

FITCH AFFIRMS SELECTIVE INSURANCE'S RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-06 February 2015: 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 is Stable. A full rating list is shown below.

KEY RATING DRIVERS

The affirmation of Selective's ratings reflect the company's improved underwriting results across its reporting segments, solid capitalization with strong growth in shareholders' equity and continued improvement in leverage and interest coverage metrics.

Selective's combined ratio (GAAP) improved to 95.8% in 2014 versus 97.8% for the prior year, as the company achieved continued positive growth in pricing and had favorable loss experience. Selective achieved an underwriting profit in each of its major reporting segments, Standard Commercial (95.7% combined ratio), Standard Personal (94.4%), Excess and Surplus (99.7%) in 2014. Fitch's expectations are that Selective will continue to perform at a break-even or better level over the long term.

Catastrophe losses, largely resulting from significant winter storm losses contributed \$60 million of catastrophe losses, adding 3.2 points to the combined ratio, up from 2.7 points in prior year period.

Fitch notes that the company's accident-year combined ratio, excluding the impact of catastrophe losses, improved in 2014 by 1.1 points over the prior year period, reflecting a recent improvement in run-rate underwriting results.

Fitch believes that Selective's capitalization is good as Selective's shareholders' equity increased by approximately 10.5% in 2014 to nearly \$1.3 billion. Group statutory surplus grew by 4.1% to \$1.3 billion at Dec. 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 Dec. 31, 2014, operating leverage was 1.48x, versus 1.57x at year-end 2013. Statutory operating and net leverage remained at 1.44x and 4.67x respectively in 2014, equal to the levels reported at the prior year end.

Selective employed a more conservative amount of financial leverage at year-end 2014, with adequate financial flexibility. The company's debt-to-total capital ratio adjusted for the impact of FAS 115 unrealized gains on fixed income investments is roughly 23.9% at Dec. 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;
- 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;
- Adjusted financial leverage above 25%;
- Operating earnings based interest coverage that fails to remain at 5x-7x or better and statutory fixed charge coverage below 4.5x.

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;
- Statutory net leverage under 3.5x;
- Financial leverage approximating 15%;
- 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

Douglas Pawlowski, CFA

Senior Director

+1-312-368-2054

Committee Chairperson

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

Media Relations: Alyssa Castelli, New York, Tel: +1 (212) 908 0540, Email: alyssa.castelli@fitchratings.com; Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

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

Applicable Criteria and Related Research:

--'Insurance Rating Methodology' (September 2014).

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=756650

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.