SELECTIVE INSURANCE GROUP INC
Form 10-Q
April 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2010
or

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

For the transition period from to

Commission File Number: 001-33067

SELECTIVE INSURANCE GROUP, INC.
(Exact name of registrant as specified in its charter)

New Jersey	22-2168890
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
40 Wantage Avenue Branchville, New Jersey	07890
(Address of Principal Executive Offices)	(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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

Yesx No ¨

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

Yes¨ No ¨

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

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 Exchange Act).

Yes ¨ No x

As of March 31, 2010, there were 53,251,735 shares of common stock, par value $2.00 per share, outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SELECTIVE INSURANCE GROUP, INC. CONSOLIDATED BALANCE SHEETS ($ in thousands, except share amounts)	Unaudited March 31, 2010	December 31, 2009
ASSETS		
Investments:		
Fixed maturity securities, held-to-maturity – at carry value (fair value: $1,660,791 – 2010; $1,740,211 – 2009)	$ 1,621,344	1,710,403
Fixed maturity securities, available-for-sale – at fair value (amortized cost: $1,679,509 – 2010; $1,616,456 – 2009)	1,710,008	1,635,869
Equity securities, available-for-sale – at fair value (cost of: $65,596 – 2010; $64,390 – 2009)	82,240	80,264
Short-term investments (at cost which approximates fair value)	282,131	213,848
Other investments	148,060	140,667
Total investments	3,843,783	3,781,051
Cash	143	811
Interest and dividends due or accrued	35,378	34,651
Premiums receivable, net of allowance for uncollectible accounts of: $5,803 – 2010; $5,880 – 2009	457,120	446,577
Reinsurance recoverable on paid losses and loss expenses	5,814	4,408
Reinsurance recoverable on unpaid losses and loss expenses	302,118	271,610
Prepaid reinsurance premiums	106,135	105,522
Current federal income tax	10,390	17,662
Deferred federal income tax	115,228	111,038
Property and Equipment – at cost, net of accumulated depreciation and amortization of: $144,198 – 2010; $141,251 – 2009	44,153	46,287
Deferred policy acquisition costs	217,577	218,601
Goodwill	7,849	7,849
Other assets	142,633	68,760
Total assets	$ 5,288,321	5,114,827
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Reserve for losses	$ 2,405,829	2,342,919
Reserve for loss expenses	406,402	402,880
Unearned premiums	857,349	844,847
Notes payable	274,612	274,606
Commissions payable	31,328	49,237
Accrued salaries and benefits	98,148	103,802
Other liabilities	204,491	94,161
Total liabilities	$ 4,278,159	4,112,452
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: 95,928,007 – 2010; 95,822,959 – 2009	191,856	191,646

Additional paid-in capital	235,610	231,933
Retained earnings	1,137,704	1,138,978
Accumulated other comprehensive loss	(5,773)	(12,460)
Treasury stock – at cost (shares: 42,676,272 – 2010; 42,578,779 – 2009)	(549,235)	(547,722)
Total stockholders' equity	1,010,162	1,002,375
Commitments and contingencies		
Total liabilities and stockholders' equity	$ 5,288,321	5,114,827

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

SELECTIVE INSURANCE GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($ in thousands, except per share amounts)	Quarters ended March 31, 2010	2009
Revenues:		
Net premiums written	$ 368,091	375,783
Net increase in unearned premiums and prepaid reinsurance premiums	(11,889)	(11,910)
Net premiums earned	356,202	363,873
Net investment income earned	34,706	15,717
Net realized (losses) gains:		
Net realized investment gains	8,176	3,075
Other-than-temporary impairments	(6,073)	(27,100)
Other-than-temporary impairments on fixed maturity securities recognized in other comprehensive income	(2,167)	-
Total net realized losses	(64)	(24,025)
Other income	2,268	1,281
Total revenues	393,112	356,846
Expenses:		
Losses incurred	215,570	209,089
Loss expenses incurred	38,573	43,105
Policy acquisition costs	116,002	113,106
Dividends to policyholders	1,495	465
Interest expense	4,842	5,024
Other expenses	8,983	7,040
Total expenses	385,465	377,829
Income (loss) from continuing operations, before federal income tax	7,647	(20,983)
Federal income tax expense (benefit):		
Current	8,844	5,875
Deferred	(7,790)	(13,908)
Total federal income tax expense (benefit)	1,054	(8,033)
Net income (loss) from continuing operations	6,593	(12,950)
Income from discontinued operations, net of tax of $(12) – 2009	-	73
Loss on disposal of discontinued operations, net of tax of $(426) – 2010	(790)	-
Total discontinued operations, net of tax	(790)	73
Net income (loss)	$ 5,803	(12,877)
Earnings per share:		
Basic net income (loss) from continuing operations	0.12	(0.25)
Basic net loss from disposal of discontinued operations	(0.01)	-
Basic net income (loss)	$ 0.11	(0.25)
Diluted net income (loss) from continuing operations	0.12	(0.25)
Diluted net loss from disposal of discontinued operations	(0.01)	-

Diluted net income (loss)	$	0.11	(0.25)
Dividends to stockholders	$	0.13	0.13

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

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

	Quarters ended March 31,			
($ in thousands, except per share amounts)	2010		2009	
Common stock:				
Beginning of year	$ 191,646		190,527	
Dividend reinvestment plan (shares: 25,759 – 2010; 36,670 – 2009)	51		73	
Stock purchase and compensation plans (shares: 79,289 – 2010; 75,867 – 2009)	159		152	
End of period	191,856		190,752	
Additional paid-in capital:				
Beginning of year	231,933		217,195	
Dividend reinvestment plan	368		373	
Stock purchase and compensation plans	3,309		4,267	
End of period	235,610		221,835	
Retained earnings:				
Beginning of year	1,138,978		1,128,149	
Net income (loss)	5,803	5,803	(12,877)	(12,877)
Cash dividends to stockholders ($0.13 per share – 2010; $0.13 per share – 2009)	(7,077)		(6,937)	
End of period	1,137,704		1,108,335	
Accumulated other comprehensive loss:				
Beginning of year	(12,460)		(100,666)	
Other comprehensive income (loss), increase (decrease) in:				
Unrealized gains on investment securities:				
Non-credit portion of other-than-temporary impairment losses recognized in other comprehensive income, net of deferred income tax effect of $797	1,478		-	
Other net unrealized gains on investment securities, net of deferred income tax effect of $2,467 – 2010; $20,152 – 2009	4,583		37,425	
Total unrealized gains on investment securities	6,061	6,061	37,425	37,425
Defined benefit pension plans, net of deferred income tax effect of: $337 – 2010; $(97) – 2009	626	626	(179)	(179)
End of period	(5,773)		(63,420)	
Comprehensive income		12,490		24,369
Treasury stock:				
Beginning of year	(547,722)		(544,712)	
Acquisition of treasury stock (shares: 97,493 – 2010; 169,382 – 2009)	(1,513)		(2,655)	
End of period	(549,235)		(547,367)	
Total stockholders' equity	$ 1,010,162		$ 910,135	

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

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

SELECTIVE INSURANCE GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW

($ in thousands)	Quarters ended March 31, 2010	2009
Operating Activities		
Net Income (Loss)	$ 5,803	(12,877)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,451	6,788
Loss on disposal of discontinued operations	790	-
Stock-based compensation expense	6,169	3,238
Undistributed (income) losses of equity method investments	(3,895)	20,549
Net realized losses	64	24,025
Postretirement life curtailment benefit	-	(4,217)
Unrealized gain on trading securities	-	(262)
Deferred tax benefit	(7,790)	(13,739)
Changes in assets and liabilities:		
Increase in reserves for losses and loss expenses, net of reinsurance recoverable on unpaid losses and loss expenses	35,924	20,019
Increase in unearned premiums, net of prepaid reinsurance and advance premiums	11,647	11,497
Decrease in net federal income tax recoverable	7,698	23,844
Increase in premiums receivable	(10,543)	(2,343)
Decrease (increase) in deferred policy acquisition costs	1,024	(1,350)
(Increase) decrease in interest and dividends due or accrued	(730)	1,012
(Increase) decrease in reinsurance recoverable on paid losses and loss expenses	(1,406)	1,251
Decrease in accrued salaries and benefits	(7,100)	(16,211)
Decrease in accrued insurance expenses	(17,187)	(14,221)
Sale of trading securities	-	2,831
Other-net	5,176	5,086
Net adjustments	27,292	67,797
Net cash provided by operating activities	33,095	54,920
Investing Activities		
Purchase of fixed maturity securities, held-to-maturity	-	(50,408)
Purchase of fixed maturity securities, available-for-sale	(142,067)	(216,000)
Purchase of equity securities, available-for-sale	(23,915)	(60,100)
Purchase of other investments	(7,714)	(4,620)
Purchase of short-term investments	(303,668)	(601,637)
Sale of subsidiary	844	-
Sale of fixed maturity securities, available-for-sale	39,632	168,019
Sale of short-term investments	235,386	528,471
Redemption and maturities of fixed maturity securities, held-to-maturity	80,963	34,097
Redemption and maturities of fixed maturity securities, available-for-sale	66,122	51,666
Sale of equity securities, available-for-sale	16,419	86,318
Proceeds from other investments	13,337	14,499
Purchase of property and equipment	(866)	(1,360)
Net cash used in investment activities	(25,527)	(51,055)

Financing Activities		
Dividends to stockholders	(6,492)	(6,955)
Acquisition of treasury stock	(1,513)	(2,655)
Net proceeds from stock purchase and compensation plans	625	885
Excess tax benefits from share-based payment arrangements	(856)	(1,152)
Net cash used in financing activities	(8,236)	(9,877)
Net decrease in cash and cash equivalents	(668)	(6,012)
Net decrease in cash and cash equivalents from discontinued operations	-	(3,343)
Net decrease in cash from continuing operations	(668)	(2,669)
Cash from continuing operations, beginning of year	811	3,606
Cash from continuing operations, end of period	$ 143	937

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

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Organization

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

We classify our business into two operating segments:

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

NOTE 2. Basis of Presentation

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

These Financial Statements reflect all adjustments that, in our opinion, are normal, recurring, and necessary for a fair presentation of our results of operations and financial condition. The Financial Statements cover the first quarters ended March 31, 2010 (“First Quarter 2010”) and March 31, 2009 (“First Quarter 2009”). The Financial Statements do not include all of the information and disclosures required by GAAP and the SEC for audited financial statements. Results of operations for any interim period are not necessarily indicative of results for a full year. Consequently, the Financial Statements should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2009 (“2009 Annual Report”).

NOTE 3. Reclassification

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

NOTE 4. Adoption of Accounting Pronouncements

In December 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) Update 2009-16, Transfers and Servicing (Topic 860) – Accounting for Transfers of Financial Assets. This guidance: (i) eliminates the concept of a qualifying “special-purpose entity”; (ii) alters the requirements for transferring assets off of the reporting company’s balance sheet; (iii) requires additional disclosure about a transferor’s involvement in transferred assets; and (iv) eliminates special treatment of guaranteed mortgage securitizations. The adoption of this guidance, which was effective for fiscal years beginning after November 15, 2009, did not impact our financial condition or results of operations.

In December 2009, the FASB issued ASC Update 2009-17, Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This guidance requires the reporting entity to perform a qualitative analysis that results in a variable interest entity (“VIE”) being consolidated if the reporting entity: (i) has the power to direct activities of the VIE that significantly impact the VIE’s financial performance; and (ii) has an obligation to absorb losses or receive benefits that may be significant to the VIE. This guidance further requires enhanced disclosures, including disclosure of significant judgments and assumptions as to whether a VIE must be consolidated, and how involvement with a VIE affects the company's financial statements. The adoption of this guidance, which was effective for fiscal years beginning after November 15, 2009, did not have a material impact on our financial condition or results of operations.

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

NOTE 5. Statement of Cash Flows

Our cash paid (received) during the year for interest and federal income taxes, as well as non-cash financing activities, was as follows:

($ in thousands)	Unaudited Quarters ended March 31, 2010	2009
Cash paid (received) during the period for:		
Interest	$ 1,969	1,875
Federal income tax	2,000	(17,000)

NOTE 6. Investments

(a) The carrying value, unrecognized holding gains and losses, and fair values of held-to-maturity ("HTM") fixed maturity securities were as follows:

March 31, 2010 ($ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
U.S. government and government agencies	$ 119,348	5,355	124,703	2,358	(44)	127,017
Obligations of state and political subdivisions	1,129,688	31,902	1,161,590	14,683	(4,262)	1,172,011
Corporate securities	104,646	(5,748)	98,898	10,936	(855)	108,979
Asset-backed securities ("ABS")	32,731	(5,713)	27,018	4,122	(99)	31,041
Commercial mortgage-backed securities ("CMBS")1	97,549	(19,535)	78,014	9,850	(202)	87,662
Residential mortgage-backed securities ("RMBS")2	130,064	1,057	131,121	3,391	(431)	134,081
Total HTM fixed maturity securities	$ 1,614,026	7,318	1,621,344	45,340	(5,893)	1,660,791

December 31, 2009 ($ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
U.S. government and government agencies	$ 139,278	5,555	144,833	1,694	(549)	145,978
Obligations of state and political subdivisions	1,167,461	33,951	1,201,412	14,833	(5,450)	1,210,795

Corporate securities	104,854	(6,028)	98,826	9,665	(913)	107,578
ABS	35,025	(6,042)	28,983	4,195	(82)	33,096
CMBS1	107,812	(18,836)	88,976	7,132	(3,658)	92,450
RMBS2	146,124	1,249	147,373	3,153	(212)	150,314
Total HTM fixed maturity securities	$ 1,700,554	9,849	1,710,403	40,672	(10,864)	1,740,211

1 CMBS includes government guaranteed agency securities with a carrying value of $10.8 million at March 31, 2010 and December 31, 2009.
2 RMBS includes government guaranteed agency securities with a carrying value of $4.0 million at March 31, 2010 and $3.9 million at December 31, 2009.

Unrecognized holding gains/losses of HTM securities are not reflected in the consolidated financial statements, as they represent market value fluctuations from the later of: (i) the date a security is designated as HTM; or (ii) the date that an other-than-temporary impairment (“OTTI”) charge is recognized on an HTM security, through the date of the balance sheet. Our HTM securities had an average duration of 3.4 and 3.5 years as of March 31, 2010 and December 31, 2009, respectively.

(b) The cost/amortized cost, fair values, and unrealized gains (losses) of available-for-sale ("AFS") securities were as follows:

March 31, 2010

($ in thousands)		Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies1	$	413,200	3,745	(81)	416,864
Obligations of states and political subdivisions		385,761	17,718	(581)	402,898
Corporate securities		508,505	17,680	(1,080)	525,105
ABS		26,661	723	(20)	27,364
CMBS2		69,858	865	(72)	70,651
RMBS3		275,524	5,472	(13,870)	267,126
AFS fixed maturity securities		1,679,509	46,203	(15,704)	1,710,008
AFS equity securities		65,596	17,380	(736)	82,240
Total AFS securities	$	1,745,105	63,583	(16,440)	1,792,248

December 31, 2009

($ in thousands)		Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies1	$	473,750	2,994	(1,210)	475,534
Obligations of states and political subdivisions		359,517	20,419	(137)	379,799
Corporate securities		365,500	15,330	(1,246)	379,584
ABS		26,638	466	(57)	27,047
CMBS2		93,514	1,746	(637)	94,623
RMBS3		297,537	2,457	(20,712)	279,282
AFS fixed maturity securities		1,616,456	43,412	(23,999)	1,635,869
AFS equity securities		64,390	16,484	(610)	80,264
Total AFS securities	$	1,680,846	59,896	(24,609)	1,716,133

1 U.S. government includes corporate securities fully guaranteed by the Federal Depositary Insurance Corporation ("FDIC") with a fair value of $121.1 million at March 31, 2010 and $136.2 million at December 31, 2009.
2 CMBS are government guaranteed agency securities.
3 RMBS includes government guaranteed agency securities with a fair value of $95.5 million at March 31, 2010 and $105.2 million at December 31, 2009.

Unrealized gains/losses represent market value fluctuations from the later of: (i) the date of security is designated as AFS; or (ii) the date that an OTTI charge is recognized on an AFS security, through the date of the balance sheet. These unrealized gains and losses are recorded in accumulated other comprehensive income ("AOCI") on the Consolidated Balance Sheets.

(c) The following tables summarize, for all securities in a net unrealized/unrecognized loss position at March 31, 2010 and
December 31, 2009, the fair value and gross pre-tax net unrealized/unrecognized loss by asset class, and by length of time those securities have been in a net loss position:

March 31, 2010	Less than 12 months1		12 months or longer1	
($ in thousands)	Fair Value	Unrealized Losses2	Fair Value	Unrealized Losses2
AFS securities				
U.S. government and government agencies4	$ 28,916	(81)	-	-
Obligations of states and political subdivisions	33,566	(577)	2,008	(4)
Corporate securities	113,231	(770)	10,658	(310)
ABS	-	-	1,980	(20)
CMBS	14,018	(72)	-	-
RMBS	17,973	(300)	41,765	(13,570)
Total fixed maturity securities	207,704	(1,800)	56,411	(13,904)
Equity securities	10,957	(516)	3,187	(220)
Subtotal	$ 218,661	(2,316)	59,598	(14,124)

	Less than 12 months1			12 months or longer1		
($ in thousands)	Fair Value	Unrealized Losses2	Unrecognized Gains (Losses)3	Fair Value	Unrealized Losses2	Unrecognized Gains (Losses)3
HTM securities						
U.S. government and government agencies4	$ 9,969	-	(31)	-	-	-
Obligations of states and political subdivisions	26,166	(430)	248	71,843	(3,870)	1,258
Corporate securities	4,360	(837)	834	9,313	(2,009)	1,642
ABS	-	-	-	10,204	(4,369)	2,150
CMBS	70	(105)	(190)	24,025	(16,735)	5,403
RMBS	4,778	-	(76)	5,343	(994)	(355)
Subtotal	$ 45,343	(1,372)	785	120,728	(27,977)	10,098
Total AFS and HTM	$ 264,004	(3,688)	785	180,326	(42,101)	10,098

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December 31, 2009	Less than 12 months1		12 months or longer1	
($ in thousands)	Fair Value	Unrealized Losses2	Fair Value	Unrealized Losses2
AFS securities				
U.S. government and government agencies4	$ 187,283	(1,210)	-	-
Obligations of states and political subdivisions	8,553	(120)	3,059	(17)
Corporate securities	74,895	(829)	10,550	(417)
ABS	2,983	(17)	3,960	(40)
CMBS	36,447	(637)	-	-
RMBS	78,328	(514)	53,607	(20,198)
Total fixed maturity securities	388,489	(3,327)	71,176	(20,672)
Equity securities	3,828	(214)	5,932	(396)
Subtotal	$ 392,317	(3,541)	77,108	(21,068)

	Less than 12 months1			12 months or longer1		
($ in thousands)	Fair Value	Unrealized Losses2	Unrecognized Gains (Losses)3	Fair Value	Unrealized Losses2	Unrecognized Gains (Losses)3
HTM securities						
U.S. government and government agencies4	$ 29,459	-	(317)	-	-	-
Obligations of states and political subdivisions	46,671	(598)	85	74,360	(4,315)	1,631
Corporate securities	6,124	(1,170)	1,068	19,233	(4,751)	3,441
ABS	-	-	-	13,343	(4,968)	2,472
CMBS	316	(538)	(190)	22,044	(15,315)	(879)
RMBS	5,068	-	(146)	5,892	(1,062)	127
Subtotal	$ 87,638	(2,306)	500	134,872	(30,411)	6,792
Total AFS and HTM	$ 479,955	(5,847)	500	211,980	(51,479)	6,792

1 The month count for aging of unrealized losses was reset back to historical unrealized loss month counts for securities impacted by the adoption of OTTI guidance in the second quarter 2009 and for securities that were transferred from an AFS to HTM category.
2 Gross unrealized losses include non-OTTI unrealized amounts and OTTI losses recognized in AOCI. In addition, this column includes remaining unrealized gain or loss amounts on securities that were transferred to a HTM designation in the first quarter of 2009 for those securities that are in a net unrealized/unrecognized loss position.
3 Unrecognized holding gains/(losses) represent market value fluctuations from the later of: (i) the date of a security is designated as HTM; or (ii) the date that an OTTI charge is recognized on a HTM security.
4 U.S. government includes corporate securities fully guaranteed by the FDIC.

Unrealized losses decreased compared to December 31, 2009, due to a general improvement in the overall marketplace for our fixed maturity portfolio. As of March 31, 2010, 141 fixed maturity securities and 11 equity securities were in an unrealized loss position. At December 31, 2009, 173 fixed maturity securities and six equity securities were in an unrealized loss position. As of March 31, 2010, the overall Standard and Poor's credit quality rating of our fixed maturity securities was "AA+."

We have reviewed the securities in the tables above in accordance with our OTTI policy, which is discussed in Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2009 Annual Report. Our conditional default rate scenario generally utilizes a straight 55% loan loss severity for substantially all loans regardless of advance rate. We typically use conditional default rates on our CMBS portfolio of 3.0, but these rates may differ based on our judgment regarding the facts surrounding the securities. Generally the range of the conditional default rate assumptions for our other structured securities is as follows:

· Alternative-A securities ("Alt-A") fixed structured securities:	0.50 – 6.00
· Alt-A hybrid structured securities:	1.00 – 7.00
· All other fixed structured securities:	0.07 – 1.00
All other hybrid structured securities:	0.33 – 1.50

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Given the range of conditional default rates assumptions for our Alt-A fixed structured and hybrid structured securities above, the following is a further outline of these assumptions by vintage year:

	Vintage Years		
	2004 & Prior	2005	2006
Alt-A fixed structured securities	0.50 – 1.25	1.00 – 3.00	1.00 – 6.00
Alt-A hybrid structured securities	1.00 – 3.00	1.00 – 6.00	3.00 – 7.00

The discussion that follows will focus on fixed maturity securities in an unrealized loss position for more than 12 months at March 31, 2010, which amounted to $31.8 million. Specifically, we will focus on the following categories:

- AFS RMBS with an unrealized loss balance of $13.6 million;
- HTM CMBS with an unrealized/unrecognized loss balance of $11.3 million; and
- All other fixed maturity securities with an unrealized/unrecognized loss balance of $6.9 million.

AFS RMBS

Unrealized losses on our AFS RMBS that have been in an unrealized loss position for more than 12 months amounted to $13.6 million at March 31, 2010. These losses can be categorized as follows:

- $4.1 million of non-credit OTTI charges that have been recognized in AOCI. These non-credit impairment charges were generated concurrently with credit-related charges. Prior to their initial impairment, these securities had a decline in fair value of 71%, or $4.9 million, as compared to their amortized cost.
- $9.5 million in unrealized losses not related to OTTI charges (referred to as “traditional unrealized losses” in the discussion that follows). These securities had a decline in fair value of 19%, or $9.5 million, as compared to their amortized cost at March 31, 2010.

Of the $9.5 million in traditional unrealized, $5.3 million, or approximately 55%, related to six securities, one of which was an Alt-A security with a related unrealized balance of $1.0 million. The weighted average life of these six securities was approximately two years at March 31, 2010 and all principal and interest payments have been received to date. The evaluations performed on securities comprising the $5.3 million in traditional losses used the following assumptions:

- Loss severities of 55%;
- Loan-to-value ratios that generally ranged from 53% to 75%, with a weighted average of 68%;
- Conditional default rates that generally ranged from 1.0 to 1.3 for those securities that were not Alt-As; and
- Conditional default rate of 6.0 for the Alt-A security.

Under all scenarios performed, the underlying cash flows on these securities did not indicate that the impairments were other than temporary.

HTM CMBS

Unrealized/unrecognized losses on our HTM CMBS that have been in a loss position for more than 12 months amounted to $11.3 million at March 31, 2010. These losses can be categorized as follows:

- $4.8 million of non-credit OTTI charges that have been recognized in AOCI. These non-credit impairment charges were generated concurrently with credit-related charges. Prior to their initial impairment, these securities had a decline in fair value of 81%, or $22.7 million, as compared to their amortized cost.
- $6.5 million in unrealized/unrecognized losses not related to OTTI charges (referred to as “traditional unrealized/unrecognized losses” in the discussion that follows). These securities had a decline in fair value of 26%, as compared to their amortized cost as of March 31, 2010.

Of the $6.5 million in traditional unrealized/unrecognized losses, $4.9 million, or 75%, related to three securities. The weighted average remaining contractual life of these securities was approximately two years as of March 31, 2010, and all scheduled principal and interest payments have been received to date. The evaluations performed on the securities comprising the $4.9 million in traditional unrealized losses used the following assumptions:

- Loss severities of 55%;
- Loan-to-value ratios with a weighted average of 38%; and
- Conditional default rates of 3.0.

As a comparison, recent industry publications indicated a weighted average historical conditional default rate of 1.4 for CMBS, which is based on vintage years dating back to the mid-1990's.

Under all scenarios performed, the underlying cash flows on these securities did not indicate that the impairments were other than temporary.

All Other Securities
The remaining $6.9 million of unrealized/unrecognized losses was comprised of 58 securities with fair values that were, on average, 94% of their amortized costs. Given the number of securities and the close proximity of amortized cost and fair value, we have concluded that these securities are only temporarily impaired under our OTTI policy.

Based on the above, coupled with the fact that we do not have the intent to sell any of the securities discussed above, nor do we believe we will be required to sell these securities, we have concluded that they are only temporarily impaired as of March 31, 2010. This conclusion reflects our current judgment as to the financial position and future prospects of the entity that issued the investment security and underlying collateral. If our judgment about an individual security changes in the future, we may ultimately record a credit loss after having originally concluded that one did not exist, which could have a material impact on our net income and financial position in future periods.

(d) Fixed-maturity securities at March 31, 2010, by contractual maturity are shown below. Mortgage-backed securities are included in the maturity tables using the estimated average life of each security. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Listed below are HTM fixed maturity securities at March 31, 2010:

($ in thousands)		Carrying Value	Fair Value
Due in one year or less	$	208,433	210,437
Due after one year through five years		821,135	850,584
Due after five years through 10 years		565,344	571,793
Due after 10 years		26,432	27,977
Total HTM fixed maturity securities	$	1,621,344	1,660,791

Listed below are AFS fixed maturity securities at March 31, 2010:

($ in thousands)		Fair Value
Due in one year or less	$	167,704
Due after one year through five years		904,295
Due after five years through 10 years		612,689
Due after 10 years		25,320
Total AFS fixed maturity securities	$	1,710,008

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

Other Investments	Carrying Value	March 31, 2010