SELECTIVE INSURANCE GROUP INC
Form 10-K
February 24, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended: December 31, 2015
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)
Registrant’s telephone number, including area code:	(973) 948-3000
Securities registered pursuant to Section 12(b) of the Act:	
Title of each class	Name of each exchange on which registered
Common Stock, par value $2 per share	NASDAQ Global Select Market
5.875% Senior Notes due February 9, 2043	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
ý Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes ý No

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.
ý Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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).
ý Yes ¨ No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
ý

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
¨ Yes ý No

The aggregate market value of the voting company common stock held by non-affiliates of the registrant, based on the closing price on the NASDAQ Global Select Market, was $1,565,753,304 on June 30, 2015. As of February 12, 2016, the registrant had outstanding 57,587,942 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be held on May 4, 2016 are incorporated by reference into Part III of this report.

SELECTIVE INSURANCE GROUP, INC.
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PART I

Item 1. Business.

Overview

Selective Insurance Group, Inc. (referred to as the “Parent”) is a New Jersey holding company that was incorporated in 1977. Our main office is located in Branchville, New Jersey and the Parent’s common stock is publicly traded on the NASDAQ Global Select Market under the symbol “SIGI.” The Parent has ten insurance subsidiaries, nine of which are licensed by various state departments of insurance to write specific lines of property and casualty insurance business in the standard market. The remaining subsidiary is authorized by various state insurance departments to write property and casualty insurance in the excess and surplus lines ("E&S Lines") market. Our ten insurance subsidiaries are collectively referred to as the “Insurance Subsidiaries.” The Parent and its subsidiaries are collectively referred to as "we," “us,” or “our” in this document.

In 2015, we were ranked as the 42nd largest property and casualty group in the United States based on 2014 net premiums written (“NPW”) in A.M. Best Company’s (“A.M. Best”) annual list of “Top 200 U.S. Property/Casualty Writers.”

Our Insurance Subsidiaries’ ratings by major rating agency are as follows:

Rating Agency	Financial Strength Rating	Outlook
A.M. Best	A	Stable
Standard & Poor’s Ratings Services (“S&P”)	A-	Positive
Moody’s Investors Service (“Moody’s”)	A2	Stable
Fitch Ratings (“Fitch”)	A+	Stable

For further discussion on our ratings, please see the “Ratings” section of Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” of this Form 10-K.

We have provided a glossary of terms as Exhibit 99.1 to this Form 10-K, which defines certain industry-specific and other terms that are used in this Form 10-K.

Segments

We classify our business into four reportable segments:

- Standard Commercial Lines - comprised of insurance products and services provided in the standard marketplace to our commercial customers, who are typically businesses, non-profit organizations, and local government agencies. This business represents 77% of our total insurance segments’ NPW.

- Standard Personal Lines - comprised of insurance products and services provided primarily to individuals acquiring coverage in the standard marketplace. This business represents 14% of our total insurance segments’ NPW and includes flood insurance coverage that we write through the National Flood Insurance Program (“NFIP”).

- E&S Lines - comprised of insurance products and services provided to customers who have not obtained coverage in the standard marketplace. We currently only write commercial lines E&S coverages and this business represents 9% of our total insurance segments' NPW.

- Investments - invests the premiums collected by our insurance segments, as well as amounts generated through our capital management strategies, which may include the issuance of debt and equity securities.

We derive substantially all of our income in three ways:

- Underwriting income from our insurance segments. Underwriting income is comprised of revenues, which are the premiums earned on our insurance products and services, less expenses. Gross premiums are direct premium written ("DPW") plus premiums assumed from other insurers. Gross premiums less premium ceded to reinsurers, is NPW. NPW is recognized as revenue ratably over a policy's term as net premiums earned ("NPE"). Expenses related to our insurance segments fall into three main categories: (i) losses associated with claims and various loss expenses incurred for adjusting claims (referred to as "loss and loss expenses"); (ii) expenses related to insurance policy issuance, such as commissions to our distribution partners, premium taxes, and other expenses incurred in issuing and maintaining policies, including employee compensation and benefits (referred to as "underwriting expenses"); and (iii) policyholder dividends.

- Net investment income from the investment segment. We generate income from investing insurance premiums and amounts generated through our capital management strategies. Net investment income consists primarily of interest earned on fixed income investments, dividends earned on equity securities, and other income primarily generated from our alternative investment portfolio.

- Net realized gains and losses on investment securities from the investments segment. Realized gains and losses from the investment portfolios of the Insurance Subsidiaries and the Parent are typically the result of sales, calls, and redemptions. They also include write downs from other-than-temporary impairments ("OTTI").

Our income is partially offset by: (i) expenses at the Parent that include general corporate expenses, as well as interest on our debt obligations; and (ii) federal income taxes.

We use the combined ratio as the key measure in assessing the performance of our insurance segments. Under U.S. generally accepted accounting principles ("GAAP"), the combined ratio is calculated by adding: (i) the loss and loss expense ratio, which is the ratio of incurred loss and loss expense to NPE; (ii) the expense ratio, which is the ratio of underwriting expenses to NPE; and (iii) the dividend ratio, which is the ratio of policyholder dividends to NPE. Statutory accounting principles ("SAP") provides a calculation of the combined ratio that differs from GAAP in that the statutory expense ratio is the ratio of underwriting expenses to NPW, not NPE. A combined ratio under 100% generally indicates an underwriting profit and a combined ratio over 100% generally indicates an underwriting loss. The combined ratio does not reflect investment income, federal income taxes, or Parent company income or expense.

We use after-tax investment income and net realized gains or losses as the key measure in assessing the performance of our investments segment. Our investment philosophy includes setting certain risk and return objectives for the fixed income, equity, and other investment portfolios. We generally review our performance by comparing our returns for each of these components of our portfolio to a weighted-average benchmark of comparable indices.

Our operations are heavily regulated by the state insurance regulators in the states in which our Insurance Subsidiaries are organized and licensed or authorized to do business. In these states, the Insurance Subsidiaries are required to file financial statements prepared in accordance with SAP, which are promulgated by the National Association of Insurance Commissioners ("NAIC") and adopted by the various states. Because of these state insurance regulatory requirements, we use SAP to manage our insurance operations. The purpose of these state insurance regulations is to protect policyholders, so SAP focuses on solvency and liquidation value unlike GAAP, which focuses on shareholder returns as a going concern. Consequently, significant differences exist between SAP and GAAP as discussed below:

- With regard to the underwriting expense ratio: As noted above, NPE is the denominator for GAAP; whereas NPW is the denominator for SAP.

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- With regard to income or expense recognition:

- Underwriting expenses that are incremental and directly related to the successful acquisition of insurance policies are deferred and amortized to expense over the life of an insurance policy under GAAP; whereas they are recognized when incurred under SAP.

- Deferred taxes are recognized as either a deferred tax expense or a deferred tax benefit in income under GAAP; whereas they are recorded directly to surplus under SAP.

- Changes in the value of our alternative investments, which are part of our other investment portfolio on our Consolidated Balance Sheets, are recognized in income under GAAP; whereas they are recorded directly to surplus under SAP and only recognized in income when cash is received.

- With regard to loss and loss expense reserves:

- Under GAAP, reinsurance recoverables, net of a provision for uncollectible reinsurance, are presented as an asset on the Consolidated Balance Sheet, whereas under SAP, this amount is netted within the liability for loss and loss expense reserves.

- Under GAAP, for those structured settlements for which we did not obtain a release, a deposit asset and the related loss reserve are included on the Consolidated Balance Sheet, whereas under SAP, the structured settlement transaction is recorded as a paid loss.

The following table reconciles losses and loss expense reserves under SAP and GAAP at December 31 as follows:

($ in thousands)	2015	2014
Statutory losses and loss expense reserves	$2,951,905	2,892,041
Statutory reinsurance recoverable on unpaid losses and loss expenses	556,719	578,878
Structured settlements	9,104	6,951
GAAP losses and loss expense reserves – net	$3,517,728	3,477,870

The following table reconciles reinsurance recoverables under SAP and GAAP at December 31:

($ in thousands)	2015	2014
Statutory reinsurance recoverable on unpaid losses and loss expenses	$556,719	578,878
Provision for uncollectible reinsurance	(5,700)	(6,900)
GAAP reinsurance recoverable on unpaid losses and loss expenses	551,019	571,978
Reinsurance recoverable on paid losses and loss expenses	10,949	9,570
GAAP reinsurance recoverable – net	$561,968	581,548

- With regard to equity under GAAP and statutory surplus under SAP:

- The timing difference in income due to the GAAP/SAP differences in expense recognition creates a difference between GAAP equity and SAP statutory surplus.

- Regarding unrealized gains and losses on fixed income securities:

- Under GAAP, unrealized gains and losses on available-for-sale (“AFS”) fixed income securities are recognized in equity; but they are not recognized in equity on purchased held-to-maturity (“HTM”) securities. Unrealized gains and

losses on HTM securities transferred from an AFS designation are amortized from equity as a yield adjustment.

- Under SAP, unrealized gains and losses on fixed income securities assigned certain NAIC Securities Valuation Office ratings (specifically designations of one or two, which generally equate to investment grade bonds) are not recognized in statutory surplus. However, unrealized losses on fixed income securities that have a designation of three or higher are recognized in statutory surplus.

- Certain assets are designated under insurance regulations as “non-admitted,” including, but not limited to, certain deferred tax assets, overdue premium receivables, furniture and equipment, and prepaid expenses. These assets are excluded from statutory surplus under SAP, but are recorded in the Consolidated Balance Sheets net of applicable allowances under GAAP.

- Regarding the recognition of the liability for our defined benefit plans, under both GAAP and SAP, the liability is recognized in an amount equal to the excess of the projected benefit obligation over the fair value of the plan assets. However, changes in this balance not otherwise recognized in income are recognized in equity as a component of other comprehensive income (“OCI”) under GAAP and in statutory surplus under SAP.

Our combined insurance segments' GAAP results for the last three completed fiscal years are shown on the following table:

	Year Ended December 31,			
($ in thousands)	2015		2014	2013
Combined Insurance Segments Results				
NPW	$2,069,904		1,885,280	1,810,159
NPE	$1,989,909		1,852,609	1,736,072
Losses and loss expenses incurred	1,148,541		1,157,501	1,121,738
Net underwriting expenses incurred	686,120		610,783	571,294
Policyholder dividends	6,219		6,182	4,274
Underwriting income	$149,029		78,143	38,766
Ratios:				
Loss and loss expense ratio	57.7	%	62.5	64.6
Underwriting expense ratio	34.5		33.0	33.0
Policyholder dividends ratio	0.3		0.3	0.2
GAAP combined ratio	92.5	%	95.8	97.8
Statutory combined ratio	92.4	%	95.7	97.5

For revenue and profitability measures for each of our three insurance segments, see Note 11. "Segment Information" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K. We do not allocate assets to individual segments. In addition, for analysis of our insurance segments' results, see "Results of Operations and Related Information by Segment" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K.

Insurance Segments

Overview

We derive all of our insurance operations revenue from selling insurance products and services to businesses and individuals for premium. The majority of our sales are annual insurance policies. Our most significant cost associated with the sale of insurance policies is our loss and loss expenses.

To that end, we establish loss and loss expense reserves that are estimates of the amounts that we will need to pay in the future for claims and related expenses for insured losses that have already occurred. Estimating reserves as of any given date involves a considerable degree of judgment and is inherently uncertain. We regularly review our reserving techniques and our overall amount of reserves. For disclosures concerning our unpaid loss and loss expenses, as well as a full discussion regarding our loss reserving process, see "Critical Accounting Policies and Estimates" in Item 7.

"Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K. Additionally, for an analysis of changes in our loss reserves over the most recent three-year period, see Note 9. "Reserves for Losses and Loss Expenses" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

As part of our risk management efforts associated with the sale of our products and services, we use reinsurance to protect our capital resources and insure us against losses on the risks that we underwrite. We use two main reinsurance vehicles: (i) a reinsurance pooling agreement among our Insurance Subsidiaries in which each company agrees to share in premiums and losses based on certain specified percentages; and (ii) reinsurance contracts and arrangements with third parties that cover various policies that we issue to our customers. For information regarding reinsurance treaties and agreements, see "Reinsurance" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K.

Insurance Segments Products and Services

The types of insurance we sell in our insurance segments fall into three broad categories:

- Property insurance, which generally covers the financial consequences of accidental loss of an insured's real and/or personal property. Property claims are generally reported and settled in a relatively short period of time.

- Casualty insurance, which generally covers the financial consequences of employee injuries in the course of employment and bodily injury and/or property damage to a third party as a result of an insured's negligent acts, omissions, or legal liabilities. Casualty claims may take several years to be reported and settled.

- Flood insurance, which generally covers property losses under the Federal Government's Write Your Own ("WYO") Program of the NFIP. Flood insurance premiums and losses are 100% ceded to the NFIP.

We underwrite our business primarily through traditional insurance. The following table shows the principal types of policies we write:

Types of Policies	Category of Insurance	Standard Commercial Lines	Standard Personal Lines	E&S Lines
Commercial Property (including Inland Marine)	Property	X		X
Commercial Automobile	Property/Casualty	X		X
General Liability (including Excess Liability/Umbrella)	Casualty	X		X
Workers Compensation	Casualty	X		
Businessowners' Policy	Property/Casualty	X		
Bonds (Fidelity and Surety)	Casualty	X		
Homeowners	Property/Casualty		X	
Personal Automobile	Property/Casualty		X	
Personal Umbrella	Casualty		X	
Flood[1]	Flood/Property	X	X	

[1]Flood insurance premiums and losses are 100% ceded to the federal government's WYO Program. Certain other policies contain minimal flood or flood related coverages.

Product Development and Pricing

Our insurance policies are contracts that specify our coverages - what we will pay to or for an insured upon a specified loss. We develop our coverages internally and by adopting and modifying forms and statistical data licensed from third party aggregators, notably Insurance Services Office, Inc. ("ISO"), American Association of Insurance Services, Inc. ("AAIS"), and the National Council on Compensation Insurance, Inc. ("NCCI"). Determining the price to charge for our coverages involves consideration of many variables. At the time we underwrite and issue a policy, we do not know what our actual costs for the policy will be in the future. To calculate and project future costs, we examine and analyze historical statistical data and factor in expected changes in loss trends. Additionally, we have developed predictive models for certain of our Standard Commercial and Standard Personal Lines. Predictive models analyze historical statistical data regarding our customers and their loss experience, rank our policies, or potential policies, based on this analysis, and apply this risk data to current and future customers to predict the likely profitability of an account. A model's predictive capabilities are limited by the amount and quality of the statistical data available. As a regional insurance group, our loss experience is not always statistically large enough to analyze and project future costs. Consequently, we use ISO, AAIS, and NCCI data to supplement our proprietary data.

Customers and Customer Markets

We categorize our Standard Commercial Lines customers into the following strategic business units ("SBUs"):

	Percentage of Standard Commercial Lines	Description
Contractors	35%	General contractors and trade contractors
Mercantile and Services	26%	Focuses on retail, office, service businesses, restaurants, and hotels
Community and Public Services	20%	Focuses on public entities, social services, golf courses, and religious institutions
Manufacturing and Wholesale	18%	Includes manufacturers, wholesalers, and distributors
Bonds	1%	Includes fidelity and surety
Total Standard Commercial Lines	100%	

We do not categorize our Standard Personal Line customers or our E&S Line customers by SBU.

The following are general guidelines that can be used as indicators of the approximate size of our customers:

- The average Standard Commercial Lines account size is $10,500.
- The average Standard Personal Lines account size is $2,000.
- The average E&S Lines policy is $3,000.

No one customer accounts for 10% or more of our insurance segments in the aggregate.

Geographic Markets

We principally sell in the following geographic markets:

- Standard Commercial Lines products and services are primarily sold in 22 states located in the Eastern and Midwestern regions of the United States and the District of Columbia.

- Standard Personal Lines products and services are primarily sold in 13 states located in the Eastern and Midwestern regions of the United States, except for the flood portion of this segment, which is sold in all 50 states and the District of Columbia.

- E&S Lines are sold in all 50 states and the District of Columbia.

We believe this geographic diversification lessens our exposure to regulatory, competitive, and catastrophic risk. The following table lists the principal states in which we write business and the percentage of total NPW each represents for the last three fiscal years:

	Year Ended December 31,			
% of NPW	2015		2014	2013
New Jersey	21.2	%	22.6	23.1
Pennsylvania	11.7		11.4	11.5
New York	7.2		7.1	6.9
Maryland	5.4		5.6	5.7
Virginia	4.6		4.6	4.7
Indiana	4.3		4.5	4.8

Georgia	4.1	3.8	3.5
Illinois	3.7	4.0	4.5
North Carolina	3.7	3.4	3.2
Michigan	3.5	3.3	3.4
South Carolina	3.0	3.1	3.0
Ohio	2.4	2.4	2.5
Other states	25.2	24.2	23.2
Total	100.0 %	100.0	100.0

We support geographically diversified business from our corporate headquarters in Branchville, New Jersey, and our six regional branches (referred to as our “Regions”). The table below lists our Regions and where they have office locations:

Region	Office Location
Heartland	Carmel, Indiana
New Jersey	Hamilton, New Jersey
Northeast	Branchville, New Jersey
Mid-Atlantic	Allentown, Pennsylvania and Hunt Valley, Maryland
Southern	Charlotte, North Carolina
E&S	Horsham, Pennsylvania and Scottsdale, Arizona

Distribution Channel

We sell our insurance products and services through the following types of distribution partners:

- Standard Commercial Lines: independent retail agents;
- Standard Personal Lines: independent retail agents; and
- E&S Lines: wholesale general agents.

We pay these distribution partners commissions and other consideration for business placed with us. We seek to compensate them fairly and in a manner consistent with market practices. No one distribution partner is responsible for 10% or more of our combined insurance segments' premium.

As our customers rely heavily on our distribution partners, it is sometimes difficult to develop brand recognition as these customers cannot always differentiate between their insurance agents and their insurance carriers. We continue to evolve our service model, post policy-acquisition, with an increasing focus on the customer. Our goal is to provide our customers with 24/7 access to transactional capabilities and account information. Customers expect this level of access from every business and, while many insurers offer such solutions in the personal lines space, we want to be a leader in this area for the small commercial lines market. When combined with our digital strategy, we believe this level of access will significantly improve the customer experience. Within our digital strategy, we provide self-servicing capabilities via a mobile application and a web-based portal where our customers have access to basic account information on demand. These efforts will allow us to continue to offer customers a shared experience with our distribution partners, while positioning us to more directly demonstrate our value proposition.

Independent Retail Agents

According to a study released in 2015 by the Independent Insurance Agents & Brokers of America, independent retail insurance agents and brokers write approximately 80% of standard commercial lines insurance and 35% of standard personal lines insurance in the United States. We believe that independent retail insurance agents will remain a significant force in overall insurance industry premium production because they represent more than one insurance carrier and therefore are able to provide a wider choice of commercial and personal lines insurance products and risk-based consultation to customers.

We currently have approximately 1,100 independent retail agents selling our Standard Commercial Lines business, 700 of which also sell our Standard Personal Lines business (excluding flood). In total, these 1,100 distribution partners have approximately 2,100 office locations selling our business. In addition, we have approximately 6,000 distribution partners selling our flood insurance products.

In a survey that we conducted in 2015, we received an overall satisfaction score of 8.6 out of 10 from our standard market distribution partners, which, we believe, highlighted their satisfaction with our products, the ease of reporting claims, and the professionalism and effectiveness of our employees.

Wholesale General Agents

E&S Lines are written almost exclusively through approximately 80 wholesale general agents, who are our distribution partners in the E&S market. We have granted contract binding authority to these partners for business that meets our prescribed underwriting and pricing guidelines.

Marketing

Our primary marketing strategy is to:

- Use an empowered field underwriting model to provide our retail distribution partners with resources within close geographic proximity to their businesses and our customers. For further discussion on this, see the “Field Model and Technology” section below.

- Develop close relationships with each distribution partner, as well as their principals and producers: (i) by soliciting their feedback on products and services; (ii) by advising them concerning our product developments; and (iii) through education and development focusing on producer recruitment, sales training, enhancing customer experience, online marketing, and distribution operations.

- Develop with each distribution partner, and then carefully monitor, annual goals regarding: (i) types and mix of risks placed with us; (ii) amount of premium or number of policies placed with us; (iii) customer service and retention levels; and (iv) profitability of business placed with us.

- Develop brand recognition with our customers through our marketing efforts, which include radio and television advertising, as well as advertising at certain national and local sporting events.

Field Model and Technology

We use the service mark “High-tech x High-touch = HT^2 SM” to describe our business strategy. “High-tech” refers to our technology that we use to make it easy for our distribution partners and customers to do business with us. “High-touch” refers to the close relationships that we have with our distribution partners and customers through our field business model.

High Tech

We leverage the use of technology in our business. We have made significant investments in information technology platforms, integrated systems, internet-based applications, and predictive modeling initiatives. We do this to provide:

- Our distribution partners and our customers with access to accurate business information and the ability to process certain transactions from their locations, seamlessly integrating those transactions into our systems;

- Our underwriters with targeted underwriting and pricing tools to enhance profitability while growing the business;

- Our Special Investigations Unit ("SIU") investigators access to our business intelligence systems to better identify claims with potential fraudulent activities;

- Our claims recovery and subrogation departments with the ability to expand and enhance their models through the use of our business intelligence systems; and

- Our customers with 24/7 access to transactional capabilities and information through a web-based customer portal and a customer mobile application.

We manage our information technology projects through an Enterprise Project Management Office (“EPMO”) governance model. The EPMO is supported by certified project managers who apply methodologies to: (i) communicate project management standards; (ii) provide project management training and tools; (iii) manage projects; (iv) review project status and cost; and (v) provide non-technology project management consulting services to the rest of the organization. The EPMO, which includes senior management representatives from all major business

areas, corporate functions, and information technology, meets regularly to review all major initiatives and receives reports on the status of other projects. We believe the EPMO is an important factor in the success of our technology implementation.

Our primary technology operations are located in Branchville, New Jersey and Glastonbury, Connecticut. We have agreements with multiple consulting, information technology, and service providers for supplemental staffing services. Collectively, these providers supply approximately 46% of our skilled technology capacity. We retain management oversight of all projects and ongoing information technology production operations. We believe we would be able to manage an efficient transition to new vendors without significant impact to our operations if we terminated an existing vendor.

High Touch

To support our distribution partners, we employ a field model for both underwriting and claims, with various employees in the field, usually working from home offices near our distribution partners. We believe that we build better and stronger relationships with our distribution partners because of the close proximity of our field employees, and the resulting direct interaction with our distribution partners and our customers. At December 31, 2015, we had approximately 2,200 employees, of which 320 worked in the field, and 850 worked in one of our regional offices.

Underwriting Process

Our underwriting process requires communication and interaction among:

- Our Agency Management Specialists ("AMSs"), who: (i) manage the growth and profitability of business that their assigned distribution partners write with us; and (ii) perform field underwriting for new Standard Commercial Lines business;
- Our Standard Commercial Lines small business teams are responsible for handling: (i) new business in need of review that was submitted by our distribution partners through our automated underwriting platform, One & Done®; and (ii) other new small accounts and middle market accounts with low underwriting complexity;
- Our Standard Personal Lines Marketing Specialists ("PLMSs") have primary responsibility for identifying new opportunities to grow our Standard Personal Lines;
- Our E&S territory managers have primary responsibility for identifying new opportunities to grow our E&S Lines;
- Our corporate underwriting department develops our underwriting appetite, products, policy forms, pricing, and underwriting guidelines for our standard market and E&S market business;
- Our corporate actuaries assist in the determination of rate and pricing levels, while monitoring pricing and profitability along with the Regions, corporate underwriting and business intelligence staff for our standard market and E&S market business;
- Our Regions establish and execute upon: (i) annual premium and pricing goals; (ii) specific new business targets by distribution partner; and (iii) profit improvement plans as needed across lines, states, and/or distribution partners;
- Our distribution partners, which include independent retail agents for our standard market business and wholesale general agents for our E&S market business, provide front-line underwriting within our prescribed guidelines;
- Our regional underwriters manage the inforce policies for their assigned distribution partners, including but not limited to, managing profitability and pricing levels within their portfolios by developing policy-specific pricing;
- Our Safety Management Specialists ("SMSs") provide a wide range of front-line safety management services to our Standard Commercial Lines customers as discussed more fully below;
- Our premium auditors supplement the underwriting process by working with insureds to accurately audit exposures for certain policies that we write; and
- Our field technical coordinators are responsible for technology assistance and training to aid our employees and our distribution partners.

We have an underwriting service center ("USC") located in Richmond, Virginia. The USC assists our distribution partners by servicing certain Standard Personal Lines and smaller Standard Commercial Lines accounts. At the USC, many of our employees are licensed agents who respond to customer inquiries about insurance coverage, billing transactions, and other matters. For the convenience of using the USC and our handling of certain transactions, our distribution partners agree to receive a slightly lower than standard commission for the premium associated with the USC. As of December 31, 2015, our USC was servicing Standard Commercial Lines NPW of $50.0 million and Standard Personal Lines NPW of $31.9 million. The $81.9 million total serviced by the USC represents 4% of our total NPW.

As mentioned above, our field model provides a wide range of front-line safety management services focused on improving a Standard Commercial Lines insured's safety and risk management programs. Our service mark "Safety Management: Solutions for a safer workplace[SM] includes: (i) risk evaluation and improvement surveys intended to evaluate potential

exposures and provide solutions for mitigation; (ii) internet-based safety management educational resources, including a large library of coverage-specific safety materials, videos and online courses, such as defensive driving and employee educational safety courses; (iii) thermographic infrared surveys aimed at identifying electrical hazards; and (iv) Occupational Safety and Health Administration construction and general industry certification training. Risk improvement efforts for existing customers are designed to improve loss experience and policyholder retention through valuable ongoing consultative service. Our safety management goal is to work with our customers to identify and eliminate potential loss exposures.

Claims Management

Effective, fair, and timely claims management is one of the most important services that we provide to our customers and distribution partners. It is also one of the critical factors in achieving underwriting profitability. We have structured our claims organization to emphasize: (i) cost-effective delivery of claims services and control of loss and loss expenses; and (ii) maintenance of timely and adequate claims reserves. In connection with our Standard Commercial Lines and Standard Personal Lines, we achieve better claim outcomes through a field model that locates claim representatives in close proximity to our customers and distribution partners.

We have a claims service center (“CSC”), co-located with the USC, in Richmond, Virginia. The CSC receives first notices of loss from our customers and claimants related to our Standard Commercial Lines and Standard Personal Lines and manages routine automobile and property claims with no injuries. The CSC is designed to help: (i) reduce the claims settlement time on first- and third-party automobile property damage claims; (ii) increase the use of body shops, glass repair shops, and car rental agencies that have contracted with us at discounted rates and specified service levels; (iii) handle and settle small property claims; and (iv) investigate and negotiate auto liability claims. The CSC, as appropriate, will assign claims to the appropriate regional claims office or other specialized area within our claims organization.

Claims Management Specialists (“CMSs”) are responsible for investigating and resolving the majority of our standard marketplace commercial automobile bodily injury, general liability, and property losses with low to moderate severities. Strategically located throughout our footprint, CMSs are able to provide highly responsive customer and distribution partner service to quickly resolve claims within their authority. Over the course of 2015, we made changes to our E&S claims processing, which is now aligned with the processes used for our Standard Commercial Lines and Standard Personal Lines. E&S claims are handled in our E&S regional offices in Scottsdale, Arizona, and Horsham, Pennsylvania, and are segregated by line of business (property and liability). In the first quarter of 2015, our Quality Assurance Unit began conducting monthly file reviews on all of our operations to validate compliance with our quality claim handling standards. In addition, during the second half of the year, we further segregated our claims handling by litigation and complexity. Complex claims oversight is handled by the Complex Claims Unit ("CCU").

We have implemented specialized claims handling as follows:

- Liability claims with high severity or technically complex losses are handled by the CCU. The CCU specialists are primarily field based and handle losses based on injury type or with severities greater than $250,000.

- Litigated matters not meeting the CCU criteria are handled within our regional offices by our litigation claim units. These teams are aligned based upon jurisdictional knowledge and technical experience. In addition, they are supervised by litigation managers within the regional claim offices. These claims are segregated from the CMSs to allow for focused management.

- Workers compensation claim handling is centralized in Charlotte, North Carolina. Jurisdictionally trained and aligned medical only and lost-time adjusters manage non-complex workers compensation claims within our footprint. Claims

with high exposure and/or significant escalation risk are referred to the workers compensation strategic case management unit.

- Property claims with high severity potential or technically complex losses are handled by either the Property Flex Unit or the Large Loss Unit. Both of these groups specifically handle only higher exposure property claims. The Large Loss Unit handles claims above $100,000 and the Property Flex Unit handles claims between $25,000 to $100,000. The Property Flex Unit also forms the core of our catastrophe team.

- All asbestos and environmental claims are referred to our specialized corporate Environmental Unit, which also handles latent claims.

This structure allows us to provide experienced adjusting to each claim category.

Our insurance segments have an SIU that investigates potential insurance fraud and abuse, and supports efforts by regulatory bodies and trade associations to curtail the cost of fraud. The SIU adheres to uniform internal procedures to improve detection and take action on potentially fraudulent claims. It is our practice to notify the proper authorities of SIU findings, which we believe sends a clear message that we will not tolerate fraud against us or our customers. The SIU supervises anti-fraud training for all claims adjusters and AMSs.

Insurance Operations Competition

Our insurance segments face competition from public, private, and mutual insurance companies, which may have lower operating costs and/or lower cost of capital than we do. Some, like us, rely on partners for the distribution of their products and services and have competition within their distribution channel, making growth in market share difficult. Other insurance carriers either employ their own agents who only represent them or use a combination of distribution partners, captive agents, and direct marketing. The following provides information on the competition facing our insurance segments:

Standard Commercial Lines

The Standard Commercial Lines property and casualty insurance market is highly competitive and market share is fragmented among many companies. We compete with two types of companies, primarily on the basis of price, coverage terms, claims service, customer experience, safety management services, ease of technology usage, and financial ratings:

- Regional insurers, such as Cincinnati Financial Corporation, Erie Indemnity Company, The Hanover Insurance Group, Inc., and United Fire Group, Inc.; and

- National insurers, such as The Hartford Financial Services Group, Inc., Liberty Mutual Holding Company Inc., Nationwide Mutual Insurance Company, The Travelers Companies, Inc., and Zurich Insurance Group, Ltd.

Standard Personal Lines

Our Standard Personal Lines face competition primarily from the regional and national carriers noted above, as well as companies such as State Farm Mutual Automobile Insurance Company and Allstate Corporation. In addition, we face competition from direct insurers such as The Government Employees Insurance Company and The Progressive Corporation, which primarily offer personal auto coverage and market through a direct-to-consumer model.

E&S Lines

Our E&S Lines face competition from the E&S subsidiaries of the regional and national carriers named above, as well as the following companies:

- Nautilus Insurance Group, a member of W. R. Berkley Company;
- Colony Specialty, a member of the Argo Group International Holding Ltd;
- Western World Insurance Group, a member of the Validus Group;
- Century Insurance Group, a member of the Meadowbrook Insurance Group;
- The Burlington Insurance Company, a member of IFG Companies;
- United States Liability Insurance Group, a member of Berkshire Hathaway, Inc.;
- Scottsdale Insurance Company, a member of Nationwide Mutual Insurance Company; and
- Markel Corporation.

Industry Comparison

A comparison of certain statutory ratios for our combined insurance segments and our industry are shown in the following table:

	Simple Average of All Periods Presented	2015	2014	2013	2012	2011
Insurance Operations Ratios:[1]						
Loss and loss expense	66.0 %	57.7	62.4	64.5	70.7	74.6
Underwriting expense	32.9	34.4	33.0	32.8	32.6	31.7
Policyholder dividends	0.3	0.3	0.3	0.2	0.2	0.4
Statutory combined ratio	99.2	92.4	95.7	97.5	103.5	106.7
Growth in NPW	8.4	9.8	4.1	8.7	12.2	7.0
Industry Ratios:[1, 2]						
Loss and loss expense	71.8	70.4	69.3	67.7	73.7	77.9
Underwriting expense	27.7	27.0	27.4	28.0	28.2	28.0
Policyholder dividends	0.6	0.6	0.7	0.7	0.6	0.6
Statutory combined ratio	100.2	98.0	97.4	96.4	102.5	106.5
Growth in NPW	3.8	2.7	4.3	4.4	4.4	3.3
Favorable (Unfavorable) to Industry:						
Statutory combined ratio	1.0	5.6	1.7	(1.1)	(1.0)	(0.2)
Growth in NPW	4.6	7.1	(0.2)	4.3	7.8	3.7

Note: Some amounts may not foot due to rounding.

[1]The ratios and percentages are based on SAP prescribed or permitted by state insurance departments in the states in which the Insurance Subsidiaries are domiciled.
[2]Source: A.M. Best. The industry ratios for 2015 have been estimated by A.M. Best.

Insurance Regulation

Primary Oversight by the States in Which We Operate

Our insurance segments are heavily regulated. The primary public policy behind insurance regulation is the protection of policyholders and claimants over all other constituencies, including shareholders. By virtue of the McCarran-Ferguson Act, Congress has largely delegated insurance regulation to the various states. The primary market conduct and financial regulators of our Insurance Subsidiaries are the departments of insurance in the states in which they are organized and are licensed. For a discussion of the broad regulatory, administrative, and supervisory powers of the various departments of insurance, refer to the risk factor that discusses regulation in Item 1A. "Risk Factors." of this Form 10-K.

Our various state insurance regulators are members of the NAIC. The NAIC has codified SAP and other accounting reporting formats and drafts model insurance laws and regulations governing insurance companies. An NAIC model only becomes law when it is enacted in the various state legislatures or promulgated as a regulation by the state insurance department. The adoption of certain NAIC model laws and regulations, however, is a key aspect of the NAIC Financial Regulations Standards and Accreditation Program.

NAIC Monitoring Tools

Among the NAIC's various financial monitoring tools that are material to the regulators in states in which our Insurance Subsidiaries are organized are the following:

- The Insurance Regulatory Information System ("IRIS"). IRIS identifies 13 industry financial ratios and specifies "usual values" for each ratio. Departure from the usual values on four or more of the financial ratios can lead to inquiries from individual state insurance departments about certain aspects of the insurer's business. Our Insurance Subsidiaries have consistently met the majority of the IRIS ratio tests.

- Risk-Based Capital. Risk-based capital is measured by four major areas of risk to which property and casualty insurers are exposed: (i) asset risk; (ii) credit risk; (iii) underwriting risk; and (iv) off-balance sheet risk. Insurers face a steadily increasing amount of regulatory scrutiny and potential intervention as their total adjusted capital declines below two times their "Authorized Control Level". Based on our 2015 statutory financial statements, which have been prepared in accordance with SAP, the total adjusted capital for each of our Insurance Subsidiaries substantially exceeded two times their Authorized Control Level.

- Annual Financial Reporting Regulation (referred to as the "Model Audit Rule"). The Model Audit Rule, which is modeled closely on the Sarbanes-Oxley Act of 2002, as amended, regulates: (i) auditor independence; (ii) corporate governance; and (iii) internal control over financial reporting. As permitted under the Model Audit Rule, the Audit Committee of the Board of Directors (the "Board") of the Parent also serves as the audit committee of each of our Insurance Subsidiaries.

- Own Risk and Solvency Assessment ("ORSA"). ORSA requires insurers to maintain a framework for identifying, assessing, monitoring, managing, and reporting on the "material and relevant risks" associated with the insurers' (or insurance groups') current and future business plans. ORSA, which has been adopted by the state insurance regulators of our Insurance Subsidiaries, requires companies to file an internal assessment of their solvency with insurance regulators annually, the first filing of which occurred in 2015. Although no specific capital adequacy standard is currently articulated in ORSA, it is possible that such standard will be developed over time and may increase insurers' minimum capital requirements, which could adversely impact our growth and return on equity.

Federal Regulation

Notable federal legislation and administrative policies that affect the insurance industry are:

- The Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA");
- The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"); and
- Various privacy laws that apply to us because we have personal non-public information, including the:

Gramm-Leach-Bliley Act;
Fair Credit Reporting Act;
Drivers Privacy Protection Act; and
Health Insurance Portability and Accountability Act.

Like all businesses, we are required to enforce the economic and trade sanctions of the Office of Foreign Assets Control ("OFAC").

FEMA oversees the WYO Program enacted by Congress. Congress sets the WYO Program's budgeting, rules, and rating parameters. Two significant pieces of legislation that impact the WYO Program are the Biggert-Waters Flood Insurance Reform Act of 2012 ("Bigger-Waters Act") and the Homeowner Flood Insurance Affordability Act of 2014 ("Flood Affordability Act"). The Biggert-Waters Act: (i) extended the NFIP funding to September 30, 2017; and (ii)

moved the program to more market based rates for certain flood policies. The Flood Affordability Act repealed and modified certain provisions in the Biggert-Waters Act regarding premium adjustments.

In response to the financial markets crises in 2008 and 2009, the Dodd-Frank Act was enacted in 2010. This law provided for, among other things, the following:

- The establishment of the Federal Insurance Office ("FIO") under the United States Department of the Treasury;
- Federal Reserve oversight of financial services firms designated as systemically important; and
- Corporate governance reforms for publicly traded companies.

The FIO continues to establish itself on national and international insurance issues after having issued its initial report regarding the modernization of insurance regulation in the United States. The report concluded that insurance regulation in the United States is best viewed in terms of a hybrid model, in which state and federal oversight play complementary roles defined by the strengths each brings to improving solvency and market conduct regulation. The FIO, Federal Reserve, and the NAIC are currently looking at oversight and solvency standards as they coordinate with international regulators regarding the future regulation of financial entities. For additional information on the potential impact of the Dodd-Frank Act, refer to the risk factor related to legislation within Item 1A. “Risk Factors.” of this Form 10-K.

International Regulation

We believe that development of global capital standards will influence the development of similar standards by domestic regulators. Notable international developments include the following:

- In 2014, the International Association of Insurance Supervisors proposed Basic Capital Standards for Global Systemically Important Insurers as well as a uniform capital framework for internationally active insurers; and
- The European Union has enacted Solvency II, which sets out new requirements on capital adequacy and risk management for insurers operating in Europe, which was implemented in 2016.

For additional information on the potential impact of international regulation on our business, refer to the risk factor related to regulation within Item 1A. “Risk Factors.” of this Form 10-K.

Investment Segment

Our Investment segment invests insurance premiums, as well as amounts generated through our capital management strategies, which may include the issuance of debt and equity securities, to generate investment income and to satisfy obligations to our customers, our shareholders, and our debt holders, among others. At December 31, 2015, our investment portfolio consisted of the following:

Category of Investment ($ in millions)	Carrying Value	% of Investment Portfolio
Fixed income securities	$4,609.6	91
Equity securities	207.1	4
Short-term investments	194.8	4
Other investments, including alternatives	77.8	1
Total	$5,089.3	100

The primary objective of the investment portfolio is to maximize after-tax investment income while balancing risk and generating long-term growth in shareholder value. Our investment philosophy is predicated on investing with a long-term horizon, with significant emphasis on risk control, capital preservation, taxes, liquidity, and diversification. Our investments include high-quality fixed maturity securities, common stocks and preferred securities designed to generate stable dividend income and long-term capital appreciation, and alternative investments that seek to diversify the sources of risk and return of the overall portfolio.

For further information regarding our risks associated with the overall investment portfolio, see Item 7A. “Quantitative and Qualitative Disclosures About Market Risk.” and Item 1A. “Risk Factors.” of this Form 10-K. For additional information about investments, see the section entitled, “Investments,” in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” and Item 8. “Financial Statements and Supplementary Data.” Note 5.

of this Form 10-K.

Reports to Security Holders

We file with the SEC all required disclosures, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and other required information under Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (“Exchange Act”). We provide access to these filed materials on our Internet website, www.selective.com.

Item 1A. Risk Factors.

Any of the following risk factors could cause our actual results to differ materially from historical or anticipated results. They could 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. The following list of risk factors is not exhaustive, and others may exist.

Risks Related to Insurance Segments

Our loss and loss expense reserves may not be adequate to cover actual losses and expenses.
We are required to maintain loss and loss expense reserves for our estimated liability for losses and loss expenses associated with reported and unreported insurance claims. Our estimates of reserve amounts are based on facts and circumstances that we know, including our expectations of the ultimate settlement and claim administration expenses, including inflationary trends particularly regarding medical costs, predictions of future events, trends in claims severity and frequency, and other subjective factors relating to our insurance policies in force. There is no method for precisely estimating the ultimate liability for settlement of claims. We cannot be certain that the reserves we establish are adequate or will be adequate in the future. From time-to-time, we increase reserves if they are inadequate or reduce them if they are redundant. An increase in reserves: (i) reduces net income and stockholders' equity for the period in which the reserves are increased; and (ii) could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

We are subject to losses from catastrophic events.
Our results are subject to losses from natural and man-made catastrophes, including, but not limited to: hurricanes, tornadoes, windstorms, earthquakes, hail, terrorism, explosions, severe winter weather, floods, and fires, some of which may be related to climate changes. The frequency and severity of these catastrophes are inherently unpredictable. One year may be relatively free of such events while another may have multiple events. For further discussion regarding man-made catastrophes that relate to terrorism, see the risk factor directly below regarding the potential for significant losses from acts of terrorism.

There is widespread interest among scientists, legislators, regulators, and the public regarding the effect that greenhouse gas emissions may have on our environment, including climate change. If greenhouse gases continue to impact our climate, it is possible that more devastating catastrophic events could occur.

The magnitude of catastrophe losses is determined by the severity of the event and the total amount of insured exposures in the area affected by the event as determined by ISO's Property Claim Services unit. Most of the risks underwritten by our insurance segments are concentrated geographically in the Eastern and Midwestern regions of the United States, particularly in New Jersey, which represented approximately 21% of our total NPW during 2015. Catastrophes in the Eastern and Midwestern regions of the United States could adversely impact our financial results, as was the case in 2010, 2011, and 2012.

Although catastrophes can cause losses in a variety of property and casualty insurance lines, most of our historical catastrophe-related claims have been from commercial property and homeowners coverages. In an effort to limit our exposure to catastrophe losses, we purchase catastrophe reinsurance. Catastrophe reinsurance could prove inadequate if: (i) the various modeling software programs that we use to analyze the Insurance Subsidiaries' risk result in an inadequate purchase of reinsurance by us; (ii) a major catastrophe loss exceeds the reinsurance limit or the reinsurers'

financial capacity; or (iii) the frequency of catastrophe losses results in our Insurance Subsidiaries exceeding the aggregate limits provided by the catastrophe reinsurance treaty. Even after considering our reinsurance protection, our exposure to catastrophe risks could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

We are subject to potential significant losses from acts of terrorism.
As a Standard Commercial Lines and E&S Lines writer, we are required to participate in TRIPRA, which was extended by Congress to December 31, 2020. TRIPRA requires private insurers and the United States government to share the risk of loss on future acts of terrorism certified by the U.S. Secretary of the Treasury. Under TRIPRA, insureds with non-workers compensation commercial policies have the option to accept or decline our terrorism coverage or negotiate with us for other terms. In 2015, 87% of our Standard Commercial Lines non-workers compensation policyholders purchased terrorism coverage that included nuclear, biological, chemical, and radioactive ("NBCR") events. Terrorism coverage is mandatory for all primary workers compensation policies, so the TRIPRA back-stop applies to these policies. A risk exists that, if the U.S. Secretary of Treasury does not certify certain future terrorist events, we would be required to pay related covered losses without TRIPRA's risk sharing benefits. Examples of this potential risk are the 2013 Boston Marathon bombing and the shootings in San Bernardino, California in 2015, neither of which were certified as terrorism events.

Under TRIPRA, each participating insurer is responsible for paying a deductible of specified losses before federal assistance is available. This deductible is based on a percentage of the prior year’s applicable Standard Commercial Lines and E&S Lines premiums. In 2016, our deductible is approximately $280 million. For losses above the deductible, the federal government will pay 84% of losses to an industry limit of $100 billion, and the insurer retains 16%. The federal share of losses will be reduced by 1% each year to 80% by 2020. Although TRIPRA’s provisions will mitigate our loss exposure to a large-scale terrorist attack, our deductible is substantial and could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

TRIPRA rescinded all previously approved coverage exclusions for terrorism. Many of the states in which we write commercial property insurance mandate that we cover fire following an act of terrorism regardless of whether the insured specifically purchased terrorism coverage. Likewise, terrorism coverage cannot be excluded from workers compensation policies in any state in which we write.

Personal lines of business have never been covered under TRIPRA. Homeowners policies within our Standard Personal Lines exclude nuclear losses, but do not exclude biological or chemical losses.

Our ability to reduce our risk exposure depends on the availability and cost of reinsurance.
We transfer a portion of our underwriting risk exposure to reinsurance companies. Through our reinsurance arrangements, a specified portion of our losses and loss expenses are assumed by the reinsurer in exchange for a specified portion of premiums. The availability, amount, and cost of reinsurance depend on market conditions, which may vary significantly. Most of our reinsurance contracts renew annually and may be impacted by the market conditions at the time of the renewal that are unrelated to our specific book of business or experience. Any decrease in the amount of our reinsurance will increase our risk of loss. Any increase in the cost of reinsurance that cannot be included in renewal price increases will reduce our earnings. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms. Either could adversely affect our ability to write future business or result in the assumption of more risk with respect to those policies we issue.

We are exposed to credit risk.
We are exposed to credit risk in several areas of our insurance segments, including from:

- Our reinsurers, who are obligated to us under our reinsurance agreements. The relatively small size of the reinsurance market and our objective to maintain an average weighted rating of “A” by A.M. Best on our current reinsurance programs constrains our ability to diversify this credit risk. However, some of our reinsurance credit risk is collateralized.

- Certain life insurance companies that are obligated to our customers, as we have purchased annuities from them under structured settlement agreements.

- Some of our distribution partners, who collect premiums from our customers and are required to remit the collected premium to us.

- Some of our customers, who are responsible for payment of premiums and/or deductibles directly to us.

- The invested assets in our defined benefit plan, which partially serve to fund our liability associated with this plan. To the extent that credit risk adversely impacts the valuation and performance of the invested assets within our defined benefit plan, the funded status of the defined benefit plan could be adversely impacted and, as result, could increase the cost of the plan to us.

Our exposure to credit risk could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

Difficult conditions in global capital markets and the economy may adversely affect our revenue and profitability and harm our business, and these conditions may not improve in the near future.
General economic conditions in the United States and throughout the world and volatility in financial and insurance markets may materially affect our results of operations. Factors such as business and consumer confidence, unemployment levels, consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, indirectly, the amount and profitability of our business. During 2015, 34% of DPW in our Standard Commercial Lines business were based on payroll/sales of our underlying customers. An economic downturn in which our customers decline in revenue or employee count can adversely affect our audit and endorsement premium in our Standard Commercial Lines.

Unfavorable economic developments could adversely affect our earnings if our customers have less need for insurance coverage, cancel existing insurance policies, modify coverage, or choose not to renew with us. Challenging economic conditions may impair the ability of our customers to pay premiums as they come due. Although economic conditions have consistently improved over the last several years, many fundamental concerns still exist, which may have a material effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and could have a material adverse effect on our financial condition and results of operations.
Our financial strength ratings, as issued by the following Nationally Recognized Statistical Rating Organizations ("NRSROs"), are as follows:

NRSRO	Financial Strength Rating	Outlook
A.M. Best	A	Stable
S&P	A-	Positive
Moody’s	A2	Stable
Fitch	A+	Stable

A significant rating downgrade, particularly from A.M. Best, would affect our ability to write new or renewal business with customers, some of whom are required under various third party agreements to maintain insurance with a carrier that maintains a specified minimum rating. In addition, our $30 million line of credit ("Line of Credit") requires our Insurance Subsidiaries to maintain an A.M. Best rating of at least “A-” (one level below our current rating) and a default could lead to acceleration of any outstanding principal. Such an event could trigger default provisions under certain of our other debt instruments and negatively impact our ability to borrow in the future. As a result, any significant downgrade in our financial strength ratings could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

NRSROs also rate our long-term debt creditworthiness. Credit ratings indicate the ability of debt issuers to meet debt obligations in a timely manner and are important factors in our overall funding profile and ability to access certain types of liquidity. Our current senior credit ratings are as follows:

NRSRO	Credit Rating	Long Term Credit Outlook
A.M. Best	bbb+	Stable
S&P	BBB-	Positive
Moody’s	Baa2	Stable
Fitch	BBB+	Stable

Downgrades in our credit ratings could have a material adverse effect on our financial condition and results of operations in many ways, including making it more expensive for us to access capital markets. We cannot predict possible actions NRSROs may take regarding our ratings that could adversely affect our business or the possible actions we may take in response to any such actions.

We have many competitors and potential competitors.

Demand for insurance is influenced by prevailing general economic conditions. The supply of insurance is related to prevailing prices, the levels of insured losses and the levels of industry capital which, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance industry. In addition, pricing is influenced by the operating performance of insurers as increased pricing may be necessary to meet return on equity objectives. As a result, the insurance industry

historically has been through cycles characterized by periods of intense price competition due to excessive underwriting capacity and periods when shortages of capacity and poor operating performance by insurers drives favorable premium levels. If competitors price business below technical levels, we might reduce our profit margin in order to retain our best business.

Pricing and loss trends impact our profitability. For example, assuming retention and all other factors remain constant:

- A pure price decline of approximately 1% would increase our statutory combined ratio by approximately 0.75 points;
- A 3% increase in our expected claim costs for the year would cause our loss and loss expense ratio to increase by approximately 1.75 points; and
- A combination of the two could raise the combined ratio by approximately 2.5 points.

We compete with regional, national, and direct-writer property and casualty insurance companies for customers, distribution partners, and employees. Some competitors are public companies and some are mutual companies. Many competitors are larger and may have lower operating costs and/or lower cost of capital. They may have the ability to absorb greater risk while maintaining their financial strength ratings. Consequently, some competitors may be able to price their products more competitively. These competitive pressures could result in increased pricing pressures on a number of our products and services, particularly as competitors seek to win market share, and may impair our ability to maintain or increase our profitability. Because of its relatively low cost of entry, the Internet has emerged as a significant place of new competition, both from existing competitors and new competitors. Additionally, reinsurers have entered certain primary property casualty insurance markets to diversify their operations and compete with us. Further new competition could cause changes in the supply or demand for insurance and adversely affect our business.

We have less loss experience data than our larger competitors.
We believe that insurance companies are competing and will continue to compete on their ability to use reliable data about their customers and loss experience in complex analytics and predictive models to assess profitability of the risk, as well as the potential for adverse claim development, recovery opportunities, fraudulent activities, and customer buying habits. With the consistent expansion of computing power and the decline in its cost, we believe that data and analytics use will continue to increase and become more complex and accurate. As a regional insurance group, the loss experience from our insurance operations is not large enough in all circumstances to analyze and project our future costs. In addition, we have limited data regarding our E&S business, which we assumed in 2011 and began writing directly in 2012. We use data from ISO, NCCI, and AAIS to obtain sufficient industry loss experience data. While statistically relevant, that data is not specific to the performance of risks we have underwritten. Larger competitors, particularly national carriers, have significantly more data regarding the performance of risks that they have underwritten. The analytics of their loss experience data may be more predictive of profitability of their risks than our analysis using, in part, general industry loss experience. For the same reason, should Congress repeal the McCarran-Ferguson Act, which provides an anti-trust exemption for the aggregation of loss data, and we are unable to access data from ISO, NCCI, and AAIS, we will be at a competitive disadvantage to larger insurers who have more sufficient loss experience data on their own customers.

We depend on distribution partners.
We market and sell our insurance products through distribution partners who are not our employees. We believe that these partners will remain a significant force in overall insurance industry premium production because they can provide customers with a wider choice of insurance products than if they represented only one insurer. That, however, creates competition in our distribution channel and we must market our products and services to our distribution partners before they sell them to our mutual customers. Additionally, there has been a trend towards increased levels of consolidation of these distribution partners in the marketplace, which increases competition among fewer distributors. Our Standard Personal Lines production is further limited by the fact that independent retail insurance

agencies only write approximately 35% of this business in the United States. Our financial condition and results of operations are tied to the successful marketing and sales efforts of our products by our distribution partners. In addition, under insurance laws and regulations and common law, we potentially can be held liable for business practices or actions taken by our distribution partners.

We face risks regarding our flood business because of uncertainties regarding the NFIP.
We are the sixth largest insurance group participating in the WYO arrangement of the NFIP, which is managed by the Mitigation Division of the Federal Emergency Management Agency ("FEMA") in the U.S. Department of Homeland Security. For WYO participation, we receive an expense allowance for policies written and a servicing fee for claims administered. Under the program, all losses are 100% reinsured by the Federal Government. Currently, the expense allowance is 30.9% of direct premiums written. The servicing fee is the combination of 0.9% of DPW and 1.5% of incurred losses.

The NFIP is funded by Congress and in 2012, Congress passed, and the President signed, the Biggert-Waters Flood Insurance Reform Act of 2012 (“Biggert-Waters Act”). The Biggert-Waters Act: (i) extended NFIP funding to September 30, 2017; and (ii) moved the program to more market based rates for certain flood policyholders. FEMA implemented these rates throughout 2013, which created significant public discontent and Congressional concern over the impact of the new rates on NFIP customers.

Consequently, Congress passed and, on March 21, 2014, the President signed into law, the Homeowner Flood Insurance Affordability Act of 2014 (“Flood Affordability Act”). The Flood Affordability Act substantially modifies certain provisions of the Biggert-Waters Act, including the reversal of certain rate increases resulting in premium refunds for many NFIP policyholders that began after October 1, 2014. Effective April 2015, the Flood Affordability Act effectuated certain changes to the NFIP, including: (i) an increase in the Reserve Fund Assessment; (ii) implementation of an annual surcharge on all new and renewal policies; (iii) an additional deductible option; and (iv) increases in the federal policy fee and basic rates.

As a WYO carrier, we are required to follow certain NFIP procedures when administering flood policies and claims. Some of these requirements may differ from our normal business practices and may present a reputational risk to our brand. Insurance companies are regulated by states; however, the NFIP is a federal program. Consequently, we have the risk that regulatory positions taken by the NFIP and a state regulator on the same issue may conflict.

Despite the passage of the Flood Affordability Act, the role of the NFIP program remains under scrutiny by policymakers. Additionally, our flood business could be impacted by: (i) a mandate for primary insurance carriers to provide flood insurance; or (ii) private writers becoming more prevalent in the marketplace. The uncertainty behind the public policy debate and politics of flood insurance reform make it difficult for us to predict the future of the NFIP and our continued participation in the program.

We are heavily regulated and changes in regulation may reduce our profitability, increase our capital requirements, and/or limit our growth.
Our Insurance Subsidiaries are heavily regulated by extensive laws and regulations that may change on short notice. The primary public policy behind insurance regulation is the protection of policyholders and claimants over all other constituencies, including shareholders. Historically, and by virtue of the McCarran-Ferguson Act, our Insurance Subsidiaries are primarily regulated by the states in which they are domiciled and licensed. State insurance regulation is generally uniform throughout the U.S. by virtue of similar laws and regulations required by the NAIC to accredit state insurance departments so their examinations can be given full faith and credit by other state regulators. Despite their general similarity, various provisions of these laws and regulations vary from state to state. At any given time, there may be various legislative and regulatory proposals in each of the 50 states and District of Columbia that, if enacted, may affect our Insurance Subsidiaries.

The broad regulatory, administrative, and supervisory powers of the various state departments of insurance include the following:

- Related to our financial condition, review and approval of such matters as minimum capital and surplus requirements, standards of solvency, security deposits, methods of accounting, form and content of statutory financial statements, reserves for unpaid loss and loss adjustment expenses, reinsurance, payment of dividends and other distributions to shareholders, periodic financial examinations, and annual and other report filings.

- Related to our general business, review and approval of such matters as certificates of authority and other insurance company licenses, licensing and compensation of distribution partners, premium rates (which may not be excessive, inadequate, or unfairly discriminatory), policy forms, policy terminations, reporting of statistical information

regarding our premiums and losses, periodic market conduct examinations, unfair trade practices, participation in mandatory shared market mechanisms, such as assigned risk pools and reinsurance pools, participation in mandatory state guaranty funds, and mandated continuing workers compensation coverage post-termination of employment.

Related to our ownership of the Insurance Subsidiaries, we are required to register as an insurance holding company system in each state where an insurance subsidiary is domiciled and report information concerning all of our operations that may materially affect the operations, management, or financial condition of the insurers. As an insurance holding company, the appropriate state regulatory authority may: (i) examine us or our Insurance Subsidiaries at any time; (ii) require disclosure or prior approval of material transactions of any of the Insurance Subsidiaries with its affiliates; and (iii) require prior approval or notice of certain transactions, such as payment of dividends or distributions to us.

Although Congress has largely delegated insurance regulation to the various states by virtue of the McCarran-Ferguson Act, we are also subject to federal legislation and administrative policies, such as disclosure under the securities laws, including the Sarbanes-Oxley Act and the Dodd-Frank Act, TRIPRA, OFAC, and various privacy laws, including the Gramm-Leach-Bliley Act, the Fair Credit Reporting Act, the Drivers Privacy Protection Act, the Health Insurance Portability and Accountability Act, and the policies of the Federal Trade Commission. As a result of issuing workers compensation policies, we are subject to Mandatory Medicare Secondary Payer Reporting under the Medicare, Medicaid, and SCHIP Extension Act of 2007.

The European Union has enacted Solvency II, which sets out new requirements on capital adequacy and risk management for insurers operating in Europe, which was implemented in 2016. The strengthened regime is intended to reduce the possibility of consumer loss or market disruption in insurance. In addition, in 2014, the International Association of Insurance Supervisors proposed Basic Capital Standards for Global Systemically Important Insurers as well as a uniform capital framework for internationally active insurers. Although Solvency II does not govern domestic American insurers and we do not have international operations, we believe that development of global capital standards will influence the development of similar standards by domestic regulators. The NAIC has recently adopted ORSA, which requires insurers to maintain a framework for identifying, assessing, monitoring, managing, and reporting on the “material and relevant risks” associated with the insurer's (or insurance group's) current and future business plans. ORSA, which has been adopted by the state insurance regulators of our Insurance Subsidiaries, requires companies to file an internal assessment of their solvency with insurance regulators annually. Although no specific capital adequacy standard is currently articulated in ORSA, it is possible that such a standard will be developed over time and may increase insurers' minimum capital requirements, which could adversely impact our growth and return on equity.

We are subject to non-governmental regulators, such as the NASDAQ Stock Market and the New York Stock Exchange where we list our securities. Many of these regulators, to some degree, overlap with each other on various matters. They have different regulations on the same legal issues that are subject to their individual interpretative discretion. Consequently, we have the risk that one regulator’s position may conflict with another regulator’s position on the same issue. As compliance is generally reviewed in hindsight, we are subject to the risk that interpretations will change over time.

We believe we are in compliance with all laws and regulations that have a material effect on our results of operations, but the cost of complying with various, potentially conflicting laws and regulations, and changes in those laws and regulations could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

We are subject to the risk that legislation will be passed that significantly changes insurance regulation and adversely impacts our business, financial condition, and/or the results of operations.
In 2009, the Dodd-Frank Act was enacted to address the financial markets crises in 2008 and 2009 and issues regarding American International Group, Inc. The Dodd-Frank Act created the FIO as part of the U.S. Department of Treasury to advise the federal government regarding insurance issues. The Dodd-Frank Act also requires the Federal Reserve through the Financial Services Oversight Council (“FSOC”) to supervise financial services firms designated as systemically important financial institutions ("SIFI"). The FSOC has not designated Selective as a SIFI. The Dodd-Frank Act also included a number of corporate governance reforms for publicly traded companies, including proxy access, say-on-pay, and other compensation and governance issues. We anticipate that there will continue to be legislative proposals in Congress that could result in the federal government becoming directly involved in the regulation of insurance. There are also legislative and regulatory proposals in the various states that seek to limit the ability of carriers to properly assess insurance risk.

- Repeal of the McCarran-Ferguson Act. While recent proposals for McCarran-Ferguson Act repeal have been directed primarily at health insurers, if enacted and applicable to property and casualty insurers, such repeal would significantly reduce our ability to compete and materially affect our results of operations because we rely on the anti-trust exemptions the law provides to obtain loss data from third party aggregators, such as ISO and NCCI, to predict future losses. Our inability to access data from ISO and NCCI would put us at a competitive disadvantage compared to larger insurers who have more sufficient loss experience data with their own customers.

- Healthcare reform. The enactment of the Patient Protection and Affordable Care Act of 2010 (the "Healthcare Act") may have an impact on various aspects of our business, including our insurance segments. The Healthcare Act reduces the reimbursement to healthcare providers, which may result in healthcare providers charging more to insurers not covered under the Healthcare Act. This could increase our cost to provide workers compensation, automobile Personal Injury Protection and general liability coverages, among others. In addition, we will continue to be impacted as a business enterprise by potential tax issues and changes in employee benefits. The Healthcare Act has been adopted, its implementation is ongoing, and we continue to monitor and assess its impact.

- Changes in rules for Department of Housing and Urban Development ("HUD"). In 2013, HUD finalized a new "disparate impact" regulation that may adversely impact insurers' ability to differentiate pricing for homeowners policies using traditional risk selection analysis. Various legal challenges to this regulation continue to be pursued in courts, including the applicability of the regulation to the business of insurance. It is uncertain to what extent the application of this regulation will impact the property and casualty industry and underwriting practices, but it could increase litigation costs, force changes in underwriting practices, and impair our ability to write homeowners business profitably. The outcome of the pending legal challenges and potential rulemaking cannot be predicted at this time.
- State Regulatory and Legislative Limits to Underwriting. From time-to-time, there are proposals in various states seeking to limit the ability of insurers to use certain factors or predictive measures in the underwriting of property and casualty risks. Among the proposed legislation and regulation have been limits on the use of insurance scores and marketplace considerations. These proposals, if enacted, could impact underwriting pricing and results.

We expect the debate about the role of the federal government in regulating insurance to continue.

We cannot predict whether any of the above discussed proposed rules or legislation will be adopted, or what impact, if any, such proposals or the cost of compliance with such proposals, could have on our results of operations, liquidity, financial condition, financial strength, and debt ratings if enacted.

Class action litigation could affect our business practices and financial results.
Our industry has been the target of class action litigation, including the following areas:

- After-market parts;
- Urban homeowner insurance underwriting practices, including those related to architectural or structural features and attempts by federal regulators to expand the Federal Housing Administration's guidelines to determine unfair discrimination;
- Credit scoring and predictive modeling pricing;
- Cybersecurity breaches;
- Investment disclosure;
- Managed care practices;
- Timing and discounting of personal injury protection claims payments;
- Direct repair shop utilization practices;
- Flood insurance claim practices; and
- Shareholder class action suits.

If we were to be named in such class action litigation, we could suffer reputational harm with purchasers of insurance and have increased litigation expenses that could have a materially adverse effect on our operations or results.

Changes in tax legislation initiatives could adversely affect our results of operations and financial condition.
We are subject to the tax laws and regulations of U.S. federal, state, and local governments, which may change in ways that adversely impact us. For example, federal tax legislation could be enacted that reduces the existing statutory U.S. federal corporate income tax rate from 35%, thereby reducing any deferred tax assets. This would require that we recognize, in full, a reduction of a previously-recognized federal tax benefit in the period when enacted, and, along with other changes in the tax rules that may increase our actual tax expense, could materially and adversely affect our results of operations.

Risks Related to Our Investment Segment

We are exposed to interest rate and credit risk in our investment portfolio.

We are exposed to interest rate risk primarily related to the market price, and cash flow variability, associated with changes in interest rates. A rise in interest rates may decrease the fair value of our existing fixed income investments and declines in interest rates may result in an increase in the fair value of our existing fixed income investments. Our fixed income investment portfolio, which currently has a duration of 3.8 years excluding short term investments, contains interest rate sensitive instruments that may be adversely affected by changes in interest rates resulting from governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. A rise in interest rates would decrease the net unrealized gain position of the investment portfolio, partially offset by our ability to earn higher rates of return on funds reinvested in new investments. Conversely, a decline in interest rates would increase the net unrealized gain position of the investment portfolio, partially offset by lower rates of return on new and reinvested cash in the portfolio. Changes in interest rates have an effect on the calculated duration of certain securities in the portfolio. We seek to mitigate our

interest rate risk associated with holding fixed income investments by monitoring and maintaining the average duration of our portfolio with a view toward achieving an adequate after-tax return without subjecting the portfolio to an unreasonable level of interest rate risk. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate the interest rate risk of our assets relative to our liabilities, particularly our loss reserves. In addition, our pension and post-retirement benefit obligations include a discount rate assumption, which is an important element of expense and/or liability measurement. Changes in the discount rate assumption could materially impact our pension and post-retirement life valuation.

The value of our investment portfolio is subject to credit risk from the issuers and/or guarantors of the securities in the portfolio, other counterparties in certain transactions and, for certain securities, insurers that guarantee specific issuer's obligations. Defaults by the issuer or an issuer's guarantor, insurer, or other counterparties regarding any of our investments, could reduce our net investment income and net realized investment gains or result in investment losses. We are subject to the risk that the issuers, or guarantors, of fixed income securities we own may default on principal and interest payments due under the terms of the securities. At December 31, 2015, our fixed income securities portfolio represented approximately
91% of our total invested assets. The occurrence of a major economic downturn, acts of corporate malfeasance, widening credit spreads, budgetary deficits, municipal bankruptcies spurred by, among other things, pension funding issues, or other events that adversely affect the issuers or guarantors of these securities could cause the value of our fixed income securities portfolio and our net income to decline and the default rate of our fixed income securities portfolio to increase.

With economic uncertainty, credit quality of issuers or guarantors could be adversely affected and a ratings downgrade of the issuers or guarantors of the securities in our portfolio could cause the value of our fixed income securities portfolio and our net income to decrease. As our stockholders' equity is leveraged at 3.6:1 to our investment portfolio, a reduction in the value of our investment portfolio could have a material adverse effect on our business, results of operations, financial condition, and debt ratings. Levels of write downs are impacted by our assessment of the impairment, including a review of the underlying collateral of structured securities, and our intent and ability to hold securities that have declined in value until recovery. If we reposition or realign portions of the portfolio so that we determine not to hold certain securities in an unrealized loss position to recovery, we will incur an OTTI charge. For further information regarding credit and interest rate risk, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." of this Form 10-K.

Our statutory surplus may be materially affected by rating downgrades on investments held in our portfolio.
We are exposed to significant financial and capital markets risks, primarily relating to interest rates, credit spreads, equity prices, and the change in market value of our alternative investment portfolio. A decline in both income and our investment portfolio asset values could occur as a result of, among other things, a decrease in market liquidity, fluctuations in interest rates, decreased dividend payment rates, negative market perception of credit risk with respect to types of securities in our portfolio, a decline in the performance of the underlying collateral of our structured securities, reduced returns on our alternative investment portfolio, or general market conditions. A global decline in asset values will be more amplified in our financial condition, as our statutory surplus is leveraged at a 3.5:1 ratio to our investment portfolio.

With economic uncertainty, the credit quality and ratings of securities in our portfolio could be adversely affected. The NAIC could potentially apply a more adverse class code on a security than was originally assigned, which could adversely affect statutory surplus because securities with NAIC class codes three through six require securities to be marked-to-market for statutory accounting purposes, as compared to securities with NAIC class codes of one or two that are carried at amortized cost.

Deterioration in the public debt and equity markets, the private investment marketplace, and the economy could lead to investment losses, which may adversely affect our results of operations, financial condition, liquidity, and debt ratings.
Like most property and casualty insurance companies, we depend on income from our investment portfolio for a significant portion of our revenue and earnings. Our investment portfolio is exposed to significant financial and capital market risks, both in the U.S. and abroad, and volatile changes in general market or economic conditions could lead to a decline in the market value of our portfolio as well as the performance of the underlying collateral of our structured securities. Concerns over weak economic growth globally, elevated unemployment, volatile energy and commodity prices, and geopolitical issues, among other factors, contribute to increased volatility in the financial markets, increased potential for credit downgrades, and decreased liquidity in certain investment segments.

Our notes payable and Line of Credit are subject to certain debt-to-capitalization restrictions and net worth covenants, which could be impacted by a significant decline in investment value. Further OTTI charges could be necessary if there is a future significant decline in investment values. Depending on market conditions going forward, and in the event of extreme prolonged market events, such as the global credit crisis, we could incur additional realized and unrealized losses in future periods, which could have an adverse impact on our results of operations, financial condition, debt and financial strength ratings, and our ability to access capital markets as a result of realized losses, impairments, and changes in unrealized positions.

For more information regarding market interest rate, credit, and equity price risk, see Item 7A. “Quantitative and Qualitative Disclosures About Market Risk.” of this Form 10-K.

There can be no assurance that the actions of the U.S. Government, Federal Reserve, and other governmental and regulatory bodies will achieve their intended effect.
Over the past several years, the Federal Reserve has taken a number of actions related to interest rates and purchasing of financial instruments intended to spur economic recovery. The Federal Reserve's policy of quantitative easing and low interest rates since the financial crisis of 2008 have had an adverse effect on our investment income, as higher yielding securities mature and we reinvest the proceeds at lower yields. In December 2015, the Federal Reserve increased the Federal Fund Rate by 25 basis points. If this rate were to continue to be systematically increased, we are uncertain of what the effect would be on the broad financial markets. Increased pressure on the price of our fixed income and equity portfolios may occur if these economic stimulus actions by the Federal Reserve are not as effective as originally intended. These results could materially and adversely affect our financial condition and the trading price of our common stock. In the event of future material deterioration in business conditions, we may need to raise additional capital or consider other transactions to manage our capital position.

In addition, our investment activities are subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies. In light of the current economic conditions, some of these authorities have implemented, or may in the future implement, new or enhanced regulatory requirements, such as those included in the Dodd-Frank Act, intended to restore confidence in financial institutions and reduce the likelihood of similar economic events in the future. These authorities may seek to exercise their supervisory and enforcement authority in new or more robust ways. Such events could affect the way we conduct our business and manage our capital, and may require us to satisfy increased capital requirements. These developments, if they occurred, could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

We are subject to the types of risks inherent in investing in private limited partnerships.
Our other investments include investments in private limited partnerships that invest in various strategies, such as private equity, private credit, and real assets. Since these partnerships’ underlying investments consist primarily of assets or liabilities for which there are no quoted prices in active markets for the same or similar assets, the valuation of interests in these partnerships is subject to a higher level of subjectivity and unobservable inputs than substantially all of our other investments and as such, is subject to greater scrutiny and reconsideration from one reporting period to the next. As these investments are recorded under the equity method of accounting, any decreases in the valuation of these investments would negatively impact our results of operations.

We value our investments using methodologies, estimations, and assumptions that are subject to differing interpretations. Changes in these interpretations could result in fluctuations in the valuations of our investments that may adversely affect our results of operations or financial condition.
Fixed income, equity, and short-term investments, which are reported at fair value on our Consolidated Balance Sheet, represented the majority of our total cash and invested assets as of December 31, 2015. As required under accounting rules, we have categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next priority is to quoted prices in markets that are not active or inputs that are observable either directly or indirectly, including quoted prices for similar assets or liabilities or in markets that are not active and other inputs that can be derived principally from, or corroborated by, observable market data for substantially the full term of the assets or liabilities (Level 2). The lowest priority in the fair value hierarchy is to unobservable inputs supported by little or no market activity and that reflect the reporting entity’s own assumptions

about the exit price, including assumptions that market participants would use in pricing the asset or liability (Level 3).

An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. We generally use an independent pricing service and broker quotes to price our investment securities. At December 31, 2015, approximately 9% and 91% of these securities represented Level 1 and Level 2, respectively. However, prices provided by independent pricing services and brokers can vary widely even for the same security. Rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements ("Financial Statements") and the period-to-period changes in value could vary significantly. Decreases in value may result in an increase in non-cash OTTI charges, which could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

The determination of the amount of impairments taken on our investments is highly subjective and could materially impact our results of operations or our financial position.
The determination of the amount of impairments taken on our investments is based on our periodic evaluation and assessment of our investments and known and inherent risks associated with the various asset classes. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in impairments as such evaluations are revised. There can be no assurance that management has accurately assessed the level of impairments taken as reflected in our Financial Statements. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments. For further information regarding our evaluation and considerations for determining whether a security is other-than-temporarily impaired, please refer to "Critical Accounting Policies and Estimates" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K.

Changes in tax legislation initiatives could adversely affect our investments results.
We are subject to the tax laws and regulations of U.S. federal, state, and local governments, which may change in ways that adversely impact us. Our investment portfolio has benefited from tax exemptions and certain other tax laws, including, but not limited to, those governing dividends received deductions and tax-advantaged municipal bond interest. Federal and/or state tax legislation could be enacted that would lessen or eliminate some or all of the tax advantages currently benefiting us. This could negatively impact the value of our investment portfolio and, in turn, materially and adversely impact our results of operations.

Risks Related to Our Corporate Structure and Governance

We are a holding company and our ability to declare dividends to our shareholders, pay indebtedness, and enter into affiliate transactions may be limited because our Insurance Subsidiaries are regulated.
Restrictions on the ability of the Insurance Subsidiaries to pay dividends, make loans or advances to us, or enter into transactions with affiliates may materially affect our ability to pay dividends on our common stock or repay our indebtedness.

As of December 31, 2015, the Parent had stand-alone retained earnings of $1.4 billion. Of this amount, $1.3 billion is related to investments in our Insurance Subsidiaries. The Insurance Subsidiaries have the ability to provide for $178 million in annual ordinary dividends to us under applicable state regulation; however, as they are regulated entities, their ability to pay dividends or make loans or advances to us is subject to the approval or review of the insurance regulators in the states where they are domiciled. The standards for review of such transactions are whether: (i) the terms and charges are fair and reasonable; and (ii) after the transaction, the Insurance Subsidiary's surplus for policyholders is reasonable in relation to its outstanding liabilities and financial needs. Although dividends and loans to us from our Insurance Subsidiaries historically have been approved, we can make no assurance that future dividends and loans will be approved. For additional details regarding dividend restrictions, see Note 19. "Statutory Financial Information, Capital Requirements, and Restrictions on Dividends and Transfers of Funds" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

Because we are an insurance holding company and a New Jersey corporation, we may be less attractive to potential acquirers and the value of our common stock could be adversely affected.
Because we are an insurance holding company that owns insurance subsidiaries, anyone who seeks to acquire 10% or more of our stock must seek prior approval from the insurance regulators in the states in which the subsidiaries are organized and file extensive information regarding their business operations and finances.

Provisions in our Amended and Restated Certificate of Incorporation may discourage, delay, or prevent us from being acquired, including:

- Supermajority shareholder voting requirements to approve certain business combinations with interested shareholders (as defined in the Amended and Restated Certificate of Incorporation) unless certain other conditions are satisfied; and
- Supermajority shareholder voting requirements to amend the foregoing provisions in our Amended and Restated Certificate of Incorporation.

In addition to the requirements in our Amended and Restated Certificate of Incorporation, the New Jersey Shareholders' Protection Act also prohibits us from engaging in certain business combinations with interested stockholders (as defined in the statute), in certain instances for a five-year period, and in other instances indefinitely, unless certain conditions are satisfied. These conditions may relate to, among other things, the interested stockholder's acquisition of stock, the approval of the business combination by disinterested members of our Board of Directors and disinterested stockholders, and the price and payment of the consideration proposed in the business combination. Such conditions are in addition to those requirements set forth in our Amended and Restated Certificate of Incorporation.

These provisions of our Amended and Restated Certificate of Incorporation and New Jersey law could have the effect of depriving our stockholders of an opportunity to receive a premium over our common stock's prevailing market price in the event of a hostile takeover and may adversely affect the value of our common stock.

Risks Related to Our General Operations

The failure of our risk management strategies could have a material adverse effect on our financial condition or results of operations.
As an insurance provider, it is our business to take on risk from our customers. Our long-term strategy includes use of above average operational leverage, which can be measured as the ratio of NPW to our equity or policyholders surplus. We balance operational leverage risk with a number of risk management strategies within our insurance operations to achieve a balance of growth and profit and to reduce our exposure. These strategies include, but are not limited to, the following:

- Being disciplined in our underwriting practices;
- Being prudent in our claims management practices, establishing adequate loss and loss expense reserves, and placing appropriate reliance on our claims analytics;
- Continuing to develop and implement various underwriting tools and automated analytics to examine historical statistical data regarding our customers and their loss experience to: (i) classify such policies based on that information; (ii) apply that information to current and prospective accounts; and (iii) better predict account profitability;
- Continuing to develop our customer experience platform as we grow in our understanding of customer segmentation;
- Purchasing reinsurance and using catastrophe modeling; and
- Being prudent in our financial planning process, which supports our underwriting strategies.

We also maintain a conservative approach to our investment portfolio management and employ risk management strategic that include, but are not limited to:

- Being prudent in establishing our investment policy and appropriately diversifying our investments, which supports our liabilities and underwriting strategies;
- Using complex financial and investment models to analyze historic investment performance and predict future investment performance under a variety of scenarios using asset concentration, asset volatility, asset correlation, and systematic risk; and
- Closely monitoring investment performance, general economic and financial conditions, and other relevant factors.

All of these strategies have inherent limitations. We cannot be certain that an event or series of unanticipated events will not occur and result in losses greater than we expect and have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

Operational risks, including human or systems failures, are inherent in our business.
Operational risks and losses can result from, among other things, fraud, errors, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements, information technology failures, or external events.

We believe that our underwriting, claims, predictive, and catastrophe modeling, as well as our business analytics and our information technology and application systems are critical to our business. We expect our information technology and application systems to remain an important part of our underwriting process and our ability to compete successfully. A major defect or failure in our internal controls or information technology and application systems could: (i) result in management distraction; (ii) harm our reputation; or (iii) increase our expenses. We believe appropriate controls and mitigation procedures are in place to prevent significant risk of a defect in our internal

controls around our information technology and application systems, but internal controls provide only a reasonable, not absolute, assurance as to the absence of errors or irregularities and any ineffectiveness of such controls and procedures could have a significant and negative effect on our business.

Rapid development of new technologies may result in an unexpected impact on our business and insurance industry overall.

Development of new technologies continues to impact all aspects of business and individuals' lives at rapid speed. Often such developments are positive and gradually improve standards of living and speed of communications, and allow for the development of more efficient processes. However, rapid development of new technologies also presents challenges and risks. Examples of such emerging risks include but are not limited to:

- Change in exposures and claims frequency and/or severity due to unanticipated consequences of new technologies and their use. For example, technologies have been developed and are being tested for autonomous self-driving automobiles. It is unclear and we cannot predict the corresponding severity or cost of automobile claims. It is possible that these technological developments will affect the profitability and demand for automobile insurance.
- Changes in how insurance products are marketed and purchased due to availability of new technologies and changes in customer expectations. For example, comparative rating technologies which are widely used in personal lines insurance, facilitate the process of efficiently generating quotes from multiple insurance companies. This technology makes differentiation other than on pricing more difficult and has increased price comparison and resulted in a higher level of quote activity with a lower percentage of quotes becoming new business written. These trends may continue to accelerate and may affect other lines of business, which could put pressure on our future profitability.
- New technologies may require development of new insurance products without support of sufficient historical claims data for us to continue to effectively compete for our distribution partners' business and customers.

We are subject to attempted cyber-attacks and other cybersecurity risks.

The nature of our business requires that we store and use significant amounts of personally identifiable information in electronic format that may be targeted in an attempted cybersecurity breach. In addition, our business is heavily reliant on various information technology and application systems that may be impacted by a malicious cyber-attack. These cyber incidents may cause lost revenues or increased expenses stemming from reputational damage and fines related to the breach of personally identifiable information, inability to use certain systems for a period of time, loss of financial assets, remediation and litigation costs, and increased cybersecurity protection costs. We have developed and continue to invest in a variety of controls to prevent, detect, and appropriately react to such cyber-attacks, including frequently testing our systems' security and access controls. However, cybersecurity risks continue to become more complex and broad ranging and our internal controls provide only a reasonable, not absolute, assurance that we will be able to protect ourselves from significant cyber-attack incidents. By outsourcing certain business and administrative functions to third parties, we may be exposed to enhanced risk of data security breaches. Any breach of data security could damage our reputation and/or result in monetary damages, which, in turn, could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings. Although we have not experienced a material cyber-attack, we purchase insurance coverage to specifically address cybersecurity risks. The coverage provides protection up to $20 million above a deductible of $250,000 for various cybersecurity risks, including privacy breach related incidents.

We depend on key personnel.

To a large extent, our business' success depends on our ability to attract and retain key employees. Competition to attract and retain key personnel is intense. While we have employment agreements with certain key managers, all of our employees are at-will employees and we cannot ensure that we will be able to attract and retain key personnel. As of December 31, 2015, our workforce had an average age of approximately 47 and approximately 25% of our workforce was retirement eligible under our retirement and benefit plans.

If we experience difficulties with outsourcing relationships, our ability to conduct our business might be negatively impacted.

We outsource certain business and administrative functions to third parties for efficiencies and cost savings, and may do so increasingly in the future. If we fail to develop and implement our outsourcing strategies or our third-party

providers fail to perform as anticipated, we may experience operational difficulties, increased costs, and a loss of business that may have a material adverse effect on our results of operations or financial condition. Currently, we have agreements with multiple consulting, information technology, and service providers for supplemental staffing services. Collectively, these providers supply approximately 46% of our skilled technology capacity.

We are subject to a variety of modeling risks, which could have a material adverse impact on our business results.
We rely on complex financial models, such as predictive modeling, a claims fraud model, third party catastrophe models, an enterprise risk management capital model, and modeling tools used by our investment managers, which have been developed internally or by third parties to analyze historical loss costs and pricing, trends in claims severity and frequency, the occurrence of catastrophe losses, investment performance, and portfolio risk. Flaws in these financial models, or faulty assumptions used by these financial models, could lead to increased losses. We believe that statistical models alone do not provide a reliable method of monitoring and controlling risk. Therefore, such models are tools and do not substitute for the experience or judgment of senior management.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our main office is located in Branchville, New Jersey on a site owned by a subsidiary with approximately 114 acres and 315,000 square feet of operational space. We lease all of our other facilities. The principal office locations related to our insurance segments are described in the “Geographic Markets” section of Item 1. “Business.” of this Form 10-K. We believe our facilities provide adequate space for our present needs and that additional space, if needed, would be available on reasonable terms.

Item 3. 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 loss and loss expense reserves. We expect that the ultimate liability, if any, with respect to such ordinary course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to our consolidated financial condition, results of operations, or cash flows.

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

As of December 31, 2015, 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.

PART II

Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information
Our common stock is traded on the NASDAQ Global Select Market under the symbol “SIGI.” The following table sets forth the high and low sales prices, as reported on the NASDAQ Global Select Market, for our common stock for each full quarterly period within the two most recent fiscal years:

	2015		2014	
	High	Low	High	Low
First quarter	$30.10	25.49	26.99	21.38
Second quarter	29.60	26.28	25.42	22.14
Third quarter	32.50	28.10	25.46	21.97
Fourth quarter	37.91	30.36	27.65	22.01

On February 12, 2016, the closing price of our common stock as reported on the NASDAQ Global Select Market was $33.48.

(b) Holders
We had 3,490 stockholders of record as of February 12, 2016 according to the records maintained by our transfer agent.

(c) Dividends
Dividends on shares of our common stock are declared and paid at the discretion of the Board based on our results of operations, financial condition, capital requirements, contractual restrictions, and other relevant factors. Considering our improving profitability, in the fourth quarter of 2015, our Board of Directors approved a 7% increase in our dividend to $0.15 per share. The following table provides information on the dividends declared for each quarterly period within our two most recent fiscal years:

Dividend Per Share	2015	2014
First quarter	$0.14	0.13
Second quarter	0.14	0.13
Third quarter	0.14	0.13
Fourth quarter	0.15	0.14

Our ability to receive dividends, loans, or advances from our Insurance Subsidiaries is subject to the approval or review of the insurance regulators in the respective domiciliary states of our Insurance Subsidiaries. Such approval and review is made under the respective domiciliary states’ insurance holding company acts, which generally require that any transaction between related companies be fair and equitable to the insurance company and its policyholders. Although our dividends have historically been met with regulatory approval, there is no assurance that future dividends will be approved given current market conditions. We currently expect to continue to pay quarterly cash dividends on shares of our common stock in the future. For additional information, see Note 19. "Statutory Financial Information, Capital Requirements, and Restrictions on Dividends and Transfers of Funds" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

(d) Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about our common stock authorized for issuance under equity compensation plans as of December 31, 2015:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	493,428 [1]	$17.84	5,738,581 [2]

[1] Weighted average remaining contractual life of options is 2.90 years.

[2] Includes 663,154 shares available for issuance under our Employee Stock Purchase Plan (2009); 1,937,154 shares available for issuance under the Stock Purchase Plan for Independent Insurance Agencies; and 3,138,273 shares for issuance under the Selective Insurance Group, Inc. 2014 Omnibus Stock Plan ("Stock Plan"). Future grants under the Stock Plan can be made, among other things, as stock options, restricted stock units, or restricted stock.

(e) Performance Graph

The following chart, produced by Research Data Group, Inc., depicts our performance for the period beginning December 31, 2010 and ending December 31, 2015, as measured by total stockholder return on our common stock compared with the total return of the NASDAQ Composite Index and a select group of peer companies comprised of NASDAQ-listed companies in SIC Code 6330-6339, Fire, Marine, and Casualty Insurance.

This performance graph is not incorporated into any other filing we have made with the U.S. Securities and Exchange Commission ("SEC") and will not be incorporated into any future filing we may make with the SEC unless we so specifically incorporate it by reference. This performance graph shall not be deemed to be “soliciting material” or to be “filed” with the SEC unless we specifically request so or specifically incorporate it by reference in any filing we make with the SEC.

(f) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information regarding our purchases of our common stock in the fourth quarter of 2015:

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Announced Programs
October 1 – 31, 2015	$7,016	$34.84	—	—
November 1 – 30, 2015	1,414	35.97	—	—
December 1 – 31, 2015	—	—	—	—
Total	$8,430	$35.03	—	—

[1]During the fourth quarter of 2015, 955 shares were purchased from employees in connection with the vesting of restricted stock units and 7,475 shares were purchased from employees in connection with stock 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 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. Selected Financial Data.

Five-Year Financial Highlights[1]
(All presentations are in accordance with GAAP unless noted otherwise, number of weighted average shares and dollars in thousands, except per share amounts)

	2015	2014	2013	2012	2011
Net premiums written	$2,069,904	1,885,280	1,810,159	1,666,883	1,485,349
Net premiums earned	1,989,909	1,852,609	1,736,072	1,584,119	1,439,313
Net investment income earned	121,316	138,708	134,643	131,877	147,443
Net realized gains	13,171	26,599	20,732	8,988	2,240
Total revenues	2,131,852	2,034,861	1,903,741	1,734,102	1,597,475
Catastrophe losses	59,055	59,971	47,415	98,608	118,769
Underwriting income (loss)	149,029	78,143	38,766	(64,007)	(103,584)
Net income from continuing operations[2]	165,861	141,827	107,415	37,963	22,683
Total discontinued operations, net of tax[2]	—	—	(997)	—	(650)
Net income	165,861	141,827	106,418	37,963	22,033
Comprehensive income	136,648	136,764	77,229	49,709	57,303
Total assets[3]	6,904,433	6,574,942	6,262,585	6,789,373	5,680,497
Notes payable[3]	388,192	372,689	384,829	302,544	302,388
Stockholders' equity	1,398,041	1,275,586	1,153,928	1,090,592	1,058,328
Statutory premiums to surplus ratio	1.5	1.4	1.4	1.6	1.4
Statutory combined ratio	92.4 %	95.7	97.5	103.5	106.7
Impact of catastrophe losses on statutory combined ratio[4]	3.0 pts	3.2	2.7	6.2	8.3
GAAP combined ratio	92.5 %	95.8	97.8	104.0	107.2
Invested assets per dollar of stockholders' equity	$3.64	3.77	3.97	3.97	3.89
Yield on investments, before tax	2.5 %	3.0	3.0	3.1	3.7
Debt to capitalization ratio[3]	21.7	22.6	25.0	21.7	22.2
Return on average equity	12.4	11.7	9.5	3.5	2.1
Non-GAAP measures[5]:					
Operating income	$157,300	124,538	93,939	32,121	21,227
Operating return on average equity	11.8 %	10.3	8.4	3.0	2.0
Per share data:					
Net income from continuing operations[2]:					
Basic	$2.90	2.52	1.93	0.69	0.42
Diluted	2.85	2.47	1.89	0.68	0.41
Net income:					
Basic	$2.90	2.52	1.91	0.69	0.41
Diluted	2.85	2.47	1.87	0.68	0.40

Dividends to stockholders	$0.57	0.53	0.52	0.52	0.52
Stockholders’ equity	24.37	22.54	20.63	19.77	19.45
Price range of common stock:					
High	37.91	27.65	28.31	20.31	18.97
Low	25.49	21.38	19.53	16.22	12.10
Close	33.58	27.17	27.06	19.27	17.73
Number of weighted average shares:					
Basic	57,212	56,310	55,638	54,880	54,095
Diluted	58,156	57,351	56,810	55,933	55,221

[1] Data for 2011 has been restated to reflect the implementation of ASU 2010-26, Financial Services-Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts, which was adopted on January 1, 2012.
[2] In 2009, we sold our Selective HR Solutions operations.
[3] Data for 2011 through 2014 has been restated to reflect the implementation of ASU 2015-03, Interest-Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issue Costs, which was adopted in the fourth quarter of 2015.
[4] The impact of catastrophe losses on the 2012 statutory combined ratio including flood claims handling fees related to Superstorm Sandy was 5.8 points.
[5] Operating income and operating return on average equity are non-GAAP measures. See the Glossary of Terms attached to this Form 10-K as Exhibit 99.1 for definitions of these items and see the “Financial Highlights of Results for Years Ended December 31, 2015, 2014, and 2013” section in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” of this Form 10-K for a reconciliation of operating income to net income.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-looking Statements
Certain statements in this report, including information incorporated by reference, are "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995 ("PSLRA"). The PSLRA provides a safe harbor under the Securities Act of 1933, as amended, and the Exchange Act for forward-looking statements. These statements relate to our intentions, beliefs, projections, estimations or forecasts of future events or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause us or the industry's actual results, levels of activity, or performance to be materially different from those expressed or implied by the forward-looking statements. In some cases, forward-looking statements may be identified by use of the words such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "target," "project," "intend," "believe," "estimate," " "pro forma," "seek," "likely," or "continue" or other comparable terminology. These statements are only predictions, and we can give no assurance that such expectations will prove to be correct. We undertake no obligation, other than as may be required under the federal securities laws, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Factors that could cause our actual results to differ materially from those we have projected, forecasted or estimated in forward-looking statements are discussed in further detail in Item 1A. "Risk Factors." of this Form 10-K. 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.

Introduction
We classify our business into four reportable segments:

- Standard Commercial Lines - comprised of insurance products and services provided in the standard marketplace to our commercial customers, who are typically businesses, non-profit organizations, and local government agencies.

- Standard Personal Lines - comprised of insurance products and services, including flood insurance coverage, provided primarily to individuals acquiring coverage in the standard marketplace.

- Excess and surplus line ("E&S") Lines - comprised of insurance products and services provided to customers who have not obtained coverage in the standard marketplace.

- Investments - invests the premiums collected by our insurance operations, as well as amounts generated through our capital management strategies, which may include the issuance of debt and equity securities.

Our Standard Commercial Lines and Standard Personal Lines products and services are sold through nine subsidiaries that write commercial and personal insurance coverages, some of which write flood business through the National Flood Insurance Program's ("NFIP") Write Your Own ("WYO") Program. Our E&S Lines products and services are sold through one subsidiary, Mesa Underwriters Specialty Insurance Company ("MUSIC"), that provides a nationally-authorized non-admitted platform to write commercial and personal E&S business, of which we currently only write commercial coverages. Our ten insurance subsidiaries are collectively referred to as the "Insurance Subsidiaries."

The purpose of the Management's Discussion and Analysis ("MD&A") is to provide an understanding of the consolidated results of operations and financial condition and known trends and uncertainties that may have a material impact in future periods.

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

- Critical Accounting Policies and Estimates;
- Financial Highlights of Results for Years Ended December 31, 2015, 2014, and 2013;
- Results of Operations and Related Information by Segment;
- Federal Income Taxes;
- Financial Condition, Liquidity, Short-term Borrowings, and Capital Resources;
- Off-Balance Sheet Arrangements;
- Contractual Obligations, Contingent Liabilities, and Commitments; and
- Ratings.

Critical Accounting Policies and Estimates

We have identified the policies and estimates described below as critical to our business operations and the understanding of the results of our operations. Our preparation of the Financial Statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our Financial Statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. Those estimates that were most critical to the preparation of the Financial Statements involved the following: (i) reserves for losses and loss expenses; (ii) pension and post-retirement benefit plan actuarial assumptions; (iii) other-than-temporary-impairment (“OTTI”); and (iv) reinsurance.

Reserves for Losses and Loss Expenses

Significant periods of time can elapse between the occurrence of an insured loss, the reporting of the loss to the insurer, and the insurer’s payment of that loss. To recognize liabilities for unpaid losses and loss expenses, insurers establish reserves as balance sheet liabilities representing an estimate of amounts needed to pay reported and unreported net losses and loss expenses. We had accrued $3.5 billion of gross loss and loss expense reserves and $3.0 billion of net loss and loss expense reserves at December 31, 2015. At December 31, 2014, these gross and net reserves were $3.5 billion and $2.9 billion, respectively.

The following tables provide case and incurred but not reported (“IBNR”) reserves for losses and loss expenses, and reinsurance recoverable on unpaid losses and loss expenses as of December 31, 2015 and 2014:

As of December 31, 2015

	Losses and Loss Expense Reserves				
($ in thousands)	Case Reserves	IBNR Reserves	Total	Reinsurance Recoverable on Unpaid Losses and Loss Expenses	Net Reserves
General liability	$247,162	970,541	1,217,703	148,113	1,069,590
Workers compensation	479,789	750,238	1,230,027	225,948	1,004,079
Commercial auto	166,606	227,159	393,765	18,983	374,782
Businessowners' policies	40,496	54,937	95,433	5,459	89,974
Commercial property	41,455	6,560	48,015	8,390	39,625
Other	4,126	9,680	13,806	2,275	11,531
Total Standard Commercial Lines	979,634	2,019,115	2,998,749	409,168	2,589,581
Personal automobile	87,589	79,136	166,725	64,258	102,467
Homeowners	29,072	20,364	49,436	2,129	47,307
Other	27,149	21,744	48,893	40,338	8,555
Total Standard Personal Lines	143,810	121,244	265,054	106,725	158,329
E&S Lines	58,664	195,261	253,925	35,126	218,799
Total	$1,182,108	2,335,620	3,517,728	551,019	2,966,709

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December 31, 2014

	Losses and Loss Expense Reserves				
($ in thousands)	Case Reserves	IBNR Reserves	Total	Reinsurance Recoverable on Unpaid Losses and Loss Expenses	Net Reserves
General liability	$252,294	960,372	1,212,666	138,366	1,074,300
Workers compensation	513,069	727,167	1,240,236	232,676	1,007,560
Commercial auto	156,538	221,605	378,143	19,699	358,444
Businessowners' policies	42,249	51,918	94,167	7,990	86,177
Commercial property	55,519	7,611	63,130	16,856	46,274
Other	5,969	6,484	12,453	2,007	10,446
Total Standard Commercial Lines	1,025,638	1,975,157	3,000,795	417,594	2,583,201
Personal automobile	99,595	84,348	183,943	68,150	115,793
Homeowners	23,195	22,987	46,182	5,205	40,977
Other	26,756	22,881	49,637	43,317	6,320
Total Standard Personal Lines	149,546	130,216	279,762	116,672	163,090
E&S Lines	31,341	165,972	197,313	37,712	159,601
Total	$1,206,525	2,271,345	3,477,870	571,978	2,905,892

How reserves are established

When a claim is reported to an Insurance Subsidiary, claims personnel establish a “case reserve” for the estimated amount of the ultimate payment. The amount of the reserve is primarily based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding each claim, and the policy provisions relating to the type of losses. The estimate reflects the informed judgment of such personnel based on their knowledge, experience, and general insurance reserving practices. Until the claim is resolved, these estimates are revised as deemed appropriate by the responsible claims personnel based on subsequent developments and periodic reviews of the case.

Using generally accepted actuarial reserving techniques, we project our estimate of ultimate losses and loss expenses at each reporting date. Our IBNR reserve is the difference between the projected ultimate loss and loss expense incurred and the sum of: (i) case loss and loss expense reserves; and (ii) paid loss and loss expense reserves. The actuarial techniques used are part of a comprehensive reserving process that includes two primary components. The first component is a detailed quarterly reserve analysis performed by our internal actuarial staff. In completing this analysis, the actuaries must gather substantially similar data in sufficient volume to ensure statistical credibility of the data, while maintaining appropriate differentiation. This process defines the reserving segments, to which various actuarial projection methods are applied. When applying these methods, the actuaries are required to make numerous assumptions including, for example, the selection of loss and loss expense development factors and the weight to be applied to each individual projection method. These methods include paid and incurred versions for the following: loss and loss expense development, Bornhuetter-Ferguson, Berquist-Sherman, and frequency/severity modeling (chain-ladder approach). The second component of the analysis is the projection of the expected ultimate loss and loss expense ratio for each line of business for the current accident year. This projection is part of our planning process wherein we review and update expected loss and loss expense ratios each quarter. This review includes actual versus

expected pricing changes, loss and loss expense trend assumptions, and updated prior period loss and loss expense ratios from the most recent quarterly reserve analysis.

In addition to the quarterly reserve analysis, a range of possible IBNR reserves is estimated annually and continually considered, among other factors, in establishing IBNR for each reporting period. Loss and loss expense trends are also considered, which include, but are not limited to, large loss activity, asbestos and environmental claim activity, large case reserve additions or reductions for prior accident years, and reinsurance recoverable issues. We also consider factors such as: (i) per claim information; (ii) company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the imposition of damages, and changes in political attitudes; and (iv) trends in general economic conditions, including the effects of inflation. Based on the consideration of the range of possible IBNR reserves, recent loss and loss expense trends, uncertainty associated with actuarial assumptions and other factors, IBNR is established and the ultimate net liability for losses and loss expenses is determined. Such an assessment requires considerable judgment given that

it is frequently not possible to determine whether a change in the data is an anomaly until sometime after the event. Even if a change is determined to be permanent, it is not always possible to reliably determine the extent of the change until sometime later. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of reserves because the eventual deficiency or redundancy is affected by many factors. The changes in these estimates, resulting from the continuous review process and the differences between estimates and ultimate payments, are reflected in the Consolidated Statements of Income for the period in which such estimates are changed. Any changes in the liability estimate may be material to the results of operations in future periods. In addition to our internal review, statutory regulation requires us to have a Statement of Actuarial Opinion issued annually on our statutory reserve adequacy. We engage an independent actuary to issue this opinion based on their independent review.

Range of reasonable reserves

We have estimated a range of reasonably possible reserves for net loss and loss expense claims to be $2,694 million to $3,136 million at December 31, 2015, which compares to $2,645 million to $3,061 million at December 31, 2014. These ranges reflect low and high reasonable reserve estimates, which were selected primarily by considering the range of indications calculated using generally accepted actuarial techniques. Such techniques assume that past experience, adjusted for the effects of current developments and anticipated trends, are an appropriate basis for predicting future events. Although these ranges reflect likely scenarios, it is possible that the final outcomes may fall above or below these amounts. The ranges do not include a provision for potential increases or decreases associated with asbestos, environmental, and other continuous exposure claims, as traditional actuarial techniques cannot be effectively applied to these exposures.

Our loss and loss expense reserve development over the preceding 10 years is shown on the following table, which has five parts:

- Section I shows the estimated liability recorded at the end of each indicated year for all current and prior accident year's unpaid loss and loss expenses. The liability represents the estimated amount of loss and loss expenses for unpaid claims, including IBNR reserves. In accordance with GAAP, the liability for unpaid loss and loss expenses is recorded gross of the effects of reinsurance. An estimate of reinsurance recoverables is reported separately as an asset. The net balance represents the estimated amount of unpaid loss and loss expenses outstanding reduced by estimates of amounts recoverable under reinsurance contracts.

- Section II shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability of unpaid loss and loss expenses are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known.

- Section III shows the cumulative amount of net loss and loss expenses paid relating to recorded liabilities as of the end of each succeeding year.

- Section IV shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2015.

- Section V shows the cumulative gross and net (deficiency)/redundancy representing the aggregate change in the liability from the original balance sheet dates and the re-estimated liability through December 31, 2015.

This table does not present accident or policy year development data. Conditions and trends that have affected past reserve development may not necessarily occur in the future. As a result, extrapolating redundancies or deficiencies based on this table is inherently uncertain.

($ in millions)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
I. Gross reserves for unpaid losses and loss expenses at December 31	2,084.0	2,288.8	2,542.5	2,641.0	2,745.8	2,830.1	3,144.9	4,068.9	3,349.8	3,477.9	3,517.7
Reinsurance recoverables on unpaid losses and loss expenses at December 31	(218.2)	(199.7)	(227.8)	(224.2)	(271.6)	(313.7)	(549.5)	(1,409.7)	(540.9)	(572.0)	(551.0)
Net reserves for unpaid losses and loss expenses at December 31	1,865.8	2,089.1	2,314.7	2,416.8	2,474.2	2,516.4	2,595.4	2,659.2	2,808.9	2,905.9	2,966.7
II. Net reserves estimate as of:											
One year later	1,858.5	2,070.2	2,295.4	2,387.4	2,430.6	2,477.6	2,569.8	2,633.7	2,749.6	2,836.9	
Two years later	1,845.1	2,024.0	2,237.8	2,324.6	2,368.1	2,428.6	2,531.4	2,554.9	2,660.0		
Three years later	1,825.2	1,982.4	2,169.7	2,286.0	2,315.0	2,388.8	2,502.2	2,481.0			
Four years later	1,808.9	1,931.1	2,155.8	2,264.9	2,295.3	2,363.3	2,450.8				
Five years later	1,780.7	1,916.0	2,151.5	2,258.1	2,282.3	2,334.5					
Six years later	1,777.3	1,924.4	2,154.6	2,243.6	2,273.0						
Seven years later	1,789.3	1,939.5	2,147.7	2,246.0							
Eight years later	1,810.9	1,936.5	2,145.6								
Nine years later	1,806.4	1,939.8									
Ten years later	1,815.8										
Cumulative net redundancy	50.0	149.3	169.1	170.8	201.2	181.9	144.6	178.2	148.9	69.0	

(deficiency)

III. Cumulative amount of net reserves paid through:										
One year later	468.6	469.4	579.4	584.5	561.3	569.9	632.7	572.4	592.1	641.2
Two years later	775.0	841.3	945.5	966.8	936.7	990.8	1,003.8	964.0	1,007.9	
Three years later	1,026.9	1,080.0	1,201.6	1,238.3	1,235.8	1,248.2	1,293.6	1,247.9		
Four years later	1,174.2	1,235.2	1,388.7	1,439.5	1,409.5	1,443.4	1,481.7			
Five years later	1,267.1	1,347.0	1,513.0	1,550.3	1,533.4	1,559.4				
Six years later	1,341.8	1,426.8	1,587.7	1,631.7	1,617.7					
Seven years later	1,399.6	1,481.9	1,648.1	1,690.7						
Eight years later	1,438.2	1,525.5	1,686.4							
Nine years later	1,469.4	1,555.0								
Ten years later	1,492.7									
IV. Re-estimated gross liability	2,196.7	2,273.6	2,476.7	2,596.9	2,638.3	2,721.5	3,054.1	4,161.7	3,285.0	3,436.2
Re-estimated reinsurance recoverables	(380.8)	(333.8)	(331.1)	(350.9)	(365.3)	(387.1)	(603.3)	(1,680.7)	(625.0)	(599.3)
Re-estimated net liability	1,815.8	1,939.8	2,145.6	2,246.0	2,273.0	2,334.5	2,450.8	2,481.0	2,660.0	2,836.9
V. Cumulative gross redundancy (deficiency)	(112.7)	15.2	65.8	44.1	107.5	108.6	90.8	(92.8)	64.7	41.6
Cumulative net redundancy (deficiency)	50.0	149.3	169.1	170.8	201.2	181.9	144.6	178.2	148.9	69.0

Note: Some amounts may not foot due to rounding.

In 2015, we experienced overall favorable loss development of $69.0 million, compared to $59.3 million in 2014, and $25.5 million in 2013. The following table summarizes prior year development by line of business:

(Favorable)/Unfavorable Prior Year Loss and Loss Expense Development

($ in millions)	2015	2014	2013
General Liability	(51.0)	(43.9)	(20.0)
Workers Compensation	(37.0)	—	23.5
Commercial Automobile	2.4	(4.1)	(4.5)
Businessowners' Policies	2.2	1.9	(9.5)
Commercial Property	(3.0)	(2.1)	(7.5)
Personal Automobile	0.4	(10.8)	(3.0)
Homeowners	1.5	(4.0)	(2.5)
E&S	15.5	3.7	(2.0)
Total	(69.0)	(59.3)	(25.5)

Major developments related to loss and loss expense reserve estimates and uncertainty

The Insurance Subsidiaries are multi-state, multi-line property and casualty insurance companies and, as such, are subject to reserve uncertainty stemming from a variety of sources. These uncertainties are considered at each step in the process of establishing loss and loss expense reserves. As market conditions change, certain developments may occur that increase or decrease the amount of uncertainty. These developments include impacts within our own paid and reported loss and loss expense experience, as well as other internal and external factors that have not yet manifested within our data, but may do so in the future. All of these developments are considered when establishing loss and loss expense reserves, and in estimating the range of reasonable reserves.

For the past ten years, the Insurance Subsidiaries have experienced favorable prior accident year loss and loss expense development. Over the past three years, contributions to the favorable emergence have come from different lines of business at different points in time. The greater contributions have generally come from the longer tailed casualty lines, primarily due to their associated volume of reserves and the inherent uncertainty of the longer claims settlement process.

A more detailed discussion of recent developments, by line of business, follows.

Standard Market General Liability Line of Business

At December 31, 2015, our general liability line of business had recorded reserves, net of reinsurance, of $1.1 billion, which represented 36% of our total net reserves. In 2015, this line experienced favorable development of $51.0 million, attributable mainly to accident years 2013 and prior. This was primarily driven by severities that continued to develop lower than expected, within both the premises and operations and products liability coverages. In addition, the reduction in frequencies exhibited in recent accident years continued into accident year 2015.

During 2014, this line experienced favorable development of $43.9 million, which was partially driven by lower severities in the 2010 through 2012 accident years, within both the premises and operations and products liability coverages. In addition, accident years 2011 and 2012 continued to show lower than expected claim counts.

Standard Market Workers Compensation Line of Business

At December 31, 2015, our workers compensation line of business recorded reserves, net of reinsurance, of $1.0 billion, which represented 34% of our total net reserves. During 2015, this line experienced favorable development of $37.0 million driven by virtually all prior accident years. During 2014, this line experienced no development on prior accident years. The results over the past two years represent a significant change compared to 2013, during which this line experienced unfavorable development of $23.5 million driven mainly by assisted living facility-type claims.

During 2015, this line showed a significant reduction in paid and reported loss amounts, due, in part, to: (i) lower medical inflation than originally anticipated; (ii) our proactive underwriting actions in recent years; and (iii) various significant claims initiatives that we implemented, including the centralization of our workers compensation claim handling in Charlotte, North Carolina, more favorable Preferred Provider Organizations ("PPO") contracts, greater PPO penetration, and more proactive case management in the areas of medical, pharmaceutical, and physical therapy treatments. Jurisdictionally trained and aligned medical only and lost-time adjusters manage non-complex workers compensation claims within our footprint. Claims with high exposure and/or significant escalation risk are referred to the workers compensation strategic case management unit.

While we believe these changes are significant drivers of our improved loss experience, there is always risk associated with change. Most notably, these changes in operations may inherently change paid and reported development patterns. While our reserve analyses incorporate methods that adjust for these changes, there nevertheless remains a greater risk in the estimated reserves.

In addition to the uncertainties associated with actuarial assumptions and methodologies described above, the workers compensation line of business can be impacted by a variety of issues, such as the following:

Unexpected changes in medical cost inflation - The industry is currently experiencing a period of lower claim cost inflation. Variability in our historical workers compensation medical costs, along with uncertainty regarding future medical inflation, creates the potential for additional volatility in our reserves;

Changes in statutory workers compensation benefits - Benefit changes may be enacted that affect all outstanding claims, regardless of having occurred in the past. Depending upon the social and political climate, these changes may either increase or decrease associated claim costs;

Changes in utilization of the workers compensation system - These changes may be driven by economic, legislative, or other changes. For example, higher levels of unemployment could ultimately impact both the severity and frequency of workers compensation claims. In particular, during more difficult economic times, workers may be more likely to use the system, and less likely to return to work. Another example is the potential impact of federal healthcare reform, for which there are opposing views regarding the impact on workers compensation costs.

In addition, changes in the economy could impact reserves in other ways. For example, in 2015, audit and endorsement activity resulted in additional premium of $22.5 million, and in 2014, audit and endorsement activity resulted in additional premium of $15.7 million. As premiums earned are used as a basis for setting initial reserves on the current accident year, our reserves could be impacted. While audit and endorsement premiums are modeled within our annual budgeting process, they remain uncertain, and therefore provide additional variability to the resulting loss and loss expense ratio estimates.

Standard Market Commercial Automobile Line of Business
At December 31, 2015, our commercial automobile line of business had recorded reserves, net of reinsurance, of $375 million, which represented 13% of our total net reserves. In 2015, this line experienced unfavorable development of $2.2 million, which was driven by bodily injury liability for accident years 2013 and 2014. This was partially offset by favorable development in accident years 2010 and 2011.

We experienced some modest unfavorable development in accident years 2013 and 2014, which we believe to be similar to more significant trends seen in the industry. We continue to analyze our portfolio to identify less profitable segments which require enhanced underwriting and pricing actions.

In 2014, this line experienced favorable development of $4.1 million, driven by bodily injury liability for accident years 2012 and prior.

Standard Market Personal Automobile Line of Business
At December 31, 2015, our personal automobile line of business had recorded reserves, net of reinsurance, of $102 million, which represented 3.4% of our total net reserves. In 2015, this line experienced unfavorable development of $0.4 million. While this development is relatively neutral overall, it results from an increase in accident year 2014, largely offset by a decrease in accident year 2013. The overall development is a significant change compared to 2014,

during which this line experienced favorable development of $10.8 million, which was driven by the liability coverages for accident years 2012 and prior. We continue to recalibrate our predictive models, as well as refine our underwriting and pricing approaches. While we believe these changes will ultimately lead to improved profitability and greater stability, they may impact paid and reported development patterns, thereby increasing the uncertainty in the reserves in the near-term.

E&S Lines

At December 31, 2015, our E&S Lines had recorded reserves, net of reinsurance, of $219 million, which represented 7% of our total net reserves. In 2015, these lines experienced unfavorable development of $15.5 million, associated with accident years 2012 through 2014. In 2014, these lines experienced unfavorable development of $3.7 million, associated with accident years 2011 through 2013. As we have limited historical loss experience in this segment, our reserve estimates are partially based on development patterns of companies that have similar operations. Therefore, these estimates are subject to somewhat greater

uncertainty than the comparable traditional lines of business. As our own experience matures, we will continue to place greater weight upon it, and less weight upon the surrogate patterns.

Some of the development seen during 2015 was attributable to late emerging claims. In order to better assess this potential, and mitigate its impact on future results, we have taken the following actions within the E&S Claims operations:

- Effective January 1, 2015, the E&S Claims operation began reporting through our Corporate Claims division in Charlotte, North Carolina.
- During the second half of 2015, a review of all complex liability claims was performed by our corporate CCU.
- Potential complex liability claims are now systematically identified and referred to our CCU. In cases where the CCU agrees these claims are complex in nature, all future handling of the claims is assumed by the CCU.
- The balance of the liability claims have been segregated into “litigated” versus “non-litigated.” Separate claim handling teams have been created, with the required skill sets, to appropriately handle these two types of claims.
- Implemented actions to reduce the amount spent on outside adjusters and legal counsel, including increasing the use of the staff counsel that we use in standard lines claims defense.
- For property claims, similar corporate oversight and referrals are being implemented via our corporate Large Loss Unit.

We believe that the actions above will not only lead to earlier identification of severe claims, but also earlier claims resolutions with improved outcomes.

Other impacts creating additional loss and loss expense reserve uncertainty

Claims Initiative Impacts

In addition to the line of business specific issues mentioned above, our lines of business have been impacted by a number of initiatives undertaken by our Claims Department that have resulted in variability, or shifts, in the average level of case reserves. Some of these initiatives have also impacted claims settlement rates. These changes affect the data upon which the ultimate loss and loss expense projections are made. While these changes in case reserve levels and settlement rates increase the uncertainty in the short run, we expect the longer-term benefit will be a more refined management of the claims process.

Some of the specific actions implemented over the past several years, other than those regarding E&S as discussed above, are as follows:

- Increased focus on reducing workers compensation medical costs through more favorable PPO contracts and greater PPO penetration.
- A more comprehensive approach for handling workers compensation claims, with an emphasis towards improving recovery times, allowing for earlier “return-to-work.” This involves elevated and proactive case management in the areas of medical, pharmaceutical, and physical therapy treatments.
- The continued use of our CCU, to which all significant and complex liability claims are assigned. This unit has been staffed with personnel that have significant experience in handling and settling these types of claims.
- The continued use of our Property Flex Unit and our Large Loss Unit. The Property Flex Unit handles claims between $25,000 to $100,000 and the Large Loss Unit handles claims above $100,000.
- Continued efforts in the areas of fraud investigation and salvage/subrogation recoveries. These efforts have been supported by the introduction of predictive models that allow us to better focus our efforts.

Our internal reserve analyses incorporate actuarial projection methods, which make adjustments for changes in case reserve adequacy and claims settlement rates. These methods adjust our historical loss experience to the current level

of case adequacy or settlement rate, which provides a more consistent basis for projecting future development patterns. These methods have their own assumptions and judgments associated with them, so as with any projection method, they are not definitive in and of themselves. Furthermore, given that the expected benefits from our claims initiatives take time to fully manifest, we do not take full credit for the anticipated benefit in establishing our loss and loss expense reserves. These initiatives may prove more or less beneficial than currently reflected, which will affect development in future years. Our various projection methods provide an indication of these potential future impacts. These impacts would be greatest within our larger reserve lines of workers compensation, general liability, and commercial automobile liability, within the more recent accident years.

Economic Inflationary Impacts

Although inflationary volatility is expected to be low in the near term, current United States monetary policy and global economic conditions bring additional uncertainty in the long-term given the length of time required for claim settlement and the impact of medical cost trends relating to longer-tail liability and workers compensation claims. Uncertainty regarding future inflation or deflation creates the potential for additional volatility in our reserves for these lines of business.

Sensitivity analysis: Potential impact on reserve uncertainty due to changes in key assumptions
Our process to establish reserves includes a variety of key assumptions, including, but not limited to, the following:

- The selection of loss and loss expense development factors;
- The weight to be applied to each individual actuarial projection method;
- Projected future loss trends; and
- Expected ultimate loss and loss expense ratios for the current accident year.

The importance of any single assumption depends on several considerations, such as the line of business and the accident year. If the actual experience emerges differently than the assumptions used in the process to establish reserves, changes in our reserve estimate are possible and may be material to the results of operations in future periods. Set forth below are sensitivity tests which highlight potential impacts to loss and loss expense reserves under different scenarios, for the major casualty lines of business. These tests consider each assumption and line of business individually, without any consideration of correlation between lines of business and accident years. Therefore, the results in the tables below do not constitute an actuarial range. While the figures represent possible impacts from variations in key assumptions as identified by management, there is no assurance that the future emergence of our loss and loss expense experience will be consistent with either our current or alternative sets of assumptions.

While the sources of variability discussed above are generated by different underlying trends and operational changes, they ultimately manifest themselves as changes in the expected loss and loss expense development patterns. These patterns are a key assumption in the reserving process. In addition to the expected development patterns, the expected loss and loss expense ratios are another key assumption in the reserving process. These expected ratios are developed via a rigorous process of projecting recent accident years' experience to an ultimate settlement basis, and then adjusting it to the current accident year's pricing and loss cost levels. Impact from changes in the underwriting portfolio and changes in claims handling practices are also quantified and reflected, where appropriate. As is the case with all estimates, the ultimate loss and loss expense ratios may differ from those currently estimated.

The sensitivities of loss and loss expense reserves to these key assumptions are illustrated below for the major casualty lines. The first table shows the estimated impacts from changes in expected reported loss and loss expense development patterns. It shows reserve impacts by line of business if the actual calendar year incurred amounts are greater or less than current expectations by the selected percentages. The second table shows the estimated impacts from changes to the expected loss and loss expense ratios for the current accident year. It shows reserve impacts by line of business if the expected loss and loss expense ratios for the current accident year are greater or less than current expectations by the selected percentages. While the selected percentages by line are judgmentally based, they reflect the relative contribution of the specific line of business to the overall reserve range.

Reserve Impacts of Changes to Prior Years Expected Loss and Loss Expense Reporting Patterns

($ in millions)	Percentage Decrease/Increase	(Decrease) to Future Calendar Year Reported	Increase to Future Calendar Year Reported
General liability	7 %	$(75)	$75
Workers compensation	10	(70)	70
Commercial automobile liability	10	(30)	30
Personal automobile liability	15	(10)	10
E&S lines	15	(30)	30

Reserve Impacts of Changes to Current Year Expected Ultimate Loss and Loss Expense Ratios
($ in millions)

	Percentage Decrease/Increase	(Decrease) to Current Accident Year Expected Loss and Loss Expense Ratio	Increase to Current Accident Year Expected Loss and Loss Expense Ratio
General liability	7 pts	$(35)	$35
Workers compensation	10	(30)	30
Commercial automobile liability	7	(20)	20
Personal automobile liability	7	(7)	7
E&S lines	10	(15)	15

Note that there is some overlap between the impacts in the two tables. For example, increases in the calendar year development would ultimately impact our view of the current accident year's loss and loss expense ratios. Nevertheless, these tables provide perspective into the sensitivity of each of these key assumptions.

Asbestos and Environmental Reserves
Our general liability, excess liability, and homeowners reserves include exposure to asbestos and environmental claims. Our exposure to environmental liability is primarily due to: (i) landfill exposures from policies written prior to the absolute pollution endorsement in the mid 1980s; and (ii) underground storage tank leaks mainly from New Jersey homeowners policies. These environmental claims stem primarily from insured exposures in municipal government, small non-manufacturing commercial risks, and homeowners policies.

The total carried net losses and loss expense reserves for these claims were $23.2 million as of December 31, 2015 and $23.0 million at December 31, 2014. The emergence of these claims occurs over an extended period and is highly unpredictable. For example, within our Standard Commercial Lines book, certain landfill sites are included on the National Priorities List (“NPL”) by the United States Environmental Protection Agency (“USEPA”). Once on the NPL, the USEPA determines an appropriate remediation plan for these sites. A landfill can remain on the NPL for many years until final approval for the removal of the site is granted from the USEPA. The USEPA has the authority to re-open previously closed sites and return them to the NPL. We currently have reserves for nine customers related to six sites on the NPL.

“Asbestos claims” are claims for bodily injury alleged to have occurred from exposure to asbestos-containing products. Our primary exposure arises from insuring various distributors of asbestos-containing products, such as electrical and plumbing materials. At December 31, 2015, asbestos claims constituted 29% of our $23.2 million net asbestos and environmental reserves, compared to 32% of our $23.0 million net asbestos and environmental reserves at December 31, 2014.

“Environmental claims” are claims alleging bodily injury or property damage from pollution or other environmental contaminants other than asbestos. These claims include landfills and leaking underground storage tanks. Our landfill exposure lies largely in policies written for municipal governments, in their operation or maintenance of certain public lands. In addition to landfill exposures, in recent years, we have experienced a relatively consistent level of reported losses in the homeowners line of business related to claims for groundwater contamination from leaking underground heating oil storage tanks in New Jersey. In 2007, we instituted a fuel oil system exclusion on our New Jersey homeowners policies that limits our exposure to leaking underground storage tanks for certain customers. At that time, existing customers were offered a one-time opportunity to buy back oil tank liability coverage. The exclusion applies to all new homeowners policies in New Jersey. These customers are eligible for the buy-back option only if the tank meets specific eligibility criteria.

Our asbestos and environmental claims are handled in our centralized and specialized asbestos and environmental claim unit. Case reserves for these exposures are evaluated on a claim-by-claim basis. The ability to assess potential exposure often improves as a claim develops, including judicial determinations of coverage issues. As a result, reserves are adjusted accordingly.

Estimating IBNR reserves for asbestos and environmental claims is difficult because of the delayed and inconsistent reporting patterns associated with these claims. In addition, there are significant uncertainties associated with estimating critical assumptions, such as average clean-up costs, third-party costs, potentially responsible party shares, allocation of damages, litigation and coverage costs, and potential state and federal legislative changes. Normal historically-based actuarial approaches cannot be applied to asbestos and environmental claims because past loss history is not indicative of future potential loss emergence. In addition, while certain alternative models can be

applied, such models can produce significantly different results with small changes in assumptions. As a result, we do not calculate an asbestos and environmental loss range. Historically, our asbestos and environmental claims have been significantly lower in volume, with less volatility and uncertainty than many of our competitors in the commercial lines industry. Prior to the introduction of the absolute pollution exclusion endorsement in the mid-1980's, we were primarily a personal lines carrier and therefore do not have broad exposure to asbestos and environmental claims. Additionally, we are the primary insurance carrier on the majority of these exposures, which provides more certainty in our reserve position compared to others in the insurance marketplace.

Pension and Post-retirement Benefit Plan Actuarial Assumptions

Our pension and post-retirement benefit obligations and related costs are calculated using actuarial methods, within the framework of U.S. GAAP. Two key assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these key assumptions annually. Other assumptions involve demographic factors, such as retirement age, mortality, turnover, and rate of compensation increases.

The discount rate enables us to state expected future cash flows at their present value on the measurement date. The purpose of the discount rate is to determine the interest rates inherent in the price at which pension benefits could be effectively settled. Our discount rate selection is based on high-quality, long-term corporate bonds. A higher discount rate reduces the present value of benefit obligations and reduces pension expense. Conversely, a lower discount rate increases the present value of benefit obligations and increases pension expense. For additional information regarding our discount rate selection, refer to Note 14. “Retirement Plans” in Item 8. “Financial Statements and Supplementary Data.” of this Form 10-K.

The expected long-term rate of return on the plan assets is determined by considering the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on pension plan assets would increase pension expense. Our long-term expected return on the plan assets was increased 10 basis points to 6.37% in 2015 as compared to 6.27% in 2014, reflecting the current interest rate environment.

At December 31, 2015, our pension and post-retirement benefit plan obligation was $324.8 million compared to $337.4 million at December 31, 2014. Plan assets were $249.7 million and $253.5 million at December 31, 2015 and December 31, 2014, respectively. Volatility in the marketplace, coupled with changes in the discount rate assumption, could materially impact our pension and post-retirement life valuation in the future. For additional information regarding our pension and post-retirement benefit plan obligations, see Note 14. “Retirement Plans” in Item 8. “Financial Statements and Supplementary Data.” of this Form 10-K.

Other-Than-Temporary Investment Impairments

When the fair value of any investment is lower than its cost/amortized cost, an assessment is made to determine if the decline is other than temporary. We regularly review our entire investment portfolio for declines in fair value. If we believe that a decline in the value of an available-for-sale (“AFS”) security is temporary, we record the decline as an unrealized loss in Accumulated Other Comprehensive Income (“AOCI”). Temporary declines in the value of a held-to-maturity (“HTM”) security are not recognized in the Financial Statements. Our assessment of a decline in fair value includes judgment as to the financial position and future prospects of the entity that issued the investment security, as well as a review of the security’s underlying collateral for fixed income investments. Broad changes in the overall market or interest rate environment generally will not lead to a write-down.

Fixed Income Securities and Short-Term Investments

Our evaluation for OTTI of a fixed income security or a short-term investment may include, but is not limited to, the evaluation of the following factors:

- Whether the decline appears to be issuer or industry specific;
- The degree to which the issuer is current or in arrears in making principal and interest payments on the fixed income security;
- The issuer’s current financial condition and ability to make future scheduled principal and interest payments on a timely basis;
- Evaluation of projected cash flows;
- Buy/hold/sell recommendations published by outside investment advisors and analysts; and
- Relevant rating history, analysis, and guidance provided by rating agencies and analysts.

OTTI charges are recognized as a realized loss to the extent that they are credit related, unless we have the intent to sell the security or it is more-likely-than not that we will be required to sell the security. In those circumstances, the security is written down to fair value with the entire amount of the writedown charged to earnings as a component of realized losses.

To determine if an impairment is other than temporary, we compare the present value of cash flows expected to be collected with the amortized cost of fixed income securities meeting certain criteria. In addition, this analysis is performed on all previously-impaired debt securities that continue to be held by us and all structured securities that were not of high-credit quality at the date of purchase. These impairment assessments may include, but are not limited to, discounted cash flow analyses (“DCFs”).

For structured securities, including commercial mortgage-backed securities (“CMBS”), residential mortgage-backed securities (“RMBS”), asset-backed securities (“ABS”), and collateralized debt obligations (“CDOs”), we also consider variables such as expected default, severity, and prepayment assumptions based on security type and vintage, taking into consideration information from credit agencies, historical performance, and other relevant economic and performance factors.

In making our assessment, we perform a DCF to determine the present value of future cash flows to be generated by the underlying collateral of the security. Any shortfall in the expected present value of the future cash flows, based on the DCF, from the amortized cost basis of a security is considered a “credit impairment,” with the remaining decline in fair value of a

security considered as a "non-credit impairment." As mentioned above, credit impairments are charged to earnings as a component of realized losses, while non-credit impairments are recorded to Other Comprehensive Income ("OCI") as a component of unrealized losses.

Discounted Cash Flow Assumptions

The discount rate we use in a DCF is the effective interest rate implicit in the security at the date of acquisition for those structured securities that were not of high-credit quality at acquisition. For all other securities, we use a discount rate that equals the current yield, excluding the impact of previous OTTI charges, used to accrete the beneficial interest.

If applicable, we use a conditional default rate assumption in the DCF to estimate future defaults. The conditional default rate is the proportion of all loans outstanding in a security at the beginning of a time period that are expected to default during that period. Our assumption of this rate takes into consideration the uncertainty of future defaults as well as whether or not these securities have experienced significant cumulative losses or delinquencies to date.

If applicable, conditional default rate assumptions apply at the total collateral pool level held in the securitization trust. Generally, collateral conditional default rates will "ramp-up" over time as the collateral seasons, because the performance begins to weaken and losses begin to surface. As time passes, depending on the collateral type and vintage, losses will peak and performance will begin to improve as weaker borrowers are removed from the pool through delinquency resolutions. In the later years of a collateral pool's life, performance is generally materially better as the resulting favorable selection of the portfolio improves the overall quality and performance.

For CMBS, we also consider the net operating income ("NOI") generated by the underlying properties. Our assumptions of the properties' ultimate cash flows take into consideration both an immediate reduction to the reported NOIs and decreases to projected NOIs.

If applicable, we use a loan loss severity assumption in our DCF that is applied at the loan level of the collateral pool. The loan loss severity assumptions represent the estimated percentage loss on the loan-to-value exposure for a particular security. For CMBS, the loan loss severities applied are based on property type. Losses generated from the evaluations are then applied to the entire underlying deal structure in accordance with the original service agreements.

Equity Securities

Evaluation for OTTI of an equity security may include, but is not limited to, an evaluation of the following factors:

- Whether the decline appears to be issuer or industry specific;
- The relationship of market prices per share to book value per share at the date of acquisition and date of evaluation;
- The price-earnings ratio at the time of acquisition and date of evaluation;
- The financial condition and near-term prospects of the issuer, including any specific events that may influence the issuer's operations, coupled with our intention to hold the securities in the near term;
- The recent income or loss of the issuer;
- The independent auditors' report on the issuer's recent financial statements;
- The dividend policy of the issuer at the date of acquisition and the date of evaluation;
- Buy/hold/sell recommendations or price projections published by outside investment advisors;
- Rating agency announcements;
- The length of time and the extent to which the fair value has been, or is expected to be, less than its cost in the near term; and
- Our expectation of when the cost of the security will be recovered.

If there is a decline in the fair value on an equity security that we do not intend to hold, or if we determine the decline is other-than-temporary, including declines driven by market volatility for which we cannot assert will recover in the near term, we will write down the carrying value of the investment and record the charge through earnings as a component of realized losses.

Other Investments

Our evaluation for OTTI of an other investment (i.e., an alternative investment) may include, but is not limited to, conversations with the management of the alternative investment concerning the following:

- The current investment strategy;
- Changes made or future changes to be made to the investment strategy;
- Emerging issues that may affect the success of the strategy; and
- The appropriateness of the valuation methodology used regarding the underlying investments.

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If there is a decline in the fair market value of an other investment that we do not intend to hold, or if we determine the decline is other than temporary, we write down the carry value of the investment and record the charge through earnings as a component of realized losses.

Reinsurance
Reinsurance recoverables on paid and unpaid losses and loss expenses represent estimates of the portion of such liabilities that will be recovered from reinsurers. Each reinsurance contract is analyzed to ensure that the transfer of risk exists to properly record the transactions in the Financial Statements. Amounts recovered from reinsurers are recognized as assets at the same time and in a manner consistent with the paid and unpaid losses associated with the reinsured policies. An allowance for estimated uncollectible reinsurance is recorded based on an evaluation of balances due from reinsurers and other available information. This allowance totaled $5.7 million at December 31, 2015 and $6.9 million at December 31, 2014. We continually monitor developments that may impact recoverability from our reinsurers and have available to us contractually provided remedies if necessary. For further information regarding reinsurance, see the “Reinsurance” section below and Note 8. “Reinsurance” in Item 8. “Financial Statements and Supplementary Data.” of this Form 10-K.

Financial Highlights of Results for Years Ended December 31, 2015, 2014, and 2013[1]

($ in thousands, except per share amounts)	2015	2014	2015 vs. 2014	2013	2014 vs. 2013
GAAP measures:					
Revenues	$2,131,852	$2,034,861	5 %	1,903,741	7 %
Pre-tax net investment income	121,316	138,708	(13)	134,643	3
Pre-tax net income	232,692	197,131	18	142,267	39
Net income	165,861	141,827	17	106,418	33
Diluted net income per share	2.85	2.47	15	1.87	32
Diluted weighted-average outstanding shares	58,156	57,351	1	56,810	1
GAAP combined ratio	92.5 %	95.8	(3.3) pts	97.8	(2.0) pts
Statutory combined ratio	92.4 %	95.7	(3.3)	97.5	(1.8)
Return on average equity ("ROE")	12.4 %	11.7	0.7	9.5	2.2
Non-GAAP measures:					
Operating income	$157,300	$124,538	26 %	93,939	33 %
Diluted operating income per share	2.70	2.17	24	1.65	32
Operating ROE	11.8 %	10.3	1.5 pts	8.4	1.9 pts

[1]Refer to the Glossary of Terms attached to this Form 10-K as Exhibit 99.1 for definitions of terms used in this financial review.

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

($ in thousands, except per share amounts)	2015	2014	2013
Operating income	$157,300	124,538	93,939
Net realized gains, net of tax	8,561	17,289	13,476
Loss on discontinued operations, net of tax	—	—	(997)
Net income	$165,861	141,827	106,418
Diluted operating income per share	$2.70	2.17	1.65
Diluted net realized gains per share	0.15	0.30	0.24
Diluted net loss on discontinued operations per share	—	—	(0.02)
Diluted net income per share	$2.85	2.47	1.87

It is our goal to average an operating ROE that is at least three points higher than our weighted-average cost of capital. At December 31, 2015, our weighted-average cost of capital was 8.7%. Our operating ROE and contribution by component for the following years are as follows:

Operating Return on Average Equity	2015	2014	2013
Insurance Segments	7.3 %	4.2 %	2.3 %
Investment Segment	7.0 %	8.6 %	9.0 %
Other	(2.5)%	(2.5)%	(2.9)%
Total	11.8 %	10.3 %	8.4 %

Insurance Segments

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

All Lines ($ in thousands)	2015		2014	2015 vs. 2014		2013	2014 vs. 2013	
GAAP Insurance Operations Results:								
Net Premiums Written ("NPW")	$2,069,904		1,885,280	10	%	1,810,159	4	%
Net Premiums Earned ("NPE")	1,989,909		1,852,609	7		1,736,072	7	
Less:								
Losses and loss expenses incurred	1,148,541		1,157,501	(1	)	1,121,738	3	
Net underwriting expenses incurred	686,120		610,783	12		571,294	7	
Dividends to policyholders	6,219		6,182	1		4,274	45	
Underwriting income	$149,029		78,143	91	%	38,766	102	%
GAAP Ratios:								
Loss and loss expense ratio	57.7	%	62.5	(4.8	) pts	64.6	(2.1	) pts
Underwriting expense ratio	34.5		33.0	1.5		33.0	—	
Dividends to policyholders ratio	0.3		0.3	—		0.2	0.1	
Combined ratio	92.5		95.8	(3.3	)	97.8	(2.0	)
Statutory Ratios:								
Loss and loss expense ratio	57.7		62.4	(4.7	)	64.5	(2.1	)
Underwriting expense ratio	34.4		33.0	1.4		32.8	0.2	
Dividends to policyholders ratio	0.3		0.3	—		0.2	0.1	
Combined ratio	92.4	%	95.7	(3.3	) pts	97.5	(1.8	) pts

Fluctuations in our GAAP combined ratio were driven by the following:

- Earned rate in excess of expected loss inflation. Renewal pure price increases on NPW of 3.4% in 2015, 5.6% in 2014, and 7.6% in 2013 provided earned rate of approximately 4% in 2015 and 6.5% in 2014, both of which were above our expected claim inflation. After taking into account the incremental expenses associated with the additional premium, the net benefit to the combined ratio was approximately 1 point in 2015 and 2.5 points in 2014.

- Favorable prior year casualty reserve development, the details of which are below:

(Favorable)/Unfavorable Prior Year Casualty Reserve Development ($ in millions)	2015		2014		2013	
General liability	$(51.0	)	(43.9	)	(20.0	)
Commercial automobile	3.0		(4.0	)	(5.0	)
Workers compensation	(37.0	)	—		23.5	
Businessowners' policies	4.0		2.5		(9.5	)
Other	—		—		—	
Total Standard Commercial Lines	(81.0	)	(45.4	)	(11.0	)
Homeowners	(2.0	)	(0.7	)	(4.0	)
Personal automobile	—		(8.0	)	(2.0	)
Total Standard Personal Lines	(2.0	)	(8.7	)	(6.0	)

E&S	16.0	5.8	2.5
Total favorable prior year casualty reserve development	$(67.0)	(48.3)	(14.5)
(Favorable) impact on loss ratio	(3.4) pts	(2.6) pts	(0.8) pts

For a qualitative discussion of this reserve development, please see the related insurance segment discussions below.

- Catastrophe losses, the details of which are below:

Catastrophe Losses ($ in millions) For the Year ended December 31,	Loss and Loss Expense Incurred	Impact on Loss and Loss Expense Ratio		(Favorable)/Unfavorable Year-Over-Year Change	
2015	$59.1	3.0	pts	(0.2	)
2014	60.0	3.2		0.5	
2013	47.4	2.7		N/A	

- Non-catastrophe property losses, the details of which are below:

Non-Catastrophe Property Losses ($ in millions) For the Year ended December 31,	Loss and Loss Expense Incurred	Impact on Loss and Loss Expense Ratio		(Favorable)/Unfavorable Year-Over-Year Change	
2015	$265.4	13.3	pts	(2.2	)
2014	287.5	15.5		2.4	
2013	226.6	13.1		N/A	

Partially offsetting the improvements in the loss and loss expense ratios above were increases in the underwriting expense ratio of 1.5 points in 2015 that included the following:

- Improved underwriting profitability that resulted in higher supplemental commission expense to our distribution partners and increased the ratio by 0.3 points;

- Improved underwriting profitability that also resulted in higher annual incentive compensation expense to employees and increased the ratio by 0.3 points;

- Pension expense increases due to the accrual of service costs for eligible employees and the negative impact of declining interest rates last year that increased the ratio by 0.3 points; and

- The March 2014 sale of the renewal rights to our $37 million Self Insured Group ("SIG") book of business that contributed $8 million to other income and reduced the combined ratio by 0.4 points. Although we did not solicit buyers, we decided to sell this small and specialized book of business when the opportunity presented itself because it had significant production outside of our standard lines footprint, and proved difficult to grow. We however, have retained our substantial individual risk public entity book of business and continue to look for opportunities to grow it.

Investments Segment

Operating ROE in 2015 and 2014 was negatively impacted by a decline in investment leverage as a result of overall stockholders' equity growth outpacing investment income growth. This was, in part, due to strong growth in our underwriting operations coupled with declining portfolio yields. In 2015, the lower yields were driven by the fixed income securities portfolio, and lower returns on our energy-related limited partnerships within our other investments portfolio due to declining oil prices.

Net realized gains, which is another component of our investment segment's results, were $8.6 million, $17.3 million, and $13.5 million on an after-tax basis in 2015, 2014, and 2013, respectively. Included in these amounts were after-tax

OTTI charges of $11.9 million in 2015, $7.2 million in 2014, and $3.6 million in 2013. The majority of the OTTI charges related to our equity securities portfolio and were primarily comprised of charges on securities for which we had the intent to sell reflecting changes in our strategy on this portfolio.

Outlook

We have a long history of delivering on our objectives and creating value for shareholders, but 2015 was our best statutory combined ratio since becoming listed on Nasdaq. We delivered a 92.4% statutory combined ratio, including 3.0 points of catastrophe losses and overall favorable prior year reserve development of 3.5 points. This compares to A.M. Best's industry expectation of 98.0%, including 3.1 points of catastrophe losses and 1.7 points of overall favorable prior year reserve development, as reported in their February 2016 Review and Preview report.

In addition, A.M. Best also expects the industry's investment income to decline in 2015 due to lower yields, partially offset by growth in invested assets. During 2015, we experienced positive impacts from strong cash flows and an increasing asset base; however, these positives were more than offset by: (i) the impact of lower reinvestment rates as fixed income securities that were purchased had an after-tax yield of 1.7% and fixed income securities that were disposed of had an after-tax yield of 2.5%; and (ii) lower than expected returns on our alternative investment portfolio due to energy sector performance.

As we turn to the future, we plan to leverage our competitive advantages by increasing our share of wallet with existing agents while adding agents in areas with strong new business opportunities. We celebrate our 90th year of business in 2016 and our pillars of success continue to be: (i) our unique field model combined with sophisticated underwriting and claims capabilities; (ii) true franchise value with our distribution partners; and (iii) delivering a superior customer experience with our "best in class" employees.

To that end, we remain focused on becoming a more customer-centric company in 2016. In 2015, we made key strategic investments in technology as part of our efforts to deliver a superior customer experience across all channels, commonly referred to as omni-channel. Over the last year we have rolled out self-servicing capabilities via our mobile application, mobile web, and on the desktop, and relaunched our public website with simplified navigation, richer content, and responsive capabilities. These investments have enabled us to provide our customers with 24/7 access to transactional capabilities and information. Customers expect this level of service and access from every company with which they conduct business. We view omni-channel as a key to future success in our industry and we will continue to focus our efforts in this area in 2016.

Based on our view of the market and our strategies to outperform, we are providing the following guidance for 2016:

- An ex-catastrophe combined ratio of approximately 91%, which assumes no prior year casualty reserve development;
- 3.5 points of catastrophe losses for the year;
- After-tax investment income of approximately $100 million; and
- Weighted average shares of approximately 58.5 million.

Our goal is to generate an operating ROE that is 300 basis points in excess of our weighted average cost of capital. Based upon our expected after-tax return on investments, a statutory combined ratio of approximately 93% would be required to meet that target.

Results of Operations and Related Information by Segment

Standard Commercial Lines

Our Standard Commercial Lines segment, which represents 77% of our combined insurance segments' NPW, sells commercial lines insurance products and services to businesses, non-profit organizations, and local government agencies located primarily in 22 states in the Eastern and Midwestern U.S. and the District of Columbia through approximately 1,100 distribution partners in the standard marketplace.

($ in thousands)	2015	2014	2015 vs. 2014	2013	2014 vs. 2013
GAAP Insurance Segments Results:					
NPW	$1,596,965	1,441,047	11 %	$1,380,740	4 %
NPE	1,529,442	1,415,712	8	1,316,619	8
Less:					
Loss and loss expense incurred	819,573	870,018	(6)	831,261	5
Net underwriting expenses incurred	539,154	478,291	13	447,228	7
Dividends to policyholders	6,219	6,182	1	4,274	45
Underwriting income	$164,496	61,221	169 %	$33,856	81 %
GAAP Ratios:					
Loss and loss expense ratio	53.6 %	61.5	(7.9) pts	63.1 %	(1.6) pts
Underwriting expense ratio	35.2	33.8	1.4	34.0	(0.2)
Dividends to policyholders ratio	0.4	0.4	—	0.3	0.1
Combined ratio	89.2	95.7	(6.5)	97.4	(1.7)
Statutory Ratios:					
Loss and loss expense ratio	53.6	61.3	(7.7)	63.1	(1.8)
Underwriting expense ratio	35.2	33.8	1.4	33.7	0.1
Dividends to policyholders ratio	0.4	0.4	—	0.3	0.1
Combined ratio	89.2 %	95.5	(6.3) pts	97.1 %	(1.6) pts

The growth in NPW and NPE from 2013 through 2015 is primarily the result of the following:

	For the Year Ended December 31,		
($ in millions)	2015	2014	2013
Retention	83 %	82	82
Renewal pure price increases on NPW	3.0	5.6	7.6
Direct new business	$339.6	268.7	277.5

In 2015, we saw strong improvements in new business, which increased 26% over last year, whereas in 2014, new business was slightly down from 2013. In addition, renewal pure price increases and strong retention contributed to NPW growth in both periods. In 2014, our growth rate of 4% would have been 7% excluding the impact of the SIG renewal rights sale in the first quarter of 2014.

NPE increases in 2015 and 2014 were consistent with the increases in NPW for their respective twelve-month periods ended December 31.

The GAAP loss and loss expense ratio improved 7.9 points in 2015 compared to 2014 and 1.6 points in 2014 compared to 2013 due to the following:

- Earned rate above our expected claim inflation, which improved profitability by approximately 0.5 and 2.5 points for 2015 and 2014, respectively.
- Favorable prior year casualty reserve development of 5.3 points in 2015, 3.2 points in 2014, and 0.8 points in 2013. For quantitative information on this development by line of business, see "Financial Highlights of Results for Years Ended December 2015, 2014, and 2013" above and for qualitative information about the significant drivers of this development, see the line of business discussions below.
- Current year loss costs in 2015 that were 1.8 points lower than last year on our workers' compensation line of business reflecting our ongoing focus on improving this line of business.

Additionally, non-catastrophe property losses and catastrophe losses contributed to results as follows:

($ in millions)	Non-Catastrophe Property Losses		Catastrophe Losses			
For the year ended December 31,	Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio	Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio	Total Impact on Losses and Loss Expense Ratio	(Favorable)/Unfavorable Year-Over-Year Change
2015	$154.7	10.1 pts	$34.1	2.2 pts	12.3	(3.1)
2014	180.4	12.7	37.9	2.7	15.4	4.1
2013	126.8	9.6	23.0	1.7	11.3	N/A

Partially offsetting the improvement in the loss and loss expense ratio in 2015 was an increase of 1.4 points in the GAAP underwriting expense ratio in 2015 compared to 2014. This increase is primarily attributable to: (i) higher supplemental commission expense to our distribution partners of 0.4 points; (ii) increases in annual incentive compensation expense to employees of 0.2 points; and (iii) pension expense increases of 0.3 points, which are discussed further in "Financial Highlights of Results for Years Ended December 31, 2015, 2014, and 2013" above. Additionally, the prior year underwriting ratio included $8.0 million, or 0.6 points, of non-recurring benefit related to the sale of the renewal rights to our SIG book of business in March 2014.

The following is a discussion of our most significant Standard Commercial Lines of business:

General Liability

($ in thousands)	2015	2014	2015 vs. 2014	2013	2014 vs. 2013
Statutory NPW	$505,891	453,594	12 %	$426,244	6 %
Direct new business	99,938	78,124	28	78,294	—
Retention	83 %	82	1 pts	81 %	1 pts
Renewal pure price increases	2.7	6.7	(4.0)	8.9	(2.2)
Statutory NPE	$483,291	444,938	9 %	$405,322	10 %
Statutory combined ratio	82.1 %	83.9	(1.8) pts	96.2 %	(12.3) pts
% of total statutory standard commercial NPW	32	31		31	

Growth in 2015 premium is primarily due to direct new business increases as outlined in the table above. Both reporting periods also reflect positive improvements in NPW and NPE from improving retention and renewal pure price increases. However, in 2014, the renewal pure price increases and strong retention outlined above were more than offset by a reduction in premiums that resulted from the sale of the SIG renewal rights. SIG NPW was approximately $17 million for the general liability line of business in 2013. Excluding the impact of this sale, NPW growth in 2014 compared to 2013 would have been 11%.

The fluctuations in the statutory combined ratios reflect: (i) earned rate above our expected claim inflation, which improved profitability by approximately 1 point in 2015 and 3 points in 2014; and (ii) changes in prior year development.

Prior year development can be volatile year to year, requiring a longer period of time before true trends are fully recognized. The impact of the prior year casualty reserve development on this line is as follows:

- 2015: favorable prior year development of 10.6 points attributable to accident years 2013 and prior. This was primarily driven by severities that continued to develop lower than expected, within both the premises and operations and products liability coverages. In addition, the reduction in frequencies exhibited in recent accident years continued into accident year 2015.

- 2014: favorable prior year development of 9.9 points driven by lower severities in the 2010 through 2012 accident years, within both the premises and operations and products liability coverages. In addition, accident years 2011 and 2012 continued to show lower claim counts, even as they matured.

- 2013: favorable prior year development of 4.9 points driven by lower severities in 2010 and prior accident years, partially offset by unfavorable development in accident years 2011 and 2012, which showed higher average severities in premises and operations coverage.

Commercial Automobile

($ in thousands)	2015	2014	2015 vs. 2014	2013	2014 vs. 2013
Statutory NPW	$376,064	341,926	10 %	$325,895	5 %
Direct new business	70,556	57,280	23	59,110	(3)
Retention	83 %	82	1 pts	82 %	— pts
Renewal pure price increases	3.8	5.5	(1.7)	7.3	(1.8)
Statutory NPE	$358,909	333,310	8 %	$310,994	7 %
Statutory combined ratio	101.9 %	96.2	5.7 pts	96.4 %	(0.2) pts
% of total statutory standard commercial NPW	24	24		24	

In 2015, new business was up 23% over last year, while in 2014, new business was slightly down from 2013. In addition, renewal pure price increases and strong retention have contributed to NPW growth in both periods. NPE increases in 2015 and 2014 were consistent with the fluctuations in NPW for their respective twelve-month periods ended December 31.

The 5.7-point increase in the statutory combined ratio in 2015 compared to 2014 was driven by: (i) higher property losses of 1.2 points; (ii) higher current year loss costs of 3.2 points driven by a modest increase in loss severities; and (iii) prior year casualty reserve development that increased the combined ratio by 2.0 points compared to last year.

The combined ratio was stable in 2014 compared to 2013 with lower non-catastrophe property losses being offset by higher catastrophe losses and lower prior year casualty reserve development.

In all three years, the combined ratio was positively impacted by earned rate that has exceeded our expected claim inflation.

Property losses and prior year casualty reserve development are outlined below:

($ in millions)	Non-Catastrophe Property Losses	Catastrophe Losses

For the year ended December 31,	Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio		Losses and Loss Expense Incurred		Impact on Losses and Loss Expense Ratio		Total Impact on Losses and Loss Expense Ratio	(Favorable)/Unfavorable Year-Over-Year Change	
2015	$54.7	15.2	pts	$0.9		0.2	pts	15.4	1.2	
2014	45.6	13.7		1.6		0.5		14.2	(0.5	)
2013	46.4	14.9		(0.5	)	(0.2	)	14.7	N/A	

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Prior year casualty reserve development was as follows:

- 2015: Unfavorable development of 0.8 points, which was driven by bodily injury liability for accident years 2013 and 2014. This was partially offset by favorable development in accident years 2010 and 2011. The unfavorable development in accident years 2013 and 2014 was driven by severities that were greater than expected.

- 2014: Favorable development of 1.2 points driven by bodily injury liability for accident years 2012 and prior, partially offset by accident year 2013 due to higher frequency of claims.

- 2013: Favorable development of 1.6 points driven by accident years 2006 through 2010 representing a continued trend of better than expected reported emergence, partially offset by increased severity in accident year 2012.

Workers Compensation

($ in thousands)	2015	2014	2015 vs. 2014	2013	2014 vs. 2013
Statutory NPW	$299,686	269,130	11 %	$277,135	(3)%
Direct new business	68,971	48,613	42	55,063	(12)
Retention	83 %	81	2 pts	82 %	(1) pts
Renewal pure price increases	2.6	4.8	(2.2)	7.5	(2.7)
Statutory NPE	$290,075	274,585	6 %	$267,612	3 %
Statutory combined ratio	88.2 %	110.1	(21.9) pts	120.6 %	(10.5) pts
% of total statutory standard commercial NPW	19	19		20	

NPW increased in 2015 compared to 2014 due to: (i) an increase in direct new business; (ii) renewal pure price increases; and (iii) increased retention. NPW was lower in 2014 compared to 2013 due to: (i) reductions in new business; (ii) a focused effort to improve our hazard mix and reduce exposures on this line; and (iii) the impact of the sale of the SIG renewal rights. This business accounted for $4 million of NPW in 2013.

NPE increases in 2015 and 2014 were consistent with the fluctuations in NPW for their respective twelve-month periods ended December 31.

The 21.9-point decrease in the statutory combined ratio in 2015 compared to 2014 was due to the following:

- Favorable prior year casualty reserve development of $37.0 million, or 12.8 points, attributable to virtually all prior accident years, compared to no development in 2014.

- Lower expected loss costs for the current accident year that resulted in an improvement of 9.3-points in 2015, reflecting our ongoing focus on improving this competitive line of business through pricing and claims initiatives, as further discussed below.

Reductions in current and prior year loss costs in this line of business were primarily driven by continued lower frequencies and severities. We believe those trends are evidence of the significant claims and underwriting initiatives that we have undertaken on this line of business over the past two years. These initiatives include:

- Centralizing all workers compensation claim handling in Charlotte, North Carolina providing us with: (i) focused management around workers compensation; (ii) units of scale and greater specialization; (iii) high levels of quality and consistency; (iv) better talent attraction and retention; (v) improved usage of nurse case managers; and (vi)

increased network penetration;

- Managing non-complex workers compensation claims within our footprint by leveraging the expertise of jurisdictionally-trained and aligned medical only and lost-time adjusters;
- Referring claims with high exposure and/or significant escalation risk to our workers compensation Strategic Case Management Unit;
- Reducing workers compensation medical costs through more favorable PPO contracts and greater PPO penetration;

- Using a more comprehensive approach for handling workers compensation claims, with an emphasis towards improving recovery times, allowing for earlier "return-to-work." This involves elevated and proactive case management in the areas of medical, pharmaceutical, and physical therapy treatments; and

- Working on improving the mix of business in this line with a focus on hazard grades A through D.

In addition, the industry has experienced a period of lower medical cost inflation, which has favorably impacted our estimate of ultimate losses on this line of business.

The decrease in the statutory combined ratio from 2013 to 2014 was driven by no prior year casualty reserve development in 2014 compared to unfavorable prior year development of 8.6 points in 2013 driven by the 2008 and prior accident years reflecting increases in severities for medical costs. These increases largely related to case reserve adjustments to assisted living facility claims, and our review of medical cost development over many years. Additionally, earned rate above our expected claim inflation improved profitability by approximately 2.5 points.

Commercial Property

($ in thousands)	2015		2014	2015 vs. 2014			2013		2014 vs. 2013		
Statutory NPW	$282,731		253,625	11		%	$237,556		7		%
Direct new business	72,118		58,436	23			53,678		9		
Retention	82	%	81	1		pts	81	%	—		pts
Renewal pure price increases	2.8		4.4	(1.6	)		5.7		(1.3	)	
Statutory NPE	$269,022		244,792	10		%	$224,412		9		%
Statutory combined ratio	82.6	%	97.3	(14.7	)	pts	78.9	%	18.4		pts
% of total statutory standard commercial NPW	18		18				17				

NPW and NPE increased in 2015 compared to 2014, as well as in 2014 compared to 2013, primarily due to: (i) growth in direct new business; (ii) renewal pure price increases; and (iii) strong retention.

The fluctuation in the statutory combined ratios over the three-year period for this line are best understood by reviewing the fluctuations in non-catastrophe property losses and catastrophe losses. Quantitative information regarding these items is as follows:

($ in millions)	Non-Catastrophe Property Losses			Catastrophe Losses					
For the year ended December 31,	Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio		Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio		Total Impact on Losses and Loss Expense Ratio	(Favorable)/Unfavorable Year-Over-Year Change	
2015	$78.4	29.1	pts	$25.8	9.6	pts	38.7	(16.3	)
2014	107.3	43.8		27.3	11.2		55.0	18.9	
2013	63.0	28.1		17.8	8.0		36.1	N/A	

Standard Personal Lines

Our Standard Personal Lines segment, which includes our flood business, represents approximately 14% of our combined insurance segments' NPW. We sell personal lines insurance products and services to individuals located primarily in 13 states through approximately 700 distribution partners. In addition, we have approximately 6,000 distribution partners selling our flood business.

($ in thousands)	2015		2014	2015 vs. 2014		2013		2014 vs. 2013	
GAAP Insurance Segments Results:									
NPW	$283,926		292,061	(3	)%	$297,757		(2	)%
NPE	288,134		296,747	(3	)	294,332		1	
Less:									
Losses and loss expenses incurred	200,237		197,182	2		206,450		(4	)
Net underwriting expenses incurred	86,561		83,029	4		79,237		5	
Underwriting income (loss)	$1,336		16,536	(92	)%	$8,645		91	%
GAAP Ratios:									
Loss and loss expense ratio	69.5	%	66.4	3.1	pts	70.1	%	(3.7	)pts
Underwriting expense ratio	30.0		28.0	2.0		27.0		1.0	
Combined ratio	99.5		94.4	5.1		97.1		(2.7	)
Statutory Ratios:									
Loss and loss expense ratio	69.6		66.3	3.3		69.9		(3.6	)
Underwriting expense ratio	30.3		28.2	2.1		27.0		1.2	
Combined ratio	99.9	%	94.5	5.4	pts	96.9	%	(2.4	)pts

NPW in this segment decreased over the three-year period as shown in the table above. As illustrated in the table below, these decreases were driven by lower new business and retention in 2015 and 2014 due to competition in this segment. The decrease in retention in 2014 was also impacted by targeted non-renewals of less profitable accounts. These strategic non-renewals impacted our dwelling fire business, underperforming accounts within our personal automobile business, and our mono-line homeowners business.

($ in millions)	2015		2014	2013
Retention	82	%	81	85
Renewal pure price increases on NPW	5.8		6.5	7.8
Direct new business premiums	$32.9		36.1	39.5

NPE decreases over the three-year period were consistent with the NPW fluctuations for their respective twelve-month periods ended December 31.

The GAAP loss and loss expense ratio increased 3.1 points in 2015 compared to 2014, primarily driven by: (i) favorable prior year casualty reserve development that was lower than last year by 2.2 points; and (ii) property losses that were higher than last year by 0.9 points.

The GAAP loss and loss expense ratio decreased 3.7 points in 2014 compared to 2013 driven by: (i) earned rate in excess of our expected claims inflation, which improved profitability by approximately 2.6 points; and (ii) favorable prior year casualty reserve development that was higher than 2013 by 0.9 points.

Quantitative information over the three-year period related to these items is as follows:

($ in millions)	Non-Catastrophe Property Losses		Catastrophe Losses			
For the year ended December 31,	Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio	Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio	Total Impact on Losses and Loss Expense Ratio	(Favorable)/Unfavorable Year-Over-Year Change
2015	$87.2	30.3 pts	$21.7	7.5 pts	37.8	0.9
2014	90.1	30.4	19.3	6.5	36.9	0.4
2013	87.8	29.8	19.8	6.7	36.5	N/A

($ in millions)	(Favorable)/Unfavorable Prior Year Casualty Reserve Development		
For the year ended December 31,	Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio	(Favorable)/Unfavorable Year-Over-Year Change
2015	$(2.0)	(0.7) pts	2.2
2014	(8.7)	(2.9)	(0.9)
2013	(6.0)	(2.0)	N/A

The increase in the GAAP underwriting expense ratio in 2015 compared to 2014 was primarily due to the following factors:

- Staffing additions, such as Standard Personal Lines Marketing Specialists, to support our growth initiatives;
- Increases in annual incentive compensation expense to employees through our corporate-wide incentive plan;
- Pension expense increases, which are discussed further in "Financial Highlights of Results for Years Ended December 2015, 2014, and 2013" above; and
- Increased costs associated with capital improvements.

The increase in the underwriting expense ratio in 2014 compared to 2013 was driven by higher supplemental commissions to our distribution partners.

In addition, declining premiums in this segment, which are driven by lower new business and targeted non-renewal actions we have taken on this book of business, have put pressure on the components of our combined ratio.

E&S Lines

Our E&S Lines segment, which represents 9% of our combined insurance segments' NPW, sells commercial lines insurance products and services in all 50 states and the District of Columbia through approximately 80 distribution partners. Insurance policies in this segment are sold to customers that typically have business risks with unique characteristics, such as the nature of the business or its claim history, that have not obtained coverage in the standard marketplace. E&S insurers have more flexibility in coverage terms and rates compared to standard market insurers, generally resulting in policies with higher rates and terms and conditions that are customized for specific risks.

($ in thousands)	2015		2014	2015 vs. 2014		2013		2014 vs. 2013	
GAAP Insurance Segments Results:									
NPW	$189,013		152,172	24	%	$131,662		16	%
NPE	172,333		140,150	23		125,121		12	
Less:									
Losses and loss expenses incurred	128,731		90,301	43		84,027		7	
Net underwriting expenses incurred	60,405		49,463	22		44,829		10	
Underwriting income (loss)	$(16,803	)	386	(4,453	)%	$(3,735	)	110	%
GAAP Ratios:									
Loss and loss expense ratio	74.7	%	64.4	10.3	pts	67.2	%	(2.8	)pts
Underwriting expense ratio	35.1		35.3	(0.2	)	35.8		(0.5	)
Combined ratio	109.8		99.7	10.1		103.0		(3.3	)
Statutory Ratios:									
Loss and loss expense ratio	74.7		64.5	10.2		67.2		(2.7	)
Underwriting expense ratio	33.7		34.7	(1.0	)	35.7		(1.0	)
Combined ratio	108.4	%	99.2	9.2	pts	102.9	%	(3.7	)pts

NPW increases in 2015 and 2014 reflect the following:

($ in millions)	2015		2014	2013
Renewal pure price increases	1.5	%	3.4	6.2
Direct new business premiums	$99.6		80.9	71.4

NPE increases in 2015 and 2014 were consistent with the increases in NPW for their respective twelve-month periods ended December 31, 2015.

The significant increase in the combined ratio in 2015 compared to 2014 was driven by: (i) unfavorable prior year casualty reserve development that was higher than last year by 5.2 points; (ii) a 2.9-point increase in the current year loss costs; and (iii) a 1.5-point increase in property losses.

The improvement that we saw in the combined ratio in 2014 compared to 2013 was driven by a change in the mix of business, coupled with lower catastrophe losses. Partially offsetting these items were non-catastrophe property losses and unfavorable prior year casualty reserve development.

These amounts are quantified in the tables below:

($ in millions)	Non-Catastrophe Property Losses			Catastrophe Losses				
For the year ended December 31,	Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio		Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio		Total Impact on Losses and Loss Expense Ratio	Unfavorable Year-Over-Year Change
2015	$23.6	13.7	pts	$3.2	1.9	pts	15.6	1.5
2014	17.0	12.1		2.8	2.0		14.1	0.8
2013	12.0	9.6		4.6	3.7		13.3	N/A

($ in millions)	Unfavorable Prior Year Casualty Reserve Development			
For the year ended December 31,	Losses and Loss Expense Incurred	Impact on Losses and Loss Expense Ratio		Unfavorable Year-Over-Year Change
2015	$16.0	9.3	pts	5.2
2014	5.8	4.1		2.2
2013	2.5	1.9		N/A

As part of the consolidation of this segment into our overall operations, we integrated the E&S claims operation with our corporate claims operation during 2015. As part of that effort, we completed a review of all complex claims. As a result, we recorded adverse prior year casualty reserve development of $10 million in the fourth quarter of 2015, bringing the full year adverse prior year development to $16 million. We also recorded a $5 million adjustment to the 2015 current accident year.

Our E&S business is comprised of risks that are similar in nature to our Standard Commercial Lines, with smaller-sized insureds and lower policy limits. Approximately 90% of the business that we write in this segment have policy limits of less than $1 million. We will continue to deploy our corporate claims practices into the E&S operation in 2016, including the use of more robust monitoring tools. We believe these actions will allow us to better assess the associated liability for these claims and will ultimately result in improved outcomes. For more information, refer to the E&S Lines discussion within the Reserves for Losses and Loss Expenses section of "Critical Accounting Policies and Estimates" in this MD&A.

Reinsurance

We use reinsurance to protect our capital resources and insure us against losses on property and casualty risks that we underwrite. We use two main reinsurance vehicles: (i) a reinsurance pooling agreement among our Insurance Subsidiaries in which each company agrees to share in premiums and losses based on certain specified percentages; and (ii) reinsurance contracts and arrangements with third parties that cover various policies that we issue to our customers.

Reinsurance Pooling Agreement

The primary purposes of the reinsurance pooling agreement among our Insurance Subsidiaries are the following:

- Pool or share proportionately the underwriting profit and loss results of property and casualty insurance underwriting operations through reinsurance;

- Prevent any of our Insurance Subsidiaries from suffering undue loss;
- Reduce administration expenses; and
- Permit all of the Insurance Subsidiaries to obtain a uniform rating from A.M. Best.

The following illustrates the pooling percentages by company as of December 31, 2015:

Insurance Subsidiary	Pooling Percentage
SICA	32.0%
Selective Way Insurance Company ("SWIC")	21.0%
Selective Insurance Company of South Carolina ("SICSC")	9.0%
Selective Insurance Company of the Southeast ("SICSE")	7.0%
Selective Insurance Company of New York ("SICNY")	7.0%
Selective Casualty Insurance Company ("SCIC")	7.0%
Selective Auto Insurance Company of New Jersey ("SAICNJ")	6.0%
Mesa Underwriters Specialty Insurance Company ("MUSIC")	5.0%
Selective Insurance Company of New England ("SICNE")	3.0%
Selective Fire and Casualty Insurance Company ("SFCIC")	3.0%

Reinsurance Treaties and Arrangements

By entering into reinsurance treaties and arrangements, we are able to increase underwriting capacity and accept larger risks and a larger number of risks without directly increasing capital or surplus. Our reinsurance consists of traditional reinsurance and we do not purchase finite reinsurance. Under our reinsurance treaties, the reinsurer generally assumes a portion of the losses we cede to them in exchange for a portion of the premium. Amounts not reinsured are known as retention. Reinsurance does not legally discharge us from liability under the terms and limits of our policies, but it does make our reinsurer liable to us for the amount of liability we cede to them. Accordingly, we have counterparty credit risk from our reinsurers. We attempt to mitigate this credit risk by: (i) pursuing relationships with reinsurers rated “A-” or higher; or (ii) obtaining collateral to secure reinsurance obligations. Some of our reinsurance contracts include provisions that permit us to terminate or commute the reinsurance treaty if the reinsurer's financial condition or rating deteriorates. We monitor the financial condition of our reinsurers and we review the quality of reinsurance recoverables and reserves for uncollectible reinsurance. For additional information regarding our counterparty credit risk with our reinsurers, see Note 8. "Reinsurance" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

We have reinsurance contracts that separately cover our property and casualty insurance business. Available reinsurance can be segregated into the following key categories:

- Property Reinsurance - includes our property excess of loss treaties purchased for protection against large individual property losses and our property catastrophe treaties purchased to provide protection for the overall property portfolio against severe catastrophic events. Facultative reinsurance is used for property risks that are in excess of our treaty capacity.

- Casualty Reinsurance - purchased to provide protection for both individual large casualty losses and catastrophic casualty losses involving multiple claimants or customers. Facultative reinsurance is also used for casualty risks that are in excess of our treaty capacity.

- Terrorism Reinsurance - in addition to protection built into our property and casualty reinsurance treaties, terrorism protection is available as a federal backstop related to terrorism losses as provided under the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”). For further information regarding this legislation, see Item 1A. “Risk Factors.” of this Form 10-K.

- Flood Reinsurance - as a servicing carrier in the WYO Program, we receive a fee for writing flood business, for which the related premiums and losses are 100% ceded to the federal government.

In addition to the above categories, we have entered into several reinsurance agreements with Montpelier Re Insurance Ltd. as part of the acquisition of MUSIC. Together, these agreements provide protection for losses on policies written prior to the December 2011 acquisition and any development on reserves established by MUSIC as of the date of acquisition. The reinsurance recoverables under these treaties are collateralized.

Property Reinsurance
The property catastrophe treaty, which covers both our standard market and E&S business, was renewed effective January 1, 2016. The current treaty structure remains the same, providing total coverage of $685 million in excess of $40 million. The annual aggregate limit net of our co-participation is approximately $1.0 billion for 2016. We also renewed the separate catastrophe treaty of $35 million in excess of $5 million that covers events outside of our standard lines footprint, in support of our growing E&S property book. We expect the overall catastrophe ceded premium for 2016 to be slightly lower than 2015. As our need for catastrophe reinsurance increases, we seek ways to minimize credit risk inherent in a reinsurance transaction by dealing with highly-rated reinsurance partners and purchasing collateralized reinsurance products, particularly for high severity, low-probability events. The current reinsurance program includes $201 million in collateralized limit, primarily in the top layer of the catastrophe program.

We continue to assess our property catastrophe exposure aggregations, modeled results, and effects of growth on our property portfolio, and strive to manage our exposure to individual large events balanced against the cost of reinsurance protections.

Although we model various catastrophic perils, due to our geographic spread, the risk of hurricane continues to be the most significant natural catastrophe peril to which our portfolio is exposed. Below is a summary of the largest five actual hurricane losses that we experienced in the past 25 years:

Hurricane Name	Actual Gross Loss ($ in millions)	Accident Year
Superstorm Sandy	127.4 [1]	2012
Hurricane Irene	44.8	2011
Hurricane Hugo	26.4	1989
Hurricane Isabel	25.1	2003
Hurricane Floyd	14.5	1999

[1] This amount represents reported and unreported gross losses estimated as of December 31, 2015.

We use the results of the Risk Management Solutions and AIR Worldwide models in our review of exposure to hurricane risk. Each of these third party vendors provide two views of the modeled results as follows: (i) a long-term view that closely relates modeled event frequency to historical hurricane activity; and (ii) a medium-term view that adjusts historical frequencies to reflect higher expectations of hurricane activity in the North Atlantic Basin. We believe that modeled estimates provide a range of potential outcomes and we review multiple estimates for purposes of understanding our catastrophic risk. The following table provides modeled hurricane results based on a blended view of the four models for the Insurance Subsidiaries' combined property book as of July 2015:

Occurrence Exceedence Probability	Four-Model Blend		
($ in thousands)	Gross Losses	Net Losses[1]	Net Losses as a Percent of Equity[2]
4.0% (1 in 25 year event)	$120,919	29,268	2%
2.0% (1 in 50 year event)	217,188	32,499	2
1.0% (1 in 100 year event)	375,355	36,964	3
0.67% (1 in 150 year event)	498,915	42,137	3
0.5% (1 in 200 year event)	612,028	46,849	3
0.4% (1 in 250 year event)	691,732	53,322	4

[1] Losses are after tax and include applicable reinstatement premium.

[2] Equity as of December 31, 2015.

Our current catastrophe reinsurance program exhausts at a 1 in 274 year return period, or events with 0.36% probability, based on a multi-model view of hurricane risk.

The property excess of loss treaty, which covers both our standard market and E&S business, was renewed on July 1, 2015 with an additional layer placed on January 1, 2016. The major terms of this treaty are consistent with the prior year. The details of the current year treaty are included in the table below.

The following is a summary of our property reinsurance treaties and arrangements covering our Insurance Subsidiaries:

PROPERTY REINSURANCE ON INSURANCE PRODUCTS

Treaty Name	Reinsurance Coverage	Terrorism Coverage
Property Catastrophe Excess of Loss (covers all insurance segments)	$685 million above $40 million retention in four layers: - 80% of losses in excess of $40 million up to $100 million; - 95% of losses in excess of $100 million up to $225 million; - 95% of losses in excess of $225 million up to $475 million; and - 90% of losses in excess of $475 million up to $725 million. - The treaty provides one reinstatement per layer for the first three layers and no reinstatements on the fourth layer. The annual aggregate limit is $1.03 billion, net of the Insurance Subsidiaries' co-participation.	All nuclear, biological, chemical, and radioactive ("NBCR") losses are excluded regardless of whether or not they are certified under TRIPRA. Non-NBCR losses are covered to the same extent as non-terrorism losses. Please see Item 1A. “Risk Factors.” of this Form 10-K for discussion regarding TRIPRA.
Property Excess of Loss (covers all insurance segments)	$58 million above $2 million retention covering 100% in three layers. Losses other than TRIPRA certified losses are subject to the following reinstatements and annual aggregate limits: - $8 million in excess of $2 million layer provides unlimited reinstatements; - $30 million in excess of $10 million layer provides three reinstatements, $120 million in aggregate limits; and - $20 million in excess of $40 million layer provides approximately $70 million in aggregate limits.	All NBCR losses are excluded regardless of whether or not they are certified under TRIPRA. For non-NBCR losses, the treaty distinguishes between acts committed on behalf of foreign persons or foreign interests ("Foreign Terrorism") and those that are not. The treaty provides annual aggregate limits for Foreign Terrorism (other than NBCR) acts of $24 million for the first layer and $60 million for the second layer and for the third layer approximately $30 million in annual aggregate limits. Non-foreign terrorism losses (other than NBCR) are covered to the same extent as non-terrorism losses.
Flood	100% reinsurance by the federal government’s WYO Program.	None

Casualty Reinsurance

The casualty excess of loss treaty, which covers both our standard market and E&S business, was renewed on July 1, 2015 and is effective through June 30, 2016, with substantially the same terms as the expiring treaty. The details of the current year treaty are included in the table below.

The following is a summary of our casualty reinsurance treaties and arrangements covering our Insurance Subsidiaries:

CASUALTY REINSURANCE ON INSURANCE PRODUCTS

Treaty Name	Reinsurance Coverage	Terrorism Coverage
	There are six layers covering 100% of $88 million in excess of $2 million. Losses other than terrorism losses are subject to the following reinstatements and annual aggregate limits:	All NBCR losses are excluded. All other losses stemming from the acts of terrorism are subject to the following reinstatements and annual aggregate limits:
	- $3 million in excess of $2 million layer with $72 million annual aggregate limit;	- $3 million in excess of $2 million layer with $15 million net annual terrorism aggregate limit;
	- $7 million in excess of $5 million layer with $35 million annual aggregate limit;	- $7 million in excess of $5 million layer with $28 million net annual terrorism aggregate limit;
Casualty Excess of Loss (covers all insurance segments)	- $9 million in excess of $12 million layer with $27 million annual aggregate limit;	- $9 million in excess of $12 million layer with $27 million net annual terrorism aggregate limit;
	- $9 million in excess of $21 million layer with $18 million annual aggregate limit;	- $9 million in excess of $21 million layer with $18 million net annual terrorism aggregate limit;
	- $20 million in excess of $30 million layer with $40 million annual aggregate limit;	- $20 million in excess of $30 million layer with $40 million net annual terrorism aggregate limit;
	- $40 million in excess of $50 million layer with $80 million annual aggregate limit;	- $40 million in excess of $50 million layer with $80 million net annual terrorism aggregate limit;
Montpelier Re Quota Share and Loss Development Cover (covers E&S Lines)	As part of the acquisition of MUSIC we entered into several reinsurance agreements that together provide protection for losses on policies written prior to the acquisition and any development on reserves established by MUSIC as of the date of acquisition. The reinsurance recoverables under these treaties	Provides full terrorism coverage including NBCR.

are 100% collateralized.

We have other reinsurance treaties that we do not consider core to our reinsurance program, such as our Surety and Fidelity Excess of Loss Reinsurance Treaty, National Workers Compensation Reinsurance Pool Quota Share, which covers business assumed from the involuntary workers compensation pool, a property catastrophe excess of loss treaty covering losses outside of our standard lines footprint states, and our Equipment Breakdown Coverage Reinsurance Treaty.

We regularly reevaluate our overall reinsurance program and try to develop effective ways to manage transfer of risk. Our analysis is based on a comprehensive process that includes periodic analysis of modeling results, aggregation of exposures, exposure growth, diversification of risks, limits written, projected reinsurance costs, financial strength of reinsurers, and projected impact on earnings, equity, and statutory surplus. We strive to balance sometimes opposing considerations of reinsurer credit quality, price, terms, and our appetite for retaining a certain level of risk.

Investments

The primary objective of the investment portfolio is to maximize after-tax investment income while balancing risk and generating long-term growth in shareholder value. Our investment philosophy is predicated on investing with a long-term horizon, with significant emphasis on risk control, capital preservation, taxes, liquidity, and diversification. Our investments include high-quality fixed income securities, common stocks, and preferred securities designed to generate stable interest and dividend income and long-term capital appreciation, and alternative investments that seek to diversify the sources of risk and return of the overall portfolio.

Total Invested Assets

($ in thousands)	2015	2014	Change	
Total invested assets	$5,089,269	4,806,834	6	%
Invested assets per dollar of stockholders' equity	3.64	3.77	(3	)
Unrealized gain – before tax	69,224	123,682	(44	)
Unrealized gain – after tax	44,996	80,394	(44	)

The increase in our investment portfolio at December 31, 2015 compared with year-end 2014 was primarily driven by operating cash flow of $381.6 million, which resulted in investable cash flow of $352.3 million, partially offset by a decrease in unrealized gains of $54.5 million. Of this $54.5 million, $19.2 million was in our equity portfolio, which was impacted by the volatility in the stock market during the year. In addition, unrealized gains in our fixed income securities portfolio decreased by $35.3 million due to widening credit spreads as well as the impact of slightly higher interest rates.

Although interest rates on the 10-year U.S. Treasury Note rose by 10 basis points in 2015, the low interest rate environment continues to present a challenge to us in generating after-tax return, as new purchase yields are below the average yield on bonds that are currently maturing.

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

As of December 31,	2015		2014
Fixed income securities:			
U.S. government obligations	2	%	2
Foreign government obligations	—		1
State and municipal obligations	30		32

Corporate securities	38		38
Mortgage-backed securities (“MBS”)	16		14
Asset-backed securities ("ABS")	5		4
Total fixed income securities	91		91
Equity securities:			
Common stock	4		4
Preferred stock[1]	—		—
Total equity securities	4		4
Short-term investments	4		3
Other investments	1		2
Total	100	%	100

[1] Preferred stock represented less than 1% of our portfolio at December 31, 2015. We did not hold any of these securities at December 31, 2014.

Fixed Income Securities

The average duration of the fixed income securities portfolio as of December 31, 2015 was 3.7 years, including short-term investments, compared to the Insurance Subsidiaries' liability duration of approximately 4.3 years. The current duration of the fixed income securities portfolio is within our historical range, and is monitored and managed to maximize yield while managing interest rate risk at an acceptable level. We maintain a well-diversified portfolio across sectors, credit quality, and maturities that affords us ample liquidity. We typically have a long investment time horizon, and every purchase or sale is made with the intent of maximizing risk-adjusted investment returns in the current market environment while balancing capital preservation.

Our fixed income securities portfolio maintained a weighted average credit rating of AA- as of December 31, 2015. The following table presents the credit ratings of our fixed income securities portfolio:

Fixed Income Security Rating

	December 31, 2015		December 31, 2014
Aaa/AAA	18	%	17
Aa/AA	42		44
A/A	24		25
Baa/BBB	15		13
Ba/BB or below	1		1
Total	100	%	100

For further details on how we manage overall credit quality and the various risks to which our portfolio is subject, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." of this Form 10-K.

Equity Securities

Our equities portfolio was 4% of invested assets at both December 31, 2015 and December 31, 2014. During 2015, this portfolio recorded purchases of $195.7 million and sales of securities that had an original cost of $184.2 million, primarily as a result of a change in our dividend equity strategy earlier this year from a quantitative, model-driven stock selection strategy to a fundamentally-based stock selection approach that incorporates an assessment of the sustainability and growth rate of a company's dividend based on expected future cash flows.

Unrealized/Unrecognized Losses

Fixed income securities that were in an unrealized loss position at December 31, 2015 by contractual maturity are shown below. 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.

Contractual Maturities

($ in thousands)

Available-for-sale ("AFS") fixed income securities:	Amortized Cost	Fair Value	Unrealized Loss
One year or less	$115,766	115,349	417
Due after one year through five years	954,166	943,587	10,579
Due after five years through ten years	509,133	497,336	11,797
Due after ten years	1,834	1,812	22
Total	$1,580,899	1,558,084	22,815

Contractual Maturities

($ in thousands)

Held-to-maturity ("HTM") fixed income securities:	Amortized Cost	Fair Value	Unrecognized/Unrealized Loss
Due after one year through five years	$811	805	6
Total	$811	805	6

We have reviewed the securities in the tables above in accordance with our OTTI policy as discussed previously in "Critical Accounting Policies and Estimates" of this MD&A. For qualitative information regarding our conclusions as to why these impairments are deemed temporary, see Note 5. "Investments" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

Other Investments

As of December 31, 2015, other investments of $77.8 million represented 1% of our total invested assets. In addition to the capital that we already invested to date, we are contractually obligated to invest up to an additional $74.4 million in our other investments portfolio through commitments that currently expire at various dates through 2028. For descriptions of our seven alternative investment strategies, as well as redemption, restrictions, and fund liquidations, refer to Note 5. "Investments" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

Net Investment Income

The components of net investment income earned were as follows:

($ in thousands)	2015		2014		2013	
Fixed income securities	$123,230		126,489		121,582	
Equity securities, dividend income	9,161		7,449		6,140	
Short-term investments	112		66		117	
Other investments	(1,890	)	13,580		15,208	
Investment expenses	(9,297	)	(8,876	)	(8,404	)
Net investment income earned – before tax	121,316		138,708		134,643	
Net investment income tax expense	27,480		34,501		33,233	
Net investment income earned – after tax	$93,836		104,207		101,410	
Effective tax rate	22.7	%	24.9		24.7	
Annual after-tax yield on fixed income securities	2.1		2.2		2.3	
Annual after-tax yield on investment portfolio	1.9		2.2		2.3	

The $17.4 million decrease in investment income before tax in 2015, compared to 2014, was primarily attributable to a decrease in other investment income of $15.5 million due to lower returns on the alternative investments within that portfolio. In particular, our energy-related limited partnerships have been negatively impacted by declining oil prices. Additionally, lower reinvestment yields on our fixed income securities portfolio continue to put pressure on investment income. In 2015, bonds that matured or were sold, valued at $735.6 million, had yields that averaged 3.3% pre-tax, while new purchases of $1.0 billion had an average pre-tax yield of 2.4%.

The $4.1 million increase in investment income before tax in 2014 compared to 2013 was primarily attributable to an increase in income of $4.9 million from fixed income securities driven by an increase in the size of the portfolio, which offset the lower yield earned in 2014 compared to 2013. In 2014, bonds that matured or were sold, valued at $607.2 million, had yields that averaged 2.3%, after tax, while new purchases of $860.4 million had an average after-tax yield of 2.0%.

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. We typically have a long investment time horizon, and every purchase or

sale is made with the intent of maximizing risk-adjusted investment returns in the current market environment while balancing
capital preservation. Total net realized gains amounted to $13.2 million in 2015, compared to $26.6 million in 2014 and $20.7 million in 2013. These amounts included OTTI charges of $18.4 million in 2015, $11.1 million in 2014, and $5.6 million in 2013.

We regularly review our entire investment portfolio for declines in fair value. If we believe that a decline in the value of a particular investment is other than temporary, we record it as an OTTI through realized losses in earnings for the credit-related portion and through unrealized losses in OCI for the non-credit related portion for fixed income securities. If there is a decline in fair value of an equity security that we do not intend to hold or if we determine the decline is other than temporary, we write down the cost of the investment to fair value and record the charge through earnings as a component of realized losses.

For a 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 this Form 10-K. In addition, for qualitative information regarding these charges, see Note 5. "Investments" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

Federal Income Taxes

The following table provides information regarding federal income taxes from continuing operations:

($ in millions)	2015		2014	2013
Federal income tax expense from continuing operations	$66.8		55.3	36.4
Effective tax rate	29	%	28	25

The fluctuations in federal income taxes and the effective tax rates in 2015 compared to 2014 and 2013 were primarily due to the contribution of underwriting income to total company income, as the majority of our differences from the statutory rate are from recurring nontaxable items, such as tax-advantaged interest and dividends received deductions. Underwriting results for 2015, 2014, and 2013 were $149.0 million, $78.1 million, and $38.8 million, respectively. We believe that our future effective tax rate will continue to be impacted by similar items, assuming no significant changes to tax laws.

For a reconciliation of our effective tax rate to the statutory rate of 35%, see Note 13. "Federal Income Taxes" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

Financial Condition, Liquidity, Short-term Borrowings, 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 $196 million at December 31, 2015 was comprised of $30 million at Selective Insurance Group, Inc. (the "Parent") and $166 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 ("NAIC"). The Parent continues to maintain a fixed income security investment portfolio containing high-quality, highly-liquid government and corporate fixed income investments to generate additional yield. This portfolio amounted to $62 million at December 31, 2015 compared to $50 million at December 31, 2014.

Sources of cash for the Parent have historically consisted of dividends from the Insurance Subsidiaries, 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.

The following table provides quantitative data regarding all Insurance Subsidiaries' ordinary dividends paid to the Parent in 2015 for debt service, shareholder dividends, and general operating purposes. There were no extraordinary dividends paid in 2015:

2015 Dividends

($ in millions)	State of Domicile	Ordinary Dividends Paid
SICA	New Jersey	$26.0
SWIC	New Jersey	16.0
SICSC	Indiana	3.3
SICSE	Indiana	2.0
SICNY	New York	2.5

SICNE	New Jersey	1.5
SAICNJ	New Jersey	2.5
SCIC	New Jersey	2.5
SFCIC	New Jersey	1.5
Total		$57.8

Based on the 2015 statutory financial statements, the maximum ordinary dividends that can be paid to the Parent by the Insurance Subsidiaries in 2016 are as follows:

Dividends		2016
($ in millions)	State of Domicile	Maximum Ordinary Dividends
SICA	New Jersey	$61.2
SWIC	New Jersey	37.0
SICSC	Indiana	15.9
SICSE	Indiana	12.1
SICNY	New York	9.3
SICNE	New Jersey	5.5
SAICNJ	New Jersey	10.6
MUSIC	New Jersey	9.4
SCIC	New Jersey	12.1
SFCIC	New Jersey	5.2
Total		$178.3

Any dividends to the Parent are subject to the approval and/or review of the insurance regulators in the respective domiciliary states of the insurance subsidiaries 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 10. “Indebtedness” and Note 19. “Statutory Financial Information, Capital Requirements, and Restrictions on Dividends and Transfers of Funds” in Item 8. “Financial Statements and Supplementary Data.” of this Form 10-K.

The Parent had no private or public issuances of stock during 2015, and there were no borrowings under its $30 million line of credit ("Line of Credit"). We have two Insurance Subsidiaries domiciled in Indiana ("Indiana Subsidiaries") that are members of the Federal Home Loan Bank of Indianapolis ("FHLBI"). Membership in the FHLBI by SICSC and SICSE provides these subsidiaries with access to additional liquidity. The Indiana Subsidiaries' aggregate investment of $2.8 million provides them with the ability to borrow approximately 20 times the total amount of the FHLBI common stock purchased, at comparatively low borrowing rates. All borrowings from the FHLBI are required to be secured by certain investments. For additional information regarding the required collateral, refer to Note 5. "Investments" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

In December 2015, SICA and SICNY joined the Federal Home Loan Bank of New York (“FHLBNY”). The membership provides these subsidiaries additional access to liquidity at comparatively low borrowing rates. While membership stock of $0.5 million in the aggregate was purchased upon FHLBNY's approval of our membership, no borrowings occurred in 2015. Future borrowings are limited to approximately 20 times the value of any additional FHLBNY stock purchased. As with FHLBI, borrowings from the FHLBNY are required to be secured by certain investments.

Restrictions related to borrowings include the following:

- The Parent’s 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. Additionally, FHLBNY limits borrowings by SICA and SICNY to 5% of admitted assets for the previous year. The following table provides information on the remaining capacity for Federal Home Loan Bank borrowings under these restrictions, as well as the amount of additional stock that would need to be purchased to allow us to borrow our remaining capacity:

($ in millions) As of December 31, 2015	Admitted Assets as of December 31, 2015	Borrowing Limitation	Amount Borrowed	Remaining Capacity	Additional Stock Requirements
SICSC	$594.3	$59.4	32.0	27.4	1.2
SICSE	461.8	46.2	28.0	18.2	0.8
SICA	2,140.7	107.0	—	107.0	4.8
SICNY	403.4	20.2	—	20.2	0.9
Total		$232.8	60.0	172.8	7.7

For additional information regarding the Parent’s Line of Credit, refer to the section below entitled “Short-term Borrowings.”

- The Parent has lending agreements with the Indiana Subsidiaries that have been approved by the Indiana Department of Insurance. 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 remaining borrowing capacity with the Indiana Subsidiaries:

($ in millions) As of December 31, 2015	Admitted Assets as of December 31, 2015	Borrowing Limitation	Amount Borrowed	Remaining Capacity
SICSC	$594.3	$59.4	32.3	27.1
SICSE	461.8	46.2	18.7	27.5
Total		$105.6	51.0	54.6

The Insurance Subsidiaries also 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 are laddered to continually provide a source of cash flows for claims payments in the ordinary course of business. The duration of the fixed income securities portfolio including short-term investments was 3.7 years as of December 31, 2015, while the liabilities of the Insurance Subsidiaries have a duration of 4.3 years. In addition, the Insurance Subsidiaries purchase reinsurance coverage for protection against any significantly large claims or catastrophes that may occur during the year.

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. In October 2015, the Board of Directors approved an increase in the quarterly cash dividend, to $0.15 from $0.14 per share.

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 repayments of $15 million and $45 million are due in 2016, with the next following principal payment due in 2034. 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.

Short-term Borrowings
Our Line of Credit with Wells Fargo Bank, National Association, as administrative agent, and Branch Banking and Trust Company, 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 replaced our previous Line of Credit, which had the same banking partners and similar terms and conditions.

The Line of Credit provides the Parent with an additional source of short-term liquidity. The interest rate on our Line of Credit varies and is based on, among other factors, the Parent’s debt ratings. The Line of Credit expires on December 1, 2020. There have been no balances outstanding under this Line of Credit or the previous credit facility at December 31, 2015 or at any time during 2015.

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, minimum combined statutory surplus, and 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. As mentioned above, the Line of Credit permits collateralized borrowings from the FHLBI and FHLBNY by our Insurance Subsidiaries that are members of those banks so long as the aggregate amount borrowed does not exceed 10% of the respective member's admitted assets from the preceding calendar year.

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

	Required as of December 31, 2015	Actual as of December 31, 2015
Consolidated net worth	$960 million	$1.4 billion
Statutory surplus	Not less than $750 million	$1.4 billion
Debt-to-capitalization ratio[1]	Not to exceed 35%	22.1%
A.M. Best financial strength rating	Minimum of A-	A

[1]Calculated in accordance with Line of Credit agreement.

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 December 31, 2015, we had statutory surplus of $1.4 billion, GAAP stockholders’ equity of $1.4 billion, and total debt of $388.2 million, which equates to a debt-to-capital ratio of 21.7%. We balance our debt and equity capital to prudently minimize our overall cost of capital.

Our cash requirements include, but are not limited to, principal and interest payments on various notes payable, dividends to stockholders, payment of claims, capital expenditures, and the payment of commitments under limited partnership and tax credit purchase agreements, 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.”

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 segments, 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 to $24.37 as of December 31, 2015, from $22.54 as of December 31, 2014, due to $2.85 in net income, partially offset by $0.62 in unrealized losses on our investment portfolio, and $0.57 paid in dividends to our shareholders.

Off-Balance Sheet Arrangements

At December 31, 2015 and December 31, 2014, 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

As discussed in the “Reserves for Losses and Loss Expenses” section in the "Critical Accounting Policies and Estimates" section of this MD&A, we maintain case reserves and estimates of reserves for losses and loss expense IBNR, in accordance with industry practice. Using generally accepted actuarial reserving techniques, we project our estimate of ultimate losses and loss expenses at each reporting date. Included within the estimate of ultimate losses and loss expenses are case reserves, which are analyzed on a case-by-case basis by the type of claim involved, the circumstances surrounding each claim, and the policy provisions relating to the type of losses. The difference between the projected ultimate loss and loss expense incurred and the sum of: (i) case loss and loss expense reserves; and (ii) paid loss and loss expense reserves is the IBNR reserve. A range of possible reserves is determined annually and considered in addition to the most recent loss trends and other factors in establishing reserves for each reporting period. Based on the consideration of the range of possible reserves, recent loss trends and other factors, IBNR is established and the ultimate net liability for losses and loss expenses is determined. Such an assessment requires considerable judgment given that it is frequently not possible to determine whether a change in the data is an anomaly until sometime after the event. Even if a change is determined to be permanent, it is not always possible to reliably determine the extent of the change until sometime later. As a result, there is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of reserves because the eventual deficiency or redundancy is affected by many factors.

Given that the loss and loss expense reserves are estimates, as described above and in more detail under the “Critical Accounting Policies and Estimates” section of this MD&A, the payment of actual losses and loss expenses is generally not fixed as to amount or timing. Due to this uncertainty, financial accounting standards prohibit us from discounting these reserves to their present value. Additionally, estimated losses as of the financial statement date do not consider the impact of estimated losses from future business. Therefore, the projected settlement of the reserves for net loss and loss expenses will differ, perhaps significantly, from actual future payments.

The projected paid amounts in the table below by year are estimates based on past experience, adjusted for the effects of current developments and anticipated trends, and include considerable judgment. There is no precise method for evaluating the impact of any specific factor on the projected timing of when loss and loss expense reserves will be paid and as a result, the timing and amounts of the actual payments will be affected by many factors. Care must be taken to avoid misinterpretation by those unfamiliar with this information or familiar with other data commonly reported by the insurance industry.

Our future cash payments associated with contractual obligations pursuant to operating leases for office space and equipment, capital leases for computer hardware and software, notes payable, interest on debt obligations, and loss and loss expenses as of December 31, 2015 are summarized below:

Contractual Obligations	Payment Due by Period				
		Less than	1-3	3-5	More than
($ in millions)	Total	1 year	years	years	5 years
Operating leases	$30.1	6.7	10.4	7.2	5.8

Capital leases	7.9	3.9	4.0	—	—
Notes payable	395.0	60.0	—	—	335.0
Interest on debt obligations	500.0	21.8	42.4	42.4	393.4
Subtotal	933.0	92.4	56.8	49.6	734.2
Gross loss and loss expense payments	3,517.7	866.9	1,055.7	554.2	1,040.9
Ceded loss and loss expense payments	551.0	129.8	130.8	80.6	209.8
Net loss and loss expense payments	2,966.7	737.1	924.9	473.6	831.1
Total	$3,899.7	829.5	981.7	523.2	1,565.3

See the “Short-term Borrowings” section above for a discussion of our syndicated Line of Credit agreement.

At December 31, 2015, we had contractual obligations that expire at various dates through 2028 that may require us to invest up to an additional $74.4 million in alternative and other investments. There is no certainty that any such additional investment will be required. 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. We have no 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 this Form 10-K.

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. In the second quarter of 2015, A.M. Best reaffirmed our rating of "A (Excellent)," their third highest of 13 financial strength ratings, with a “stable” outlook. The rating reflects A.M. Best's view that we have an excellent level of risk-adjusted capitalization, disciplined underwriting focus, targeted regional markets with strong distribution partner relationships, and consistently profitable operating performance. We have been rated “A” or higher by A.M. Best for the past 85 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.

Ratings by other major rating agencies are as follows:

- Fitch Ratings ("Fitch") – Our “A+” rating was reaffirmed in the fourth quarter of 2015 with a stable outlook by Fitch. In taking this action, Fitch cited our strong underwriting results, solid capitalization with growth in stockholders' equity, stable leverage metrics, and improved interest coverage metrics.
- S&P's Ratings Services ("S&P") – During the fourth quarter of 2015, S&P issued a report citing our financial strength rating as “A-” with a positive outlook. The rating reflects S&P's view of our strong business risk profile, strong competitive position, and very strong capital and earnings. The positive outlook for the rating reflects S&P's view of our ongoing efforts to improve geographic and product diversification and reduce risk concentrations in catastrophe prone areas. In addition, the positive outlook reflects S&P's expectation that we will steadily improve our operating performance and that our capital adequacy will remain redundant at a very strong level.
- Moody's Investor Service ("Moody's") – Our "A2" financial strength rating was reaffirmed in the second quarter of 2015 by Moody's. In taking this action, Moody's cited our solid regional franchise with established independent agency support, solid risk adjusted capitalization, strong invested asset quality, and good underwriting profitability. The outlook was revised to stable from negative, reflecting Moody's view of our improved profitability as a result of our stronger price adequacy in commercial lines, re-underwriting initiatives, and claims processing improvements.

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 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk
The fair value of our assets and liabilities are subject to market risk, primarily interest rate, credit risk, and equity price risk related to our investment portfolio as well as fluctuations in the value of our alternative investment portfolio. The allocation of our portfolio was 91% fixed income securities, 4% equity securities, 4% short-term investments, and 1% other investments as of December 31, 2015. We do not hold derivative or commodity investments. Foreign investments are made on a limited basis, and all fixed income transactions are denominated in U.S. currency. We have minimal foreign currency fluctuation risk on certain equity securities. For a discussion of our investment objective and philosophy, see the "Investments" section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K.

We manage our investment portfolio to mitigate risks associated with various financial market scenarios. We will, however, take prudent risk to enhance our overall long-term results while managing a conservative, well-diversified investment portfolio to support our underwriting activities.

Interest Rate Risk

Investment Portfolio
We invest in interest rate-sensitive securities, mainly fixed income securities. Our fixed income securities portfolio is comprised of primarily investment grade (investments receiving S&P or an equivalent rating of BBB- or above) corporate securities, U.S. government and agency securities, municipal obligations, and MBS. Our strategy to manage interest rate risk is to purchase intermediate-term fixed income investments that are attractively priced in relation to perceived credit risks.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. As our fixed income securities portfolio contains interest rate-sensitive instruments, it may be adversely affected by changes in interest rates resulting from governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. A rise in interest rates will decrease the fair value of our existing fixed income investments and a decline in interest rates will result in an increase in the fair value of our existing fixed income investments. However, new and reinvested money used to purchase fixed income securities would benefit from rising interest rates and would be negatively impacted by falling interest rates.

During 2015, interest rates on the 10-year U.S. Treasury Note rose by 10 basis points. This increase in interest rates contributed to the decrease in the unrealized gain position on our fixed income securities portfolio. The reduction in the unrealized gain does not correspond to any issuer specific credit concerns; however, it does reflect an expected reduction in market value due to higher market interest rates. If interest rates continue to rise further, it is reasonable to expect continued downward pressure on the fair market values within our fixed income securities portfolio.

We seek to mitigate our interest rate risk associated with holding fixed income investments by monitoring and maintaining the average duration of our portfolio with a view toward achieving an adequate after-tax return without subjecting the portfolio to an unreasonable level of interest rate risk. The fixed income securities portfolio duration at December 31, 2015 remained stable at 3.7 years, including short-term investments, compared to a year ago. The current duration is within our historical range, and is monitored and managed to maximize yield while managing interest rate risk at an acceptable level. The Insurance Subsidiaries' liability duration is approximately 4.3 years.

We use an interest rate sensitivity analysis to measure the potential loss or gain in future earnings, fair values, or cash flows of market sensitive fixed income securities. The sensitivity analysis hypothetically assumes an instant parallel 200 basis point shift in interest rates up and down in 100 basis point increments from the date of the Financial Statements. We use fair values to measure the potential loss. This analysis is not intended to provide a precise forecast of the effect of changes in market interest rates and equity prices on our income or stockholders' equity. Further, the calculations do not take into account any actions we may take in response to market fluctuations.

The following table presents the sensitivity analysis of interest rate risk as of December 31, 2015:

	2015				
	Interest Rate Shift in Basis Points				
($ in thousands)	[1]-200	-100	0	100	200
HTM fixed income securities					
Fair value of HTM fixed income securities portfolio	$ n/m	211,985	209,544	206,672	203,836
Fair value change	n/m	2,441		(2,872)	(5,708)
Fair value change from base (%)	n/m	1.16 %		(1.37)%	(2.72)%
AFS fixed income securities					
Fair value of AFS fixed income securities portfolio	$ n/m	4,574,590	4,408,203	4,244,495	4,090,755
Fair value change	n/m	166,387		(163,708)	(317,448)
Fair value change from base (%)	n/m	3.77 %		(3.71)%	(7.20)%

[1] Given the low interest rate environment, an interest rate decline of 200 basis points is deemed unreasonable for certain securities in our portfolio, as the decline would generate a zero or negative yield, therefore this interest rate decline for purposes of the sensitivity analysis is not meaningful ("n/m").

Pension and Post-Retirement Benefit Plan Obligation

Our pension and post-retirement benefit obligations and related costs are calculated using actuarial methods within the framework of U.S. GAAP. The discount rate assumption is an important element of expense and/or liability measurement. Changes in the discount rate assumption could materially impact our pension and post-retirement life valuation in the future. For additional information regarding our discount rate selection, refer to Note 14. "Retirement Plans" in Item 8. “Financial Statements and Supplementary Data.” of this Form 10-K.

Credit Risk

Our most significant credit risk is within our fixed income security portfolio, which had an overall credit quality of “AA-” as of December 31, 2015 and December 31, 2014. Exposure to non-investment grade bonds represented approximately 1% of the total fixed income securities portfolio at both dates.

The following table summarizes the fair value, carry value, net unrealized/unrecognized gain (loss) balances, and the weighted average credit qualities of our fixed income securities at December 31, 2015 and December 31, 2014:

December 31, 2015 ($ in thousands)	Fair Value	Carry Value	Unrealized/ Unrecognized Gain (Loss)	Weighted Average Credit Quality
U.S. government obligations	$104.1	104.1	4.6	AA+
Foreign government obligations	15.2	15.2	0.3	AA-
State and municipal obligations	1,541.0	1,535.3	51.0	AA
Corporate securities	1,922.2	1,920.2	9.7	A-
ABS	245.2	245.1	(0.4)	AAA
CMBS	248.2	247.9	(1.6)	AAA
RMBS	541.8	541.8	0.6	AA+
Total fixed income portfolio	$4,617.7	4,609.6	64.2	AA-

December 31, 2014	Fair Value	Carry Value	Unrealized/	Weighted Average

($ in thousands)			Unrecognized Gain (Loss)	Credit Quality
U.S. government obligations	$124.1	124.1	7.4	AA+
Foreign government obligations	33.2	33.1	0.9	AA-
State and municipal obligations	1,545.4	1,533.7	51.3	AA
Corporate securities	1,821.2	1,818.4	38.9	A-
ABS	180.1	179.6	0.4	AAA
CMBS	184.8	184.0	2.0	AA+
RMBS	511.3	511.3	6.2	AA+
Total fixed income portfolio	$4,400.1	4,384.2	107.1	AA-

State and Municipal Obligations

The following table details the top 10 state exposures of the municipal bond portion of our fixed income portfolio at December 31, 2015:

State Exposures of Municipal Bonds	General Obligation		Special	Fair		Weighted Average
($ in thousands)	Local	State	Revenue	Value	% of Total	Credit Quality
New York	$15,796	—	115,591	131,387	9%	AA+
Washington	35,434	13,319	50,081	98,834	6%	AA+
Texas[1]	41,495	5,860	45,181	92,536	6%	AA+
California	14,749	12,946	63,436	91,131	6%	AA
Florida	—	15,212	62,635	77,847	5%	AA
Virginia	31,509	10,188	20,201	61,898	4%	AA+
Arizona	11,723	1,002	42,901	55,626	4%	AA+
Ohio	8,344	16,249	23,621	48,214	3%	AA+
Massachusetts	—	9,123	39,003	48,126	3%	AA+
Colorado	25,402	4,756	15,463	45,621	3%	AA-
Other	151,900	143,852	336,917	632,669	41%	AA
	336,352	232,507	815,030	1,383,889	90%	AA
Pre-refunded/escrowed to maturity bonds	40,151	10,865	106,117	157,133	10%	AA
Total	$376,503	243,372	921,147	1,541,022	100%	AA
% of Total Municipal Portfolio	24 %	16 %	60 %	100 %		

[1] Of the $41 million in local Texas general obligation bonds, $16 million represents investments in Texas Permanent School Fund bonds, which are considered to have lower risk as a result of the bond guarantees program that supports these bonds.

Special revenue fixed income securities of municipalities (referred to as “special revenue bonds”) generally do not have the “full faith and credit” backing of the municipal or state governments, as do general obligation bonds, but special revenue bonds have a dedicated revenue stream for repayment. For our special revenue bonds, 95% of the dedicated revenue stream is comprised of the following: (i) essential services (63%), which is comprised of transportation, water and sewer, and electric; (ii) education (20%), which includes school districts and higher education, including state-wide university systems; and (iii) special tax (12%), which are backed by a dedicated lien on a tax or other revenue repayment source. As such, we believe our special revenue bond portfolio is appropriate for the current environment.

A portion of our municipal bonds also contain insurance enhancements. The following table provides information regarding these insurance-enhanced securities as of December 31, 2015:

Insurers of Municipal Bond Securities

($ in thousands)	Fair Value	Ratings with Insurance	Ratings without Insurance
National Public Finance Guarantee Corporation, a subsidiary of MBIA, Inc.	$107,094	AA-	AA-
Assured Guaranty	70,630	AA	AA-

Ambac Financial Group, Inc.	22,155	AA-	AA-
Other	6,384	AA+	AA-
Total	$206,263	AA-	AA-

Corporate Securities

For investment-grade corporate bonds, we address the risk of an individual issuers' default by maintaining a diverse portfolio of holdings. The primary risk related to non-investment grade corporate bonds is credit risk. A weak financial profile can lead to rating downgrades from the credit rating agencies, which can put further downward pressure on bond prices. Valuations on these bonds are related more directly to underlying operating performance than to general interest rates. Our holdings of non-investment grade corporate bonds represent less than 1% of our overall investment portfolio.

The tables below provide details on our corporate bond holdings at December 31, 2015 and December 31, 2014:

December 31, 2015 ($ in thousands)	Fair Value	Carry Value	Unrealized/ Unrecognized Gain (Loss)	Weighted Average Credit Quality
Investment grade	$1,901.6	1,899.6	9.8	A-
Non-Investment grade	20.6	20.6	(0.2)	BB
Total corporate securities	$1,922.2	1,920.2	9.6	A-

December 31, 2014 ($ in thousands)	Fair Value	Carry Value	Unrealized/ Unrecognized Gain (Loss)	Weighted Average Credit Quality
Investment grade	$1,793.8	1,791.0	39.6	A-
Non-Investment grade	27.5	27.5	(0.7)	BB
Total corporate securities	$1,821.3	1,818.5	38.9	A-

Structured Securities
To manage and mitigate exposure on our MBS portfolio (CMBS and RMBS), we perform analysis both at the time of purchase and as part of the ongoing portfolio evaluation. This analysis includes review of loan-to-value ratios, geographic spread of the assets securing the bond, delinquencies in payments for the underlying mortgages, gains/losses on sales, evaluations of projected cash flows, as well as other information that aids in determination of the health of the underlying assets. We consider the overall credit environment, economic conditions, total projected return on the investment, and overall asset allocation of the portfolio in our decisions to purchase or sell structured securities.

Equity Price Risk
Our equity securities portfolio is exposed to risk arising from potential volatility in equity market prices. We attempt to minimize the exposure to equity price risk by maintaining a diversified portfolio and limiting concentrations in any one company or industry. The following table presents the hypothetical increases and decreases in 10% increments in market value of the equity portfolio as of December 31, 2015:

	Change in Equity Values in Percent						
($ in thousands)	(30)%	(20)%	(10)%	0%	10%	20%	30%
Fair value of AFS equity portfolio	$144,936	165,641	186,346	207,051	227,756	248,461	269,166
Fair value change	(62,115)	(41,410)	(20,705)		20,705	41,410	62,115

In addition to our equity securities, we invest in certain other investments that are also subject to price risk. Our other investments primarily include alternative investments in private limited partnerships that invest in various strategies such as private equity, energy/power generation, mezzanine debt, distressed debt, and real estate. As of December 31, 2015, other investments represented 1% of our total invested assets and 6% of our stockholders' equity. These investments are subject to the risks arising from the fact that their valuation is inherently subjective. The general partner of each of these partnerships usually reports the change in the value of the interests in the partnership on a one quarter lag because of the nature of the underlying assets or liabilities. Since these partnerships' underlying investments consist primarily of assets or liabilities for which there are no quoted prices in active markets for the same or similar assets, the valuation of interests in these partnerships are subject to a higher level of subjectivity and

unobservable inputs than substantially all of our other investments. Each of these general partners is required to determine the partnerships' value by the price obtainable for the sale of the interest at the time of determination. Valuations based on unobservable inputs are subject to greater scrutiny and reconsideration from one reporting period to the next and therefore, may be subject to significant fluctuations, which could lead to significant decreases from one reporting period to the next. As we record our investments in these various partnerships under the equity method of accounting, any decreases in the valuation of these investments would negatively impact our results of operations.

For additional information regarding these alternative investment strategies, see Note 5. “Investments” in Item 8. “Financial Statements and Supplementary Data.” of this Form 10-K.

Indebtedness

(a) Long-Term Debt

As of December 31, 2015, we had outstanding long-term debt of $388.2 million that matures as shown in the following table:

($ in thousands)	Year of Maturity	2015 Carrying Amount	Fair Value
Financial liabilities			
Notes payable			
0.63% borrowings from FHLBI	2016	$15,000	14,977
1.25% borrowings from FHLBI	2016	45,000	45,083
7.25% Senior Notes	2034	49,898	56,929
6.70% Senior Notes	2035	99,415	110,363
5.875% Senior Notes	2043	185,000	192,474
Subtotal		394,313	419,826
Unamortized debt issuance costs		(6,121)	
Total notes payable		$388,192	

The weighted average effective interest rate for our outstanding long-term debt is 5.5%. Our debt is not exposed to material changes in interest rates because the interest rates are fixed.

Certain of the debt instruments listed above contain debt covenant provisions as outlined in Note 10. "Indebtedness", within Item 8. "Financial Statements and Supplementary Data." of this Form 10-K. In addition, the 6.70% and 7.25% Senior Notes contain standard default cross-acceleration provisions. In the event that any other debt experiences default of $10 million or more, it would be considered an event of default under these notes.

(b) Short-Term Debt

Our Line of Credit with Wells Fargo Bank, National Association, as administrative agent, and Branch Banking and Trust Company (BB&T), 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. Our previous Line of Credit, which was in place from September 26, 2013 until December 1, 2015 had the same banking partners and similar terms and conditions as our current facility.

The Line of Credit provides the Parent with an additional source of short-term liquidity. The interest rate on our Line of Credit varies and is based on, among other factors, the Parent’s debt ratings. The Line of Credit expires on December 1, 2020. There were no balances outstanding under this Line of Credit or the previous credit facility at December 31, 2015 or at any time during 2015.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Selective Insurance Group, Inc.:

We have audited the accompanying consolidated balance sheets of Selective Insurance Group, Inc. and its subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flow for each of the years in the three year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules I to V. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Selective Insurance Group, Inc. and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Selective Insurance Group, Inc. and its subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 24, 2016, expressed an unqualified opinion of the Company's internal controls over financial reporting.

/s/ KPMG LLP
New York, New York
February 24, 2016

Consolidated Balance Sheets December 31, ($ in thousands, except share amounts)	2015	2014
ASSETS		
Investments:		
Fixed income securities, held-to-maturity – at carrying value (fair value: $209,544 – 2015; $333,961 – 2014)	$201,354	318,137
Fixed income securities, available-for-sale – at fair value (amortized cost: $4,352,514 – 2015; $3,975,786 – 2014)	4,408,203	4,066,122
Equity securities, available-for-sale – at fair value (cost: $193,816 – 2015; $159,011 – 2014)	207,051	191,400
Short-term investments (at cost which approximates fair value)	194,819	131,972
Other investments	77,842	99,203
Total investments (Note 5)	5,089,269	4,806,834
Cash	898	23,959
Interest and dividends due or accrued	38,501	38,901
Premiums receivable, net of allowance for uncollectible accounts of: $4,422 – 2015; $4,137 – 2014	615,164	558,778
Reinsurance recoverable, net (Note 8)	561,968	581,548
Prepaid reinsurance premiums (Note 8)	140,889	146,993
Deferred federal income tax (Note 13)	92,696	98,449
Property and equipment – at cost, net of accumulated depreciation and amortization of: $188,548 – 2015; $172,183 – 2014	65,701	59,416
Deferred policy acquisition costs (Note 2)	213,159	185,608
Goodwill (Note 11)	7,849	7,849
Other assets	78,339	66,607
Total assets	$6,904,433	6,574,942
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Reserve for losses and loss expenses (Note 9)	$3,517,728	3,477,870
Unearned premiums	1,169,710	1,095,819
Notes payable (Note 10)	388,192	372,689
Current federal income tax (Note 13)	7,442	3,921
Accrued salaries and benefits	167,336	158,382
Other liabilities	255,984	190,675
Total liabilities	$5,506,392	5,299,356
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: 100,861,372 – 2015; 99,947,933 – 2014	201,723	199,896
Additional paid-in capital	326,656	305,385
Retained earnings		