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A.M. Best Downgrades Ratings of Selective Insurance Group, Inc. and Its Subsidiaries

OLDWICK, N.J., June 18, 2012—A.M. Best Co. has downgraded the financial strength rating (FSR) to A (Excellent) from A+ (Superior) and the issuer credit rating (ICR) to "a+" from "aa-" of **Selective Insurance Company of America** and its seven pooled affiliates, collectively referred to as Selective. In addition, A.M. Best has downgraded the ICR to "bbb+" from "a-" and the debt ratings of Selective's parent, **Selective Insurance Group, Inc.** [NASDAQ: SIGI]. The outlook for all ratings has been revised to stable from negative. All companies are headquartered in Branchville, NJ. (Please see below for a detailed listing of companies and ratings.)

The downgrades reflect the decline in Selective's underwriting and operating performance over the most recent five-year period, relative to both its own historic performance levels and in comparison to the commercial casualty composite. Although these results have been driven in the most recent years by an elevated level of catastrophic and weather-related losses as a result of the concentration of its business in the mid-Atlantic states, the deterioration compared to similarly-rated companies has been significant. Further, Selective's pre-tax returns on revenue and total return on equity no longer compare favorably to those of the composite (particularly those with superior ratings), as would be the expectation for a superior-rated enterprise.

The ratings reflect Selective's solid risk-adjusted capitalization, which results from its consistently profitable operating results (albeit at a diminished level in recent years), offset by payment of shareholder

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dividends. Those operating results are derived from the group's disciplined underwriting focus and increasing use of predictive modeling technology. The group's established presence in its targeted regional markets is reinforced by its strong independent agency relationships, which Selective fosters through its field-based operating model and technology infrastructure. Selective's balance sheet is strengthened by its consistently strong loss reserve position, and operating results have benefitted from recognition of favorable development of loss reserves in the six most recent calendar years. The ratings also consider the group's position as a Top 50 U.S. property/casualty enterprise (based on net written premiums), its experienced management team and the financial flexibility afforded by its publicly traded parent, SIGI.

Offsetting these positive factors are Selective's variable underwriting results, which generated operating results that, on average, are not in line with the broad peer group or similarly-rated enterprises; return measures and investment yield that generally trail the composite averages; and elevated levels of underwriting leverage.

Future positive rating movement may result if Selective outperforms its peers for an extended period of time. Negative rating pressure could result if operating performance falls markedly short of A.M. Best's expectations or if there is a significant deterioration in risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio.

The FSR has been downgraded to A (Excellent) from A+ (Superior) and the ICR to "a+ from "aa-" for **Selective Insurance Company of America** and its following affiliates:

- **Selective Way Insurance Company**
- **Selective Insurance Company of the Southeast**
- **Selective Insurance Company of New York**
- **Selective Insurance Company of South Carolina**
- **Selective Insurance Company of New England**
- **Selective Auto Insurance Company of New Jersey**
- **Mesa Underwriters Specialty Insurance Company**

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The following debt ratings have been downgraded:

Selective Insurance Group, Inc.—
-- to “bbb+” from “a-” on $49.9 million 7.25% senior unsecured notes, due 2034
-- to “bbb+” from “a-” on $99.5 million 6.70% senior unsecured notes, due 2035
-- to “bbb-“ from “bbb” on $100 million 7.50% junior subordinated notes, due 2066

The following indicative ratings on the shelf registration have been downgraded:

Selective Insurance Group, Inc.—
-- to “bbb+” from “a-” on senior debt
-- to “bbb” from “bbb+” on subordinated debt
-- to “bbb-” from “bbb” on preferred stock

The methodology used in determining these ratings is Best’s Credit Rating Methodology, which provides a comprehensive explanation of A.M. Best’s rating process and contains the different rating criteria employed in the rating process. Key criteria utilized include: “Risk Management and the Rating Process for Insurance Companies”; “Understanding BCAR for Property/Casualty Insurers”; “Rating Members of Insurance Groups”; “Insurance Holding Company and Debt Ratings”; “The Treatment of Terrorism Risk in the Rating Evaluation”; and “Catastrophe Analysis in A.M. Best Ratings.” Best’s Credit Rating Methodology can be found at www.ambest.com/ratings/methodology.

Founded in 1899, A.M. Best Company is the world's oldest and most authoritative insurance rating and information source. For more information, visit www.ambest.com.

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