

STATE OF INDIANA)
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Selective Insurance Company of The Southeast)
40 Wantage Avenue)
Branchville, NJ 07890)

Examination of Selective Insurance Company of The Southeast

NOTICE OF ENTRY OF ORDER


Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Selective Insurance Company of The Southeast, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Selective Insurance Company of The Southeast shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

Date

1/13/14



Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0025 7532 22

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Selective Insurance Company of The Southeast)
329 West Washington Street)
Greensburg, Indiana 47240)

Examination of Selective Insurance Company of The Southeast

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Selective Insurance Company of The Southeast (hereinafter "Company") for the time period January 1, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on September 19, 2013.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on November 20, 2013 and was received by the Company on November 25, 2013.

On December 6, 2013, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2012.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 13 day of
January, 2014.

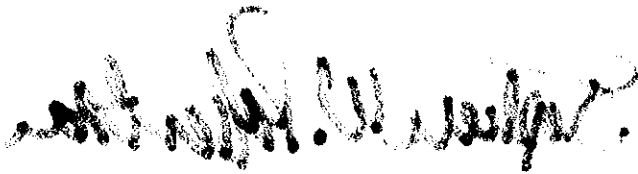

Stephen W. Robertson
Insurance Commissioner

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A handwritten signature in dark ink, appearing to be "M. J. ...", is located at the bottom left of the page. The signature is somewhat stylized and difficult to read precisely.

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

SELECTIVE INSURANCE COMPANY OF THE SOUTHEAST

NAIC COMPANY CODE 39926

NAIC GROUP CODE 0242

As of

December 31, 2012

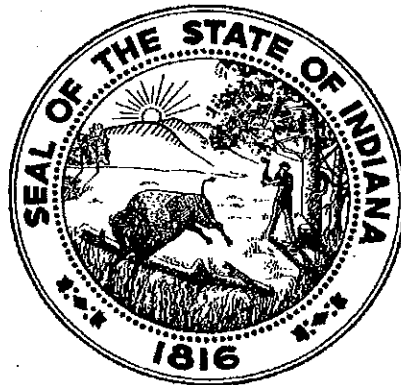


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STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

September 19, 2013

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner,

Pursuant to the authority vested in Appointment Number 3737, an examination has been made of the affairs and financial condition of:

**Selective Insurance Company of the Southeast
40 Wantage Avenue
Branchville, NJ 07890**

hereinafter referred to as the "Company", or "SICSE", an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Branchville, New Jersey.

The Report of Examination, reflecting the status of the Company as of December 31, 2012, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2007. The present risk-focused examination was conducted by Noble Consulting Services, Inc., (Noble) and covered the period from January 1, 2008 through December 31, 2012, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions, when applicable to domestic state regulations

The examination of the New Jersey domestic insurance companies of Selective Insurance Group, Inc., (SIGI) was called by the New Jersey Department of Banking and Insurance (NJDOBI) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The NJDOBI served as the lead state on the examination, and the INDOI and the New York State Department of Financial Services served as participants.

The NJDOBI staff provided all actuarial services throughout the examination and conducted a review of the Company's loss reserves and loss adjustment expense reserves as of December 31, 2012.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

No comments and recommendations were noted from the most recent report of examination for the Company.

HISTORY

The Company was incorporated on September 26, 1980, under the laws of the state of North Carolina as Southeast Insurance Company, a stock property and casualty insurance company. The Company commenced business on October 14, 1980. The Company became part of the SIGI insurance company holding system on July 1, 1980, when Selective Insurance Company of America (SICA) acquired all of the outstanding shares of common stock of the Company. The Company subsequently merged with Southeastern Fire Insurance Company on March 2, 1981 and changed its name to Southeastern Fire Insurance Company. On January 2, 1986, the Company changed its name to SICSE. On July 1, 1992, the SIGI organizational structure was changed whereby the Company became a direct wholly-owned subsidiary of SIGI. Effective June 30, 2008, the Company re-domesticated to Indiana from North Carolina.

CAPITAL AND SURPLUS

The Company's Articles of Incorporation authorize 500,000 shares of \$10 par value common capital stock. As of December 31, 2012, 365,000 of the Company's 500,000 authorized shares of common stock were issued and outstanding. SIGI owns 100% of the Company's issued and outstanding common stock.

DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends to its parent, SIGI, during the examination period:

<u>Year</u>	<u>Ordinary Dividends</u>
2012	\$ 511,000
2011	2,044,000
2010	3,985,800
2009	5,000,500
2008	6,000,600
Total	<u>\$17,541,900</u>

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of ten percent (10%) of the prior year's surplus or the net gains from operations of such insurer of the prior year. Dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to SIGI during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company was licensed in the District of Columbia and the following thirty (30) states as of December 31, 2012:

Alabama	Maryland	Oklahoma
Connecticut	Massachusetts	Pennsylvania
Delaware	Michigan	Rhode Island
Florida	Minnesota	South Carolina
Georgia	Mississippi	South Dakota
Illinois	Missouri	Tennessee
Indiana	New Jersey	Texas
Iowa	New York	Virginia
Kentucky	North Carolina	West Virginia
Louisiana	Ohio	Wisconsin

Through a sales force of independent agents, the Company offers primary and alternative market insurance for commercial and personal risks. Commercial insurance for light industry, public entities, and small and medium-sized businesses represented 86% of the Company's insurance operations during 2012. The Company also offers personal insurance products including automobile, homeowners, and personal umbrella representing 14% of the Company's insurance operations during 2012.

As of December 31, 2012, the commercial lines included bond risks, business owners' policy, commercial automobile, commercial property, general liability, and workers' compensation through traditional insurance and alternative risk management products. The personal lines included homeowners, personal automobile, and other various risks, including excess and dwelling fire coverage.

GROWTH OF THE COMPANY

The following exhibit, shown in thousands, summarizes the financial results of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2012	\$ 380,536	\$ 310,833	\$ 69,703	\$ 110,871	\$ 1,593
2011	364,399	295,137	69,261	100,752	283
2010	338,032	266,169	71,863	99,023	5,230
2009	334,785	265,607	69,178	100,804	6,656
2008	321,414	253,952	67,462	106,203	8,748

The Company's total capital and surplus was \$69.7 million at December 31, 2012, a decrease of approximately 10.4% compared to December 31, 2007. Surplus has increased three (3) out of the past five (5) years with 2008 and 2011 being the exception years when surplus declined 13.3% and 3.6%, respectively. The decrease in capital and surplus is primarily attributable to the 2008 year as a result of a decrease in unrealized gains on common stock.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide the business affairs of the Company are to be managed by a Board of Directors consisting of not less than nine (9) and no more than fifteen (15) persons. The stockholder, at its annual meeting, elects the members of the Board of Directors.

The following is a listing of persons serving as Directors at December 31, 2012:

Name and Address	Principal Occupation
Susan Blennerhassett Sweeney Farmington, Connecticut	Senior Vice President, Chief Investment Officer Selective Insurance Company of America
Erik Alvin Reidenbach Fishers, Indiana	Senior Vice President, Heartland Regional Manager Selective Insurance Company of America
Ronald Edward St. Clair Sparta, New Jersey	Executive Vice President, Chief Information Officer Selective Insurance Company of America
Michael Haran Lanza Jamestown, Rhode Island	Executive Vice President and General Counsel Selective Insurance Company of America
John Joseph Marchioni Andover, New Jersey	Executive Vice President, Insurance Operations Selective Insurance Company of America
Gregory Edward Murphy Sparta, New Jersey	Chairman, President, and Chief Executive Officer Selective Insurance Company of America
Charles Anthony Musilli, III Wantage, New Jersey	Senior Vice President, Selective Specialty and Distribution Selective Insurance Company of America
Dale Allen Thatcher Sparta, New Jersey	Executive Vice President, Chief Financial Officer Selective Insurance Company of America
Ronald Joseph Zaleski, Sr. Andover, New Jersey	Executive Vice President, Chief Actuary Selective Insurance Company of America

Officers

The Bylaws state the officers of the Company, who shall be elected by the Board of Directors, shall consist of a President, one (1) or more Executive Vice Presidents, one (1) or more Vice Presidents, a Secretary, a Treasurer, and such other officers the Board of Directors may elect. Any two (2) offices may be held by the same person. The following is a list of key officers and their respective titles as of December 31, 2012:

Name	Office
Gregory Edward Murphy	President, Chief Executive Officer
Michael Haran Lanza	Secretary, Executive Vice President
Jennifer Wilson DiBerardino	Treasurer, Senior Vice President
Anthony David Harnett	Senior Vice President, Corporate Controller
Dale Allen Thatcher	Executive Vice President, Chief Financial Officer
John Joseph Marchioni	Executive Vice President, Insurance Operations
Ronald Joseph Zaleski, Sr.	Executive Vice President, Chief Actuary
Ronald Edward St. Clair	Executive Vice President, Chief Information Officer

Corporate Governance

The corporate governance was evaluated through a review of the Company's Corporate Governance Guidelines, Executive Officer and Board of Directors member interviews, Board of Director general meeting minutes, SIGI committee minutes, and other various examination documentation obtained from the NJDOBI in its coordinated examination of the Company's affiliates. The Corporate Governance review followed the format provided by Exhibit M of the Handbook.

CONFLICT OF INTEREST

Directors and officers are required to complete a Conflict of Interest statement annually. It was determined that directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of year-end 2012.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. It was determined that each director subscribe to an Oath of Office.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments made to the Bylaws during the examination period.

Minutes

The Board of Directors and Shareholder meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular Board of Directors meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

SIGI is the ultimate controlling entity of the insurance holding company system. The Company and its insurer affiliates, as shown below in this abbreviated organizational chart, are wholly-owned direct subsidiaries of SIGI:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
Selective Insurance Group, Incorporated		
SICSE	39926	IN
SICSC	19259	IN
Selective Insurance Company of America (SICA)	12572	NJ
Selective Way Insurance Company (SWIC)	26301	NJ
Selective Insurance Company of New York (SICNY)	13730	NY
Selective Auto Insurance Company of New Jersey (SAICNJ)	11074	NJ
Selective Insurance Company of New England (SICNE)	11867	NJ
Mesa Underwriters Specialty Insurance Company (MUSIC)	36838	NJ
Selective Casualty Insurance Company (SCIC)	14376	NJ
Selective Fire & Casualty Insurance Company (SFCIC)	14377	NJ

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B - Holding Company Registration Statement in accordance with IC 27-1-23-3 and filed individually, as required, with the INDOI in accordance with IC 27-1-23-4.

Service Agreement

Effective July 1, 1995, the Company and its affiliates, SWIC and SICSC, entered into a Service Agreement with SICA, with SICNE as an additional signatory on January 1, 2004, and SAICNJ as an additional signatory effective July 1, 2006. Effective June 30, 2008, the agreement was amended to reflect the re-domestication of the Company and SICSC to Indiana. In addition, SICA entered into Service Agreements with MUSIC (effective January 1, 2012), SCIC (effective July 1, 2012), and SFCIC (effective July 1, 2012). Under these agreements, SICA performs certain administrative services for these affiliates, including accounting, actuarial, auditing, claims, data processing services, legal, telecommunications, and underwriting, as well as to make certain equipment, facilities, and property available for use. Expenses are allocated back to its affiliates to be reimbursed based on the percentages set forth in the Second Amended and Restated Reinsurance Pooling Agreement (2012) (see Reinsurance section of this Report of Examination for further details). During 2012, the Company paid SICA \$16,500,000 under the terms of the Service Agreement.

Joint Investment Operations Agreement

Effective July 1, 1995, SICA entered into a Joint Investment Operation Agreement with the Company, SICSC, and SWIC (with amendments and additional signatories on July 1, 2004 (SICNE), January 1, 2006 (SAICNJ), and June 30, 2008). Effective June 30, 2008, the agreement was amended to reflect the re-domestication of the Company and SICSC to Indiana. In addition, SICA entered into Investment Services Agreements with MUSIC (effective January 1, 2012), SCIC (effective July 1, 2012), and SFCIC (effective July 1, 2012). Under these agreements, SICA provides investment services to each of these affiliates on a cost reimbursement basis. During 2012, the Company paid SICA \$639,000 under the terms of this agreement.

Effective January 1, 1993, SICA entered into an Investment Services Agreement with SICNY whereby SICA performs certain investment and related advisor services to help achieve certain operating economies and improve the investment performance of SICNY.

Revolving Demand Loan Agreement

SICA and its affiliated companies, SAICNJ, SICNE, SICSE, SICSC, and, SWIC, entered into an Intercompany Revolving Demand Loan Agreement effective June 1, 2006, under which SICA agrees to make revolving loans to each of these affiliates. The agreement was amended effective June 30, 2008 to reflect the re-domestication of the Company and SICSC to Indiana. No loans were made or outstanding under this agreement as of December 31, 2012.

Intercompany Revolving Demand Loan Agreement

SIGI and its subsidiaries, the Company and SICSC, entered into an Intercompany Revolving Demand Loan Agreement effective March 31, 2009, under which the Company and SICSC agree to make revolving loans to SIGI. On various dates in 2009 the Company lent an aggregate of \$17 million to SIGI, as well as an additional loan of \$18 million on December 29, 2011. The loans are payable in full demand with interest payable monthly at the "Federal Funds Effective Rate" published by the Wall Street Journal. As of December 31, 2011 and 2012, the total principal amounts outstanding were \$29,333,333 and \$27,916,667, respectively.

Amended and Restated Tax Allocation Agreement

The Company and its affiliates, along with the ultimate parent, SIGI, file a consolidated federal income tax return. Effective January 1, 2012, the Company entered into the Amended and Restated Tax Allocation Agreement (2012), which covers the allocation, settlement, and financial statement presentation of current federal income taxes among companies in the consolidated income tax return of SIGI and its subsidiaries. The Company and its affiliates entered into the First Amendment to Amended and Restated Tax Allocation Agreement (2012) effective July 1, 2012 to add SCIC and SFCIC to the agreement. These agreements provide for the allocation of federal income taxes based upon separate return calculations with current credit for net losses. As of December 31, 2012, the Company had \$3,000 of tax credit carry forwards and \$973,066 of alternative minimum tax carry forwards. There is \$311,145 of net operating loss carry forwards.

Reinsurance

See the Reinsurance section of this Report of Examination for further information on affiliated reinsurance agreements.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by employees through a fidelity bond issued to SIGI from Federal Insurance Company whereby the Company is a named insured. The Company is insured for losses up to \$5,000,000 with a \$10,000,000 aggregate limit. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

Other major insurance coverages in force at December 31, 2012, included Boiler & Machinery and Property, Commercial Umbrella Liability, Directors and Officers, Employment Practices Liability, Errors & Omissions, Fiduciary Liability, and Professional Liability. The Company also has insurance coverage for Automobile Liability, Building and Business Personal Property, Business Income, Difference in Condition (Flood & Earthquake), an ERISA Bond, General Liability, Inland Marine, Pollution Liability, and Workers' Compensation. All coverage was determined to be adequate as of December 31, 2012.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposits at December 31, 2012:

State	Book Value	Fair Value
For All Policyholders:		
Delaware	\$ 136,521	\$ 168,975
Florida	2,184,339	2,703,600
Georgia	163,826	202,770
Indiana	1,629,129	2,008,669
Kentucky	327,650	405,540
Massachusetts	633,458	784,044
North Carolina	327,651	405,540
Rhode Island	81,913	101,385
South Dakota	81,913	101,385
Tennessee	109,217	135,180
Texas	54,609	67,590
Total Deposits	<u>\$5,730,226</u>	<u>\$7,084,678</u>

REINSURANCE

Reinsurance Agreements with Affiliates

Effective July 1, 2012, the Company entered into the Second Amended and Restated Reinsurance Pooling Agreement (2012) (Pooling Agreement) with SICA, SWIC, SICSC, SICNY, SAICNJ, SICNE, MUSIC, SICIC, and SFCIC (each, a pool member, and collectively, pool members). Under the Pooling Agreement, each pool member cedes 100% of its underwriting activity (net of inuring third party reinsurance) to SICA, and SICA then retrocedes the net underwriting activity back to each pool member in accordance with each pool member's participation percentage as set forth in the Pooling Agreement.

The pooled percentages as of December 31, 2012, by company are as follows:

Name of Pool Members	Percentage of Pool	State of Domicile
Selective Insurance Company of America	32.0%	New Jersey
Selective Way Insurance Company	21.0%	New Jersey
Selective Insurance Company of South Carolina	9.0%	Indiana
Selective Insurance Company of the Southeast	7.0%	Indiana
Selective Insurance Company of New York	7.0%	New York
Selective Auto Insurance Company of New Jersey	6.0%	New Jersey
Selective Insurance Company of South Carolina	3.0%	New Jersey
Mesa Underwriters Specialty Insurance Company	5.0%	New Jersey
Selective Casualty Insurance Company	7.0%	New Jersey
Selective Fire & Casualty Insurance Company	3.0%	New Jersey
Total	<u>100.0%</u>	

Reinsurance Agreements with Non-Affiliates

The Group assumes required business from its participation from various voluntary and involuntary pools.

The Group had the following reinsurance program in effect at December 31, 2012:

CASUALTY

2012 Workers Compensation & Casualty Excess of Loss Treaty (various reinsurers)

Standard Lines

	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Total Limits
First Layer	\$ 2,000,000	\$ 3,000,000	\$ 5,000,000
Second Layer	5,000,000	7,000,000	12,000,000
Third Layer	12,000,000	9,000,000	21,000,000
Fourth Layer	21,000,000	9,000,000	30,000,000
Fifth Layer	30,000,000	20,000,000	50,000,000
Sixth Layer	50,000,000	40,000,000	90,000,000

Excess and Surplus Lines

As part of MUSIC's acquisition by SIGI on December 31, 2011, MUSIC entered into several reinsurance agreements that together provide protection for losses on policies written prior to the acquisition and any development on reserves established by MUSIC as of the date of acquisition. The reinsurance recoverables under these treaties are 100% collateralized.

PROPERTY

2012 Property Excess of Loss Treaty (various reinsurers)

	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Total Limits
First Layer	\$ 2,000,000	\$ 8,000,000	\$10,000,000
Second Layer	10,000,000	20,000,000	30,000,000

2012 Property Catastrophe (various reinsurers)

	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Total Limits
First Layer	\$ 40,000,000	\$ 60,000,000	\$100,000,000
Second Layer	100,000,000	125,000,000	225,000,000
Third Layer	225,000,000	250,000,000	475,000,000

The Company retains 5% in layer one (1) and 10% in the second and third layers.

In 2013, the Company added a fourth layer to their property catastrophe program. This layer protects the Company for 98% of \$150,000,000 excess of \$475,000,000 fourth layer.

OTHER REINSURANCE

2012 Surety and Fidelity Excess of Loss

	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Total Limits
First Layer	\$1,000,000	\$3,000,000	\$ 4,000,000
Second Layer			
Contract Surety	4,000,000	5,000,000	9,000,000
Commercial Surety	4,000,000	2,000,000	6,000,000
Third Layer			
Contract Surety	9,000,000	3,000,000	12,000,000

The Company and its affiliates, as the case may be, retain the first \$1 million and 10% co- participation of each layer.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the year ended December 31, 2012 was agreed to the Annual Statement without exception. The Annual Statements for the years ended December 31, 2008 through December 31, 2012, were agreed to each year's independent audit report with no exceptions noted. The Company's accounting procedures, practices, and account records were deemed satisfactory.

SELECTIVE INSURANCE COMPANY OF THE SOUTHEAST

Assets

As of December 31, 2012

	<u>Per Examination*</u>
Bonds	\$270,838,651
Stocks:	
Common stocks	1,350,000
Cash, cash equivalents and short-term investments	7,425,066
Other invested assets	29,189,134
Receivables for securities	22,149
Subtotals, cash and invested assets	<u>308,825,000</u>
Investment income due and accrued	2,196,052
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	13,739,531
Deferred premiums, agents' balances and installments booked but deferred and not yet due	28,500,103
Accrued retrospective premiums	62,042
Reinsurance:	
Amounts recoverable from reinsurers	12,894,177
Net deferred tax asset	9,938,886
Guaranty funds receivable or on deposit	83,085
Receivables from parent, subsidiaries and affiliates	1,299,528
Aggregate write-ins for other than invested assets	2,997,287
Totals	<u>\$380,535,691</u>

* There were no adjustments to the as-filed financial statements, therefore the annual statement amounts agree to the examination amounts.

SELECTIVE INSURANCE COMPANY OF THE SOUTHEAST
 Liabilities, Surplus and Other Funds
 As of December 31, 2012

	<u>Per Examination*</u>
Losses	\$155,880,072
Reinsurance payable on paid losses and loss adjustment expenses	7,556,739
Loss adjustment expenses	29,929,218
Commissions payable, contingent commissions and other similar charges	3,661,293
Other expenses	2,946,543
Taxes, licenses and fees	1,826,894
Current federal and foreign income taxes	418,531
Borrowed money	27,022,950
Unearned premiums	58,944,790
Advance premiums	285,427
Dividends declared and unpaid:	
Policyholders	186,535
Ceded reinsurance premiums payable	15,827,962
Funds held by company under reinsurance treaties	449,208
Amounts withheld or retained by company for account of others	382,401
Provision for reinsurance	545,581
Aggregate write-ins for liabilities	4,968,912
Total liabilities	310,833,056
Common capital stock	3,650,000
Gross paid in and contributed surplus	15,925,682
Unassigned funds (surplus)	50,126,953
Surplus as regards policyholders	69,702,635
Totals	\$380,535,691

* There were no adjustments to the as-filed financial statements, therefore the annual statement amounts agree to the examination amounts.

SELECTIVE INSURANCE COMPANY OF THE SOUTHEAST

Statement of Income

For the year ended December 31, 2012

	<u>Per Examination*</u>
UNDERWRITING INCOME	
Premiums earned	<u>\$110,870,814</u>
DEDUCTIONS	
Losses incurred	66,741,433
Loss adjustment expenses incurred	11,671,496
Other underwriting expenses incurred	38,354,163
Aggregate write-ins for underwriting deductions	<u>50,198</u>
Total underwriting deductions	<u>116,817,290</u>
Net underwriting gain (loss)	<u>(5,946,476)</u>
INVESTMENT INCOME	
Net investment income earned	7,602,946
Net realized capital gains (losses) less capital gains tax	244,667
Net investment gain (loss)	<u>7,847,613</u>
OTHER INCOME	
Net gain (loss) from agents' or premium balances charged off	(237,895)
Finance and service charges not include in premium	483,198
Aggregate write-ins for miscellaneous income	274,708
Total other income	<u>520,011</u>
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,421,148
Dividends to policyholders	<u>241,387</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,179,761
Federal and foreign income taxes incurred	586,807
Net income	<u>\$ 1,592,954</u>

* There were no adjustments to the as-filed financial statements, therefore the annual statement amounts agree to the examination amounts.

SELECTIVE INSURANCE COMPANY OF THE SOUTHEAST
Capital and Surplus Account
As of December 31

	2012	2011	2010	2009	2008
Surplus as regards policyholders, December 31 prior year	\$69,261,492	\$71,863,253	\$69,177,519	\$67,462,367	\$77,832,113
Net income	1,592,954	283,355	5,230,177	6,656,259	8,747,772
Change in net unrealized capital gains or (losses) less capital gains tax	(37,391)	(126,401)	833,417	(2,108,404)	(7,152,147)
Change in net unrealized foreign exchange capital gain (loss)	-	-	-	-	-
Change in net deferred income tax	938,116	(73,416)	644,581	856,699	753,373
Change in nonadmitted assets	(124,770)	224,288	(517,134)	(1,470,874)	(4,927,530)
Change in provision for reinsurance	(170,078)	47,165	(137,214)	262,837	(76,604)
Cumulative effect of changes in accounting principles	2,898,437	-	-	-	-
Capital changes:					
Paid in	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	-
Dividends to stockholders	(511,000)	(2,044,000)	(3,985,800)	(5,000,500)	(6,000,600)
Aggregate write-ins for gains and losses in surplus	(4,145,125)	(912,752)	617,707	2,519,135	(1,714,010)
Change in surplus as regards policyholders for the year	441,143	(2,601,761)	2,685,734	1,715,152	(10,369,746)
Surplus as regards policyholders, December 31 current year	<u>\$69,702,635</u>	<u>\$69,261,492</u>	<u>\$71,863,253</u>	<u>\$69,177,519</u>	<u>\$67,462,367</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2012 based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

There were no significant findings made as a result of this examination.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of field work which were considered material events requiring disclosure in this Report of Examination.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination on Selective Insurance Company of the Southeast, as of December 31, 2012.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for the examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of Selective Insurance Company of the Southeast as of December 31, 2012, as determined by the undersigned.




William A. O'Connell, CPA, CFE, CIA
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 3 day of December, 2013 before me personally appeared, William A. O'Connell, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires



Notary Public

