

FITCH AFFIRMS SELECTIVE INSURANCE'S RATINGS; OUTLOOK REVISED TO STABLE

Fitch Ratings-Chicago-20 May 2014: Fitch Ratings has affirmed Selective Insurance Group, Inc.'s (Selective) ratings as follows:

- Issuer Default Rating (IDR) at 'A-';
- Senior debt at 'BBB+';

Fitch has also affirmed the 'A+' Insurer Financial Strength (IFS) ratings of the members of the Selective intercompany pool. The Rating Outlook has been revised to Stable. A full list of ratings follows at the end of this release.

KEY RATING DRIVERS

The affirmation of Selective's ratings reflect the company's improved underwriting results, strong independent agency relationships, solid loss reserve position, and enhanced diversification through continued efforts to reduce its concentration in New Jersey. The Outlook also reflects operating earnings-based interest coverage that showed improvement in 2013.

Selective's combined ratio (GAAP) improved to 97.8% in 2013 versus 104.0% for the prior year, as the company achieved continued positive growth in pricing and had favorable loss experience. In 2013, Selective achieved an underwriting profit in the standard commercial and personal lines segments as well as improved results in the Excess and Surplus (E&S) lines business. Fitch's expects Selective to continue to perform at a break-even or better level over the long term.

Fitch notes that the company's accident-year combined ratio, excluding the impact of catastrophe losses, improved in 2013 by 3.0 points over the prior year period, reflecting a recent improvement in run-rate underwriting results.

First quarter 2014 underwriting results modestly deteriorated to 101.1. This was largely due to above average catastrophe losses resulting from significant winter storm losses, which contributed to \$34 million of catastrophe losses; adding 7.5 points to the combined ratio, up from 0.4 points in 1st quarter 2013.

Fitch believes that Selective's capitalization is good as Selective's shareholders' equity increased by approximately 5.8% in 2013 and a further 2.7% in the first quarter of 2014 to \$1.19 billion. Group statutory surplus remained at \$1.3 billion at March 31, 2014.

Selective's GAAP operating leverage (net premiums written to shareholders' equity) remains higher than that of peer companies, but has recently experienced moderate amounts of improvement. At March 31, 2014, trailing 12 month operating leverage was 1.55x, versus 1.57x at year-end 2013. Statutory operating leverage was also increasingly conservative at year-end 2013 as the figure dropped to 1.44x, down from 1.59x at the prior year-end. Statutory net leverage also declined in 2013, to 4.67x from 5.19x at year-end 2012.

Fitch also believes that Selective employs a moderate amount of financial leverage, with adequate financial flexibility. The company's unadjusted debt-to-total capital ratio is roughly 24.9% at Mar. 31, 2014.

RATING SENSITIVITIES

Key rating triggers that could lead to a downgrade include: prolonged underwriting weakness, demonstrated by a failure to produce an underwriting profit given normal catastrophe losses, and material deterioration in capitalization including a failure to remain comfortably within the 'Strong' category on Fitch's Prism capital model, operating leverage as measured by net written premiums-to-equity rising above 1.6x, net leverage rising above 4.8x, financial leverage remaining above 25%, along with operating earnings based interest coverage that fails to remain at 5x - 7x or better and statutory fixed charge coverage below 4.5x.

Fitch considers a rating upgrade to be unlikely in the near term due to Selective's current company profile including its regional concentration, smaller capital base relative to larger peers and above average operating and net leverage. Key rating triggers that could lead to an upgrade over the long-term include sustained improvement on recent underwriting performance in which Selective maintains a consistent low 90's calendar-year combined ratio, net statutory leverage under 3.5x, financial leverage near 15%, and operating earnings based interest coverage reaching low double digits or better.

Fitch has affirmed the following ratings with a Stable Outlook:

Selective Insurance Group, Inc.

--IDR at 'A-';

--\$100 million senior notes 6.7% due Nov. 1, 2035 at 'BBB+';

--\$50 million senior notes 7.25% due Nov. 15, 2034 at 'BBB+';

--\$185 million senior notes 5.875% due Feb. 9, 2043 at 'BBB+'.

Selective Insurance Company of America

Selective Way Insurance Company

Selective Insurance Company of South Carolina

Selective Insurance Company of the Southeast

Selective Insurance Company of New York

Selective Insurance Company of New England

Selective Auto Insurance Company of New Jersey

Mesa Underwriters Specialty Insurance Company

Selective Casualty Insurance Company

Selective Fire and Casualty Insurance Company

--IFS at 'A+'.

Contact:

Primary Analyst

Christopher A. Grimes, CFA

Director

+1-312-368-3263

Fitch Ratings, Inc.

70 W. Madison Street

Chicago, IL 60602

Secondary Analyst

Brian C. Schneider, CPA, CPCU, ARe

Senior Director

+1-312-606-2321

Committee Chairperson

R. Andrew Davidson, CFA
Senior Director
+1-312-368-3144

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Insurance Rating Methodology' (November 2013).

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Insurance Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723072

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