2011 Annual Report

Standing Strong for 85 Years

SELECTIVE®

2011

SELECTIVE®

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About Selective Insurance Group, Inc.

Selective Insurance Group, Inc. is a holding company for eight customer-focused property and casualty insurance companies and is ranked as the 50th largest P&C insurance group in the United States by A.M. Best. The companies offer a range of insurance including commercial lines, personal lines and excess and surplus lines. Selective provides value-added products and services to businesses, public entities and individuals through approximately 1,000 independent retail agents and 100 wholesale agents throughout the country. Our employees create the competitive advantages that make Selective one of the best regional insurance organizations in the marketplace.

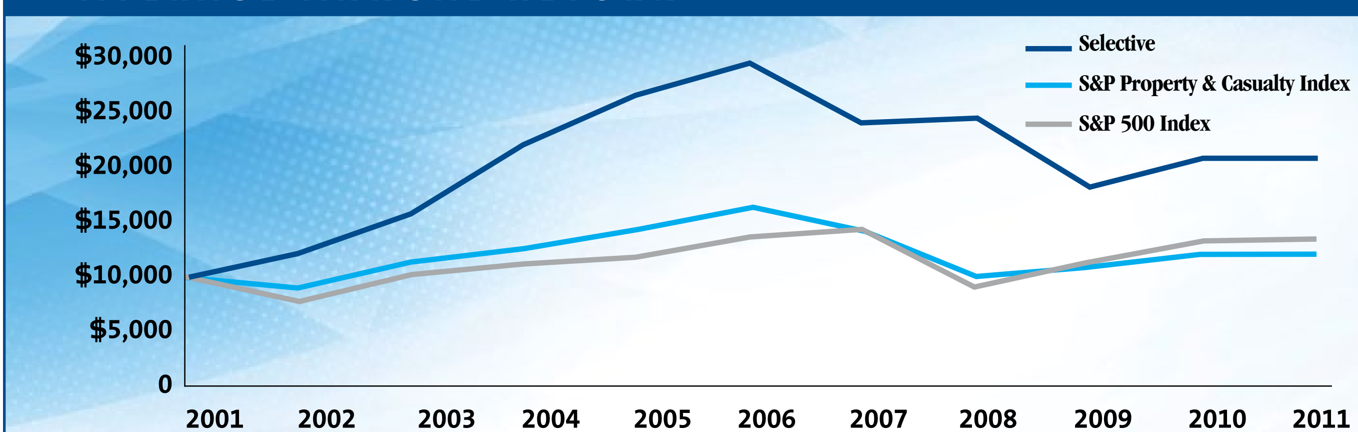
2011 GAAP Financial Highlights

($ in millions, except per share data)	2011	2010	% or point change better (worse)
Insurance Operations			
Net premiums written	1,485.3	1,390.5	7%
Net premiums earned	1,439.3	1,416.6	2%
Underwriting loss	(106.9)	(22.2)	(382)%
Combined ratio	107.4%	101.6%	(5.8) pts
Statutory combined ratio	106.7%	101.6%	(5.1) pts
Investments			
Net investment income before tax	147.4	145.7	1%
Net realized gain (loss)	2.2	(7.1)	NM
Invested assets per dollar of stockholders' equity	3.71	3.67	1%
Summary Data			
Total revenues	1,597.5	1,564.6	2%
Net income	19.9	65.5	(70)%
Net income from continuing operations	20.5	69.3	(70)%
Total assets	5,736.4	5,231.8	10%
Stockholders' equity	1,109.2	1,071.1	4%
Per Share Data			
Diluted net income from continuing operations	0.37	1.27	(71)%
Diluted net income	0.36	1.20	(70)%
Dividends	0.52	0.52	–
Stockholders' equity	20.39	19.95	2%

Refer to Glossary of Terms attached as Exhibit 99.1 to the Company's Form 10-K for definitions of specific measures.

GAAP: U.S. Generally Accepted Accounting Principles

Average Annual Return



Growth of a $10,000 investment (year-end 2001-2011)

Dear Shareholders,

2011 marked Selective's 85th year in business, and it was a year like none other in the company's long history. It was a year of extreme weather, market volatility, historically low interest rates and continuing worldwide economic woes. Property and casualty insurers experienced an estimated $44 billion in U.S. insured catastrophe losses. Worldwide cumulative industry losses may exceed $100 billion.

For Selective, the severe weather resulted in the worst catastrophe year in the existence of the company contributing 8.3 points to our 2011 statutory combined ratio of 106.7%. Excluding catastrophe losses, our combined ratio was a solid 98.4%. Hurricane Irene alone generated gross losses for Selective of more than $46 million, by far the largest hurricane loss in our history.

In addition, the floods in the Northeast and Mid-Atlantic states resulted in approximately 10,000 flood claims, several times our usual volume for an entire year. Selective is a participating carrier in the National Flood Insurance Program's (NFIP) Write Your Own (WYO) program, and as a result our Flood operation receives an allowance for policies written and claims processed while the Federal Government retains 100% responsibility for underwriting losses. In 2011, our Flood operation generated a record after-tax profit of $11.4 million.

One of the most important things that we do as an industry—and as a company—is help people put their lives back together after tragedy strikes. We were very proud of the way our employees responded to a record number of extreme weather claims and provided excellent customer service to those who suffered losses. Our response to these events served as a real reminder of an important mission.

By executing our sophisticated underwriting strategies in 2011, Insurance Operations achieved 7% growth in net premiums written (NPW). We had strong growth in commercial lines which can be directly attributed to our relentless efforts to drive rate. In a market where others were willing to forgo strict underwriting discipline, we maintained consistent discipline and sound judgment that resulted in 11 consecutive quarters of commercial lines renewal pure price increases. As industry-wide commercial lines pricing power strengthened, we generated a 2.8% increase for the entire year, with increases of 3.4% in the fourth quarter followed by 4.5% in January and 5.3% in February of 2012. The steps we have taken over

Gregory E. Murphy

Chairman, President and Chief Executive Officer

"One of the most important things that we do as an industry—and as a company—is help people put their lives back together after tragedy strikes."

the past three years better position us to capitalize on achieving even higher levels of renewal price increases.

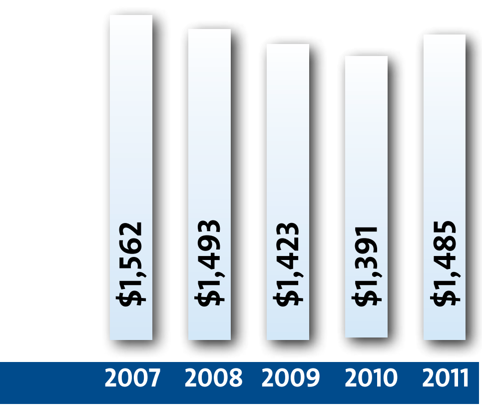
Our personal lines grew in 2011 with a 6% increase in NPW primarily due to rate increases and improved retention. We continued to drive rate for the fourth consecutive year and took action to improve both pricing and underwriting on our homeowners book of business.

In a continuing effort to grow profitably, we took aggressive steps to further our organic growth by appointing 100 independent retail agents, bringing our total to 1,000. Our product portfolio was enhanced by adding more than 50 new and expanded products that will enable our agents to strengthen client retention. We diversified into the excess and surplus (E&S) contract binding authority business with two key acquisitions. The new E&S operations, Stonecreek Specialty Underwriters and Mesa Underwriters Specialty Insurance Company, or MUSIC, allow Selective to write this business in all 50 states and the District of Columbia. Our retail agents write $300-$400 million of this business and they tell us they are excited about the broader opportunity to serve their clients through this newly expanded product offering and our new wholesale agency partners.

Our employees made tremendous progress on a variety of important initiatives that included a series of claims improvements, the implementation of a customer experience program and the enhancement of our first-class field model by the addition of a Field Marketing Specialist role. What makes these accomplishments even more impressive is the fact that this all happened during a time when our employees were doing such hard work to help our customers in the wake of historically severe weather.

Selective built a strong foundation with the very best employees, solid technology and the human touch–which was critical to our company when it began in 1926 and remains paramount in our 85th year. Our excellent relationships with agents and customers ensure our success in any market cycle, in a severe catastrophe year or under difficult economic conditions. It is our commitment to provide an unparalleled customer experience and an ease of doing business that makes Selective stand above the rest.

Net Premiums Written
(in millions)



Our Business

At Selective, we classify our business into two operating segments:

- Insurance Operations, which sells property and casualty insurance products and services; and
- Investments, which invests the premiums collected by our insurance operations.

Insurance Operations

In 2011, Insurance Operations generated $1.5 billion in NPW, which was up 7% over 2010, and produced a generally accepted accounting principles (GAAP) combined ratio of 107.4% and a statutory combined ratio of 106.7% that included 8.3 points of catastrophe losses. With catastrophe losses of $119 million, this was by far the worst catastrophe year in our history. The historically high catastrophe losses were only partially offset by favorable statutory prior year casualty development of $29 million or 2.0 points.

Our Insurance Operations encompass commercial lines and personal lines. Commercial lines include insurance for businesses, non-profit organizations, local government entities and our E&S operations. Commercial lines generated approximately 82% of our NPW for the year. Personal lines products for home and auto, which includes our flood insurance operations, generated approximately 18% of the company's NPW for the year.

Commercial Lines

We continued to manage the pricing cycle instead of the cycle managing us. We have been one of the only companies increasing commercial lines renewal pure price for the past three years. In fact, the fourth quarter of 2011 marked our 11th consecutive quarter of commercial lines renewal pure price increases at a strong 3.4% along with a three point increase

in commercial lines retention. We believe the price increases that we have obtained demonstrate the strength of the relationships with our 1,000 independent agency partners.

Our commercial lines rate increases are facilitated by the significant efforts of our regional renewal underwriters. They are key decision makers who benefit from sophisticated underwriting and granular pricing tools. These tools give renewal underwriters the ability to analyze the impact of pricing and retention decisions on their entire policy inventory—directly from their desktops, which allows them to efficiently generate better results. Because we operated in a highly competitive market for most of the year, our underwriters targeted our most significant rate increases and underwriting efforts towards the worst-performing business and carefully managed the delicate balance between rate and retention on our best business.

Net premiums written for Commercial Lines were up 7% over 2010 to $1.2 billion, the first increase since 2007. This increase reflects renewal pure price of 2.8%, a slight increase in retention, $24.1 million from the new E&S lines and an improvement in audit and endorsement premiums.

For Commercial Lines, the GAAP combined ratio was 105.1% and the statutory combined ratio was 104.3%. This result reflects catastrophe losses that totaled more than $75 million and added 6.4 points to the loss ratio. Contributing to the overall catastrophe loss was Hurricane Irene, which had a $21.7 million or 1.8 point impact on this line, net of reinsurance.

We introduced many new and expanded products including para-transit, technology and religious entities. These additions to the product portfolio allow us to diversify into more profitable niches, engage in new markets and provide agents with more opportunities to fill their customers' needs.

Excess & Surplus Added to Commercial Lines

As market conditions started to improve, we acquired two contract binding authority excess and surplus operations. These acquisitions added new higher margin products to our portfolio. Providing the E&S product gives our retail agents, who write approximately $300-$400 million of this business, the ability to further meet the needs of their customers. In August, Selective entered the E&S contract binding authority business with a renewal rights transaction with Alterra Capital Holdings Limited. This business is now called Stonecreek Specialty Underwriters. In December, Selective purchased MUSIC, now called Mesa Underwriters Specialty Insurance Company, the contract binding authority E&S subsidiary of Montpelier Re Ltd., which gave us the platform required to write E&S business in all 50 states and the District of Columbia.

Personal Lines

Personal Lines grew 6% in NPW, to $273 million, primarily due to rate increases and improved retention across Selective's 13-state personal lines footprint. In this line, we continued to drive rate for the fourth consecutive year, filing for more than 46 rate increases for home and auto that added $18 million in annual premium to our in-force book of business. We were able to increase retention by one point, to 86%, despite the pressure on rates. We also took steps to improve the quality of the book and will continue to do so in 2012.

Extreme weather events impacted Personal Lines, adding 16.5 points to the combined ratio, which was 118.0% on a GAAP basis and 117.3% on a statutory basis. Hurricane Irene contributed $17.9 million in losses for the year. We are a participating carrier in the NFIP's WYO program, in which losses are paid 100% by the Federal Government. We wrote approximately $200 million in flood premium in 2011. Since we experienced an extraordinary number of flood claims this year due to flooding throughout the Northeast and Mid-Atlantic states, the claims handling fees from the increased volume earned on our flood book of business increased $4.4 million, or 158%, over 2010.

Investments

We invest the premiums collected by Insurance Operations to pay expenses and generate investment income. In conjunction with our internal expertise, we engage third-party investment firms to take advantage of their greater flexibility in trade execution, broader sector specific knowledge and advanced risk management tools. At year-end, Selective's invested assets totaled $4.1 billion, an increase of 5% over 2010. For the year, pre-tax net investment income was up 1% to $147 million.

Selective's overall portfolio is conservative with an investment strategy focused on asset diversification, investment quality and the liquidity necessary to meet the needs of our Insurance Operations segment, with additional consideration given to capital preservation and tax implications. We have a high-quality (AA-) average rating for fixed maturity securities and a liquid investment portfolio that is weighted as follows:

- Total fixed maturity securities: 88% (average duration-3.2 years)
- Short-term investments: 5%
- Equity securities: 4%
- Other investments: 3%

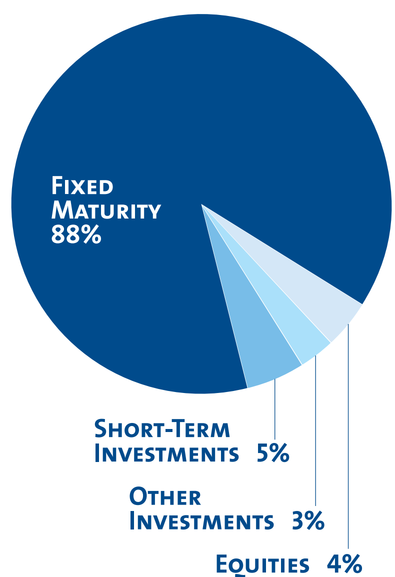
We implemented a high dividend yield equities strategy in 2011 designed to generate consistent dividend income while tracking closely with the S&P 500 index. The return objective of the other investments, which include alternative investments, is to exceed the S&P 500 index.

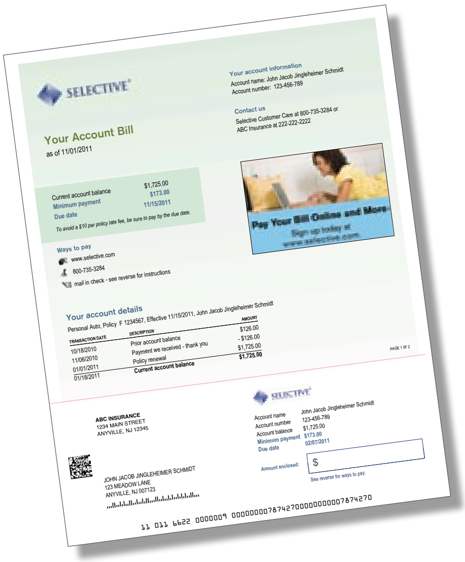
Initiatives

Fortifying a Best-in-Class Field Model

Selective's unique field model remains the hallmark of our success. The model supports strong relationships with Selective's 1,000 independent retail agents. Each agency is supported by an Agency Management Specialist (AMS), who serves as a field underwriter with a focus on middle market accounts and is responsible for agent growth and profitability. While the AMS is the primary relationship manager, a Claims Management Specialist (CMS), a Safety Management Specialist (SMS) and a Field Marketing Specialist (FMS) complete the support team. CMSs provide quick and efficient handling of claims and SMSs promote increased customer retention and lower loss frequency through loss control reviews and programs. The

Investment Mix





FMS position was launched in 2011 to market small commercial and personal lines new business and allow the AMS to spend more time acquiring middle market commercial lines accounts. Our agents tell us that they appreciate Selective's strong combination of high-tech and high-touch, and share comments such as, "Selective has all the tools, including employees that make it easy to do business with them."

Enhancing the Customer Experience

In 2011, Selective took significant steps toward providing our policyholders with an even better customer experience. What started with a touchpoint audit and customer survey and continued with enhancements to our customer self-service website portal and the development of new marketing materials, culminated with the launch of our redesigned customer bill. Through the bill redesign project, we were able to make one of our most frequent customer touchpoints easier to understand and more visually appealing.

Information gathered throughout the ongoing customer experience initiative will serve as a basis for future projects that will allow us to better identify and understand customer attributes that contribute to an enhanced customer experience. We believe this will ultimately increase retention, lower acquisition costs and improve profitability.

Improving Claims Efficiency

The Claims team continued to work toward reducing our loss and loss expense ratio by three points by year-end 2013. Ongoing Claims initiatives include a specialized workers compensation claim handling model, more proactive medical management practices, an expansion of staff counsel, streamlined management of claims files, the introduction of improved fraud analytics and a redesign of the subrogation process. Tangible savings from the Claims team's efforts for 2011 were approximately $9 million, and we expect our initiatives to deliver additional savings going forward.

Corporate Social Responsibility

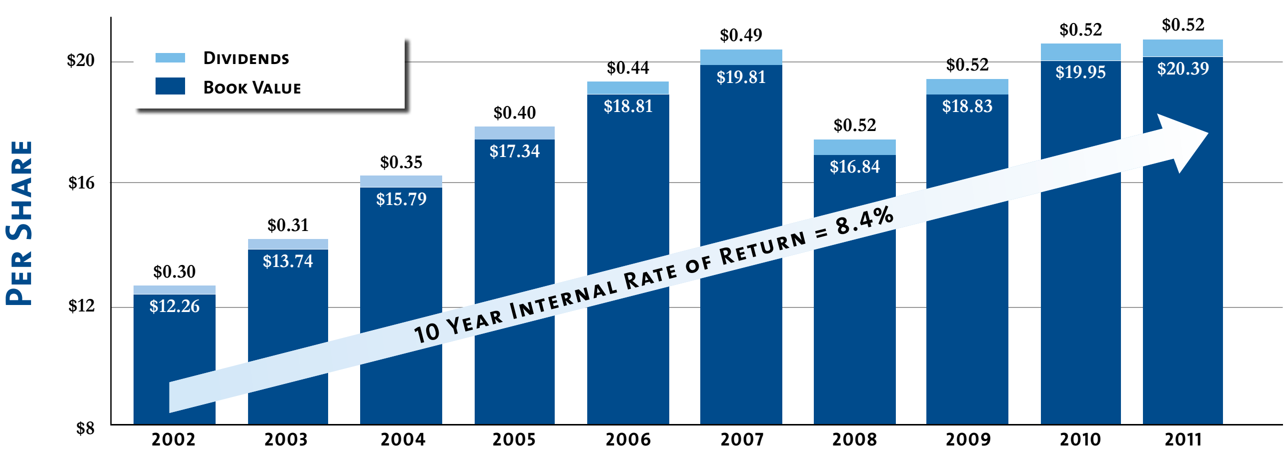
We are serious about our responsibility to the world outside Selective. In addition to the company's commitment to excellent service to customers, we meet the needs of others in our community through The Selective Group Foundation. In 2011, the Foundation distributed grants to a variety of non-profit organizations that provide health and human services, promote civic responsibility and support home, auto and business safety. In addition, employees are encouraged to volunteer and are given one full day off to participate in a volunteer effort of their choice. Many departments across the company have taken advantage of the program and volunteer as a group to make a bigger impact.

In addition to the donation of time and money, Selective and our employees continue to look for ways to protect the environment at our locations by promoting more paperless transactions, enabling online bill payment and purchasing green and recycled products whenever possible.

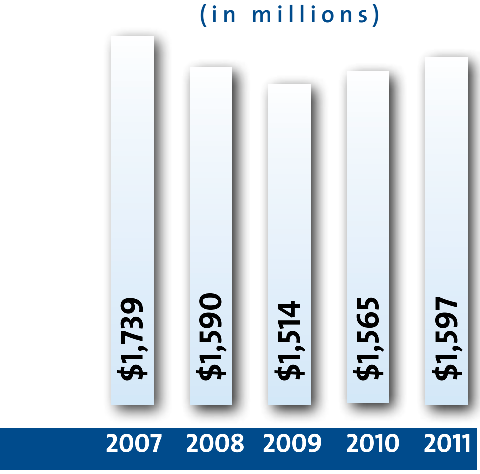
With Thanks and Appreciation

On behalf of Selective's Board of Directors and all of our employees, I would like to extend our thanks and best wishes to S. Griffin McClellan III as he retires from Selective's Board of Directors after 32 years of service. During his tenure, Griff offered strong guidance and oversight, most recently serving on the Corporate Governance and Nominating Committee and the Finance Committee. We will miss his wisdom, sense of humor and unwavering dedication to Selective. It has been my pleasure to serve with him.

Long-Term Shareholder Value Creation



Total Revenues
(in millions)



Creating Long-Term Value for Our Shareholders

Our goal remains to create long-term value for our shareholders. We are confident we are on the road to a 12% return on equity through our ongoing actions including: efforts to increase price and improve underwriting results for both commercial and personal lines; the implementation of claims initiatives that will reduce costs and improve efficiency; and a keen focus on expense management.

It is worth noting that our A.M. Best Financial Strength Rating of "A+ (Superior)" was reaffirmed in the second quarter of 2011 for the 50th consecutive year. Only 9% of rating units carry an "A+" or better rating from A.M. Best. Selective has maintained an "A" or better rating from A.M. Best for more than 80 years.

Total revenue grew to $1.6 billion in 2011. Statutory surplus at the end of 2011 was $1.1 billion and the premium-to-surplus ratio ended the year at 1.4 to 1. Net income for the year was $0.36 per diluted share. Additionally, stockholders' equity increased 4% to $1.1 billion from year-end 2010, with book value per share at $20.39. Our stock price closed the year at $17.73 or 87% of book value. Over the past decade, Selective's total rate of return has been 7.6%.

Our company achieved many milestones last year due to the hard work and commitment of nearly 2,000 dedicated employees. We maintained discipline in the face of a competitive commercial lines marketplace and improved a field model that is second-to-none in helping agents write their business. We grew our NPW and expanded our footprint through the acquisition of the E&S business and also by adding new agents. We took care of those customers who relied on us, and created new and better ways to retain our best business over time. Our employees stepped up to meet every challenge head-on, and made excellent progress on the strategies and initiatives that will fuel our long-term growth, profitability, and most importantly, value creation for shareholders.

Gregory E. Murphy

Gregory E. Murphy
Chairman, President
and Chief Executive Officer

Investor Information

Annual Meeting
Wednesday, April 25, 2012
Selective Insurance Group, Inc.
40 Wantage Avenue
Branchville, NJ 07890

Investor Relations
Jennifer W. DiBerardino
Senior Vice President,
Investor Relations and Treasurer
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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:
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St. Paul, Minnesota 55164-0854
Telephone (866) 877-6351

Registrar and Transfer Agent
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Common Stock Information
Selective Insurance Group, Inc.'s common stock trades on the NASDAQ Global Select Market under the symbol: SIGI.

At February 15, 2012, there were approximately 2,322 registered stockholders.

Form 10-K
Selective's Form 10-K, as filed with the U.S. Securities and Exchange Commission, is provided as part of this 2011 Annual Report.

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

2011

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Response is everything.

Selective Insurance Group, Inc.

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