However, Selective Insurance Company of America ("SICA") borrowed the following short-term funds in the first quarter of 2018 from the FHLBNY:

On February 27, 2018, SICA borrowed \$75 million at an interest rate of 1.75%. This borrowing was repaid on March 20, 2018; and

On March 28, 2018, SICA borrowed \$55 million at an interest rate of 1.98%. This borrowing was repaid on April 18, 2018.

For detailed information on our indebtedness, see Note 10. "Indebtedness" in Item 8. "Financial Statements and Supplementary Data." of our 2017 Annual Report.

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## 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 are provided in this footnote and the related carry values have changed by less than 1% during Nine Months 2018. 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 2017 Annual Report.

The following tables provide quantitative disclosures of our financial assets that were measured and recorded at fair value at September 30, 2018 and December 31, 2017:

Description	Assets Measured at Fair Value	Fair Value Measurements Using		
		Quoted Prices 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)
September 30, 2018				
Measured on a recurring basis:				
AFS fixed income securities:				
U.S. government and government agencies	\$96,462	76,760	19,702	—
Foreign government	17,983	—	17,983	—
Obligations of states and political subdivisions	1,164,909	—	1,164,909	—
Corporate securities	1,649,653	—	1,649,653	—
CLO and other ABS	774,769	—	770,628	4,141
CMBS	489,549	—	489,549	—
RMBS	996,831	—	996,831	—
Total AFS fixed income securities	5,190,156	76,760	5,109,255	4,141
Equity securities:				
Common stock <sup>2</sup>	154,845	124,445	—	—
Preferred stock	3,022	3,022	—	—
Total equity securities	157,867	127,467	—	—
Short-term investments	304,572	303,572	1,000	—
Total assets measured at fair value	\$5,652,595	507,799	5,110,255	4,141
December 31, 2017				
(\$ in thousands)	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities	Significant Other Observable Inputs (Level 2) <sup>1</sup>	Significant Unobservable Inputs (Level 3)

Description		(Level 1) <sup>1</sup>			
Measured on a recurring basis:					
AFS fixed income securities:					
U.S. government and government agencies	\$49,740	24,652	25,088	—	
Foreign government	18,555	—	18,555	—	
Obligations of states and political subdivisions	1,582,970	—	1,582,970	—	
Corporate securities	1,617,468	—	1,617,468	—	
CLO and other ABS	795,458	—	795,458	—	
CMBS	383,449	—	376,895	6,554	
RMBS	714,882	—	714,882	—	
Total AFS fixed income securities	5,162,522	24,652	5,131,316	6,554	
AFS equity securities:					
Common stock <sup>2</sup>	167,757	138,640	—	5,398	
Preferred stock	14,948	14,948	—	—	
Total AFS equity securities	182,705	153,588	—	5,398	
Total AFS securities	5,345,227	178,240	5,131,316	11,952	
Short-term investments	165,555	165,555	—	—	
Total assets measured at fair value	\$5,510,782	343,795	5,131,316	11,952	

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

Investments amounting to \$30.4 million at September 30, 2018, and \$23.7 million at December 31, 2017, were measured at fair value using net asset value per share (or its practical expedient) and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to total assets measured at fair value.

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There were no material changes in the fair value of securities measured using Level 3 prices in Nine Months 2017. The following table provides a summary of Level 3 changes in Nine Months 2018:  
September 30, 2018

(\$ in thousands)	CMBS	Common and Stock	CLO Other ABS
Fair value, December 31, 2017	\$6,554	5,398	—
Total net (losses) gains for the period included in:			
OCI	—	—	—
Net income	—	—	—
Purchases	—	—	4,141
Sales	—	—	—
Issuances	—	—	—
Settlements	—	—	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	(6,554 )	(5,398 )	—
Fair value, September 30, 2018	\$—	—	4,141

The following tables provide quantitative information regarding our financial assets and liabilities that were disclosed at fair value at September 30, 2018 and December 31, 2017:

September 30, 2018	Fair Value Measurements Using			
	Quoted Prices in			
(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value	Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
<b>HTM:</b>				
Obligations of states and political subdivisions	\$22,396	—	22,396	—
Corporate securities	23,844	—	11,583	12,261
Total HTM fixed income securities	\$46,240	—	33,979	12,261
<b>Financial Liabilities</b>				
<b>Long-term debt:</b>				
7.25% Senior Notes	\$57,733	—	57,733	—
6.70% Senior Notes	106,760	—	106,760	—
5.875% Senior Notes	184,778	184,778	—	—
1.61% borrowings from FHLB NY	23,936	—	23,936	—
1.56% borrowings from FHLB NY	23,871	—	23,871	—
3.03% borrowings from FHLBI	57,795	—	57,795	—
Total long-term debt	\$454,873	184,778	270,095	—



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December 31, 2017	Fair Value Measurements Using			
(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
<b>HTM:</b>				
Obligations of states and political subdivisions	\$ 26,261	—	26,261	—
Corporate securities	17,839	—	12,306	5,533
<b>Total HTM fixed income securities</b>	<b>\$ 44,100</b>	<b>—</b>	<b>38,567</b>	<b>5,533</b>
<b>Financial Liabilities</b>				
<b>Long-term debt:</b>				
7.25% Senior Notes	\$ 61,391	—	61,391	—
6.70% Senior Notes	116,597	—	116,597	—
5.875% Senior Notes	186,332	186,332	—	—
1.61% borrowings from FHLB NY	24,270	—	24,270	—
1.56% borrowings from FHLB NY	24,210	—	24,210	—
3.03% borrowings from FHLBI	60,334	—	60,334	—
<b>Total long-term debt</b>	<b>\$ 473,134</b>	<b>186,332</b>	<b>286,802</b>	<b>—</b>

## 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 2017 Annual Report.

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
<b>Premiums written:</b>				
Direct	\$ 752,834	706,918	\$ 2,220,431	2,097,146
Assumed	7,084	8,506	19,891	20,685
Ceded	(108,250 )	(111,147)	(308,846 )	(301,036 )
<b>Net</b>	<b>\$ 651,668</b>	<b>604,277</b>	<b>\$ 1,931,476</b>	<b>1,816,795</b>
<b>Premiums earned:</b>				
Direct	\$ 706,497	666,048	\$ 2,086,953	1,967,364
Assumed	6,484	7,623	19,220	19,465
Ceded	(98,704 )	(101,616)	(295,232 )	(285,890 )
<b>Net</b>	<b>\$ 614,277</b>	<b>572,055</b>	<b>\$ 1,810,941</b>	<b>1,700,939</b>
<b>Loss and loss expenses incurred:</b>				
Direct	\$ 477,427	455,728	\$ 1,289,357	1,187,400
Assumed	6,529	5,420	16,897	17,623



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Ceded	(104,757 )	(116,561)	(175,786 )	(201,405 )
Net	\$379,199	344,587	\$1,130,468	1,003,618

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:

Ceded to NFIP (\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Ceded premiums written	\$(70,100)	(68,132 )	\$(193,110)	(188,274)
Ceded premiums earned	(61,448 )	(59,847 )	(180,582 )	(174,779)
Ceded loss and loss expenses incurred	(89,396 )	(112,994)	(115,376 )	(134,675)

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## NOTE 8. Reserve for Loss and Loss Expense

The table below provides a roll forward of reserve for loss and loss expense balances:

(\$ in thousands)	Nine Months ended	
	September 30,	
	2018	2017
Gross reserve for loss and loss expense, at beginning of year	\$3,771,240	3,691,719
Less: reinsurance recoverable on unpaid loss and loss expense, at beginning of year	585,855	611,200
Net reserve for loss and loss expense, at beginning of year	3,185,385	3,080,519
Incurred loss and loss expense for claims occurring in the:		
Current year	1,148,032	1,037,079
Prior years	(17,564 )	(33,461 )
Total incurred loss and loss expense	1,130,468	1,003,618
Paid loss and loss expense for claims occurring in the:		
Current year	369,036	314,686
Prior years	610,734	581,186
Total paid loss and loss expense	979,770	895,872
Net reserve for loss and loss expense, at end of period	3,336,083	3,188,265
Add: Reinsurance recoverable on unpaid loss and loss expense, at end of period	589,072	647,535
Gross reserve for loss and loss expense at end of period	\$3,925,155	3,835,800

The \$111.0 million increase in current year loss and loss expense incurred illustrated in the table above was primarily driven by: (i) non-catastrophe property losses; (ii) an increase in current year loss costs on our commercial automobile line of business; and (iii) an increase in exposure due to premium growth. Non-catastrophe property losses, which increased \$61.9 million, to \$278.5 million, in Nine Months 2018, were partially related to the early January 2018 deep freeze in our footprint states and a relatively large number of fire losses over the course of the year.

Prior year development in Nine Months 2018 of \$17.6 million included \$24.0 million of favorable casualty development, partially offset by \$6.4 million of unfavorable property development. The favorable casualty development included \$53.0 million of development in our workers compensation line of business and \$8.0 million in our general liability line of business, partially offset by unfavorable development of \$25.0 million in our commercial automobile line of business and \$12.0 million in our excess and surplus ("E&S") casualty lines.

Prior year development in Nine Months 2017 of \$33.5 million was primarily driven by favorable prior year casualty reserve development of \$48.3 million in our general liability line of business and \$29.3 million in our workers compensation line of business. This was partially offset by unfavorable development of \$26.0 million in our commercial automobile line of business, \$10.0 million in our E&S segment, and \$4.0 million in our personal automobile line of business.

For a discussion of the trends and recent developments impacting these lines, refer to the "Critical Accounting Policies and Estimates" section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." in our 2017 Annual Report.

## 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 E&S Lines are evaluated based on before and after-tax underwriting results (net premiums earned, incurred loss and loss expense, policyholder dividends, policy acquisition

costs, and other underwriting expenses), and 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 corporate expenses. We do not maintain separate investment portfolios for the segments and therefore, do not allocate assets to the segments.

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

Revenue by Segment (\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
<b>Standard Commercial Lines:</b>				
Net premiums earned:				
Commercial automobile	\$ 124,862	111,711	365,197	327,156
Workers compensation	78,784	77,580	237,628	236,366
General liability	154,974	141,059	457,805	422,546
Commercial property	83,056	78,151	245,544	232,594
Businessowners' policies	25,994	25,019	77,414	74,853
Bonds	8,778	7,420	25,247	20,904
Other	4,608	4,310	13,597	12,839
Miscellaneous income	2,228	1,712	6,936	7,588
Total Standard Commercial Lines revenue	483,284	446,962	1,429,368	1,334,846
<b>Standard Personal Lines:</b>				
Net premiums earned:				
Personal automobile	42,772	38,612	125,024	113,225
Homeowners	32,293	32,215	96,717	97,382
Other	2,092	1,774	5,349	4,867
Miscellaneous income	310	282	959	938
Total Standard Personal Lines revenue	77,467	72,883	228,049	216,412
<b>E&amp;S Lines:</b>				
Net premiums earned:				
Casualty lines	42,179	40,090	120,098	117,056
Property lines	13,885	14,114	41,321	41,151
Miscellaneous income	—	—	1	—
Total E&S Lines revenue	56,064	54,204	161,420	158,207
<b>Investments:</b>				
Net investment income	52,443	40,446	141,227	119,295
Net realized and unrealized investment (losses) gains	(4,787 )	6,798	(16,988 )	7,487
Total Investments revenue	47,656	47,244	124,239	126,782
Total revenues	\$ 664,471	621,293	1,943,076	1,836,247
<b>Income Before and After Federal Income Tax</b>				
(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
<b>Standard Commercial Lines:</b>				
Underwriting gain, before federal income tax	\$ 26,333	35,329	74,153	112,634
Underwriting gain, after federal income tax	20,803	22,964	58,581	73,212
Combined ratio	94.5	% 92.1	94.8	91.5
<b>Standard Personal Lines:</b>				
Underwriting gain, before federal income tax	\$ 3,158	8,179	6,457	7,517
Underwriting gain, after federal income tax	2,495	5,316	5,101	4,886
Combined ratio	95.9	% 88.7	97.2	96.5
<b>E&amp;S Lines:</b>				

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Underwriting gain (loss), before federal income tax	\$3,506	(11,063)	(4,848 )	(8,174 )
Underwriting gain (loss), after federal income tax	2,770	(7,191 )	(3,830 )	(5,313 )
Combined ratio	93.7	% 120.4	103.0	105.2

Investments:

Net investment income	\$52,443	40,446	141,227	119,295
Net realized and unrealized investment (losses) gains	(4,787 )	6,798	(16,988 )	7,487
Total investment income, before federal income tax	47,656	47,244	124,239	126,782
Tax on investment income	8,562	13,236	21,405	34,572
Total investment income, after federal income tax	\$39,094	34,008	102,834	92,210

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Reconciliation of Segment Results to Income Before Federal Income Tax	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
(\$ in thousands)				
Underwriting gain (loss)				
Standard Commercial Lines	\$26,333	35,329	74,153	112,634
Standard Personal Lines	3,158	8,179	6,457	7,517
E&S Lines	3,506	(11,063)	(4,848)	(8,174)
Investment income	47,656	47,244	124,239	126,782
Total all segments	80,653	79,689	200,001	238,759
Interest expense	(6,073)	(6,085)	(18,350)	(18,272)
Corporate expenses	(7,450)	(6,289)	(22,065)	(26,669)
Income, before federal income tax	\$67,130	67,315	159,586	193,818

## 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 2017 Annual Report.

The following tables provide information regarding the Pension Plan:

(\$ in thousands)	Pension Plan		Pension Plan	
	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Net Periodic Benefit Cost:				
Interest cost	\$3,095	3,111	9,285	9,332
Expected return on plan assets	(5,681)	(4,854)	(17,044)	(14,563)
Amortization of unrecognized net actuarial loss	494	481	1,481	1,444
Total net periodic benefit cost <sup>1</sup>	\$(2,092)	(1,262)	(6,278)	(3,787)

<sup>1</sup> The components of net periodic benefit cost are included within "Loss and loss expense incurred" and "Other insurance expenses" on the Consolidated Statements of Income.

Weighted-Average Expense Assumptions:	Pension Plan	
	Nine Months ended September 30,	
	2018	2017
Discount rate	3.78%	4.41%
Effective interest rate for calculation of interest cost	3.46	3.83
Expected return on plan assets	6.36	6.24

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## NOTE 11. Comprehensive Income

The components of comprehensive income, both gross and net of tax, for Third Quarter and Nine Months 2018 and 2017 are as follows:

## Third Quarter 2018

(\$ in thousands)	Gross	Tax	Net
Net income	\$67,130	11,695	55,435
Components of other comprehensive loss:			
Unrealized losses on investment securities:			
Unrealized holding losses during period	(21,565 )	(4,529 )	(17,036 )
Amounts reclassified into net income:			
HTM securities	(8 )	(2 )	(6 )
Realized losses on disposals of AFS securities	10,839	2,276	8,563
Total unrealized losses on investment securities	(10,734 )	(2,255 )	(8,479 )
Defined benefit pension and post-retirement plans:			
Amounts reclassified into net income:			
Net actuarial loss	532	112	420
Total defined benefit pension and post-retirement plans	532	112	420
Other comprehensive loss	(10,202 )	(2,143 )	(8,059 )
Comprehensive income	\$56,928	9,552	47,376

## Third Quarter 2017

(\$ in thousands)	Gross	Tax	Net
Net income	\$67,315	20,597	46,718
Components of OCI:			
Unrealized gains on investment securities:			
Unrealized holding gains during period	16,729	5,855	10,874
Non-credit portion of OTTI recognized in OCI	30	11	19
Amounts reclassified into net income:			
HTM securities	(54 )	(19 )	(35 )
Non-credit OTTI	38	13	25
Realized gains on disposals of AFS securities	(6,760 )	(2,366 )	(4,394 )
Total unrealized gains on investment securities	9,983	3,494	6,489
Defined benefit pension and post-retirement plans:			
Amounts reclassified into net income:			
Net actuarial loss	507	178	329
Total defined benefit pension and post-retirement plans	507	178	329
Other comprehensive income	10,490	3,672	6,818
Comprehensive income	\$77,805	24,269	53,536

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## Nine Months 2018

(\$ in thousands)	Gross	Tax	Net
Net income	\$ 159,586	26,407	133,179
Components of other comprehensive loss:			
Unrealized losses on investment securities:			
Unrealized holding losses during period	(130,873 )	(27,484)	(103,389)
Amounts reclassified into net income:			
HTM securities	(28 )	(6 )	(22 )
Realized losses on disposals of AFS securities	18,258	3,834	14,424
Total unrealized losses on investment securities	(112,643 )	(23,656)	(88,987 )
Defined benefit pension and post-retirement plans:			
Amounts reclassified into net income:			
Net actuarial loss	1,595	335	1,260
Total defined benefit pension and post-retirement plans	1,595	335	1,260
Other comprehensive loss	(111,048 )	(23,321)	(87,727 )
Comprehensive income	\$48,538	3,086	45,452

## Nine Months 2017

(\$ in thousands)	Gross	Tax	Net
Net income	\$ 193,818	55,234	138,584
Components of OCI:			
Unrealized gains on investment securities:			
Unrealized holding gains during period	78,401	27,440	50,961
Non-credit portion of OTTI recognized in OCI	36	13	23
Amounts reclassified into net income:			
HTM securities	(146 )	(51 )	(95 )
Non-credit OTTI	38	13	25
Realized gains on disposals of AFS securities	(7,135 )	(2,497 )	(4,638 )
Total unrealized gains on investment securities	71,194	24,918	46,276
Defined benefit pension and post-retirement plans:			
Amounts reclassified into net income:			
Net actuarial loss	1,522	533	989
Total defined benefit pension and post-retirement plans	1,522	533	989
Other comprehensive income	72,716	25,451	47,265
Comprehensive income	\$266,534	80,685	185,849

The balances of, and changes in, each component of AOCI (net of taxes) as of September 30, 2018 were as follows:  
September 30, 2018

(\$ in thousands)	Net Unrealized Gains (Losses) on Investment Securities				Defined Benefit Pension and Post-Retirement Plans	Total AOCI
	OTTI Related	HTM Related	All Other	Investments Subtotal		
Balance, December 31, 2017	\$(59)	(14 )	80,648	80,575	(60,405 )	20,170
Cumulative effect adjustments	(12 )	(2 )	(12,792 )	(12,806 )	(12,213 )	(25,019 )
Balance, December 31, 2017 as adjusted	(71 )	(16 )	67,856	67,769	(72,618 )	(4,849 )
OCI before reclassifications	—	—	(103,389)	(103,389 )	—	(103,389)
Amounts reclassified from AOCI	—	(22 )	14,424	14,402	1,260	15,662
Net current period OCI	—	(22 )	(88,965 )	(88,987 )	1,260	(87,727 )



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Balance, September 30, 2018                      \$(71) (38 ) (21,109 ) (21,218 ) (71,358 ) (92,576 )

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The reclassifications out of AOCI were as follows:

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,		Affected Line Item in the Unaudited Consolidated Statements of Income
	2018	2017	2018	2017	
<b>OTTI related</b>					
Non-credit OTTI on disposed securities	\$—	38	—	38	Net realized and unrealized (losses) gains
	—	38	—	38	Income before federal income tax
	—	(13)	—	(13)	Total federal income tax expense
	—	25	—	25	Net income
<b>HTM related</b>					
Unrealized losses on HTM disposals	\$11	11	5	41	Net realized and unrealized (losses) gains
Amortization of net unrealized gains on HTM securities	(19)	(65)	(33)	(187)	Net investment income earned
	(8)	(54)	(28)	(146)	Income before federal income tax
	2	19	6	51	Total federal income tax expense
	(6)	(35)	(22)	(95)	Net income
<b>Realized losses (gains) on AFS and OTTI</b>					
Realized losses (gains) on AFS disposals and OTTI	10,839	(6,760)	18,258	(7,135)	Net realized and unrealized (losses) gains
	10,839	(6,760)	18,258	(7,135)	Income before federal income tax
	(2,276)	2,366	(3,834)	2,497	Total federal income tax expense
	8,563	(4,394)	14,424	(4,638)	Net income
<b>Defined benefit pension and post-retirement life plans</b>					
Net actuarial loss	112	110	337	331	Loss and loss expense incurred
	420	397	1,258	1,191	Other insurance expenses
Total defined benefit pension and post-retirement life	532	507	1,595	1,522	Income before federal income tax
	(112)	(178)	(335)	(533)	Total federal income tax expense
	420	329	1,260	989	Net income
Total reclassifications for the period	\$8,977	(4,075)	15,662	(3,719)	Net income

## NOTE 12. Federal Income Taxes

(a) On December 22, 2017, Tax Reform was signed into law, which among other implications, reduced our statutory corporate tax rate from 35% to 21% beginning with our 2018 tax year.

We continue to provide provisional amounts for loss reserve discounting because the Internal Revenue Service ("IRS") has not yet issued guidance with regard to the discount rates to be used under Tax Reform. For additional information, refer to Note 13. "Federal Income Taxes" in Item 8. "Financial Statements and Supplementary Data." of our 2017 Annual Report.

We will continue to monitor IRS guidance to complete the analysis of loss reserve discounting.

(b) A reconciliation of federal income tax on income at the corporate rate to the effective tax rate is as follows:

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(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Statutory tax rate	21	% 35	21	35
Tax at statutory rate	\$14,097	23,560	33,513	67,836
Tax-advantaged interest	(1,338 )	(2,915 )	(4,242 )	(8,479 )
Dividends received deduction	(107 )	(382 )	(443 )	(1,338 )
Stock-based compensation	(415 )	(86 )	(2,963 )	(3,409 )
Other	(542 )	420	542	624
Federal income tax expense	\$11,695	20,597	26,407	55,234

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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 loss 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 September 30, 2018, 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.

NOTE 14. Subsequent Events

Hurricane Michael made landfall on October 10, 2018 in the Florida Panhandle as a powerful Category 4 hurricane and continued into Georgia and other southeastern states. While relatively early given the complexity of losses involved, we currently estimate our losses from this event to be approximately \$10 million.

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.

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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, 2017 ("2017 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 Item 1. "Financial Statements." of this Form 10-Q and the consolidated financial statements in our 2017 Annual Report filed with the U.S. Securities and Exchange Commission.

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

• Critical Accounting Policies and Estimates;

• Financial Highlights of Results for the third quarters ended September 30, 2018 ("Third Quarter 2018") and September 30, 2017 ("Third Quarter 2017") and the nine-month periods ended September 30, 2018 ("Nine Months 2018") and September 30, 2017 ("Nine Months 2017");

• 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.

**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 expense; (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 36 through 44 of our 2017 Annual Report.

Table of ContentsFinancial Highlights of Results for Third Quarter and Nine Months 2018 and Third Quarter and Nine Months 2017<sup>1</sup>

(\$ and shares in thousands, except per share amounts)	Quarter ended		Change % or Points	Nine Months ended		Change % or Points
	September 30, 2018	2017		September 30, 2018	2017	
Revenues	\$664,471	621,293	7 %	\$1,943,076	1,836,247	6 %
After-tax net investment income	42,875	29,590	45	116,254	87,344	33
After-tax underwriting income	26,068	21,089	24	59,852	72,785	(18 )
Net income before federal income tax	67,130	67,315	—	159,586	193,818	(18 )
Net income	55,435	46,718	19	133,179	138,584	(4 )
Diluted net income per share	0.93	0.79	18	2.23	2.34	(5 )
Diluted weighted-average outstanding shares	59,711	59,323	1	59,626	59,232	1
Combined ratio	94.6 %	94.3 %	0.3 pts	95.8 %	93.4 %	2.4 pts
Invested assets per dollar of stockholders' equity	\$3.37	3.36	— %	\$3.37	3.36	— %
After-tax yield on investments	3.0 %	2.1 %	0.9 pts	2.7 %	2.1 %	0.6 pts
Annualized return on average equity ("ROE")	12.9	11.2	1.7	10.3	11.4	(1.1 )
Non-Generally Accepted Accounting Principles ("GAAP") operating income <sup>2</sup>	\$59,216	42,300	40 %	\$146,599	133,718	10 %
Diluted non-GAAP operating income per share <sup>2</sup>	0.99	0.72	38	2.46	2.26	9
Annualized non-GAAP operating ROE <sup>2</sup>	13.8 %	10.1 %	3.7 pts	11.3 %	11.0 %	0.3 pts

<sup>1</sup> Refer to the Glossary of Terms attached to our 2017 Annual Report as Exhibit 99.1 for definitions of terms used in this Form 10-Q.

<sup>2</sup> Non-GAAP operating income is used as an important financial measure by us, analysts, and investors, because the realization of investment gains and losses on sales of securities in any given period is largely discretionary as to timing. In addition, these net realized investment gains and losses, as well as OTTI that are charged to earnings, and unrealized gains and losses on equity securities, could distort the analysis of trends.

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

Reconciliation of net income to non-GAAP operating income	Quarter ended		Nine Months ended	
	September 30,		September 30,	
(\$ in thousands)	2018	2017	2018	2017
Net income	\$55,435	46,718	133,179	138,584
Net realized and unrealized losses (gains), before tax	4,787	(6,798 )	16,988	(7,487 )
Tax on net realized and unrealized losses (gains)	(1,006 )	2,380	(3,568 )	2,621
Net realized and unrealized losses (gains)	3,781	(4,418 )	13,420	(4,866 )
Non-GAAP operating income	\$59,216	42,300	146,599	133,718
Reconciliation of net income per share to non-GAAP operating income per share			Nine Months ended	
			September 30, September 30,	
			2018	2017
Diluted net income per share			2018	2017
			\$0.93	0.79
			2.23	2.34

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Net realized and unrealized losses (gains), before tax	0.08	(0.11)	0.28	(0.13)
Tax on net realized and unrealized losses (gains)	(0.02)	0.04	(0.05)	0.05
Net realized and unrealized losses (gains)	0.06	(0.07)	0.23	(0.08)
Diluted non-GAAP operating income per share	\$0.99	0.72	2.46	2.26
Reconciliation of annualized ROE to annualized non-GAAP operating ROE	Quarter ended September 30,		Nine Months ended September 30,	
Annualized ROE	2018	2017	2018	2017
	12.9 %	11.2	10.3	11.4
Net realized and unrealized losses (gains), before tax	1.1	(1.6)	1.3	(0.6)
Tax on net realized and unrealized losses (gains)	(0.2)	0.5	(0.3)	0.2
Net realized and unrealized losses (gains)	0.9	(1.1)	1.0	(0.4)
Annualized non-GAAP operating ROE	13.8 %	10.1	11.3	11.0



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The components of our annualized ROE are as follows:

Annualized ROE Components	Quarter ended		Change Points	Nine Months ended		Change Points
	September 30, 2018	September 30, 2017		September 30, 2018	September 30, 2017	
Standard Commercial Lines Segment	4.9 %	5.4	(0.5 )	4.5	6.0	(1.5 )
Standard Personal Lines Segment	0.6	1.3	(0.7 )	0.4	0.4	—
E&S Lines Segment	0.6	(1.7)	2.3	(0.3)	(0.4)	0.1
Total Insurance operations	6.1	5.0	1.1	4.6	6.0	(1.4 )
Investment income	10.0	7.1	2.9	9.0	7.2	1.8
Net realized and unrealized (losses) gains	(0.9)	1.1	(2.0)	(1.0)	0.4	(1.4 )
Total Investments segment	9.1	8.2	0.9	8.0	7.6	0.4
Other	(2.3)	(2.0)	(0.3)	(2.3)	(2.2)	(0.1)
Annualized ROE	12.9 %	11.2	1.7	10.3	11.4	(1.1)

#### Insurance Operations

Our insurance operations' ROE improved by 1.1 points for the quarter, primarily reflecting the lower corporate tax rate provided under the Tax Cuts and Jobs Act of 2017 ("Tax Reform"). Our pre-tax profitability in our overall insurance operations remained consistent with last year, with a combined ratio of 94.6% in Third Quarter 2018 compared to 94.3% in Third Quarter 2017. Despite the benefits from Tax Reform, the insurance operations' non-GAAP operating ROE declined 1.4 points for Nine Months 2018 compared to Nine Months 2017, reflecting an increase in our combined ratio to 95.8% in Nine Months 2018, compared to 93.4% in Nine Months 2017, principally driven by a higher level of non-catastrophe property losses and a lower level of favorable prior year casualty reserve development.

The following table provides quantitative information for analyzing the combined ratio:

All Lines (\$ in thousands)	Quarter ended		Change % or Points	Nine Months ended		Change % or Points
	September 30, 2018	September 30, 2017		September 30, 2018	September 30, 2017	
Insurance Operations Results:						