

ANNUAL REPORT 2017

SELECTIVE ANNUAL REPORT 2017



Driving sustained
outperformance



SELECTIVE®



Selective has a long history of financial strength, superior execution, and profitable growth. The 36th largest* property and casualty company in the U.S., Selective provides value-added products and services to businesses, public entities, and individuals through the following segments:

Insurance Operations

- ◆ **Standard Commercial**
78% of business†
- ◆ **Standard Personal**
13% of business†
- ◆ **Excess & Surplus**
9% of business†

Investments

After-tax net investment income of \$119 million in 2017 was a 20% increase over 2016.

Selective is a super-regional company, and growing.

In 2017, we commenced our geographic expansion program by: (i) adding two new states – Arizona and New Hampshire – to our Commercial Lines footprint; and (ii) widening our field model to include our new Southwest Region office in Arizona. Expansion will continue throughout 2018 as we open for business in Colorado (effective January 2018), New Mexico, and Utah for Commercial Lines, and in Arizona and Utah for Personal Lines.

To date, we write standard Commercial Lines business in 25 states and the District of Columbia. Our long-term growth plan to achieve a 3% total market share in our footprint states includes increasing the market share held by our “ivy league” distribution partners to at least 25% of their state’s available premium and increasing our share of their business, which we refer to as our “share of wallet,” to 12%. Combined, this provides for an additional \$2.5 billion of premium opportunity.

* According to A.M. Best Top 200 U.S. Property/Casualty Writers, ranked by 2016 net premiums written.

† Based on net premiums written.

2017

A YEAR OF SUCCESS

93.3%

GAAP
Combined Ratio

6%

Year over Year Growth
in Net Premiums Written

11.4%

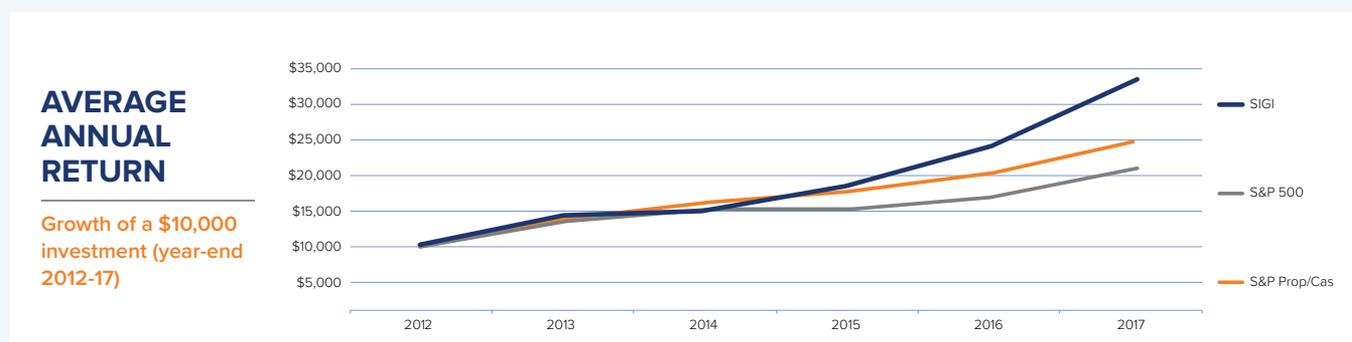
Non-GAAP Operating
Return on Average Equity

11%

Year over Year Growth
in Book Value Per Share

2017 FINANCIAL HIGHLIGHTS

(\$ in millions, except per share data)	2017	2016	% or Point Change Better (Worse)
Insurance Operations			
Net premiums written	\$2,370.6	\$2,237.3	6%
GAAP combined ratio	93.3%	92.9%	(0.4) pts
Underwriting gain after-tax	\$100.3	\$98.8	2%
Return on average equity from insurance operations after-tax	6.2%	6.7%	(0.5) pts
Investments			
Net investment income after-tax	\$118.5	\$98.4	20%
Net realized gains (losses) after-tax	\$4.1	\$(3.2)	229%
Total invested assets	\$5,685.2	\$5,364.9	6%
Invested assets per dollar of stockholders' equity	\$3.32	\$3.50	(5)%
Annual after-tax yield on investment portfolio	2.1%	1.9%	0.2 pts
Return on average equity from net investment income after-tax	7.3%	6.7%	0.6 pts
Summary Data			
Total revenues	\$2,470.0	\$2,284.3	8%
Net income	\$168.8	\$158.5	7%
Return on average equity	10.4%	10.8%	(0.4) pts
Non-GAAP operating income*	\$184.9	\$161.7	14%
Non-GAAP operating return on average equity*	11.4%	11.0%	0.4 pts
Operating cash flow as % of net premiums written	15.6%	13.5%	2.1 pts
Total assets	\$7,686.4	\$7,355.8	4%
Stockholders' equity	\$1,713.0	\$1,531.4	12%
Per Share Data			
Diluted net income	\$2.84	\$2.70	5%
Diluted non-GAAP operating income*	\$3.11	\$2.75	13%
Dividends	\$0.66	\$0.61	8%
Stockholders' equity	\$29.28	\$26.42	11%



* Non-GAAP operating income, non-GAAP operating earnings per share, and non-GAAP operating return on equity are non-GAAP (U.S. Generally Accepted Accounting Principles) measures. Refer to the section entitled, "Financial Highlights of Results for Years Ended December 31, 2017, 2016, and 2015" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in the Company's Form 10-K for a reconciliation of the non-GAAP measures to the equivalent GAAP measures.

TO OUR SHAREHOLDERS

We are extremely proud of our 2017 financial results. Non-GAAP operating return on equity of 11.4% was in line with our long-term goal of achieving a return that is 300 basis points above our weighted average cost of capital. An impressive result given: (i) record levels of expected industry-wide catastrophe losses; (ii) an ongoing competitive Commercial Lines underwriting environment; and (iii) sustained low interest rates continuing to pressure investment yields.

Our 2017 GAAP combined ratio was an excellent 93.3%, and on an underlying basis, or after adjusting for catastrophe losses and favorable prior year casualty reserve development, it was an extremely strong 92.5%. In addition, our 2017 after-tax net investment income was \$119 million, up 20% over last year.

2017 was a turbulent catastrophe year, with global insured catastrophe losses estimated as high as \$136 billion for the industry. The industry experienced Hurricanes Harvey, Irma, and Maria in the third quarter, followed by the devastating California wildfires in the fourth quarter. For Selective, the impact of catastrophe losses was well below that of the industry, accounting for 2.9 points on the 2017 combined ratio, and 3.6 points on average over the past 10 years.

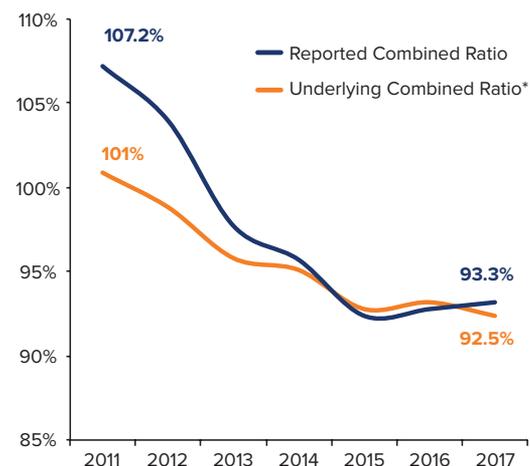
Given the elevated level of industry catastrophe losses and sub-par return on equity performance for the industry, we expect to see upward pricing momentum in 2018. If companies do not achieve overall renewal pure price increases that keep pace with claims inflation, then loss ratios will rise. Higher premium rates must support: (i) increased catastrophe loss volatility; (ii) expected claim inflation; and (iii) continued low after-tax new money investment yields.

During 2017, we executed successfully on several difficult objectives that will permit sustained, strong performance, including: (i) achieving a standard Commercial Lines written renewal pure price increase of 2.9%; (ii) improving renewal underwriting quality while maintaining strong and stable retention; (iii) targeted underwriting actions in our

“During 2017, we executed successfully on several difficult objectives that will permit sustained, strong performance...”

standard Personal Lines and Excess and Surplus Lines segments to improve profitability; (iv) excellent investment income results with after-tax new money investment rates of 2.1%; and (v) strong operating cash flows that equated to 16% of net premiums written. All of these achievements,

GAAP COMBINED RATIOS



The achievement of our targeted strategic initiatives has contributed to strong GAAP reported and underlying combined ratios.

**Underlying GAAP combined ratio excludes catastrophe losses and prior year casualty reserve development*

coupled with a lower Federal income tax rate for U.S. corporate taxpayers that reduces our estimated 2018 effective tax rate by approximately 10 points, establish a strong base for future profitable growth.

Our long-term growth plans include: (i) increased “ivy league” distribution partner representation; (ii) higher share of our distribution partners’ premiums; and (iii) geographic expansion of our Commercial and Personal Lines footprint.

Our expansion efforts are on track, as we opened two Commercial Lines states, Arizona and New Hampshire, in 2017. In January 2018, we entered Colorado and we are now in 25 states. Obtaining our long-term goal of a 3% market share in these states would create a Commercial Lines company profile in excess of \$4 billion in net written premiums, representing an additional \$2.5 billion premium opportunity for our standard Commercial Lines segment. This effort continues as we plan to open New Mexico and Utah, and later this year, Arizona and Utah for Personal Lines.

We are always investing to make Selective the best - a truly unique company in the industry. This commitment positions us for sustained financial outperformance and to attract high-caliber distribution partners and employees to support our future growth.

Our employees are the best and execute the numerous strategies that define the Company's success. Our achievements in 2017 could not have been accomplished without their perseverance, focus, and dedication, as they strive each day to meet and exceed our targets. This unwavering focus on delivering an exceptional experience to our distribution partners and customers drives our "Overall Satisfaction" and "Net Promoter Survey" scores. At Selective, talent continues to differentiate us and drives our market-leading position in Commercial Lines.

The Company's franchise distribution model is enabled by an empowered field-based underwriting model - a true differentiator in the marketplace. We are focused on providing our distribution partners with the tools, products, services, and resources they need to be successful. We distribute Commercial Lines business through 1,250 distribution partners, averaging about 50 agents per

“At Selective, talent continues to differentiate us and drives our market-leading position in Commercial Lines.”

footprint state. Our distribution partners rated us an 8.8 on a 10-point scale for overall satisfaction.

We continue to expand our sophisticated Commercial Lines underwriting tools and processes that allow

employees to make better decisions faster, while enhancing outcomes for new and renewal business. This is best demonstrated by our: (i) market-leading performance in managing Commercial Lines renewal pure price and retention; (ii) continued strong growth relative to the industry; and (iii) strong non-GAAP operating return on equity, which in 2017, is forecasted to be more than three times that of the industry.

We are also making significant investments to enhance the overall customer experience in an omni-channel environment to meet or exceed rapidly evolving customer expectations, as we continue to strive toward providing

best-in-class customer service in a 24-hour, 365-day environment. Our goals in this area are centered on leveraging technology to improve customer retention rates, which, over time, should lead to higher business volumes and enhanced quality of business.

Standard Commercial Insurance

Standard Commercial Lines, which accounted for 78% of total net premiums written, had another excellent year. Net premiums written increased 6% and the combined ratio was an extremely profitable 91.6%. Results were driven by strong performance in larger lines, such as general liability



▶ **Gregory E. Murphy, Chairman and CEO, and John J. Marchioni, President and COO.**

and workers compensation. Commercial auto results negatively impacted us and the rest of the industry. We continue to drive renewal pure price increases that equal our expected claim inflation. Profitable growth requires managing renewal pure price, maintaining strong retention rates, and generating new business.

Standard Personal Insurance

Standard Personal Lines, which accounted for 13% of total net premiums written, had a profitable year and generated a 96.2% combined ratio. Steps that we have taken in recent years to improve performance through pricing and business mix shifts in the homeowners line of business resulted in an extremely strong 88.2% combined ratio. Our personal auto business experienced adverse loss trends, and we continue to target margin improvement through price increases, including a plan for rate filings averaging 7.4% in 2018, and expense reductions.

Excess and Surplus Insurance

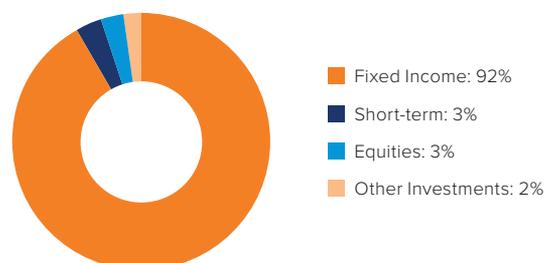
Our Excess and Surplus Lines segment, which accounted for 9% of total net premiums written, generated a 103.0% combined ratio for 2017. This included 5.3 points of catastrophe losses and 4.7 points of unfavorable prior year casualty reserve development. Our underlying combined ratio improved to 93.0% in 2017. We have taken a number of steps to address the profitability of this segment over the past two years, including implementing substantial targeted price increases and changing the business mix. We are pleased with the pricing of new business, and when combined with our initiatives to centralize claims handling and improve loss settlement outcomes, profitability should increase.

Investments

We had excellent performance in our investment portfolio during 2017. Fixed income securities, which represent 92% of total invested assets, experienced an increase in after-tax net investment income, resulting mostly from a higher book yield. This portfolio is highly rated with an average credit rating of AA- and a 3.8-year effective duration. Our portfolio managers generated significant alpha during the year without taking on higher credit or duration risk. Our equity and alternative investments portfolio generated \$14 million of after-tax net investment income in 2017. The after-tax yield on total invested assets was 2.1% for the year. We ended the year with \$3.32 of invested assets per dollar

CONSERVATIVE INVESTMENT PORTFOLIO

\$5.7 billion as of 12/31/2017



Selective invests the premiums collected by our insurance segments, as well as amounts generated throughout our capital management strategies. The primary objective of our conservative investment portfolio is to maximize after-tax net investment income while balancing risk and generating long-term growth in shareholder value.

“ We are also making significant investments to enhance the overall customer experience in an omni-channel environment to meet or exceed rapidly evolving customer expectations. ”

of stockholders' equity, which contributed 7.3 percentage points to our 2017 non-GAAP operating return on equity.

Board Leadership

A. David Brown is retiring in May 2018, after 22 years of dedicated service, as he reaches our mandatory Director retirement age. He has been an important part of our Board, serving previously as Lead Independent Director for four years and having chaired several committees. Befitting his influence in our boardroom, *Savoy Magazine* named David one of “2017’s Most Influential Black Directors.”

We will miss David's wisdom, sense of humor, inclusive leadership, open mindedness, and mentorship.

We are pleased to welcome two new Directors

Thomas A. McCarthy, Cigna Corporation's former Executive Vice President and Chief Financial Officer, joined the Board in January 2018. Tom will play a key role in contributing to Selective's overall corporate strategies. In particular, we think his deep knowledge of customer experience, agents, investments, and capital management will be an immediate and significant asset to our Board.

H. Elizabeth Mitchell, former President and Chief Executive Officer of Renaissance Reinsurance U.S., Inc. and Platinum Underwriters Reinsurance, Inc., joined the Board in March 2018. A member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society, Liz has over 30 years of property and casualty insurance and reinsurance expertise. We believe her broad range of industry and leadership experiences and her strengths in risk management, actuarial science, and insurance operations will greatly assist further development of our corporate and operating strategies.

Conclusion

On behalf of our Board of Directors and our employees, thank you for your ownership position in Selective. We are proud of our accomplishments in 2017 and look forward to building on them in 2018. The investments we are making today to continually grow and improve, while leveraging the latest tools and technologies, should position us well for the future.

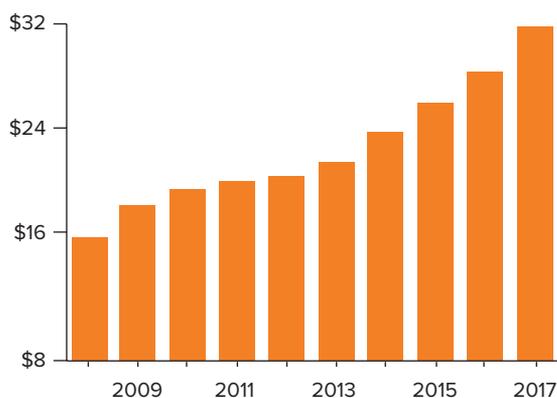
Sincerely,



Gregory E. Murphy
Chairman and CEO

John J. Marchioni
President and COO

BOOK VALUE PER SHARE GROWTH



MARKET CAPITALIZATION

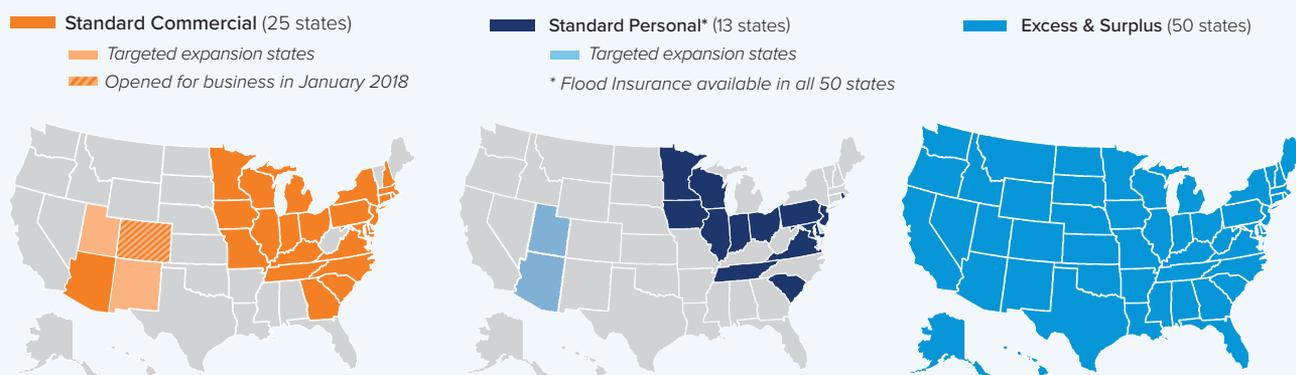


▶ A strong track record of book value per share growth contributes to greater total shareholder value creation over time.

CAPABILITIES OF A NATIONAL CARRIER WITH RELATIONSHIPS OF A REGIONAL CARRIER

Our Growing Geographic Footprint

Selective is a super-regional insurance carrier operating in the following states:



Our Competitive Advantages

Unique field model enabled by sophisticated tools and technology

Selective's empowered and dynamic field model, comprised of locally-based field underwriters, claims professionals, and safety management specialists, is key to our agency value proposition and underwriting quality. Enabled by sophisticated tools, our field experts apply a data-driven approach to underwriting and pricing to effectively deliver products and services to our distribution partners.

Superior customer experience delivered by best-in-class employees

The cornerstone of Selective's success is our talented team. One of our core values is to "be the best," which includes developing the best employees, creating the best products for our customers, and delivering the best service to our distribution partners and mutual customers.

True franchise value with "ivy league" distribution partners

Selective works closely with more than 1,250 retail and 85 wholesale distribution partners to build strong relationships and deliver exceptional service to our shared customers. We are committed to our distribution partners' success and provide them with the tools, products, services, and resources to prosper and build their market share. We will continue to appoint high-caliber and diverse distribution partners to drive profitable growth and expand our geographic footprint.

Above-average operating leverage enhances return on equity

Our strong balance sheet, underwriting risk profile, and conservative investment portfolio allow us to take on more operating leverage with a net premiums written to statutory surplus ratio of 1.4 to 1, which is approximately twice the industry average. As a result, each point on our combined ratio equates to approximately 1.1 points of non-GAAP operating return on average equity.†

† Non-GAAP operating income, non-GAAP operating earnings per share, and non-GAAP operating return on equity are non-GAAP (U.S. Generally Accepted Accounting Principles) measures. Refer to the section entitled, "Financial Highlights of Results for Years Ended December 31, 2017, 2016, and 2015" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in the Company's Form 10-K for a reconciliation of the non-GAAP measures to the equivalent GAAP measures.

COMMITTED TO SERVICE EXCELLENCE

Customer-Centricity is Core to Who We Are as a Company.

Selective's strategy for each segment of our business is underscored by a strong focus on customer experience, which is central to our long-term success. Our commitment to customer-centricity is driven by our employees and ensures we continually deliver a superior service experience across all channels, which we call omni-channel, to serve our customers how and when they choose.

Selective has made significant investments in technology to enhance our customer experience capabilities. In 2017, we:



Released an improved Customer Self-Service portal and updated the Selective Mobile App to enrich our customers' digital experience and simplify transactions, like paying a bill or submitting a claim.



Connected multiple systems to obtain a 360° view of our customers to better understand who they are and what they want.



Initiated the application of more advanced analytics in our pursuit to gather deeper customer insights and improve customer experience, business acquisition, and retention.



Launched new technology to enable more customized, proactive customer communication and risk management solutions.



Deployed a new customer relationship management tool in our contact centers to improve the way we connect, communicate, and collaborate with our customers and distribution partners.

MANAGEMENT TEAM



Gregory E. Murphy
Chairman and Chief Executive Officer



John J. Marchioni
President and Chief Operating Officer



George D. Dufala, Jr.
Executive Vice President
Insurance Operations



Gordon J. Gaudet
Executive Vice President
Chief Information Officer



Michael H. Lanza
Executive Vice President
General Counsel and
Chief Compliance Officer



Charles A. Musilli, III
Executive Vice President
Chief Human Resources
Officer



George A. Neale
Executive Vice President
Chief Claims Officer



Vincent M. Senia
Executive Vice President
Chief Actuary



Mark A. Wilcox
Executive Vice President
Chief Financial Officer

DIRECTORS

Paul D. Bauer 1998

Independent Consultant, and retired, former Executive Vice President and Chief Financial Officer, Tops Markets, Inc.

A. David Brown 1996 to April 2015 and since July 2015

Retired, former Executive Vice President and Chief Administrative Officer, Urban Brands, Inc.

John C. Burville, Ph.D, FIA, MAAA 2006

Retired, former Insurance Consultant to the Bermuda Government

Robert Kelly Doherty 2015

Managing Partner, Caymen Advisors and Caymen Partners

Thomas A. McCarthy 2018

Retired, former Executive Vice President and Chief Financial Officer, CIGNA

H. Elizabeth Mitchell 2018

Retired, former President and Chief Executive Officer of Renaissance Reinsurance U.S., Inc.

Michael J. Morrissey, CFA 2008

President and Chief Executive Officer, International Insurance Society, Inc.

Gregory E. Murphy 1997

Chairman and Chief Executive Officer, Selective Insurance Group, Inc.

Cynthia (Cie) S. Nicholson 2009

Chief Marketing Officer, Forkcast

Ronald L. O'Kelley 2005

Chairman and Chief Executive Officer, Atlantic Coast Venture Investments Inc.

William M. Rue 1977

Chairman, Chas. E. Rue & Son, Inc., t/a Rue Insurance

John S. Scheid, CPA 2014

Owner, Scheid Investment Group, LLC
Former Senior Partner, PricewaterhouseCoopers LLC

J. Brian Thebault 1996

Lead Independent Director, Selective Insurance Group, Inc.
Partner, Thebault Associates

Philip H. Urban 2014

Retired, former President and Chief Executive Officer, Grange Insurance

OFFICERS

Chairman and Chief Executive Officer

Gregory E. Murphy^{1,2}

President and Chief Operating Officer

John J. Marchioni^{1,2}

Executive Vice Presidents

George D. Dufala, Jr.²
Insurance Operations

Gordon J. Gaudet²
Chief Information Officer

Michael H. Lanza^{1,2}
General Counsel and
Chief Compliance Officer

Charles A. Musilli, III²
Chief Human Resources Officer

George A. Neale²
Chief Claims Officer

Vincent M. Senia²
Chief Actuary

Mark A. Wilcox^{1,2}
Chief Financial Officer

Senior Vice Presidents

Charles C. Adams²
Regional Manager
Mid-Atlantic Region

Shadi Albert²
Regional Manager
Southwest Region

Allen H. Anderson²
Chief Underwriting Officer
Personal Lines/Flood

Jeffrey F. Beck²
Government and Regulatory
Affairs

John P. Bresney²
Enterprise Application
Delivery Services

Teresa M. Caro²
Regional Manager
New Jersey Region

Sarita G. Chakravarthi^{1,2}
Tax and Assistant Treasurer

Thomas M. Clark²
Claims General Counsel

Joseph O. Eppers^{1,2}
Chief Investment Officer

Brenda M. Hall²
Chief Strategic Operations Officer

Anthony D. Harnett^{1,2}
Chief Accounting Officer

Todd Hoivik²
Commercial Lines Pricing
and Research

Martin Hollander^{1,2}
Chief Audit Executive

Kory Jensen²
IT Infrastructure and Operations

Jeffrey F. Kamrowski²
MUSIC
President, Mesa Underwriters
Specialty Insurance Company

Robert J. McKenna, Jr.²
Enterprise Architecture and
Information Security

James McLain²
Chief Field Operations Officer

Ryan Miller²
Regional Manager
Southern Region

Yanina Montau-Hupka^{1,2}
Chief Risk Officer

Rohit Mull²
Chief Marketing Officer

Maria Orecchio²
Deputy General Counsel

Rohan Pai^{1,2}
Investor Relations and Treasurer

Thomas S. Purnell²
Regional Manager
Northeast Region

Erik A. Reidenbach²
Regional Manager
Heartland Region

Brian C. Sarisky²
Chief Underwriting Officer,
Commercial Lines

¹ Selective Insurance Group, Inc.

² Selective Insurance Company of America

INVESTOR INFORMATION

Annual Meeting

Wednesday, May 2, 2018 - 9:00 a.m. (ET)
Selective Insurance Group, Inc.
40 Wantage Avenue
Branchville, New Jersey 07890

Investor Relations

Rohan Pai
Senior Vice President
Investor Relations and Treasurer
(973) 948.1364
Investor.Relations@Selective.com

Dividend Reinvestment Plan

Selective Insurance Group, Inc. makes available to holders of its common stock an automatic dividend reinvestment and stock purchase plan.

For information contact:
EQ Shareowner Services
P.O. Box 64854
St. Paul, Minnesota 55164
(866) 877.6351

Registrar and Transfer Agent

EQ Shareowner Services
P.O. Box 64854
St. Paul, Minnesota 55164
(866) 877.6351

Auditors

KPMG LLP
345 Park Avenue
New York, New York 10154

Internal Audit Department

Martin Hollander
Chief Audit Executive
Internal.Audit@Selective.com

Executive Office

40 Wantage Avenue
Branchville, New Jersey 07890
(973) 948.3000

Shareholder Relations

Robyn P. Turner
Corporate Secretary
(973) 948.1766
Shareholder.Relations@Selective.com

Common Stock Information

Selective Insurance Group, Inc.'s common stock trades on the NASDAQ Global Select Market under the symbol: SIGI.

Form 10-K

Selective's Form 10-K, as filed with the U.S. Securities and Exchange Commission, is provided as part of this 2017 Annual Report.

Website

Visit us at www.Selective.com for information about Selective, including our latest financial news.



Selective Insurance Group, Inc.

40 Wantage Avenue
Branchville, New Jersey 07890

www.Selective.com

