SAFETY INSURANCE GROUP INC
Form 10-K
March 17, 2014

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA
SAFETY INSURANCE GROUP, INC.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number 000-50070

SAFETY INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-4181699**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20 Custom House Street, Boston, Massachusetts 02110
(Address of principal executive offices including zip code)

(617) 951-0600
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Shares, $0.01 par value per share	NASDAQ Global Select Market

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of the registrant's voting and non-voting common equity (based on the closing sales price on NASDAQ) held by non-affiliates of the registrant as of June 30, 2013, was approximately $678,718,982.

As of March 11, 2014, there were 15,389,382 Common Shares with a par value of $0.01 per share outstanding.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for its Annual Meeting of Shareholders to be held on May 23, 2014, which Safety Insurance Group, Inc. (the "Company", "we", "our", "us") intends to file within 120 days after its December 31, 2013 year-end, are incorporated by reference into Part II and Part III hereof.

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SAFETY INSURANCE GROUP, INC.

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In this Form 10-K, all dollar amounts are presented in thousands, except average premium, average claim and per claim data, share, and per share data.

PART I.

ITEM 1. BUSINESS

General

We are a leading provider of private passenger automobile insurance in Massachusetts. In addition to private passenger automobile insurance (which represented 63.9% of our direct written premiums in 2013), we offer a portfolio of property and casualty insurance products, including commercial automobile, homeowners, dwelling fire, umbrella and business owner policies. Operating exclusively in Massachusetts and New Hampshire through our insurance company subsidiaries, Safety Insurance Company ("Safety Insurance"), Safety Indemnity Insurance Company ("Safety Indemnity") and Safety Property and Casualty Insurance Company ("Safety P&C") (together referred to as the "Insurance Subsidiaries"), we have established strong relationships with independent insurance agents, who numbered 893 in 1,047 locations throughout Massachusetts and New Hampshire during 2013. We have used these relationships and our extensive knowledge of the Massachusetts market to become the third largest private passenger automobile carrier, capturing an approximate 10.8% share of the Massachusetts private passenger automobile insurance market, and the third largest commercial automobile carrier, with a 13.1% share of the Massachusetts commercial automobile insurance market in 2013 according to statistics compiled by Commonwealth Automobile Reinsurers ("CAR"). In addition, we were also ranked the 46th largest automobile writer in the country according to A.M. Best, based on 2012 direct written premiums. We were incorporated under the laws of Delaware in 2001, but through our predecessors, we have underwritten insurance in Massachusetts since 1979.

Our Insurance Subsidiaries began writing private passenger automobile and homeowners insurance in New Hampshire during 2008, personal umbrella insurance during 2009, and commercial automobile insurance during 2011. During the years ended December 31, 2013, 2012, and 2011, the Company wrote $13,773, $9,057, and $5,750 in direct written premiums, respectively, and approximately 15,580, 11,000, and 4,500 policies, respectively, in New Hampshire.

Website Access to Information

The Internet address for our website is *www.SafetyInsurance.com*. All of our press releases and United States Securities and Exchange Commission ("SEC") reports are available for viewing or download at our website. These documents are made available on our website as soon as reasonably practicable after each press release is made and SEC report is filed with, or furnished to, the SEC. Copies of any current public information about our company are available without charge upon written, telephone, faxed or e-mailed request to the Office of Investor Relations, Safety Insurance Group, Inc., 20 Custom House Street, Boston, MA 02110, Tel: 877-951-2522, Fax: 617-603-4837, or e-mail: *InvestorRelations@SafetyInsurance.com*. The materials on our website are not part of this report on Form 10-K nor are they incorporated by reference into this report and the URL above is intended to be an inactive textual reference only.

Our Competitive Strengths

We Have Strong Relationships with Independent Agents. In 2012, independent agents accounted for approximately 73.0% of the Massachusetts automobile insurance market measured by direct written premiums as compared to only about 34.6% nationwide, according to A.M. Best. For that reason, our strategy is centered around, and we sell exclusively through, a network of independent agents, who

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numbered 893 in 1,047 locations throughout Massachusetts and New Hampshire during 2013. In order to support our independent agents and enhance our relationships with them, we:

- provide our agents with a portfolio of property and casualty insurance products at competitive prices to help our agents address effectively the insurance needs of their clients;
- provide our agents with a variety of technological resources which enable us to deliver superior service and support to them; and
- offer our agents competitive commission schedules and profit sharing programs.

Through these measures, we strive to become the preferred provider of the independent agents in our agency network and capture a growing share of the total insurance business written by these agents in Massachusetts. We must compete with other insurance carriers for the business of independent agents.

We Have an Uninterrupted Record of Profitable Operations. In every year since our inception in 1979, we have been profitable. We have achieved our profitability, among other things, by:

- maintaining the number of private passenger automobile exposures we underwrite, which totaled 475,824 in 2013 compared to 455,162 in 2009;
- maintaining a combined ratio that is typically below industry averages (refer to Insurance Ratios under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion on insurance ratios);
- taking advantage of the institutional knowledge our management has amassed during our long operating history in the Massachusetts market;
- introducing new lines and forms of insurance products;
- investing in technology to simplify internal processes and enhance our relationships with our agents; and
- maintaining a high-quality investment portfolio.

We Are a Technological Leader. We have dedicated significant human and financial resources to the development of advanced information systems. Our technology efforts have benefited us in two distinct ways. First, we continue to develop technology that empowers our independent agent customers to make it easier for them to transact business with their clients and with the Insurance Subsidiaries. In our largest business line, private passenger automobile insurance, our agents now submit approximately 99.0% of all applications for new policies or endorsements for existing policies to us electronically through our proprietary information portal, the Agents Virtual Community ("AVC"). Our agents can also submit commercial automobile and homeowners insurance policies electronically over AVC. Second, our investment in technology has allowed us to re-engineer internal back office processes to provide more efficient service at lower cost.

We Have an Experienced, Committed and Knowledgeable Management Team. Our senior management team owns approximately 6.9% of the common stock of Safety Insurance Group, Inc. on a fully diluted basis. Our senior management team, led by our President, Chief Executive Officer and Chairman of the Board, David F. Brussard, has an average of over 34 years of industry experience per executive, as well as an average of over 32 years of experience with Safety. The team has demonstrated an ability to operate successfully within the regulated Massachusetts private passenger automobile insurance market.

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Our Strategy

To achieve our goal of increasing shareholder value, our strategy is to maintain and develop strong independent agent relationships by providing our agents with a full package of insurance products and information technology services. We believe this strategy will allow us to:

- further penetrate the Massachusetts and New Hampshire private passenger, commercial automobile and homeowners insurance markets;
- implement rates, forms and billing options that allow us to cross-sell homeowners, dwelling fire, and personal umbrella in the personal lines market and business owner policies, commercial property package and commercial umbrella in the commercial lines market in order to capture a larger share of the total Massachusetts property and casualty insurance business written by each of our independent agents; and
- continue to expand our technology to enable independent agents to more easily serve their customers and conduct business with us, thereby strengthening their relationships with us.

The Massachusetts Property and Casualty Insurance Market

Introduction. We are licensed by the Commissioner of Insurance (the "Commissioner") to transact property and casualty insurance in Massachusetts. All of our business is extensively regulated by the Commissioner.

The Massachusetts Market for Private Passenger Automobile Insurance. Private passenger automobile insurance has been heavily regulated in Massachusetts. In many respects, the private passenger automobile insurance market in Massachusetts prior to 2008 was unique, in comparison to other states. This was due to a number of factors, including unusual regulatory conditions, the market dominance of domestic companies, the relative absence of large national companies, and the heavy reliance on independent insurance agents as the market's principal distribution channel. Perhaps most significantly, prior to 2008, the Massachusetts Commissioner of Insurance fixed and established the premium rates and the rating plan to be used by all insurance companies doing business in the private passenger automobile insurance market. The Massachusetts private passenger automobile insurance residual market mechanism featured a reinsurance program run by CAR in which companies were assigned Exclusive Representative Producers ("ERPs").

In 2008, the Commissioner issued a series of decisions to introduce what she termed managed competition ("Managed Competition") to Massachusetts automobile insurance premium rates and in doing so replaced the fixed and established regime with a prior approval rate review process, governed by regulations that set certain terms and conditions that insurers must comply with in establishing their rates. The Commissioner also replaced the former reinsurance program with an assigned risk plan.

These decisions removed many of the factors that had historically distinguished the Massachusetts private passenger automobile insurance market from the market in other states. However, certain of the historically unique factors have not been eliminated, including compulsory insurance, affinity group marketing, and the prominence of independent agents.

Products

Historically, we have focused on underwriting private passenger automobile insurance, which is written through our subsidiary, Safety Insurance. In 1989, we formed Safety Indemnity to offer commercial automobile insurance at preferred rates. Since 1997, we have expanded the breadth of our product line in order for agents to address a greater portion of their clients' insurance needs by selling multiple products. Homeowners, business owners policies, personal umbrella, dwelling fire and commercial umbrella insurance are written by Safety Insurance at standard rates, and written by Safety

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Indemnity at preferred rates. In December 2006, we formed Safety P&C to offer homeowners and commercial automobile insurance at ultra preferred rates.

The table below shows our premiums in each of these product lines for the periods indicated and the portions of our total premiums each product line represented.

	Years Ended December 31,					
Direct Written Premiums	**2013**		**2012**		**2011**	
Private passenger automobile	**$ 467,431**	**63.9%**	$ 459,065	65.9%	$ 436,175	67.2%
Commercial automobile	**86,003**	**11.8**	76,469	11.0	68,355	10.5
Homeowners	**144,925**	**19.8**	131,247	18.9	117,649	18.1
Business owners	**19,688**	**2.7**	16,929	2.4	15,709	2.4
Personal umbrella	**5,927**	**0.8**	5,397	0.8	4,982	0.8
Dwelling fire	**6,811**	**0.9**	6,305	0.9	5,646	0.9
Commercial umbrella	**895**	**0.1**	808	0.1	746	0.1
Total	**$ 731,680**	**100.0%**	$ 696,220	100.0%	$ 649,262	100.0%

Our product lines are as follows:

Private Passenger Automobile (63.9% of 2013 direct written premiums). Private passenger automobile insurance is our primary product, and we support all Massachusetts policy forms and limits of coverage. Private passenger automobile policies provide coverage for bodily injury and property damage to others, no-fault personal injury coverage for the insured/insured's car occupants, and physical damage coverage for an insured's own vehicle for collision or other perils. We have priced our private passenger coverage competitively by offering group discounts since 1995 and we currently offer approximately 113 affinity group discount programs ranging from 3.0% to 8.0% discounts. Under Massachusetts' Managed Competition regulations, we offer various new discounts including a discount of up to 10.0% when a private passenger policy is issued along with an other than private passenger policy with us, a longevity/renewal credit of up to 4.0% for policyholders who maintain continuous coverage with us, and up to a 7.0% e-Customer discount for policyholders who want electronic policy issuance with one combined bill for all of their policies with us. During 2013, we filed and were approved for various rate increases and decreases whose total netted out to approximately 0.0%. As of December 1, 2013, we were using 768 rating tiers.

Commercial Automobile (11.8% of 2013 direct written premiums). Our commercial automobile program supports all Massachusetts policy forms and limits of coverage including endorsements that broaden coverage over and above that offered on the standard Massachusetts policy forms. Commercial automobile policies provide coverage for bodily injury and property damage to others, no-fault personal injury coverage, and physical damage coverage for an insured's own vehicle for collision or other perils resulting from the ownership or use of commercial vehicles in a business. We offer insurance for commercial vehicles used for business purposes such as private passenger-type vehicles, trucks, tractors and trailers, and insure individual vehicles as well as commercial fleets. Commercial automobile policies are written at a standard rate through Safety Insurance. We did not file for Massachusetts commercial automobile insurance rate changes during 2013. Qualifying risks eligible for preferred rates are written through Safety Indemnity which offers rates that are 20.0% lower than Safety Insurance. Qualifying risks eligible for ultra preferred rates are written through Safety P&C which offers rates that are 35.0% lower than Safety Insurance.

Homeowners (19.8% of 2013 direct written premiums). We offer a broad selection of coverage forms for qualified policyholders. Homeowners policies provide coverage for losses to a dwelling and its contents from numerous perils, and coverage for liability to others arising from ownership or occupancy. We write policies on homes, condominiums, and apartments. We offer loss-free credits of up to 16.0% for eight years of loss-free experience, an account credit of up to 20.0% when a home is written together with an automobile, and up to a 5.0% e-Customer discount for policyholders who want electronic policy issuance with one combined bill for all of their policies with us. We received approval for a Massachusetts rate increase of 3.3% effective December 1, 2013. All forms of homeowners coverage are written at a standard rate through Safety Insurance. Qualifying risks eligible for preferred rates are written through Safety Indemnity which offers rates that are 13.0% lower than Safety Insurance. Homes with high insured property values are written through Safety P&C.

Business Owners Policies (2.7% of 2013 direct written premiums). We serve eligible small and medium sized commercial accounts with a program that covers apartments and residential condominiums; mercantile establishments, including limited cooking restaurants; offices, including office condominiums; processing and services businesses; special trade contractors; and wholesaling businesses. Business owner policies provide liability and property coverage for many perils, including business interruption from a covered loss. Equipment breakdown coverage is automatically included, and a wide range of additional coverage is available to qualified customers. We write policies for business owners at standard rates with qualifying risks eligible for preferred lower rates.

Commercial Package Policies (Included in our Business Owners Policies direct written premiums). For larger commercial accounts or those clients that require more specialized or tailored coverages, we offer a commercial package policy program that covers a more extensive range of business enterprises. Commercial package policies provide any combination of property, general liability, crime and inland marine insurance. Property automatically includes equipment breakdown coverage, and a wide range of additional coverage is available to qualified customers. We write commercial package policies at standard rates with qualifying risks eligible for preferred lower rates.

Personal Umbrella (0.8% of 2013 direct written premiums). We offer personal excess liability coverage over and above the limits of individual automobile, watercraft, and homeowner's insurance policies to clients. We offer an account credit of 10.0% when an umbrella policy is written together with an automobile insurance policy. We write policies at standard rates with limits of $1,000 to $5,000.

Dwelling Fire (0.9% of 2013 direct written premiums). We underwrite dwelling fire insurance, which is a limited form of a homeowner's policy for non-owner occupied residences. We offer superior construction and protective device credits, with an account credit of 5.0% when a dwelling fire policy is issued along with an automobile policy. We write all forms of dwelling fire coverage at standard rates with qualifying risks eligible for preferred lower rates.

Commercial Umbrella (0.1% of 2013 direct written premiums). We offer an excess liability product to clients for whom we underwrite both commercial automobile and business owner policies. The program is directed at commercial automobile risks with private passenger-type automobiles or light and medium trucks. We write commercial umbrella policies at standard rates with limits ranging from $1,000 to $5,000.

Inland Marine (Included in our Homeowners direct written premiums). We offer inland marine coverage as an endorsement for all homeowners and business owner policies, and as part of our commercial package policy. Inland marine provides additional coverage for jewelry, fine arts and other items that a homeowners or business owner policy would limit or not cover. Scheduled items valued at more than $5 must meet our underwriting guidelines and be appraised.

Watercraft (Included in our Homeowners direct written premiums). We offer watercraft coverage for small and medium sized pleasure craft with maximum lengths of 32 feet, valued at less than $75 and maximum speed of 39 knots. We write this coverage as an endorsement to our homeowner's policies.

In the wake of the September 11, 2001 tragedies, the insurance industry is also impacted by terrorism, and we have filed and received approval for a number of terrorism endorsements from the

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Commissioner, which limit our liability and property exposure according to the Terrorism Risk Insurance Act of 2002, the Terrorism Risk Insurance Extension Act of 2005 and the Terrorism Risk Insurance Program Reauthorization Act of 2007. See "Reinsurance," discussed below.

Distribution

We distribute our products exclusively through independent agents, unlike some of our competitors who use multiple distribution channels. We believe this gives us a competitive advantage with the agents. With the exception of personal automobile business assigned to us by the Massachusetts Automobile Insurance Plan ("MAIP") or written through CAR's commercial automobile Limited Servicing Carrier program, we do not accept business from insurance brokers. Our voluntary agents have authority pursuant to our voluntary agency agreement to bind our Insurance Subsidiaries for any coverage that is within the scope of their authority. We reserve the ability under Massachusetts law to cancel any coverage, other than private passenger automobile insurance, within the first 30 days after it is bound. In total, our independent agents numbered 893 and had 1,047 offices (some agencies have more than one office) and approximately 7,504 customer service representatives during 2013.

Voluntary Agents. In 2013, we obtained approximately 93.7% of our direct written premiums for automobile insurance and 100% of our direct written premiums for all of our other lines of business through our voluntary agents. As of January 31, 2014, we had agreements with 706 voluntary agents. Our voluntary agents are located in all regions of Massachusetts and New Hampshire.

We look for agents with profitable portfolios of business. To become a voluntary agent for our Company, we generally require that an agency: (i) have been in business for at least five years; (ii) have exhibited a three year private passenger average ratio of losses, excluding loss adjustment expenses, to net earned premiums ("pure loss ratio") of 65.0% or less on the portion of the agent's portfolio that we would underwrite; (iii) make a commitment for us to underwrite at least 300 policies from the agency during the first twelve months after entering an agreement with us; and (iv) offer multiple product lines. Every year, we review the performance of our agents during the prior year. If an agent fails to meet our profitability standards, we try to work with the agent to improve the profitability of the business it places with us. We generally terminate contracts each year with a few agencies, which, despite our efforts, have been consistently unable to meet our standards. Although independent agents usually represent several unrelated insurers, our goal is to be one of the top two insurance companies represented in each of our agencies, as measured by premiums. No individual agency generated more than 4.2% of our direct written premiums in 2013.

Massachusetts law guarantees that CAR provide motor vehicle insurance coverage to all qualified applicants. Under MAIP, policies will be assigned to us for three years, unless the policyholder is offered a voluntary policy by another insurer. Beginning April 1, 2008, all Massachusetts agents were authorized to submit eligible business to the MAIP for random assignment to a servicing carrier such as Safety Insurance. We began receiving individual policies assigned to us from the MAIP on April 1, 2008. As a result of CAR's new rules effective April 1, 2009, ERPs were no longer assigned to us or any Massachusetts personal automobile insurer, and we have been instead allocated all residual market business through the MAIP.

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CAR runs a reinsurance pool for commercial automobile policies. On January 1, 2006, CAR implemented a Limited Servicing Carrier Program ("LSC") for ceded commercial automobile policies. CAR approved Safety Insurance and five other servicing carriers through a Request for Proposal to process ceded commercial automobile business for a five-year term ending January 1, 2011. During 2010 CAR requested bids through a Request for Proposal process that reduced the number of servicing carriers from six to four. CAR approved Safety and three other servicing carriers to process ceded commercial automobile insurance with a delayed effective date of July 1, 2011. Approximately $100,000 of ceded premium is spread equitably among the four servicing carriers. Subject to the Commissioner's review, CAR sets the premium rates for commercial automobile policies reinsured through CAR and this reinsurance pool can generate an underwriting result that is a profit or deficit based upon CAR's rate level. This underwriting result is allocated among every Massachusetts commercial automobile insurance company, including us, based on a company's commercial automobile voluntary market share.

CAR also runs a reinsurance pool for Taxi, Limousine and Car Service risks (the "Taxi/Limo Program"). CAR approved Safety as one of the two servicing carriers for this program beginning January 1, 2011 until December 31, 2016. Approximately $8,000 of ceded premium was spread equitably between the two servicing carriers.

We are assigned independent agents by CAR who can submit commercial business to us in the LSC and Taxi/Limo Program, and we classify those agents as commercial LSC producers.

The table below shows our direct written exposures in each of our product lines for the periods indicated and the change in exposures for each product line.

	Years Ended December 31,					
	2013		2012		2011	
Line of Business	**Exposures**	**Change**	**Exposures**	**Change**	**Exposures**	**Change**
Private passenger automobile:						
Voluntary agents	**466,209**	**0.9%**	462,087	4.5%	442,057	5.0%
ERPs				-100.0	16,468	-47.6
MAIP	**9,615**	**-36.4**	15,114	-19.2	18,713	5.8
Total private passenger automobile	**475,824**	**-0.3**	477,201		477,238	1.5
Commercial automobile:						
Voluntary agents	**54,934**	**11.2**	49,423	12.0	44,133	3.8
LSC Producers	**6,411**	**9.1**	5,879	17.2	5,017	35.6
Total commercial automobile	**61,345**	**10.9**	55,302	12.5	49,150	6.4
Other:						
Homeowners	**147,882**	**5.7**	139,969	7.2	130,563	11.5
Business owners	**9,384**	**9.5**	8,568	9.6	7,815	0.4
Personal umbrella	**21,551**	**7.9**	19,966	7.1	18,646	12.9
Dwelling fire	**6,302**	**6.6**	5,914	13.6	5,207	10.1
Commercial umbrella	**652**	**11.5**	585	5.2	556	4.9
Total other	**185,771**	**6.2**	175,002	7.5	162,787	11.0
Total	**722,940**	**2.2**	707,505	2.7	689,175	3.9

Total voluntary agents	**706,914**	**3.0**	686,512	5.8	648,977	6.3

Our total written exposures increased by 2.2% for the year ended December 31, 2013. The increase was primarily the result of our voluntary agent written exposures increasing by 3.0%. Our private passenger ERP written exposures have been eliminated with full implementation of MAIP. Our commercial automobile exposures increased by 10.9% in 2013 due to additional exposures from

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voluntary agents who were LSC Producers in previous years. Our other than auto exposures increased by 6.2% in 2013 primarily as a result of our voluntary agents' efforts to sell multiple products to their clients and our pricing strategy of offering account discounts to policyholders who insure both their home and automobile with us. In 2013, 52.4% of the private passenger automobile exposures we insure had an other than private passenger policy with us, compared to 49.9% and 41.4% in 2012 and 2011, respectively. In addition, 83.6% of our homeowners policyholders had a matching automobile policy with us in 2013 compared to 83.6% and 83.1% in 2012 and 2011, respectively.

Marketing

We view the independent agent as our customer and business partner. As a result, a component of our marketing efforts focuses on developing interdependent relationships with leading Massachusetts agents that write profitable business and positioning ourselves as the preferred insurance carrier of those agents, thereby receiving a larger portion of each agent's aggregate business. Our principal marketing strategies to agents are:

- to offer a range of products, which we believe enables our agents to meet the insurance needs of their clients, and overcomes the agent's resistance to placing their clients' automobile, homeowners and other coverages with different insurers;

- to price our products competitively, including offering discounts when and where appropriate for safer drivers and for affinity groups for our personal automobile products, loss-free credits for our homeowner products and also offering account discounts for policyholders that have more than one policy with us;

- to design, price and market our products to our agents for their customers to place all their insurance with us;

- to offer agents competitive commissions, with incentives for placing their more profitable business with us; and

- to provide a level of support and service that enhances the agent's ability to do business with its clients and with us.

Beginning in 2007, we started a comprehensive branding campaign using a variety of radio, television, internet and print advertisements.

Commission Schedule and Profit Sharing Plan. We have several programs designed to attract profitable new business from agents by paying them more than the minimum commission the law requires for private passenger auto (which is 13.0% of premiums for 2013 and 2012). We recognize our top performing agents by making them members of either our Chairman's Elite, Chairman's, President's, Executive's or Preferred Agent's Club. In 2013, members of these Clubs received a commission of up to 18.0% of premiums for each new private passenger auto policy and up to 22.0% of premiums for each new homeowner policy.

Further, we have a competitive agency incentive commission program under which we pay agents up to 7.5% of premiums based on the loss ratio on their business.

Service and Support. We believe that the level and quality of service and support we provide helps differentiate us from other insurers. We have made a significant investment in information technology designed to facilitate our agents' business. Our AVC website helps agents manage their work efficiently. We provide a substantial amount of information online that agents need to serve their customers, such as information about the status of new policies, bill payments and claims. Providing this type of content reduces the number of customer calls we receive and empowers the agent's customer service representatives by enabling them to respond to customers' inquiries while the customer is on the

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telephone. Finally, we believe that the knowledge and experience of our employees enhances the quality of support we provide.

Underwriting

Our underwriting department is responsible for a number of key decisions affecting the profitability of our business, including:

- pricing of our private passenger automobile product, commercial automobile, homeowners, dwelling fire, personal umbrella, business owners policies, commercial umbrella and commercial package products;

- determining underwriting guidelines for all our products; and

- evaluating whether to accept transfers of a portion of an existing or potential new agent's portfolio from another insurer.

Pricing. Prior to April 1, 2008, our pricing strategy for private passenger automobile insurance primarily depended on the maximum permitted premium rates and minimum permitted commission levels mandated by the Commissioner. Beginning April 1, 2008 subject to the Commissioner's review, we set rates for our private passenger business using industry loss cost data, our own loss experience, residual market deficits, catastrophe modeling and prices charged by our competitors in the Massachusetts market. Beginning April 1, 2008 subject to Commissioner's review, CAR sets the premium rates for personal automobile policies assigned to carriers by the MAIP. However, companies may only charge the insured the lower of the CAR/MAIP rate or the company's competitive voluntary market rate. Safety Insurance's approved rates consists of 768 tiers effective December 1, 2013.

We offer group discounts to members of 113 affinity groups. In general, we target affinity groups with a mature and stable membership base along with favorable driving records, offering between a 3.0% and 8.0% discount (with 4.0% being the average discount offered).

Subject to the Commissioner's review, CAR sets the premium rates for commercial automobile policies reinsured through CAR. Subject to the Commissioner's review, we set rates for commercial automobile policies that are not reinsured through CAR, and for all other insurance lines we offer, including homeowners, dwelling fire, personal umbrella, commercial umbrella, commercial package policies and business owner policies. We base our rates on our own loss experience, residual market deficits, catastrophe modeling, industry loss cost data and prices charged by our competitors in the Massachusetts market. We have three pricing segments for most products, utilizing Safety Insurance for standard rates, Safety Indemnity for preferred rates and Safety P&C for ultra preferred rates.

CAR Reinsurance Pool. CAR runs a reinsurance pool for commercial automobile policies and beginning January 1, 2006, we became one of six servicing carriers that could service commercial automobile policies for CAR. In 2010, CAR reduced the number of servicing carriers to four, and CAR approved Safety and three other servicing carriers effective July 1, 2011 to continue the program. CAR also runs a reinsurance pool for taxi/limousine/car service commercial automobile policies and beginning January 1, 2008, we became one of two servicing carriers that can service these policies for CAR. All commercial automobile business that is not written in the voluntary market is apportioned to one of the four servicing carriers who handle the business on behalf of CAR or to one of the two servicing carriers who handle the business on behalf of CAR for taxi/limousine/car service business. Each Massachusetts commercial automobile insurer must bear a portion of the losses of the total commercial reinsurance pool that is serviced by the approved servicing carriers.

Bulk Policy Transfers and New Voluntary Agents. From time to time, we receive proposals from existing voluntary agents to transfer a portfolio of the agent's business from another insurer to us. Our underwriters model the profitability of these portfolios before we accept these transfers. Among other

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things, we usually require that the private passenger portion of the portfolio have a pure loss ratio of 65.0% or less on the portion of the agent's portfolio that we would underwrite. In addition, we require any new voluntary agent to commit to transfer a portfolio to us consisting of at least 300 policies.

Policy Processing and Rate Pursuit. Our underwriting department assists in processing policy applications, endorsements, renewals and cancellations. For many years, we have used and implemented proprietary software that enables agents to connect to our network and enter policy and endorsement applications for private passenger automobile insurance from their office computers. In our private passenger automobile insurance line, our agents now submit approximately 99.0% of all applications for new policies or endorsements for existing policies through our proprietary information portal, the AVC. We also offer propriety software for our commercial automobile and homeowners insurance lines of business that provides the same functionality as that of our personal automobile software.

Our rate pursuit team aggressively monitors all insurance transactions to make sure we receive the correct premium for the risk insured. We accomplish this by verifying Massachusetts pricing criteria, such as proper classification of drivers, the make, model, and age of insured vehicles, and the availability of discounts. We verify that operators are properly listed and classified, assignment of operators to vehicles, vehicle garaging, vehicle pre-inspection requirements, and in some cases the validity of discounts. In our homeowners and dwelling fire lines, our team has completed a project to update the replacement costs for each dwelling. We use third-party software to assist in these appraisal efforts.

Technology

The focuses of our information technology effort are:

- to constantly re-engineer internal processes to allow more efficient operations, resulting in lower operating costs;
- to make it easier for independent agents to transact business with us; and
- to enable agents to efficiently provide their clients with a high level of service.

We believe that our technology initiatives have increased revenue and decreased costs. For example, these initiatives have allowed us to reduce the number of call-center transactions which we perform, and to transfer many manual processing functions from our internal operations to our independent agents. We also believe that these initiatives have contributed to overall increases in productivity.

Internal Applications (Intranet)

Our employees access our proprietary applications through our corporate intranet. Our intranet applications streamline internal processes and improve overall operational efficiencies in areas including:

Claims. Our claims workload management application allows our claims and subrogation adjusters to better manage injury claims. Subrogation refers to the process by which we are reimbursed by other insurers for claims costs we incur due to the fault of their insureds. The use of this application has reduced the time it takes for us to respond to and settle casualty claims, which we believe helps reduce the total amount of our claims expense.

The automated adjuster assignment system categorizes our new claims by severity and assigns them to the appropriate adjuster responsible for investigation. Once assigned, the integrated workload management tools facilitate the work of promptly assigning appraisers, investigating liability, issuing checks and receiving subrogation receipts.

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The RadicalGlass.com application allows our claims department to contain glass costs by increasing the windshield repair to replacement ratio. For every windshield that is repaired rather than replaced there is an average savings of approximately $291 per windshield claim.

Our first VIP Claims Center was introduced during 2006 to provide increased service levels to our independent insurance agents and their clients. We currently operate three VIP Claims Centers which use a network of rental car centers and auto body repair shops to provide a higher level of service to the clients of the independent insurance agents while reducing costs, such as rental expense, through reduced cycle times.

Billing. Proprietary billing systems, integrated with the systems of our print and lock-box vendors, expedite the processing and collection of premium receipts and finance charges from agents and policyholders. We believe the sophistication of our direct bill system helps us to limit our bad debt expense. Our bad debt expense as a percentage of direct written premiums was 0.1% and 0.2% in 2013 and 2012, respectively.

External Applications

Our Agent Technology offerings are centralized within our agency portal and feature PowerDesk and Safety Express. PowerDesk is a web based application that allows for billing inquiry, payment notification, policy inquiry and claims inquiry. Safety Express provides agents with new business and endorsement entry, real time policy issuance for personal lines, immediate printing of declarations pages in agents' offices, policy downloads to most major agency management systems and data imports from Boston Software's WinRater (Massachusetts) and Vertafore's PL Rater (New Hampshire). In addition, Safety provides its agents with commission downloads for all lines of business, Transformation Station and Transact Now Inquires, e-Claims online claims reporting, e-View daily transaction reports and e-Docs online electronic document file cabinet. Safety also provides online bill pay, (including credit and debit cards), online declarations pages, billing inquiry, claims inquiry, auto and homeowners claims first notice of loss, online auto insurance cards, and bill pay reminder alerts to our agent's policyholders through ww.SafetyInsurance.com. Safety has also updated its telephone system to provide a voice activated phone directory, automated billing inquiry and payments, and call center screen pop-up technology. In 2011, Safety also entered the mobile application space when it introduced Safety Mobile for the iPhone and Android. Safety Mobile allows consumers access to their agent information, bill pay capabilities, the ability to report an automobile or homeowners claim and access to their insurance card, among other features.

Claims

Because of the unique differences between the management of casualty claims and property claims, we use separate departments for each of these types of claims.

Casualty Claims

We have adopted stringent claims settlement procedures, which include guidelines that establish maximum settlement offers for soft tissue injuries, which constituted approximately 78% of our bodily injury claims in 2013. If we are unable to settle these claims within our guidelines, we generally take the claim to litigation. We believe that these procedures result in providing our adjusters with a uniform approach to negotiation.

We believe an important component of handling claims efficiently is prompt investigation and settlement. We find that faster claims settlements often result in less expensive claims settlements. Our E-Claim reporting system is an online product that reduces the time it takes for agents to notify our adjusters about claims, thereby enabling us to contact third-party claimants and other witnesses quickly. After business hours, we outsource claims adjustment support to an independent firm whose employees

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contact third-party claimants and other witnesses. We believe that early notification results in our adjusters conducting prompt investigations of claims and compiling more accurate information about those claims. Our claims workload management software also assists our adjusters in handling claims quickly.

We believe the structure of our casualty claims unit allows us to respond quickly to claimants anywhere in Massachusetts and New Hampshire. Comprising 121 people, the department is organized into distinct claim units that contain loss costs for soft tissue injuries. Field adjusters are located geographically for prompt response to claims, with our litigation unit focused on managing loss costs and litigation expenses for serious injury claims.

Additionally, we utilize a special unit to investigate fraud in connection with casualty claims. This special unit has one manager and nine employees. In cases where adjusters suspect fraud in connection with a claim, we deploy this special unit to conduct investigations. We deny payment to claimants in cases in which we have succeeded in accumulating sufficient evidence of fraud.

Property Claims

Our property claims unit handles property claims arising in our private passenger and commercial automobile, homeowners and other insurance lines. Process automation has streamlined our property claims function. Many of our property claims are now handled by our agents through AVC using our Power Desk software application. As agents receive calls from claimants, Power Desk permits the agent to immediately send information related to the claim directly to us and to an independent appraiser selected by the agent to value the claim. Once we receive this information, an automated system redirects the claim to the appropriate internal adjuster responsible for investigating the claim to determine liability. Upon determination of liability, the system automatically begins the process of seeking a subrogation recovery from another insurer, if liable. We believe this process results in a shorter time period from when the claimant first contacts the agent to when the claimant receives a claim payment, while enabling our agents to build credibility with their clients by responding to claims in a timely and efficient manner. We benefit from decreased labor expenses from the need for fewer employees to handle the reduced property claims call volume.

Another important factor in keeping our overall property claims costs low is collecting subrogation recoveries. We track the amounts we pay out in claims costs and identify cases in which we believe we can reclaim some or all of those costs through the use of our automated workload management tools.

Reserves

Significant periods of time can elapse between the occurrence of an insured loss, the reporting of the loss to the insurer and the insurer's payment of that loss. To recognize liabilities for unpaid losses, insurers establish reserves as balance sheet liabilities representing estimates of amounts needed to pay reported and unreported losses and the expenses associated with investigating and paying the losses, or loss adjustment expenses. Every quarter, we review and establish our reserves. Regulations promulgated by the Commissioner require us to annually obtain a certification from either a qualified actuary or an approved loss reserve specialist who may be one of our employees that our loss and loss adjustment expenses reserves are reasonable.

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When a claim is reported, claims personnel establish a "case reserve" for the estimated amount of the ultimate payment. The amount of the reserve is primarily based upon an evaluation of the type of claim involved, the circumstances surrounding each claim and the policy provisions relating to the loss. The estimate reflects informed judgment of such personnel based on general insurance reserving practices and on the experience and knowledge of the claims person. During the loss adjustment period, these estimates are revised as deemed necessary by our claims department based on subsequent developments and periodic reviews of the cases.

In accordance with industry practice, we also maintain reserves for estimated losses incurred but not yet reported. Incurred but not yet reported reserves are determined in accordance with commonly accepted actuarial reserving techniques on the basis of our historical information and experience. We make adjustments to incurred but not yet reported reserves quarterly to take into account changes in the volume of business written, claims frequency and severity, our mix of business, claims processing and other items that can be expected to affect our liability for losses and loss adjustment expenses over time.

When reviewing reserves, we analyze historical data and estimate the impact of various loss development factors, such as our historical loss experience and that of the industry, legislative enactments, judicial decisions, legal developments in imposition of damages, and changes and trends in general economic conditions, including the effects of inflation. There is no precise method, however, for evaluating the impact of any specific factor on the adequacy of reserves, because the eventual development of reserves is affected by many factors. After taking into account all relevant factors, management believes that our provision for unpaid losses and loss adjustment expenses at December 31, 2013 is adequate to cover the ultimate net cost of losses and claims incurred as of that date.

Management determines its loss and loss adjustment expense ("LAE") reserves estimates based upon the analysis of the Company's actuaries. Management has established a process for the Company's actuaries to follow in establishing reasonable reserves. The process consists of meeting with our claims department, establishing ultimate incurred losses by using development models accepted by the actuarial community, and reviewing the analysis with management. The Company's estimate for loss and LAE reserves, net of the effect of ceded reinsurance, ranges from a low of $364,146 to a high of $401,265 as of December 31, 2013. The Company's net loss and LAE reserves, based on our actuaries' best estimate, were set at $394,668 as of December 31, 2013. The ultimate liability may be greater or less than reserves carried at the balance sheet date. Establishment of appropriate reserves is an inherently uncertain process, and there can be no certainty that currently established reserves will prove adequate in light of subsequent actual experience. To the extent that reserves are inadequate and are strengthened, the amount of such increase is treated as a charge to earnings in the period that the deficiency is recognized. To the extent that reserves are redundant and are released, the amount of the release is a credit to earnings in the period the redundancy is recognized. We do not discount any of our reserves.

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The following table presents development information on changes in the reserves for losses and LAE of our Insurance Subsidiaries for each year in the three year period ended December 31, 2013.

	Years Ended December 31,		
	2013	**2012**	**2011**
Reserves for losses and LAE at beginning of year	**$ 423,842**	$ 403,872	$ 404,391
Less receivable from reinsurers related to unpaid losses and LAE	**(52,185)**	(51,774)	(53,147)
Net reserves for losses and LAE at beginning of year	**371,657**	352,098	351,244
Incurred losses and LAE, related to:			
Current year	**476,638**	439,527	503,323
Prior years	**(28,889)**	(17,310)	(36,683)
Total incurred losses and LAE	**447,749**	422,217	466,640
Paid losses and LAE related to:			
Current year	**299,882**	272,454	336,932
Prior years	**124,856**	130,204	128,854
Total paid losses and LAE	**424,738**	402,658	465,786
Net reserves for losses and LAE at end of period	**394,668**	371,657	352,098
Plus receivable from reinsurers related to unpaid losses and LAE	**60,346**	52,185	51,774
Reserves for losses and LAE at end of period	**$ 455,014**	$ 423,842	$ 403,872

At the end of each period, the reserves were re-estimated for all prior accident years. Our prior year reserves decreased by $28,889, $17,310, and $36,683 for the years ended 2013, 2012, and 2011, respectively. The decreases in prior year reserves in 2013 resulted from re-estimations of prior years ultimate loss and LAE liabilities and is primarily composed of reductions of $23,938 in our retained automobile reserves and $4,740 in our retained homeowners reserves. The decreases in prior year reserves in 2012 resulted from re-estimations of prior years ultimate loss and LAE liabilities and is primarily composed of reductions of $17,879 in our retained automobile reserves. The decrease in prior year reserves during 2011 is primarily composed of reductions of $28,302 in our retained automobile reserves and $4,921 in our retained homeowners reserves. It is not appropriate to extrapolate future favorable or unfavorable development of reserves from this past experience.

Our private passenger automobile line of business prior year reserves decreased by $21,090 for the year ended December 31, 2013, primarily due to improved retained private passenger results of $18,116 for the accident years 2007 through 2012. Our private passenger automobile line of business prior year reserves decreased by $16,475 for the year ended December 31, 2012, primarily due to improved retained private passenger results of $14,720 for accident years 2005 through 2011. Our private passenger automobile line of business reserves decreased by $24,133 for the year ended December 31, 2011, primarily due to improved retained private passenger results of $20,008 for accident years 2005 through 2009. The improved retained private passenger results were primarily due to fewer incurred but not yet reported claims than previously estimated and better than previously estimated severity on the Company's established bodily injury and property damage case reserves.

The following table represents the development of reserves, net of reinsurance, for calendar years 2003 through 2013. The top line of the table shows the reserves at the balance sheet date for each of the indicated years. This represents the estimated amounts of losses and loss adjustment expenses for claims arising in all years that were unpaid at the balance sheet date, including losses that had been incurred but not yet reported to us. The upper portion of the table shows the cumulative amounts paid as of the end of each successive year with respect to those claims. The lower portion of the table shows the re-estimated amount of the previously recorded reserves based on experience as of the end of each

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succeeding year, including cumulative payments made since the end of the respective year. The estimate changes as more information becomes known about the payments, frequency and severity of claims for individual years. Favorable loss development, shown as a cumulative redundancy in the table, exists when the original reserve estimate is greater than the re-estimated reserves at December 31, 2013.

Information with respect to the cumulative development of gross reserves (that is, without deduction for reinsurance ceded) also appears at the bottom portion of the table.

In evaluating the information in the table, it should be noted that each amount entered incorporates the effects of all changes in amounts entered for prior periods. Thus, if the 2010 estimate for a previously incurred loss was $150 and the loss was reserved at $100 in 2006, the $50 deficiency (later estimate minus original estimate) would be included in the cumulative (redundancy) deficiency in each of the years 2006-2010 shown in the table. It should further be noted that the table does not present accident or policy year development data. In addition, conditions and trends that have affected the development of liability in the past may not necessarily recur in the future. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies from the table.

	As of and for the Year Ended December 31,										
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Reserves for losses and LAE originally estimated:	$ 394,668	$ 371,656	$ 352,098	$ 351,244	$ 374,832	$ 391,070	$ 393,430	$ 370,980	$ 370,166	$ 366,730	$ 310,012
Cumulative amounts paid as of:											
One year later		124,855	130,205	128,854	130,960	126,858	142,259	122,806	133,213	144,600	150,354
Two years later			181,739	176,774	183,061	189,897	195,798	183,457	187,231	202,435	201,287
Three years later				205,171	211,182	217,695	234,359	212,331	221,390	233,513	232,539
Four years later					224,831	233,160	248,560	233,438	234,705	251,303	247,073
Five years later						239,553	254,915	240,275	244,454	257,061	255,798
Six years later							257,362	242,298	247,299	260,628	258,588
Seven years later								243,120	247,983	261,802	259,553
Eight years later									248,206	261,988	260,147
Nine years later										262,094	260,252
Ten years later											260,269

	As of and for the Year Ended December 31,										
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Reserves re-estimated as of:											
One year later		$ 342,767	$ 334,788	$ 314,561	$ 326,676	$ 347,004	$ 357,492	$ 340,189	$ 327,419	$ 327,110	$ 303,234
Two years later			309,096	293,480	294,696	307,918	325,317	311,972	310,614	304,891	291,100
Three years later				273,332	279,542	282,565	297,224	287,875	289,109	297,790	280,507
Four years later					264,697	271,693	281,068	269,446	274,840	284,542	277,835
Five years later						261,845	274,179	258,506	264,408	276,272	271,205
Six years later							268,596	253,919	258,055	270,441	267,764
Seven years later								251,304	254,812	267,671	264,563
Eight years later									252,818	266,338	263,113
Nine years later										265,071	262,530
Ten years later											261,876
Cumulative (redundancy) deficiency 2013		$ (28,889)	$ (43,002)	$ (77,912)	$ (110,135)	$ (129,225)	$ (124,834)	$ (119,676)	$ (117,348)	$ (101,659)	$ (48,136)

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	As of and for the Years Ended December 31,										
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Gross liability-end of year	$ 455,014	$ 423,842	$ 403,872	$ 404,391	$ 439,706	$ 467,559	$ 477,720	$ 449,444	$ 450,716	$ 450,897	$ 383,551
Reinsurance recoverables	60,346	52,185	51,774	53,147	64,874	76,489	84,290	78,464	80,550	84,167	73,539
Net liability-end of year	394,668	371,657	352,098	351,244	374,832	391,070	393,430	370,980	370,166	366,730	310,012
Gross estimated liability-latest		393,990	381,709	338,334	329,277	324,174	330,030	306,229	307,795	324,027	321,950
Reinsurance recoverables-latest		51,223	46,921	44,844	49,735	52,481	55,851	52,310	52,983	57,689	59,420
Net estimated liability-latest		$ 342,767	$ 334,788	$ 293,490	$ 279,542	$ 271,693	$ 274,179	$ 253,919	$ 254,812	$ 266,338	$ 262,530

As the table shows, our net reserves grew at a faster rate than our gross reserves over the ten-year period. As we have grown, we have been able to retain a greater percentage of our direct business. Additionally, in the past we conducted substantial business as a servicing carrier for other insurers, in which we would service the residual market automobile insurance business assigned to other carriers for a fee. All business generated through this program was ceded to the other carriers. As we reduced the amount of our servicing carrier business, our proportion of reinsurance ceded diminished.

The table also shows that we have substantially benefited in the current and prior years from releasing redundant reserves. In the years ended December 31, 2013, 2012, and 2011 we decreased loss reserves related to prior years by $28,889, $17,310 and $36,683, respectively. Reserves and development are discussed further in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, *Executive Summary and Overview*.

As a result of our focus on core business lines since our founding in 1979, we believe we have no exposure to asbestos or environmental pollution liabilities.

Reinsurance

We reinsure with other insurance companies a portion of our potential liability under the policies we have underwritten, thereby protecting us against an unexpectedly large loss or a catastrophic occurrence that could produce large losses, primarily in our homeowners line of business. Reinsurance involves an insurance company transferring (ceding) a portion of its exposure on insurance underwritten by it to another insurer (reinsurer). The reinsurer assumes a portion of the exposure in return for a share of the premium. Reinsurance does not legally discharge an insurance company from its primary liability for the full amount of the policies, but it does make the reinsurer liable to the company for the reinsured portion of any loss realized.

We are selective in choosing our reinsurers, seeking only those companies that we consider to be financially stable and adequately capitalized. In an effort to minimize exposure to the insolvency of a reinsurer, we continually evaluate and review the financial condition of our reinsurers. Swiss Re, our primary reinsurer, maintains an A.M. Best rating of "A+" (Excellent). Forty-five percent of our reinsurers are rated "A+" and fifty-two percent are rated "A.

We maintain reinsurance coverage to help lessen the effect of losses from catastrophic events, maintaining coverage that during 2013 protected us in the event of a "128-year storm" (that is, a storm of a severity expected to occur once in a 128-year period). We use various software products to measure our exposure to catastrophe losses and the probable maximum loss to us for catastrophe losses such as hurricanes. The models include estimates for our share of the catastrophe losses generated in the residual market for property insurance by the Massachusetts Property Insurance Underwriting Association ("FAIR Plan"). In 2013, we purchased four layers of excess catastrophe reinsurance providing coverage for property losses in excess of $50,000 up to a maximum of $565,000. Our

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reinsurers' co-participation is 50.0% of $50,000 for the 1st layer, 80.0% of $80,000 for the 2nd layer, 80.0% of $250,000 for the 3rd layer, and 80.0% of $135,000 for the 4th layer.

The reinsurance market has seen from the various software modelers, increases in the estimate of damage from hurricanes in the southern and northeast portions of the United States due to revised estimations of increased hurricane activity and increases in cost of repairs due to increased estimates in the amount of "demand surge" in the periods following a significant event. We continue to manage our exposure to catastrophes such as hurricanes, and to the changes to the various software models that we use to model our exposure, and continually adjust our reinsurance programs. For 2014 we have purchased three layers of excess catastrophe reinsurance providing coverage for property losses in excess of $50,000 up to a maximum of $565,000. Our reinsurers' co-participation is 65.0% of $100,000 for the 1st layer, 80.0% of $280,000 for the 2nd layer, and 80.0% of $135,000 for the 3rd layer. As a result of these changes to the models, and our revised reinsurance program, we maintain coverage that protects us in the event of a "115-year storm".

We also have casualty excess of loss reinsurance for large casualty losses occurring in our automobile, homeowners, dwelling fire, business owners, and commercial package lines of business in excess of $2,000 up to a maximum of $10,000. We have property excess of loss reinsurance coverage for large property losses, with coverage in excess of $2,000 up to a maximum of $18,000, for our homeowners, business owners, and commercial package policies. In addition, we have liability excess of loss reinsurance for umbrella large losses in excess of $1,000 up to a maximum of $10,000. We also have various reinsurance agreements with Hartford Steam Boiler Inspection and Insurance Company, of which the primary contract is a quota share agreement under which we cede 100% of the premiums and losses for the equipment breakdown coverage under our business owner policies and commercial package policies.

In the wake of the September 11, 2001 tragedies, reinsurers began to exclude coverage for claims in connection with any act of terrorism. Our reinsurance program excludes coverage for acts of terrorism, except for fire or collapse losses as a result of terrorism, under homeowners, dwelling fire, private passenger automobile and commercial automobile policies. For business owner policies and commercial package policies, terrorism is excluded if the total insured value is greater than $20,000.

The Terrorism Risk Insurance Act of 2002 ("TRIA") was signed into law on November 26, 2002, and expired December 31, 2005. The Terrorism Risk Insurance Extension Act of 2005 was signed into law on December 22, 2005, and expired December 31, 2007. The Terrorism Risk Insurance Extension Act of 2007 ("TRIEA") was signed into law on December 26, 2007 which reauthorized TRIA for seven years, expanded the definition of an "Act of Terrorism" while expanding the private sector role and reducing the federal share of compensation for insured losses under the program. The intent of this legislation is to provide federal assistance to the insurance industry for the needs of commercial insurance policyholders with the potential exposure for losses due to acts of terrorism. The TRIEA provides reinsurance for certified acts of terrorism. Effective January 1, 2008, we began to issue policy endorsements for all commercial policyholders to comply with TRIA after obtaining the Commissioner's approval.

In addition to the above mentioned reinsurance programs and as described in more detail above under *The Massachusetts Property and Casualty Insurance Market,* we are a participant in CAR, the Massachusetts mandated residual market under which premiums, expenses, losses and loss adjustment expenses on commercial automobile ceded business are shared by all insurers writing commercial automobile insurance in Massachusetts. We also participate in the Massachusetts Property Insurance Underwriting Association in which premiums, expenses, losses and loss adjustment expenses on homeowners business that cannot be placed in the voluntary market are shared by insurers writing homeowners insurance in Massachusetts. As insurance carriers have reduced their exposure to coastal property, the FAIR Plan's exposure to catastrophe losses have increased and as a result, the FAIR Plan buys reinsurance to reduce their exposure to catastrophe losses. On July 1, 2013, the FAIR Plan purchased $1,000,000 of catastrophe reinsurance for property losses in excess of $200,000. As of December 31, 2013, we had no material amounts recoverable from any reinsurer, excluding $59,058 recoverable from CAR.

On March 10, 2005, our Board of Directors (the "Board") adopted a resolution that prohibits Safety from purchasing finite reinsurance (reinsurance that transfers only a relatively finite or limited amount of risk to the reinsurer) without approval by the Board. To date, the Company has never purchased a finite reinsurance contract.

Competition

The property and casualty insurance business is highly competitive and many of our competitors have substantially greater financial and other resources than we do. We compete with both large national writers and smaller regional companies. Our competitors include companies which, like us, serve the independent agency market, as well as companies which sell insurance directly to customers. Direct writers may have certain competitive advantages over agency writers, including increased name recognition, loyalty of the customer base to the insurer rather than to an independent agency and potentially, lower cost structures. A material reduction in the amount of business independent agents sell would adversely affect us. Further, we and others compete on the basis of the commissions and other cash and non-cash incentives provided to agents. Although historically, a number of national insurers that are much larger than we are have chosen not to compete in a material way in the Massachusetts private passenger automobile market, if one or more of these companies decided to aggressively enter the market it could have a material adverse effect on us. The Commissioner announced that Managed Competition reforms were, in part, designed to make Massachusetts more appealing to these companies. Since 2008, new companies have entered the market including Progressive Insurance Company, Peerless and Safeco (subsidiaries of Liberty Mutual), AIG, Vermont Mutual, Preferred Mutual, IDS, Occidental, GEICO, Harleysville, Foremost and Allstate (including their subsidiary Esurance). These companies include some that would be able to sustain significant losses in order to acquire market share, as well as others which use distribution methods that compete with the independent agent channel. There can be no assurance that we will be able to compete effectively against these companies in the future.

Our principal competitors within the Massachusetts private passenger automobile insurance market are Commerce Group, Inc., Liberty Mutual (including Peerless) and Arbella Insurance Group, which held 27.2%, 12.1% and 9.3% market shares based on automobile exposures, respectively, in 2013 according to CAR.

Employees

At December 31, 2013, we employed 605 employees. Our employees are not covered by any collective bargaining agreement. Management considers our relationship with our employees to be good.

Investments

Investment income is an important source of revenue for us and the return on our investment portfolio has a material effect on our net earnings. Our investment objective is to focus on maximizing total returns while investing conservatively. We maintain a high-quality investment portfolio consistent with our established investment policy. As of December 31, 2013, our portfolio of fixed maturity investments was comprised principally of investment grade corporate fixed maturity securities, U.S. government and agency securities, and asset-backed securities. The portion of our non-investment grade portfolio of fixed maturity investments is primarily comprised of variable rate secured and senior bank loans and high yield bonds. We have no exposure to European sovereign debt.

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According to our investment guidelines, no more than 2.0% of our portfolio may be invested in the securities of any one issuer (excluding U.S. government-backed securities). In addition, no more than 0.5% of our portfolio may be invested in securities of any one issuer rated "Baa," or the lowest investment grade assigned by Moody's. Of the less than 10.0% of our portfolio invested in senior bank loans and high yield bonds at December 31, 2013, no more than 5.0% may be invested in the securities of any one issuer, no more than 10.0% may be invested in any issuers total outstanding debt issue, and a maximum of 10.0% may be invested in securities unrated or rated "B-" or below by Moody's. We continually monitor the mix of taxable and tax-exempt securities in an attempt to maximize our total after-tax return. Since 1986, we have utilized the services of a third-party investment manager.

The following table reflects the composition of our investment portfolio as of December 31, 2013 and 2012.

	As of December 31,			
	2013		**2012**	
	Estimated Fair Value	**% of Portfolio**	**Estimated Fair Value**	**% of Portfolio**
U.S. Treasury Securities	**$ 1,503**	**0.1%**	$ 7,155	0.6%
Obligations of states and political subdivisions	**467,325**	**38.9**	491,183	41.3
Residential mortgage-backed securities(1)	**208,702**	**17.4**	225,897	19.0
Commercial mortgage-backed securities	**32,219**	**2.7**	40,474	3.4
Other asset-backed securities	**13,445**	**1.1**	22,186	1.9
Corporate and other securities	**381,763**	**31.7**	378,658	31.9
Subtotal, fixed maturity securities	**1,104,957**	**91.9**	1,165,553	98.1
Equity securities(2)	**91,871**	**7.6**	22,800	1.9
Other invested assets	**5,748**	**0.5**		
	$ 1,202,576	**100.0%**	$ 1,188,353	100.0%

(1) Residential mortgage-backed securities consists primarily of obligations of U.S. Government agencies including collateralized mortgage obligations and mortgage-backed securities guaranteed and/or insured by the following issuers: Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and the Federal Home Loan Bank (FHLB).

(2) Equity securities include interests in mutual funds held to fund the Company's executive deferred compensation plan.

The principal risks inherent in holding mortgage-backed securities and other pass-through securities are prepayment and extension risks, which affect the timing of when cash flows will be received. When interest rates decline, mortgages underlying mortgage-backed securities tend to be prepaid more rapidly than anticipated, causing early repayments. When interest rates rise, the underlying mortgages tend to be prepaid at a slower rate than anticipated, causing the principal repayments to be extended. Although early prepayments may result in acceleration of income from recognition of any unamortized discount, the proceeds typically are reinvested at a lower current yield, resulting in a net reduction of future investment income. In addition, in the current market environment, such investments can also contain liquidity risks.

The Company invests in bank loans which are primarily investments in senior secured floating rate loans that banks have made to corporations. The loans are generally priced at an interest rate spread over the floating rate feature, this asset class provides protection against rising interest rates. However, this asset class is subject to default risk since these investments are typically below investment grade.

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Equity risk is the risk that we will incur economic losses due to adverse changes in equity prices. Our exposure to changes in equity prices results from our holdings of common stock and mutual funds held to fund the executive deferred compensation plan. We continuously evaluate market conditions and we expect in the future to purchase additional equity securities. We principally manage equity price risk through industry and issuer diversification and asset allocation techniques.

The following table reflects our investment results for each year in the three-year period ended December 31, 2013.

	Years Ended December 31,		
	2013	**2012**	**2011**
Average cash and invested securities (at cost)	**$ 1,175,414**	$ 1,118,266	$ 1,081,858
Net investment income(1)	**$ 43,054**	$ 40,870	$ 39,060
Net effective yield(2)	**3.7%**	3.7%	3.6%

(1) After investment expenses, excluding realized investment gains or losses.

(2) Net investment income for the period divided by average invested securities and cash for the same period.

As of December 31, 2013, our portfolio of fixed maturity investments was comprised principally of investment grade corporate fixed maturity securities, U.S. government and agency securities, and asset-backed securities. The portion of our non-investment grade portfolio of fixed maturity investments is primarily comprised of variable rate secured, senior bank loans and high yield bonds. We have no exposure to European sovereign debt.

The composition of our fixed income security portfolio by Moody's rating is presented in the following table.

	As of December 31,			
	2013		**2012**	
	Estimated Fair Value	**Percent**	**Estimated Fair Value**	**Percent**
U.S. Treasury securities and obligations of U.S. Government agencies	**$ 212,413**	**19.2%**	$ 237,155	20.3%
Aaa/Aa	**468,309**	**42.4**	538,346	46.2
A	**190,326**	**17.2**	174,208	14.9
Baa	**92,752**	**8.4**	81,874	7.0
Ba	**41,718**	**3.8**	43,898	3.8
B	**65,214**	**5.9**	59,572	5.1
Ca	**7,005**	**0.6**	5,383	0.5
Not rated	**27,220**	**2.5**	25,117	2.2
Total	**$ 1,104,957**	**100.0%**	$ 1,165,553	100.0%

Ratings are generally assigned upon the issuance of the securities and are subject to revision on the basis of ongoing evaluations. Ratings in the table are as of the date indicated.

Moody's rating system utilizes nine symbols to indicate the relative investment quality of a rated bond. "Aaa" rated bonds are judged to be of the best quality and are considered to carry the smallest degree of investment risk. "Aa" rated bonds are also judged to be of high quality by all standards. Together with "Aaa" bonds, these bonds comprise what are generally known as high grade bonds. Bonds rated "A" possess many favorable investment attributes and are considered to be upper medium grade obligations. "Baa" rated bonds are considered as medium grade obligations; they are neither

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highly protected nor poorly secured. Bonds rated "Ba" or lower (those rated "B", "Caa", "Ca" and "C") are considered to be too speculative to be of investment quality.

The Securities Valuation Office of the National Association of Insurance Commissioners (the "SVO") evaluates all public and private bonds purchased as investments by insurance companies. The SVO assigns one of six investment categories to each security it reviews. Category 1 is the highest quality rating and Category 6 is the lowest. Categories 1 and 2 are the equivalent of investment grade debt as defined by rating agencies such as Standard & Poor's Ratings Services and Moody's, while Categories 3-6 are the equivalent of below investment grade securities. SVO ratings are reviewed at least annually. At December 31, 2013, 81.9% of our available for sale fixed maturity investments were rated Category 1 and 7.3% were rated Category 2, the two highest ratings assigned by the SVO.

The following table indicates the composition of our fixed income security portfolio (at carrying value) by time to maturity as of December 31, 2013.

	As of December 31, 2013	
	Estimated Fair Value	**Percent**
Due in one year or less	**$ 28,660**	**2.6%**
Due after one year through five years	**351,975**	**31.9**
Due after five years through ten years	**202,974**	**18.4**
Due after ten years	**266,982**	**24.2**
Asset-backed securities(1)	**254,366**	**23.0**
Totals	**$ 1,104,957**	**100.0%**

(1) Actual maturities of asset-backed securities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Prepayment rates are influenced by a number of factors that cannot be predicted with certainty, including: the relative sensitivity of the underlying mortgages or other collateral to changes in interest rates; a variety of economic, geographic and other factors; and the repayment priority of the securities in the overall securitization structures.

Ratings

A.M. Best, which rates insurance companies based on factors of concern to policyholders, currently assigns Safety Insurance an "A (Excellent)" rating. Our "A" rating was reaffirmed by A.M. Best on March 25, 2013. Such rating is the third highest rating of 13 ratings that A.M. Best assigns to solvent insurance companies, which currently range from "A++ (Superior)" to "D (Very Vulnerable)." Publications of A.M. Best indicate that the "A" rating is assigned to those companies that in A.M. Best's opinion have a strong ability to meet their obligations to policyholders over a long period of time. In evaluating a company's financial and operating performance, A.M. Best reviews the Company's profitability, leverage and liquidity, as well as its book of business, the adequacy and soundness of its reinsurance, the quality and estimated fair value of its assets, the adequacy of its loss reserves, the adequacy of its surplus, its capital structure, the experience and competence of its management and its market presence. A.M. Best's ratings reflect its opinion of an insurance company's financial strength, operating performance and ability to meet its obligations to policyholders and are not evaluations directed to purchasers of an insurance company's securities.

In assigning Safety Insurance's rating, A.M. Best recognized its solid risk-adjusted capitalization, conservative operating strategy, and long-standing agency relationships. A.M. Best also noted among our positive attributes our favorable investment leverage, our disciplined underwriting approach, and our expertise in the closely managed Massachusetts automobile insurance market, where rates, until recently, were historically established by the Commissioner. A.M. Best cited other factors that partially offset these positive attributes, including our concentration of business in the Massachusetts private passenger automobile market which exposes our business to regulatory actions.

Supervision and Regulation

Introduction. Our principal operations are conducted through the Insurance Subsidiaries which are subject to comprehensive regulation by the Division of Insurance, of which the Commissioner is the senior official. The Commissioner is appointed by the Governor. We are subject to the authority of the Commissioner in many areas of our business under Massachusetts law, including:

- our licenses to transact insurance;
- the premium rates and policy forms we may use;
- our financial condition including the adequacy of our reserves and provisions for unearned premium;
- the solvency standards that we must maintain;
- the type and size of investments we may make;
- the prescribed or permitted statutory accounting practices we must use; and
- the nature of the transactions we may engage in with our affiliates.

In addition, the Commissioner periodically conducts a financial examination of all licensees domiciled in Massachusetts. We were most recently examined for the five-year period ending December 31, 2008. The Division had no material findings as a result of this examination.

Insurance Holding Company Regulation. Our principal operating subsidiaries are insurance companies, and therefore we are subject to certain laws in Massachusetts regulating insurance holding company systems. These laws require that we file a registration statement with the Commissioner that discloses the identity, financial condition, capital structure and ownership of each entity within our corporate structure and any transactions among the members of our holding company system. In some instances, we must provide prior notice to the Commissioner for material transactions between our insurance company subsidiaries and other affiliates in our holding company system. These holding company statutes also require, among other things, prior approval of the payment of extraordinary dividends or distributions and any acquisition of a domestic insurer.

Insurance Regulation Concerning Dividends. We rely on dividends from the Insurance Subsidiaries for our cash requirements. The insurance holding company law of Massachusetts requires notice to the Commissioner of any dividend to the shareholders of an insurance company. The Insurance Subsidiaries may not make an "extraordinary dividend" until thirty days after the Commissioner has received notice of the intended dividend and has not objected in such time. As historically administered by the Commissioner, this provision requires the prior approval by the Commissioner of an extraordinary dividend. An extraordinary dividend is defined as any dividend or distribution that, together with other distributions made within the preceding twelve months exceeds the greater of 10.0% of the insurer's surplus as of the preceding December 31, or the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices. Under Massachusetts law, an insurer may pay cash dividends only from its unassigned funds, also known as its earned surplus, and the insurer's remaining surplus must be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. At year-end 2013, the statutory surplus of Safety Insurance was $627,993 and its net income for 2013 was $53,078. A maximum of $62,799 will be available during 2014 for such dividends without prior approval of the Commissioner.

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Acquisition of Control of a Massachusetts Domiciled Insurance Company. Massachusetts law requires advance approval by the Commissioner of any change in control of an insurance company that is domiciled in Massachusetts. That law presumes that control exists where any person, directly or indirectly, owns, controls, holds the power to vote or holds proxies representing 10.0% or more of our outstanding voting stock. Even persons who do not acquire beneficial ownership of more than 10.0% of the outstanding shares of our common stock may be deemed to have acquired control if the Commissioner determines that control exists in fact. Any purchaser of shares of common stock representing 10.0% or more of the voting power of our capital stock will be presumed to have acquired control of the Insurance Subsidiaries unless, following application by that purchaser the Commissioner determines that the acquisition does not constitute a change of control or is otherwise not subject to regulatory review. These requirements may deter, delay or prevent transactions affecting the control of or the ownership of our common stock, including transactions that could be advantageous to our stockholders.

Protection Against Insurer Insolvency. Massachusetts law requires that insurers licensed to do business in Massachusetts participate in the Massachusetts Insurers Insolvency Fund ("Insolvency Fund"). The Insolvency Fund must pay any claim up to $300 of a policyholder of an insolvent insurer if the claim existed prior to the declaration of insolvency or arose within sixty days after the declaration of insolvency. Members of the Insolvency Fund are assessed the amount the Insolvency Fund deems necessary to pay its obligations and expenses in connection with handling covered claims. Subject to certain exceptions, assessments are made in the proportion that each member's net written premiums for the prior calendar year for all property and casualty lines bore to the corresponding net written premiums for Insolvency Fund members for the same period. As a matter of Massachusetts law, insurance rates and premiums include amounts to recoup any amounts paid by insurers for the costs of the Insolvency Fund. By statute, no insurer in Massachusetts may be assessed in any year an amount greater than two percent of that insurer's direct written premium for the calendar year prior to the assessment. We account for allocations from the Insolvency Fund as underwriting expenses. CAR also assesses its members as a result of insurer insolvencies. Because CAR is not able to recover an insolvent company's share of the net CAR losses from the Insolvency Fund, CAR must increase each of its member's share of the deficit in order to compensate for the insolvent carrier's inability to pay its deficit assessment. It is anticipated that there will be future assessments from time to time relating to various insolvencies.

The Insurance Regulatory Information System. The Insurance Regulatory Information System ("IRIS") was developed to help state regulators identify companies that may require special financial attention. IRIS consists of a statistical phase and an analytical phase whereby financial examiners review annual statements and financial ratios. The statistical phase consists of 13 key financial ratios based on year-end data that are generated annually from the database of the National Association of Insurance Commissioners ("NAIC"). Each ratio has an established "usual range" of results. These ratios assist state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies.

A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company will become subject to regulatory scrutiny if it falls outside the usual ranges of four or more of the ratios. In 2013, 2012, and 2011 all our ratios for all our Insurance Subsidiaries were within the normal range.

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Risk-Based Capital Requirements. The NAIC has adopted a formula and model law to implement risk-based capital requirements for most property and casualty insurance companies, which are designed to determine minimum capital requirements and to raise the level of protection that statutory surplus provides for policyholder obligations. The risk-based capital formula for property and casualty insurance companies measures three major areas of risk facing property and casualty insurers:

- underwriting, which encompasses the risk of adverse loss developments and inadequate pricing;
- declines in asset values arising from market and/or credit risk; and
- off-balance sheet risk arising from adverse experience from non-controlled assets, guarantees for affiliates or other contingent liabilities and reserve and premium growth.

Under Massachusetts law, insurers having less total adjusted capital than that required by the risk-based capital calculation will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The risk-based capital law provides for four levels of regulatory action. The extent of regulatory intervention and action increases as the level of total adjusted capital to risk-based capital falls. The first level, the company action level, as defined by the NAIC, requires an insurer to submit a plan of corrective actions to the Commissioner if total adjusted capital falls below 200% of the risk-based capital amount. The regulatory action level, as defined by the NAIC requires an insurer to submit a plan containing corrective actions and requires the Commissioner to perform an examination or other analysis and issue a corrective order if total adjusted capital falls below 150.0% of the risk-based capital amount. The authorized control level, as defined by the NAIC, authorizes the Commissioner to take whatever regulatory actions he or she considers necessary to protect the best interest of the policyholders and creditors of the insurer which may include the actions necessary to cause the insurer to be placed under regulatory control, i.e., rehabilitation or liquidation, if total adjusted capital falls below 100.0% of the risk-based capital amount. The fourth action level is the mandatory control level, as defined by the NAIC, which requires the Commissioner to place the insurer under regulatory control if total adjusted capital falls below 70.0% of the risk-based capital amount.

The formulas have not been designed to differentiate among adequately capitalized companies that operate with higher levels of capital. Therefore, it is inappropriate and ineffective to use the formulas to rate or to rank these companies. At December 31, 2013, our Insurance Subsidiaries had total adjusted capital in excess of amounts requiring company or regulatory action at any prescribed risk-based capital action level.

Regulation of Private Passenger Automobile Insurance in Massachusetts. Our principal line of business is Massachusetts private passenger automobile insurance. Prior to April 1, 2008, regulation of private passenger automobile insurance in Massachusetts differed significantly from how this line of insurance is regulated in other states. In 2008, the Commissioner issued a series of decisions to introduce what she termed "managed competition" which removed many of the factors that had historically distinguished the Massachusetts private passenger automobile insurance market from the market in other states. However, certain of the historically unique factors have not been eliminated, including compulsory insurance, affinity group marketing, and the prominence of independent agents.

Market Conduct Regulation. Our sales and rating practices are subject to regulation by both the Commissioner and the Massachusetts Attorney General, pursuant to M.G.L. c. 93A. Among other requirements, the premiums we charge must comply with our filed rating plans, which must satisfy Massachusetts law. The Commissioner has the power to conduct examinations to review our market conduct and the Attorney General can investigate our market conduct through the use of Civil Investigative Demands.

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Executive Officers and Directors

The table below sets forth certain information concerning our directors and executive officers as of the date of this annual report.

Name	Age(1)	Position	Years Employed by Safety
David F. Brussard	62	President, Chief Executive Officer and Chairman of the Board	38
William J. Begley, Jr.	59	Vice President, Chief Financial Officer and Secretary	28
James D. Berry	54	Vice President Insurance Operations	31
George M. Murphy	47	Vice President Marketing	25
Paul J. Narciso	50	Vice President Claims	24
David E. Krupa	53	Vice President Claims Operations	31
Daniel D. Loranger	74	Vice President Management Information Systems and Chief Information Officer	33
Edward N. Patrick, Jr.	65	Vice President Underwriting	40
A. Richard Caputo, Jr.	48	Director	
Frederic H. Lindeberg	73	Director	
Peter J. Manning	75	Director	
David K. McKown	76	Director	

(1) As of March 11, 2014.

David F. Brussard was appointed Chairman of the Board in March 2004 and President and Chief Executive Officer ("CEO") in June 2001. Mr. Brussard has served as a Director of the Company since October 2001. Since January 1999, Mr. Brussard has been the CEO and President of the Insurance Subsidiaries. Previously, Mr. Brussard served as Executive Vice President of the Insurance Subsidiaries from 1985 to 1999 and as Chief Financial Officer and Treasurer of the Insurance Subsidiaries from 1979 to 1999. Mr. Brussard has been employed by one or more of our subsidiaries for over 38 years. Mr. Brussard is also Chairman of the Governing Committee and a member of the Budget Committee, Executive Committee and Nominating Committee of the Automobile Insurers Bureau of Massachusetts. Mr. Brussard is also on the Board of Trustees of the Insurance Library Association of Boston.

William J. Begley, Jr. was appointed Chief Financial Officer, Vice President and Secretary of the Company on March 4, 2002. Since January 1999, Mr. Begley has been the Chief Financial Officer and Treasurer of the Insurance Subsidiaries. Previously, Mr. Begley served as Assistant Controller of the Insurance Subsidiaries from 1985 to 1987, as Controller from 1987 to 1990 and as Assistant Vice President/Controller from 1990 to 1999. Mr. Begley has been employed by the Insurance Subsidiaries for over 28 years. Mr. Begley also serves on the Audit Committee of Guaranty Fund Management Services, and is a member of the Board of Directors of the Massachusetts Insurers Insolvency Fund.

James D. Berry, CPCU, was appointed Vice President of Insurance Operations of the Company on October 1, 2005. Mr. Berry has been employed by the Insurance Subsidiaries for over 31 years and has directed the Company's Massachusetts Private Passenger line of business since 2001. Mr. Berry represents Safety on the Computer Sciences Corporation Series II and Exceed advisory councils. He also is a member of the Lexis-Nexis Telematics Leadership Panel.

George M. Murphy, CPCU, was appointed Vice President of Marketing on October 1, 2005. Mr. Murphy has been employed by the Insurance Subsidiaries for over 25 years and most recently served as Director of Marketing.

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Paul J. Narciso was appointed Vice President of Casualty Claims of the Company on August 5, 2013. Mr. Narciso has held various adjusting and claims management positions with the Company since 1990. Mr. Narciso has 26 years of claim experience having worked at two national carriers prior to joining Safety. He currently serves on the Governing Board of the Massachusetts Insurance Fraud Bureau.

David E. Krupa, CPCU, was appointed Vice President of Property Claims of the Company on March 4, 2002. Mr. Krupa has served as Vice President of Claims of the Insurance Subsidiaries since July 1990 and has been employed by the Insurance Subsidiaries for over 31 years. Mr. Krupa was first employed by the Company in 1982 and held a series of management positions in the Claims Department before being appointed Vice President in 1990. Mr. Krupa is a member of the Auto Damage Appraisers Licensing Board of Massachusetts. In addition, Mr. Krupa has been a member of several claims committees both at the Automobile Insurers Bureau of Massachusetts and CAR.

Daniel D. Loranger was appointed Vice President of Management Information Systems of the Company on March 4, 2002. Mr. Loranger has served as Vice President of Management Information Systems and Chief Information Officer of the Insurance Subsidiaries since 1980 and has been employed by the Insurance Subsidiaries for over 33 years. Mr. Loranger began his data processing career with Raytheon Manufacturing in 1960.

Edward N. Patrick, Jr. was appointed Vice President of Underwriting of the Company on March 4, 2002. Mr. Patrick has served as Vice President of Underwriting of the Insurance Subsidiaries since 1979 and as Secretary since 1999. He has been employed by one or more of our subsidiaries for over 40 years. Mr. Patrick has served on several committees of CAR, including the MAIP Steering, Actuarial, Market Review, Servicing Carrier, Statistical, Automation, Reinsurance and Operations Committee. Mr. Patrick is also on the Board of Directors of the Massachusetts Property Insurance Underwriting Association (FAIR Plan).

A. Richard Caputo, Jr. has served as a director of the Company since June 2001. Mr. Caputo is Co-CEO and Managing Partner of The Jordan Company, a private investment firm, which he has been associated with since 1990. Mr. Caputo is also a director of various privately held companies.

Frederic H. Lindeberg has served as a director of the Company since August 2004. Mr. Lindeberg has had a consulting practice providing taxation, management and investment counsel since 1991, focusing on finance, real estate, manufacturing and retail industries. Mr. Lindeberg retired in 1991 as Partner-In-Charge of various KPMG tax offices, after 24 years of service where he provided both accounting and tax counsel to various clients. Mr. Lindeberg is an attorney and certified public accountant. Mr. Lindeberg was formerly an adjunct professor at Penn State Graduate School of Business. Mr. Lindeberg is currently a director of TAL International Group, Inc.

Peter J. Manning has served as a director of the Company since September 2003. Mr. Manning retired in 2003, as Vice Chairman Strategic Business Development of FleetBoston Financial, after 31 years with FleetBoston Financial Corporation (formerly BankBoston) where he also held the positions of Comptroller and Executive Vice President and Chief Financial Officer. Mr. Manning started his career with Coopers & Lybrand in 1962 prior to his 1972 employment with BankBoston. He currently is a director of the Blue Hills Bank and the non-profit Campaign for Catholic Schools.

David K. McKown has served as director of the Company since November 2002. Mr. McKown has been a Senior Advisor to Eaton Vance Management since 2000, focusing on business origination in real estate and asset-based loans. Mr. McKown retired in March 2000 having served as a Group Executive with BankBoston since 1993, where he focused on acquisitions and high-yield bank debt financings. Mr. McKown has been in the banking industry for 52 years, worked for BankBoston for over 32 years and had previously been the head of BankBoston's real estate department, corporate finance department, and a managing director of BankBoston's private equity unit. Mr. McKown is currently a director of Global Partners L.P., Newcastle Investment Corp., and various privately held companies.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a number of risks. Any of the risks described below could result in a significant or material adverse effect on our results of operations or financial condition, and a corresponding decline in the market price of our common stock.

Because we are primarily a private passenger automobile insurance carrier, our business may be adversely affected by conditions in this industry.

Approximately 63.9% of our direct written premiums for the year ended December 31, 2013, were generated from private passenger automobile insurance policies. As a result of our focus on that line of business, negative developments in the economic, competitive or regulatory conditions affecting the private passenger automobile insurance industry could have a material adverse effect on our results of operations and financial condition. In addition, these developments would have a disproportionate effect on us, compared to insurers which conduct operations in multiple business lines.

Because we write insurance principally in Massachusetts, our business may be adversely affected by conditions in Massachusetts, including the potential effect of the Commissioner's Managed Competition.

Almost all of our direct written premiums are currently generated in Massachusetts. Our revenues and profitability are therefore subject to prevailing regulatory, economic, demographic, competitive and other conditions in Massachusetts. Changes in any of these conditions could make it more costly or difficult for us to conduct our business. In 2008, Massachusetts enacted significant changes to the regulatory framework relating to private passenger automobile insurance. These changes include rate competition and restructuring the private passenger automobile insurance residual market. The Commissioner intends that these changes will increase competition and result in lower premiums in private passenger automobile insurance in the state. We cannot estimate how these regulatory changes will affect our private passenger automobile insurance business over the longer term. Adverse results could include loss of market share, decreased revenue, and/or increased costs. Additional competitors have entered the market in response to these changes. In addition, these developments could have a disproportionate effect on us, compared to insurers which conduct operations in multiple states.

We have exposure to claims related to severe weather conditions, which may result in an increase in claims frequency and severity.

We are subject to claims arising out of severe weather conditions, such as rainstorms, snowstorms and icestorms, that may have a significant effect on our results of operations and financial condition. The incidence and severity of weather conditions are inherently unpredictable. There is generally an increase in claims frequency and severity under the private passenger automobile insurance we write when severe weather occurs because a higher incidence of vehicular accidents and other insured losses tend to occur as a result of severe weather conditions. In addition, we have exposure to an increase in claims frequency and severity under the homeowners and other property insurance we write because property damage may result from severe weather conditions.

Because some of our insureds live near the Massachusetts coastline, we also have a potential exposure to losses from hurricanes and major coastal storms such as Nor'easters. Although we purchase catastrophe reinsurance to limit our exposure to these types of natural catastrophes, in the event of a major catastrophe resulting in property losses to us in excess of $565,000 our losses would exceed the limits of this reinsurance in addition to losses from our quota share retention of a portion of the risk up to $565,000.

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Climate change may adversely impact our results of operations.

There are concerns that the increase in weather-related catastrophes and other losses incurred by the industry in recent years may be indicative of changing weather patterns. This change in weather patterns could lead to higher overall losses which we may not be able to recover, particularly in light of the current competitive environment, and higher reinsurance costs. Climate change could also have an impact on issuers of securities in which we invest, resulting in realized and unrealized losses in future periods which could have a material adverse impact on our results of operations and/or financial position.

If we are not able to attract and retain independent agents, it could adversely affect our business.

We market our insurance solely through independent agents. We must compete with other insurance carriers for the business of independent agents. Some of our competitors offer a larger variety of products, lower prices for insurance coverage or higher commissions. While we believe that the commissions and services we provide to our agents are competitive with other insurers, changes in commissions, services or products offered by our competitors could make it harder for us to attract and retain independent agents to sell our insurance products.

Established competitors with greater resources may make it difficult for us to market our products effectively and offer our products at a profit.

The property and casualty insurance business is highly competitive and many of our competitors have substantially greater financial and other resources than we do. We compete with both large national writers and smaller regional companies. Further, our competitors include other companies which, like us, serve the independent agency market, as well as companies which sell insurance directly to customers. Direct writers may have certain competitive advantages over agency writers, including increased name recognition, loyalty of the customer base to the insurer rather than to an independent agency and, potentially, lower cost structures. A material reduction in the amount of business independent agents sell would directly and negatively affect our profitability and our ability to compete with insurers that do not rely solely on the independent agency market to sell their products. Further, our Company and others compete on the basis of the commissions and other cash and non-cash incentives provided to agents. Although a number of national insurers that are much larger than we are do not currently compete in a material way in the Massachusetts personal auto market, if one or more of these companies decided to aggressively enter the market it could reduce our share of the Massachusetts market and thereby have a material adverse effect on us. These companies include some that would be able to sustain significant losses in order to acquire market share, as well as others which use distribution methods that compete with the independent agent channel. Progressive Corporation, GEICO and Allstate, large insurers that market directly to policyholders rather than through agents, along with other carriers have entered the Massachusetts private passenger automobile insurance market. We are unable to predict the long-term effects on our business of the new Managed Competition regulatory environment.

As a holding company, Safety Insurance Group, Inc. is dependent on the results of operations of the Safety Insurance Company.

Safety Insurance Group, Inc. is a company and a legal entity separate and distinct from Safety Insurance Company, our principal operating subsidiary. As a holding company without significant operations of its own, the principal sources of Safety Insurance Group, Inc.'s funds are dividends and other distributions from Safety Insurance Company. Our rights to participate in any distribution of assets of Safety Insurance Company are subject to prior claims of policyholders, creditors and preferred shareholders, if any, of Safety Insurance Company (except to the extent that our rights, if any, as a creditor are recognized). Consequently, our ability to pay debts, expenses and cash dividends to our

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shareholders may be limited. The ability of Safety Insurance Company to pay dividends is subject to limits under Massachusetts insurance law. Further, the ability of Safety Insurance Group, Inc. to pay dividends, and our subsidiaries' ability to incur indebtedness or to use the proceeds of equity offerings, will be subject to limits under our revolving credit facility.

We are subject to comprehensive regulation by Massachusetts and our ability to earn profits may be restricted by these regulations.

General Regulation. We are subject to regulation by government agencies in Massachusetts, and we must obtain prior approval for certain corporate actions. We must comply with regulations involving:

- transactions between an insurance company and any of its affiliates;
- the payment of dividends;
- the acquisition of an insurance company or of any company controlling an insurance company;
- approval or filing of premium rates and policy forms;
- solvency standards;
- minimum amounts of capital and surplus which must be maintained;
- limitations on types and amounts of investments;
- restrictions on the size of risks which may be insured by a single company;
- limitation of the right to cancel or non-renew policies in some lines;
- regulation of the right to withdraw from markets or terminate involvement with agencies;
- requirements to participate in residual markets;
- licensing of insurers and agents;
- deposits of securities for the benefit of policyholders; and
- reporting with respect to financial condition.

In addition, insurance department examiners from Massachusetts perform periodic financial and market conduct examinations of insurance companies. Such regulation is generally intended for the protection of policyholders rather than security holders.

Massachusetts requires that all licensed property and casualty insurers bear a portion of the losses suffered by some insureds as a result of impaired or insolvent insurance companies by participating in the Massachusetts Insurers Insolvency Fund ("Insolvency Fund"). Members of the

Insolvency Fund are assessed a proportionate share of the obligations and expenses of the Insolvency Fund in connection with an insolvent insurer. These assessments are made by the Insolvency Fund to cover the cost of paying eligible claims of policyholders of these insolvent insurers, and by CAR, to recover the shares of net CAR losses that would have been assessed to the insolvent companies but for their insolvencies. In addition, Massachusetts has established an underwriting association in order to ensure that property insurance is available for owners of high risk property who are not able to obtain insurance from private insurers. The losses of this underwriting association are shared by all insurers that write property and casualty insurance in Massachusetts. We are assessed from time to time to pay these losses. The effect of these assessments could reduce our profitability in any given period and limit our ability to grow our business.

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Because we are unable to predict with certainty changes in the political, economic or regulatory environments in Massachusetts in the future, there can be no assurance that existing insurance-related laws and regulations will not become more restrictive in the future or that new restrictive laws will not be enacted and, therefore, it is not possible to predict the potential effects of these laws and regulations on us.

We may enter new markets and there can be no assurance that our diversification strategy will be effective.

Although we intend to concentrate on our core businesses in Massachusetts and New Hampshire, we also may seek to take advantage of prudent opportunities to expand our core businesses into other states where we believe the independent agent distribution channel is strong. As a result of a number of factors, including the difficulties of finding appropriate expansion opportunities and the challenges of operating in an unfamiliar market, we may not be successful in this diversification. Additionally, in order to carry out any such strategy we would need to obtain the appropriate licenses from the insurance regulatory authority of any such state.

Our failure to maintain a commercially acceptable financial strength rating would significantly and negatively affect our ability to implement our business strategy successfully.

A.M. Best has currently assigned Safety Insurance an "A (Excellent)" rating. An "A" rating is A.M. Best's third highest rating, out of 13 possible rating classifications for solvent companies. An "A" rating is assigned to insurers that in A.M. Best's opinion have a strong ability to meet their ongoing obligations to policyholders. Moreover, an "A" rating is assigned to companies that have, on balance, excellent balance sheet strength, operating performance and business profile when compared to the standards established by A.M. Best. A.M. Best bases its ratings on factors that concern policyholders and not upon factors concerning investor protection. Such ratings are subject to change and are not recommendations to buy, sell, or hold securities. An important factor in an insurer's ability to compete effectively is its A.M. Best rating. Our A.M. Best rating is lower than those of some of our competitors. Any future decrease in our rating could affect our competitive position.

Our losses and loss adjustment expenses may exceed our reserves, which could significantly affect our business.

The reserves for losses and loss adjustment expenses that we have established are estimates of amounts needed to pay reported and unreported claims and related expenses based on facts and circumstances known to us as of the time we established the reserves. Reserves are based on historical claims information, industry statistics and other factors. The establishment of appropriate reserves is an inherently uncertain process. If our reserves are inadequate and are strengthened, we would have to treat the amount of such increase as a charge to our earnings in the period that the deficiency is recognized. As a result of these factors, there can be no assurance that our ultimate liability will not materially exceed our reserves and have a negative effect on our results of operations and financial condition.

Due to the inherent uncertainty of estimating reserves, it has been necessary, and may over time continue to be necessary, to revise estimated future liabilities as reflected in our reserves for claims and policy expenses. The historic development of reserves for losses and loss adjustment expenses may not necessarily reflect future trends in the development of these amounts. Accordingly, it is not appropriate to extrapolate redundancies or deficiencies based on historical information.

If we lose key personnel, our ability to implement our business strategy could be delayed or hindered.

Our future success depends significantly upon the efforts of certain key management personnel, including David F. Brussard, our Chief Executive Officer and President. We have entered into employment agreements with Messrs. Brussard, Begley, Narciso, Krupa, Loranger, Patrick, Murphy, and Berry, the eight members of our Management Team. The loss of key personnel could prevent us from fully implementing our business strategy and could significantly and negatively affect our financial condition and results of operations. As we continue to grow, we will need to recruit and retain additional qualified management personnel, and our ability to do so will depend upon a number of factors, such as our results of operations and prospects and the level of competition then prevailing in the market for qualified personnel.

Market fluctuations and changes in interest rates can have significant and negative effects on our investment portfolio.

Our results of operations depend in part on the performance of our invested assets. As of December 31, 2013, based upon fair value measurement, 91.9% of our investment portfolio was invested in fixed maturity securities, 7.6% in common equity securities and 0.5% in other invested assets. Certain risks are inherent in connection with debt securities including loss upon default and price volatility in reaction to changes in interest rates and general market factors.

We have a significant investment portfolio and adverse capital market conditions, including but not limited to volatility and credit spread changes, will impact the liquidity and value of our investments, potentially resulting in higher realized or unrealized losses. Values of our investments can also be impacted by reductions in price transparency and changes in investor confidence and preferences, potentially resulting in higher realized or unrealized losses. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write down the value of our investments, which could materially harm our results of operations and financial condition.

Developments in the global financial markets may adversely affect our investment portfolio and overall performance. Global financial markets have recently experienced unprecedented and challenging conditions. If conditions further deteriorate, our business could be affected in different ways. Continued turbulence in the U.S. economy and contraction in the credit markets could adversely affect our profitability, demand for our products or our ability to raise rates, and could also result in declines in market value and future impairments of our investment assets.

We may not be able to successfully alleviate risk through reinsurance arrangements which could cause us to reduce our premiums written in certain lines or could result in losses.

In order to reduce risk and to increase our underwriting capacity, we purchase reinsurance. The availability and the cost of reinsurance protection are subject to market conditions, which are outside of our control. As a result, we may not be able to successfully alleviate risk through these arrangements. For example, if reinsurance capacity for homeowner's risks were reduced as a result of terrorist attacks, climate change or other causes, we might seek to reduce the amount of homeowners business we write. In addition, we are subject to credit risk with respect to our reinsurance because the ceding of risk to reinsurers does not relieve us of our liability to our policyholders. A significant reinsurer's insolvency or inability to make payments under the terms of a reinsurance treaty could have a material adverse effect on our results of operations and financial condition.

There are anti-takeover provisions contained in our organizational documents and in laws of the State of Delaware and the Commonwealth of Massachusetts that could impede an attempt to replace or remove our management or prevent the sale of our company, which could diminish the value of our common stock.

Our certificate of incorporation, bylaws and the laws of Delaware contain provisions that may delay, deter or prevent a takeover attempt that shareholders might consider in their best interests. For example, our organizational documents provide for a classified board of directors with staggered terms,

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prevent shareholders from taking action by written consent, prevent shareholders from calling a special meeting of shareholders, provide for supermajority voting requirements to amend our certificate of incorporation and certain provisions of our bylaws and provide for the filling of vacancies on our board of directors by the vote of a majority of the directors then in office. These provisions will render the removal of the incumbent board of directors or management more difficult. In addition, these provisions may prevent shareholders from receiving the benefit of any premium over the market price of our common stock offered by a bidder in a potential takeover. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

The Massachusetts insurance law prohibits any person from acquiring control of us, and thus indirect control of our Insurance Subsidiaries, without the prior approval of the Commissioner. That law presumes that control exists where any person, directly or indirectly, owns, controls, holds the power to vote or holds proxies representing 10.0% or more of our outstanding voting stock. Even persons who do not acquire beneficial ownership of more than 10.0% of the outstanding shares of our common stock may be deemed to have acquired such control if the Commissioner determines that such control exists in fact. Therefore, any person seeking to acquire a controlling interest in us would face regulatory obstacles which could delay, deter or prevent an acquisition that shareholders might consider in their best interests.

Section 203 of the General Corporation Law of Delaware, the jurisdiction in which the Company is organized, may affect the ability of an "interested stockholder" to engage in certain business combinations including mergers, consolidations or acquisitions of additional shares, for a period of three years following the time that the stockholder becomes an interested stockholder. An interested stockholder is defined to include persons owning directly or indirectly 15.0% or more of the outstanding voting stock of the corporation.

Future sales of shares of our common stock by our existing shareholders in the public market, or the possibility or perception of such future sales, could adversely affect the market price of our stock.

Investors currently known to be the beneficial owners of greater than 5.0% of our outstanding common stock hold approximately 45.2% of the common stock of Safety Insurance Group, Inc. on a fully diluted basis. No prediction can be made as to the effect, if any, that future sales of shares by our existing shareholders, or the availability of shares for future sale, will have on the prevailing market price of our common stock from time to time. Sales of substantial amounts of our common stock in the public market by our existing shareholders, or the possibility or perception that such sales could occur, could cause the prevailing market prices for our common stock to decrease. If such sales reduce the market price of our common stock, our ability to raise additional capital in the equity markets may be adversely affected.

Our business depends on the uninterrupted operation of our systems and business functions, including our information technology, telecommunications and other business systems. Our business continuity and disaster recovery plans may not sufficiently address all contingencies.

Our business is highly dependent upon our ability to execute, in an efficient and uninterrupted fashion, necessary business functions, such as processing new and renewal business, providing customer service, and processing and paying claims. A shut-down of or inability to access our facility, a power outage, or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. If sustained or repeated, such a business interruption, systems failure or service denial could result in a deterioration in the level of service we provide to our agents and policyholders. We have established a business continuity plan in an effort to ensure the continuation of core business operations in the event that normal business operations could not be performed due to a catastrophic event. While we continue to

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test and assess our business continuity plan to ensure it meets the needs of our core business operations and addresses multiple business interruption events, there is no assurance that core business operations could be performed upon the occurrence of such an event, which may result in a material adverse effect on our financial position and results of operations.

If we experience difficulties with outsourcing relationships, our ability to conduct our business might be negatively impacted.

We outsource certain business and administrative functions to third parties and may do so increasingly in the future. If we fail to develop and implement our outsourcing strategies or our third-party providers fail to perform as anticipated, we may experience operational difficulties, increased costs and a loss of business that may have a material adverse effect on our results of operations or financial condition. By outsourcing certain business and administrative functions to third parties, we may be exposed to enhanced risk of data security breaches. Any breach of data security could damage our reputation and/or result in monetary damages, which, in turn, could have a material adverse effect on our results of operations or financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As of the date of this report, the Company had no unresolved comments from the Commission staff regarding its periodic or current reports under the Exchange Act.

ITEM 2. PROPERTIES

We conduct most of our operations in approximately 104 thousand square feet of leased space at 20 Custom House Street in downtown Boston, Massachusetts. Our lease expires in December 2018.

ITEM 3. LEGAL PROCEEDINGS

Our Insurance Subsidiaries are parties to a number of lawsuits arising in the ordinary course of their insurance business. We believe that the ultimate resolution of these lawsuits will not, individually or in the aggregate, have a material adverse effect on our financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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PART II.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

As of March 3, 2014, there were 27 holders of record of the Company's common stock, par value $0.01 per share, and we estimate another 8,422 held in "Street Name."

The Company's common stock (symbol: SAFT) is listed on the NASDAQ Global Select Market. The following table sets forth the high and low close prices per share for each full quarterly period within the Company's two most recent fiscal years.

2013	**High**	**Low**
First quarter	**$ 49.16**	**$ 46.07**
Second quarter	**$ 53.68**	**$ 47.34**
Third quarter	**$ 55.03**	**$ 49.13**
Fourth quarter	**$ 56.94**	**$ 51.53**

2012	**High**	**Low**
First quarter	$ 44.99	$ 40.89
Second quarter	$ 42.67	$ 39.64
Third quarter	$ 47.45	$ 41.22
Fourth quarter	$ 47.76	$ 43.17

The closing price of the Company's common stock on March 5, 2014 was $55.35 per share.

During 2013 and 2012, the Company's Board of Directors declared and paid four quarterly cash dividends to shareholders, which totaled $36,920 and $33,634, respectively. On February 14, 2014, the Company's Board of Directors declared a quarterly cash dividend of $.60 per share to shareholders of record on March 3, 2014, payable on March 14, 2014. The Company plans to continue to declare and pay quarterly cash dividends in 2014, depending on the Company's financial position and the regularity of its cash flows.

The Company relies on dividends from its Insurance Subsidiaries for a portion of its cash requirements. The payment by the Company of any cash dividends to the holders of common stock therefore depends on the receipt of dividend payments from its Insurance Subsidiaries. The payment of dividends by the Insurance Subsidiaries is subject to limitations imposed by Massachusetts law, as discussed in Item 1 Business, Supervision and Regulation, *Insurance Regulation Concerning Dividends*, and also in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources.

The information called for by Item 201 (d) of Regulation S-K regarding securities authorized for issuance under equity compensation plans will be contained in the Company's Proxy Statement for its Annual Meeting of Shareholders, to be held on May 23, 2014 in Boston, MA, which the Company intends to file with the U.S. Securities and Exchange Commission within 120 days after December 31, 2013 (the Company's fiscal year end), and such information is incorporated herein by reference.

For information regarding our share repurchase program, refer to Item 8 Financial Statements and Supplementary Data, Note 12, Share Repurchase Program, of this Form 10-K.

COMMON STOCK PERFORMANCE GRAPH

Set forth below is a line graph comparing the dollar change in the cumulative total shareholder return on the Company's Common Stock, for the period beginning on December 31, 2008 and ending on December 31, 2013 with the cumulative total return of the NASDAQ Stock Market Index and a

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peer group comprised of six selected property & casualty insurance companies over the same period. The peer group consists of Baldwin & Lyons, Inc., Infinity Property & Casualty Corp., Mercury General Corp., State Auto Financial Corp., Selective Insurance Group, Inc., and Donegal Group, Inc. The graph shows the change in value of an initial one hundred dollar investment over the period indicated, assuming re-investment of all dividends.

Comparative Cumulative Total Returns since December 31, 2008 Among
Safety Insurance Group, Inc.,
Property & Casualty Insurance Peer Group and the NASDAQ Stock Market Index

The foregoing performance graph and data shall not be deemed "filed" as part of this Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section and should not be deemed incorporated by reference into any other filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such filing.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial data as of and for each of the five years ended December 31, 2013, 2012, 2011, 2010 and 2009.

The selected historical consolidated financial data for the years ended December 31, 2013, 2012, and 2011, and as of December 31, 2013, and 2012 have been derived from the financial statements of Safety Insurance Group, Inc. included in this annual report which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. The selected historical consolidated financial data for the year ended December 31, 2010 and 2009 and as of December 31, 2011, 2010 and 2009 have been derived from Safety Insurance Group, Inc.'s consolidated financial

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statements not included in this annual report, which have been audited by PricewaterhouseCoopers LLP.

We have prepared the selected historical consolidated financial data in conformity with U. S. generally accepted accounting principles.

The selected financial data presented below should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the accompanying notes included in this Form 10-K in order to more fully understand the historical consolidated financial data.

	Years Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Direct written premiums	**$ 731,680**	$ 696,220	$ 649,262	$ 604,957	$ 559,747
Net written premiums	**697,540**	663,942	620,316	576,807	532,629
Net earned premiums	**681,870**	642,469	598,368	551,950	531,969
Net investment income	**43,054**	40,870	39,060	41,395	43,308
Net realized gains (losses) on investments	**1,677**	1,975	4,360	863	(167)
Finance and other service income	**18,683**	18,553	18,370	18,511	16,844
Total revenue	**745,284**	703,867	660,158	612,719	591,954
Loss and loss adjustment expenses	**447,749**	422,217	466,640	360,848	346,301
Underwriting, operating and related expenses	**209,758**	200,138	179,157	172,823	171,124
Interest expenses	**89**	88	88	88	135
Total expenses	**657,596**	622,443	645,885	533,759	517,560
Income before income taxes	**87,688**	81,424	14,273	78,960	74,394
Income tax expense	**26,337**	23,354	571	22,618	20,242
Net income	**61,351**	58,070	13,702	56,342	54,152
Earnings per weighted average common share:					
Basic	**$ 4.00**	$ 3.80	$ 0.90	$ 3.74	$ 3.49
Diluted	**$ 3.98**	$ 3.80	$ 0.90	$ 3.74	$ 3.48
Cash dividends paid per common share	**$ 2.40**	$ 2.20	$ 2.00	$ 1.80	$ 1.60

Number of shares used in computing earnings per share:					
earnings per share:					
Basic	**15,354,468**	15,288,346	15,165,065	15,065,696	15,533,331
Diluted	**15,399,801**	15,295,452	15,176,006	15,084,295	15,552,063

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	Years Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Balance Sheet Data:					
Total cash and investment securities	**$ 1,258,453**	$ 1,223,736	$ 1,145,783	$ 1,120,969	$ 1,103,084
Total assets	**1,625,457**	1,574,346	1,472,494	1,439,452	1,427,837
Losses and loss adjustment expense reserves	**455,014**	423,842	403,872	404,391	439,706
Total liabilities	**930,270**	879,987	816,181	785,976	807,402
Total shareholders' equity	**695,187**	694,359	656,313	653,476	620,435
GAAP Ratios:					
Loss ratio(1)	**65.7%**	65.7%	78.0%	65.4%	65.1%
Expense ratio(1)	**30.8**	31.2	29.9	31.3	32.2
Combined ratio(1)	**96.5%**	96.9%	107.9%	96.7%	97.3%

(1) The loss ratio is the ratio of losses and loss adjustment expenses to net earned premiums. The expense ratio, when calculated on a GAAP basis is the ratio of underwriting expense to net earned premiums. The combined ratio is the sum of the loss ratio and the expense ratio. Please refer to *Insurance Ratios* under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion on our GAAP ratios.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our accompanying consolidated financial statements and notes thereto, which appear elsewhere in this document. In this discussion, all dollar amounts are presented in thousands, except share and per share data.

The following discussion contains forward-looking statements. We intend statements which are not historical in nature to be, and are hereby identified as "forward-looking statements" to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, the Company's senior management may make forward-looking statements orally to analysts, investors, the media and others. This safe harbor requires that we specify important factors that could cause actual results to differ materially from those contained in forward-looking statements made by or on behalf of us. We cannot promise that our expectations in such forward-looking statements will turn out to be correct. Our actual results could be materially different from and worse than our expectations. See "Forward-Looking Statements" below for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.

Executive Summary and Overview

In this discussion, "Safety" refers to Safety Insurance Group, Inc. and "our Company," "we," "us" and "our" refer to Safety Insurance Group, Inc. and its consolidated subsidiaries. Our subsidiaries consist of Safety Insurance Company ("Safety Insurance"), Safety Indemnity Insurance Company ("Safety Indemnity"), Safety Property and Casualty Insurance Company ("Safety P&C"), Whiteshirts Asset Management Corporation ("WAMC"), and Whiteshirts Management Corporation, which is WAMC's holding company.

We are a leading provider of private passenger automobile insurance in Massachusetts. In addition to private passenger automobile insurance (which represented 63.9% of our direct written premiums in 2013), we offer a portfolio of other insurance products, including commercial automobile (11.8% of 2013 direct written premiums), homeowners (19.8% of 2013 direct written premiums), dwelling fire, umbrella and business owner policies (totaling 4.5% of 2013 direct written premiums). Operating exclusively in Massachusetts and New Hampshire through our insurance company subsidiaries, Safety Insurance, Safety Indemnity, and Safety P&C (together referred to as the "Insurance Subsidiaries"), we have established strong relationships with independent insurance agents, who numbered 893 in 1,047 locations throughout Massachusetts and New Hampshire during 2013. We have used these relationships and our extensive knowledge of the Massachusetts market to become the third largest private passenger automobile and the third largest commercial automobile insurance carrier in Massachusetts, capturing an approximate 10.8% and 13.1% share, respectively, of the Massachusetts private passenger and commercial automobile markets in 2013, according to statistics compiled by Commonwealth Automobile Reinsurers ("CAR") based on automobile exposures. These statistics total, for each vehicle insured, the number of months during the year insurance for that vehicle is in effect, to arrive at an aggregate number of car-months for each insurer; this aggregate number, divided by 12, equals the insurer's number of car-years, a measure we refer to in this report as automobile exposures.

The Insurance Subsidiaries began writing private passenger automobile and homeowners insurance in New Hampshire during 2008, personal umbrella business during 2009, and commercial automobile business during 2011. During the years ended December 31, 2013, 2012, and 2011, we wrote $13,773, $9,057, and $5,750 in direct written premiums, respectively, and approximately 15,580, 11,000, and 4,500 policies, respectively, in New Hampshire.

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Recent Trends and Events

We filed and were approved for a Massachusetts homeowners rate increase of 3.3% which was effective December 1, 2013.

We filed and were approved for a New Hampshire automobile rate increase of 4.5%, which was effective November 1, 2013.

For the year ended December 31, 2013, we incurred approximately $6,161 of catastrophe losses compared to $10,332 and $61,384 for the comparable 2012 and 2011 periods, respectively.

We define a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of $1,000 and involves multiple first-party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms, tornadoes, hailstorms, and hurricanes. The nature and level of catastrophes in any period cannot be reliably predicted.

Catastrophe losses incurred by the type of event are shown in the following table.

	Years Ended December 31,		
Event	**2013**	**2012**	**2011**
Windstorms and hailstorms	**$**	$ 2,355	$ 12,311
Tornado and windstorms			16,697
Floods			1,380
Icestorms and snowstorms	**6,161**		23,971
Hurricane and tropical storms		7,977	7,025
Total losses incurred(1)	**$ 6,161**	$ 10,332	$ 61,384

(1) Total losses incurred includes losses plus defense and cost containment expenses and excludes adjusting and other claims settlement expenses.

We did not have any recoveries from our primary catastrophe reinsurance treaties during the three-year period ended December 31, 2013 because there was no individual catastrophe for which our losses exceeded our retention under the treaties.

Massachusetts Automobile Insurance Market

We have been subject to extensive regulation in the private passenger automobile insurance industry in Massachusetts, which represented 63.9% of our direct written premiums in 2013. Private passenger automobile insurance has been heavily regulated in Massachusetts. In any respects, the private passenger automobile insurance market in Massachusetts prior to 2008 was unique, in comparison to other states. This was due to a number of factors, including unusual regulatory conditions, the market dominance of domestic companies, the relative absence of large national companies, and the heavy reliance on independent insurance agents as the market's principal distribution channel. Perhaps most significantly, prior to 2008, the Massachusetts Commissioner of Insurance fixed and established the premium rates and the rating plan to be used by all insurance companies doing business in the private passenger automobile insurance market and the Massachusetts private passenger automobile insurance residual market mechanism featured a reinsurance program run by CAR in which companies were assigned producers.

In 2008, the Commissioner issued a series of decisions to introduce what she termed "managed competition" to Massachusetts automobile insurance premium rates and in doing so replaced the fixed and established regime with a prior approval rate review process, governed by regulations that set

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certain terms and conditions that insurers must comply with in establishing their rates. The Commissioner also replaced the former reinsurance program with an assigned risk plan.

These decisions removed many of the factors that had historically distinguished the Massachusetts private passenger automobile insurance market from the market in other states. However, certain of the historically unique factors have not been eliminated, including compulsory insurance, affinity group marketing, and the prominence of independent agents.

CAR runs a reinsurance pool for commercial automobile policies and, beginning January 1, 2006, CAR implemented a Limited Servicing Carrier Program ("LSC") for ceded commercial automobile policies. CAR approved Safety Insurance and five other servicing carriers through a Request for Proposal to process ceded commercial automobile business, which was spread equitably among the six servicing carriers. In 2010 CAR reduced the number of servicing carriers to four, and CAR has approved Safety Insurance and three other servicing carriers effective July 1, 2011 to continue the program. Subject to the Commissioner's review, CAR sets the premium rates for commercial automobile policies reinsured through CAR and this reinsurance pool can generate an underwriting result that is a profit or deficit based upon CAR's rate level. This underwriting result is allocated among every Massachusetts commercial automobile insurance company, including us, based on a company's commercial automobile voluntary market share.

CAR also runs a reinsurance pool for Taxi, Limousine and Car Service risks (the "Taxi/Limo Program"). CAR approved Safety Insurance as one of the two servicing carriers for this program beginning January 1, 2011 until December 31, 2016.

During 2013, we filed private passenger rate changes that increased the variation of rates within our tiering system which resulted in no change to the overall rate level. Our rates include a 13.0% commission rate for agents.

Statutory Accounting Principles

Our results are reported in accordance with GAAP, which differ from amounts reported in accordance with statutory accounting principles ("SAP") as prescribed by insurance regulatory authorities, which in general reflect a liquidating, rather than going concern concept of accounting. Specifically, under GAAP:

- Policy acquisition costs such as commissions, premium taxes and other variable costs incurred which are directly related to the successful acquisition of a new or renewal insurance contract are capitalized and amortized on a pro rata basis over the period in which the related premiums are earned, rather than expensed as incurred, as required by SAP.

- Certain assets are included in the consolidated balance sheets whereas, under SAP, such assets are designated as "nonadmitted assets," and charged directly against statutory surplus. These assets consist primarily of premium receivables that are outstanding over ninety days, federal deferred tax assets in excess of statutory limitations, furniture, equipment, leasehold improvements and prepaid expenses.

- Amounts related to ceded reinsurance are shown gross of ceded unearned premiums and reinsurance recoverables, rather than netted against unearned premium reserves and loss and loss adjustment expense reserves, respectively, as required by SAP.

- Fixed maturities securities, which are classified as available-for-sale, are reported at current fair values, rather than at amortized cost, or the lower of amortized cost or market, depending on the specific type of security, as required by SAP.

- The differing treatment of income and expense items results in a corresponding difference in federal income tax expense. Changes in deferred income taxes are reflected as an item of

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income tax benefit or expense, rather than recorded directly to surplus as regards policyholders, as required by SAP. Admittance testing may result in a charge to unassigned surplus for non-admitted portions of deferred tax assets. Under GAAP reporting, a valuation allowance may be recorded against the deferred tax asset and reflected as an expense.

Insurance Ratios

The property and casualty insurance industry uses the combined ratio as a measure of underwriting profitability. The combined ratio is the sum of the loss ratio (losses and loss adjustment expenses incurred as a percent of net earned premiums) plus the expense ratio (underwriting and other expenses as a percent of net earned premiums, calculated on a GAAP basis). The combined ratio reflects only underwriting results and does not include income from investments or finance and other service income. Underwriting profitability is subject to significant fluctuations due to competition, catastrophic events, weather, economic and social conditions, and other factors.

Our GAAP insurance ratios are presented in the following table for the periods indicated.

	Years Ended December 31,		
	2013	**2012**	**2011**
GAAP ratios:			
Loss ratio	**65.7%**	65.7%	78.0%
Expense ratio	**30.8**	31.2	29.9
Combined ratio	**96.5%**	96.9%	107.9%

Share-Based Compensation

On June 25, 2002, the Board of Directors of the Company (the "Board") adopted the 2002 Management Omnibus Incentive Plan (the "Incentive Plan"). The Incentive Plan provides for a variety of awards, including nonqualified stock options ("NQSOs"), stock appreciation rights and restricted stock ("RS") awards.

On March 10, 2006, the Board approved amendments to the Incentive Plan, subject to shareholder approval, to (i) increase the number of shares of common stock available for issuance by 1,250,000 shares, (ii) remove obsolete provisions, and (iii) make other non-material changes. A total of 1,250,000 shares of common stock had previously been authorized for issuance under the Incentive Plan. The Incentive Plan, as amended, was approved by the shareholders at the 2006 Annual Meeting of Shareholders which was held on May 19, 2006. Under the Incentive Plan, as amended, the maximum number of shares of common stock with respect to which awards may be granted is 2,500,000. As of December 31, 2013, there were 531,862 shares available for future grant. The Board and the Compensation Committee intend to issue more awards under the Incentive Plan in the future. Grants outstanding under the Incentive Plan as of December 31, 2013, were comprised of 212,690 restricted shares and 20,200 nonqualified stock options.

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Grants made under the Incentive Plan during the years 2009 through 2013 were as follows.

Type of Equity Awarded	Effective Date	Number of Awards Granted	Fair Value per Share		Vesting Terms
RS	March 9, 2009	95,953	$	28.66(1)	3 years, 30%-30%-40%
RS	March 9, 2009	4,000	$	28.66(1)	No vesting period(3)
RS	March 19, 2009	38,046	$	33.24(1)	5 years, 20% annually(5)
RS	March 9, 2010	77,360	$	38.78(1)	3 years, 30%-30%-40%
RS	March 9, 2010	4,000	$	38.78(1)	No vesting period(3)
RS	March 23, 2010	25,590	$	38.09(1)	5 years, 20% annually(5)
RS	March 9, 2011	68,637	$	47.35(1)	3 years, 30%-30%-40%
RS	March 9, 2011	4,000	$	47.35(1)	No vesting period(3)
RS	March 23, 2011	22,567	$	44.94(1)	5 years, 20% annually(5)
RS	March 8, 2012	77,844	$	41.75(1)	3 years, 30%-30%-40%
RS	March 8, 2012	4,000	$	41.75(1)	No vesting period(3)
RS	March 21, 2012	20,912	$	41.96(1)	5 years, 20% annually(5)
RS	**March 11, 2013**	**28,988**	**$**	**46.96(1)**	**3 years, 30%-30%-40%**
RS	**March 11, 2013**	**4,000**	**$**	**46.96(1)**	**No vesting period(3)**
RS	**March 11, 2013**	**35,429**	**$**	**43.90(2)**	**3 years, cliff vesting(4)**
RS	**March 27, 2013**	**22,485**	**$**	**48.65(1)**	**5 years, 20% annually(5)**
RS	**July 8, 2013**	**500**	**$**	**51.63(1)**	**5 years, 20% annually(5)**
RS	**August 5, 2013**	**1,659**	**$**	**54.26(1)**	**3 years, 30%-30%-40%**
RS	**August 5, 2013**	**2,027**	**$**	**48.27(1)**	**3 years, cliff vesting(4)**

(1) The fair value per share of the restricted stock grant is equal to the closing price of our common stock on the grant date.

(2) The fair value per share of the restricted stock grant is equal to the performance-based restricted stock award calculation.

(3) The shares cannot be sold, assigned, pledged, or otherwise transferred, encumbered or disposed of until the recipient is no longer a member of our Board of Directors.

(4) The shares represent performance-based restricted shares award. Vesting of these shares is dependent upon the attainment of pre-established performance objectives, and any difference between shares granted and shares earned at the end of the performance period will be reported at the conclusion of the performance period in 2016.

(5) The shares represent awards granted to non-executive employees and vest ratable over a five-year service period.

Reinsurance

We reinsure with other insurance companies a portion of our potential liability under the policies we have underwritten, thereby protecting us against an unexpectedly large loss or a catastrophic occurrence that could produce large losses, primarily in our homeowners line of business. We use various software products to measure our exposure to catastrophe losses and the probable maximum loss to us for catastrophe losses such as hurricanes. The models include estimates for our share of the catastrophe losses generated in the residual market for property insurance by the Massachusetts Property Insurance Underwriting Association ("FAIR Plan"). The reinsurance market has seen from the various software modelers, increases in the estimate of damage from hurricanes in the southern and northeast portions of the United States due to revised estimations of increased hurricane activity and increases in the estimation of demand surge in the periods following a significant event. We continue to

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manage and model our exposure and adjust our reinsurance programs as a result of the changes to the models. As of January 1, 2014, we have purchased three layers of excess catastrophe reinsurance providing $515,000 of coverage for property losses in excess of $50,000 up to a maximum of $565,000. Our reinsurers co-participation is 65.00% of $100,000 for the 1st layer, 80.0% of $280,000 for the 2nd layer and 80.0% of $135,000 for the 3rd layer. As a result of the changes to the models, and our revised reinsurance program, our catastrophe reinsurance in 2014 protects us in the event of a "115-year storm" (that is, a storm of a severity expected to occur once in a 115-year period). Swiss Re, our primary reinsurer, maintains an A.M. Best rating of "A+" (Excellent). Most of our other reinsurers have an A.M. Best rating of "A+" (Excellent) or "A" (Excellent).

We are a participant in CAR, a state-established body that runs the residual market reinsurance programs for commercial automobile insurance in Massachusetts under which premiums, expenses, losses and loss adjustment expenses on ceded business are shared by all insurers writing automobile insurance in Massachusetts. CAR also runs MAIP, the private passenger assigned risk in Massachusetts. We also participate in the FAIR Plan in which premiums, expenses, losses and loss adjustment expenses on homeowners business that cannot be placed in the voluntary market are shared by all insurers writing homeowners insurance in Massachusetts. The FAIR Plan has grown dramatically over the past decade as insurance carriers have reduced their exposure to coastal property. The FAIR Plan's exposure to catastrophe losses increased and as a result, the FAIR Plan buys reinsurance to reduce their exposure to catastrophe losses. On July 1, 2013, the FAIR Plan purchased $1,000,000 of catastrophe reinsurance for property losses in excess of $200,000. At December 31, 2013, we had no material amounts recoverable from any reinsurer, excluding $59,058 recoverable from CAR.

Effects of Inflation

We do not believe that inflation has had a material effect on our consolidated results of operations, except insofar as inflation may affect interest rates.

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Results of Operations

The following table shows certain of our selected financial results.

	Years Ended December 31,		
	2013	**2012**	**2011**
Direct written premiums	**$ 731,680**	$ 696,220	$ 649,262
Net written premiums	**$ 697,540**	$ 663,942	$ 620,316
Net earned premiums	**$ 681,870**	$ 642,469	$ 598,368
Net investment income	**43,054**	40,870	39,060
Net realized gains on investments	**1,677**	1,975	4,360
Finance and other service income	**18,683**	18,553	18,370
Total revenue	**745,284**	703,867	660,158
Loss and loss adjustment expenses	**447,749**	422,217	466,640
Underwriting, operating and related expenses	**209,758**	200,138	179,157
Interest expense	**89**	88	88
Total expenses	**657,596**	622,443	645,885
Income before income taxes	**87,688**	81,424	14,273
Income tax expense	**26,337**	23,354	571
Net income	**$ 61,351**	$ 58,070	$ 13,702
Earnings per weighted average common share:			
Basic	**$ 4.00**	$ 3.80	$ 0.90
Diluted	**$ 3.98**	$ 3.80	$ 0.90

Cash dividends paid per common share	**$**	**2.40**	$	2.20	$	2.00

YEAR ENDED DECEMBER 31, 2013 COMPARED TO YEAR ENDED DECEMBER 31, 2012

Direct Written Premiums. Direct written premiums for the year ended December 31, 2013 increased by $35,460, or 5.1%, to $731,680 from $696,220 for the comparable 2012 period. The 2013 increases occurred primarily in our homeowners , commercial automobile and personal automobile business lines which experienced increases of 4.5%, 0.9%, and 2.5%, respectively, in average written premium per exposure. Written exposures decreased slightly by 0.3% in our personal automobile line and increased by 10.9% and 5.7% in our commercial automobile and homeowners lines, respectively. The increase in homeowners exposures is primarily the result of our pricing strategy of offering account discounts to policyholders who insure both an automobile and home with us.

Net Written Premiums. Net written premiums for the year ended December 31, 2013 increased by $33,598, or 5.1%, to $697,540 from $663,942 for 2012. The 2013 increase was primarily due to the factors that increased direct written premiums.

Net Earned Premiums. Net earned premiums for the year ended December 31, 2013 increased by $39,401, or 6.1%, to $681,870 from $642,469 for the comparable 2012 period. The 2013 increase was primarily due to the factors that increased direct written premiums.

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The effect of reinsurance on net written and net earned premiums is presented in the following table.

	Years Ended December 31, 2013	2012
Written Premiums		
Direct	**$ 731,680**	$ 696,220
Assumed	**20,593**	17,943
Ceded	**(54,733)**	(50,221)
Net written premiums	**$ 697,540**	$ 663,942
Earned Premiums		
Direct	**$ 715,657**	$ 673,596
Assumed	**19,251**	16,910
Ceded	**(53,038)**	(48,037)
Net earned premiums	**$ 681,870**	$ 642,469

Net Investment Income. Net investment income for the year ended December 31, 2013 increased by $2,184, or 5.3%, to $43,054 from $40,870 for the comparable 2012 period. Net effective annual yield on the investment portfolio was 3.7% for both the years ended December 31, 2013 and 2012. Our duration was 4.0 years at December 31, 2013, up from 3.6 years at December 31, 2012.

Net Realized Gains on Investments. Net realized gains on investments were $1,677 for the year ended December 31, 2013 compared to $1,975 for the comparable 2012 period.

The gross unrealized gains and losses on investments in fixed maturity securities, equity securities, including interests in mutual funds, and other invested assets were as follows:

	As of December 31, 2013				
			Gross Unrealized Losses(3)		
	Cost or Amortized Cost	Gross Unrealized Gains	Non-OTTI Unrealized Losses	OTTI Unrealized Losses(4)	Estimated Fair Value
U.S. Treasury securities	**$ 1,510**	**$**	**$ (7)**	**$**	**$ 1,503**
Obligations of states and political subdivisions	**461,256**	**10,248**	**(4,179)**		**467,325**
Residential mortgage-backed securities(1)	**205,053**	**6,879**	**(3,230)**		**208,702**
Commercial mortgage-backed securities	**31,885**	**342**	**(8)**		**32,219**
Other asset-backed securities	**13,357**	**124**	**(36)**		**13,445**
Corporate and other securities	**374,171**	**9,882**	**(2,290)**		**381,763**
Subtotal, fixed maturity securities	**1,087,232**	**27,475**	**(9,750)**		**1,104,957**
Equity securities(2)	**83,134**	**8,821**	**(84)**		**91,871**
Other invested assets(5)	**5,748**				**5,748**

Totals	**$ 1,176,114**	**$ 36,296**	**$ (9,834)**	**$**	**$ 1,202,576**

(1) Residential mortgage-backed securities consists of obligations of U.S. Government agencies including collateralized mortgage obligations issued, guaranteed and/or insured by the following issuers: Government National Mortgage Association (GNMA), Federal Home Loan Mortgage

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Corporation (FHLMC), Federal National Mortgage Association (FNMA) and the Federal Home Loan Bank (FHLB).

(2) Equity securities includes interests in mutual funds held to fund the Company's executive deferred compensation plan.

(3) Our investment portfolio included 220 securities in an unrealized loss position at December 31, 2013.

(4) Amounts in this column represent other-than-temporary impairment ("OTTI") recognized in accumulated other comprehensive income.

(5) Other invested assets are accounted for under the equity method which approximates fair value.

The composition of our fixed income security portfolio by Moody's rating was as follows:

	As of December 31, 2013	
	Estimated Fair Value	**Percent**
U.S. Treasury securities and obligations of U.S. Government agencies	**$ 212,413**	**19.2%**
Aaa/Aa	**468,309**	**42.4%**
A	**190,326**	**17.2%**
Baa	**92,752**	**8.4%**
Ba	**41,718**	**3.8%**
B	**65,214**	**5.9%**
Ca	**7,005**	**0.6%**
Not rated	**27,220**	**2.5%**
Total	**$ 1,104,957**	**100.0%**

As of December 31, 2013, our portfolio of fixed maturity investments was principally comprised of investment grade corporate fixed maturity securities, U.S. government and agency securities, and asset-backed securities. The portion of our non-investment grade portfolio of fixed maturity investments is primarily comprised of variable rate secured and senior bank loans and high yield bonds. We have no exposure to European sovereign debt.

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The following table illustrates the gross unrealized losses included in our investment portfolio and the fair value of those securities, aggregated by investment category. The table also illustrates the length of time that they have been in a continuous unrealized loss position as of December 31, 2013.

	As of December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities	$ 1,503	$ 7	$	$	$ 1,503	$ 7
Obligations of states and political subdivisions	131,114	3,898	3,362	281	134,476	4,179
Residential mortgage-backed securities	50,048	1,570	37,166	1,660	87,214	3,230
Commercial mortgage-backed securities	6,008	8			6,008	8
Other asset-backed securities	3,240	31	4,608	5	7,848	36
Corporate and other securities	86,312	2,223	2,235	67	88,547	2,290
Subtotal, fixed maturity securities	278,225	7,737	47,371	2,013	325,596	9,750
Equity securities	3,933	73	299	11	4,232	84
Total temporarily impaired securities	$ 282,158	$ 7,810	$ 47,670	$ 2,024	$ 329,828	$ 9,834

As of December 31, 2013, we held insured investment securities of approximately $104,998, which represented approximately 8.7% of our total investments. Approximately $59,713 of these securities are pre-refunded, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond.

The following table shows our insured investment securities that are backed by financial guarantors including pre-refunded securities as of December 31, 2013. We do not have any direct investment holdings in a financial guarantee insurance company.

	As of December 31, 2013		
Financial Guarantor	Total	Pre-refunded Securities	Exposure Net of Pre-refunded Securities
Municipal bonds			
Ambac Assurance Corporation	$ 17,768	$ 10,439	$ 7,329
Financial Guaranty Insurance Company	263	263	
Assured Guaranty Municipal Corporation	42,132	31,374	10,758
National Public Finance Guaranty Corporation	44,835	17,637	27,198
Total	$ 104,998	$ 59,713	$ 45,285

The Moody's ratings of our insured investments held at December 31, 2013 are essentially the same with or without the investment guarantees.

We reviewed the unrealized losses in our fixed income and equity portfolio as of December 31, 2013 for potential other-than-temporary asset impairments. We held no securities at December 31, 2013 with a material (20.0% or greater) unrealized loss for four or more consecutive quarters. Specific qualitative analysis was performed for securities appearing on our "Watch List," if any. Qualitative analysis considered such factors as the financial condition and the near term prospects of the issuer, whether the debtor is current on its contractually obligated interest and principal payments, changes to the rating of the security by a rating agency and the historical volatility of the fair value of the security.

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Of the $9,834 gross unrealized losses as of December 31, 2013, $4,186 relates to obligations of U.S. Treasuries, states and political subdivisions. The remaining $5,648 of gross unrealized losses relates primarily to holdings of investment grade asset-backed, corporate, other fixed maturity and equity securities.

The unrealized losses recorded on the investment portfolio at December 31, 2013 resulted from fluctuations in market interest rates and other temporary market conditions as opposed to fundamental changes in the credit quality of the issuers of such securities. Given our current level of liquidity, the fact that we do not intend to sell these securities, and that it is more likely than not that we will not be required to sell these securities prior to recovery of the cost basis of these securities, these decreases in values are viewed as being temporary.

During the years ended December 31, 2013 and 2012, there was no significant deterioration in the credit quality of any of our holdings and no OTTI charges were recorded related to our portfolio of investment securities.

For information regarding fair value measurements of our investment portfolio, refer to Item 8 Financial Statements and Supplementary Data, Note 14, Fair Value of Financial Instruments, of this Form 10-K.

Finance and Other Service Income. Finance and other service income includes revenues from premium installment charges, which we recognize when earned, and other miscellaneous income and fees. Finance and other service income increased by $130, or 0.7%, to $18,683 for the year ended December 31, 2013 from $18,553 for the comparable 2012 period.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses incurred for the year ended December 31, 2013 increased by $25,532, or 6.0%, to $447,749 from $422,217 for the comparable 2012 period. Our GAAP loss ratio for the year ended December 31, 2013 and 2012 remained constant at 65.7%. Our GAAP loss ratio excluding loss adjustment expenses for the year ended December 31, 2013 and 2012 remained constant at 56.5%. Total prior year favorable development included in the pre-tax results for the year ended December 31, 2013 was $28,889, compared to $17,310, for the comparable 2012 period.

Underwriting, Operating and Related Expenses. Underwriting, operating and related expenses for the year ended December 31, 2013 increased by $9,620, or 4.8%, to $209,758 from $200,138 for the comparable 2012 period, primarily due to an increase in commissions paid to agents. Our GAAP expense ratios for the year ended December 31, 2013 decreased to 30.8% from 31.2% for the comparable 2012 period.

Interest Expenses. Interest expense was $89 and $88 for the years ended December 31, 2013 and 2012, respectively. The credit facility commitment fee included in interest expense was $75 for each of the years ended December 31, 2013 and 2012.

Income Tax Expense. Our effective tax rates were 30.0% and 28.7% for the years ended December 31, 2013 and 2012, respectively. These effective rates were lower than the statutory rate of 35.0% primarily due to adjustments for tax-exempt investment income.

Net Income. Net income for the year ended December 31, 2013 was $61,351 compared to $58,070 for the comparable 2012 period.

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YEAR ENDED DECEMBER 31, 2012 COMPARED TO YEAR ENDED DECEMBER 31, 2011

Direct Written Premiums. Direct written premiums for the year ended December 31, 2012 increased by $46,958, or 7.2%, to $696,220 from $649,262 for the comparable 2011 period. The 2012 increase occurred primarily in our personal automobile and homeowners lines, which experienced increases of 4.9% and 4.1%, respectively, in average written premium per exposure. Written exposures remained constant in our personal automobile line and increased by 7.2% and 12.5% in our homeowners line and commercial automobile line, respectively. The increase in homeowners exposures is primarily the result of our pricing strategy of offering account discounts to policyholders who insure both an automobile and home with us.

Net Written Premiums. Net written premiums for the year ended December 31, 2012 increased by $43,626, or 7.0%, to $663,942 from $620,316 for 2011.The 2012 increase was primarily due to the factors that increased direct written premiums.

Net Earned Premiums. Net earned premiums for the year ended December 31, 2012 increased by $44,101, or 7.4%, to $642,469 from $598,368 for the comparable 2011 period. The 2012 increase was primarily due to the factors that increased direct written premiums.

The effect of reinsurance on net written and net earned premiums is presented in the following table.

	Years Ended December 31, 2012	Years Ended December 31, 2011
Written Premiums		
Direct	$ 696,220	$ 649,262
Assumed	17,943	16,521
Ceded	(50,221)	(45,467)
Net written premiums	$ 663,942	$ 620,316
Earned Premiums		
Direct	$ 673,596	$ 626,483
Assumed	16,910	15,790
Ceded	(48,037)	(43,905)
Net earned premiums	$ 642,469	$ 598,368

Net Investment Income. Net investment income for the year ended December 31, 2012 increased by $1,810, or 4.6%, to $40,870 from $39,060 for the comparable 2011 period. Net effective annual yield on the investment portfolio increased to 3.7% for the year ended December 31, 2012 from 3.6% for the comparable 2011 period. Our duration was 3.6 years at December 31, 2012, up from 3.7 years at December 31, 2011.

Net Realized Gains (Losses) on Investments. Net realized gains on investments were $1,975 for the year ended December 31, 2012 compared to $4,360 for the comparable 2011 period.

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The gross unrealized gains and losses on investments in fixed maturity securities, equity securities, including interests in mutual funds, and other invested assets were as follows.

	As of December 31, 2012				
			Gross Unrealized Losses(3)		
	Cost or Amortized Cost	Gross Unrealized Gains	Non-OTTI Unrealized Losses	OTTI Unrealized Losses(4)	Estimated Fair Value
U.S. Treasury securities	$ 7,112	$ 43	$	$	$ 7,155
Obligations of states and political subdivisions	455,249	35,951	(17)		491,183
Residential mortgage-backed securities(1)	215,438	11,465	(1,006)		225,897
Commercial mortgage-backed securities	39,388	1,086			40,474
Other asset-backed securities	21,288	898			22,186
Corporate and other securities	361,939	16,988	(269)		378,658
Subtotal, fixed maturity securities	1,100,414	66,431	(1,292)		1,165,553
Equity securities(2)	21,237	1,629	(66)		22,800
Other invested assets					
Totals	$ 1,121,651	$ 68,060	$ (1,358)	$	$ 1,188,353

(1) Residential mortgage-backed securities consists primarily of obligations of U.S. Government agencies including collateralized mortgage obligations issued, guaranteed and/or insured by the following issuers: Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and the Federal Home Loan Bank (FHLB).

(2) Equity securities includes interests in mutual funds held to fund the Company's executive deferred compensation plan.

(3) Our investment portfolio included 75 securities in an unrealized loss position at December 31, 2012.

(4) Amounts in this column represent other-than-temporary impairment ("OTTI") recognized in accumulated other comprehensive income.

The composition of our fixed income security portfolio by Moody's rating was as follows.

	As of December 31, 2012	
	Estimated Fair Value	Percent
U.S. Treasury securities and obligations of U.S. Government agencies	$ 237,155	20.3%
Aaa/Aa	538,346	46.2
A	174,208	14.9
Baa	81,874	7.0
Ba	43,898	3.8

B	59,572	5.1
Ca	5,383	0.5
Not rated	25,117	2.2
Total	$ 1,165,553	100.0%

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As of December 31, 2012, our portfolio of fixed maturity investments was principally comprised of investment grade corporate fixed maturity securities, U.S. government and agency securities, and asset-backed securities. The portion of our non-investment grade portfolio of fixed maturity investments is primarily comprised of variable rate secured and senior bank loans and high yield bonds. We have no exposure to European sovereign debt.

The following table illustrates the gross unrealized losses included in our investment portfolio and the fair value of those securities, aggregated by investment category. The table also illustrates the length of time that they have been in a continuous unrealized loss position as of December 31, 2012.

	As of December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities	$	$	$	$	$	$
Obligations of states and political subdivisions	2,868	17			2,868	17
Residential mortgage-backed securities	50,779	966	3,938	40	54,717	1,006
Commercial mortgage-backed securities	107				107	
Corporate and other securities	22,979	269			22,979	269
Subtotal, fixed maturity securities	76,733	1,252	3,938	40	80,671	1,292
Equity securities	1,145	23	303	43	1,448	66
Total temporarily impaired securities	$ 77,878	$ 1,275	$ 4,241	$ 83	$ 82,119	$ 1,358

As of December 31, 2012, we held insured investment securities of approximately $116,171, which represented approximately 9.8% of our total investment. Approximately $48,741 of these securities are pre-refunded, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond.

The following table shows our insured investment securities that are backed by financial guarantors including pre-refunded securities as of December 31, 2012. We do not have any direct investment holdings in a financial guarantee insurance company.

	As of December 31, 2012		
Financial Guarantor	**Total**	**Pre-refunded Securities**	**Exposure Net of Pre-refunded Securities**
Municipal bonds			
Ambac Assurance Corporation	$ 18,464	$ 9,175	$ 9,289
Financial Guaranty Insurance Company	278	278	
Assured Guaranty Municipal Corporation	43,629	21,422	22,207
National Public Finance Guaranty Corporation	49,685	17,866	31,819
Total municipal bonds	112,056	48,741	63,315
Other asset-backed securities			
Ambac Assurance Corporation	4,115		4,115

Total other asset-backed securities	4,115		4,115
Total	$ 116,171	$ 48,741	$ 67,430

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The Moody's ratings of our insured investments held at December 31, 2012 are essentially the same with or without the investment guarantees.

We reviewed the unrealized losses in our fixed income and equity portfolio as of December 31, 2012 for potential other-than-temporary asset impairments. We held no securities at December 31, 2012 with a material (20% or greater) unrealized loss for four or more consecutive quarters. Specific qualitative analysis was performed for securities appearing on our "Watch List," if any. Qualitative analysis considered such factors as the financial condition and the near term prospects of the issuer, whether the debtor is current on its contractually obligated interest and principal payments, changes to the rating of the security by a rating agency and the historical volatility of the fair value of the security.

Of the $1,358 gross unrealized losses as of December 31, 2012, $17 relates to obligations of U.S. Treasuries, states and political subdivisions. The remaining $1,341 of gross unrealized losses relates primarily to holdings of investment grade asset-backed, corporate, other fixed maturity and equity securities.

The unrealized losses recorded on the investment portfolio at December 31, 2012 resulted from fluctuations in market interest rates and other temporary market conditions as opposed to fundamental changes in the credit quality of the issuers of such securities. Given our current level of liquidity, the fact that we do not intend to sell these securities, and that it is more likely than not that we will not be required to sell these securities prior to recovery of the cost basis of these securities, these decreases in values are viewed as being temporary.

During the years ended December 31, 2012 and 2011, there was no significant deterioration in the credit quality of any of our holdings and no OTTI charges were recorded related to our portfolio of investment securities.

For information regarding fair value measurements of our investment portfolio, refer to Item 8 Financial Statements and Supplementary Data, Note 14, Fair Value Measurements, of this Form 10-K.

Finance and Other Service Income. Finance and other service income includes revenues from premium installment charges, which we recognize when earned, and other miscellaneous income and fees. Finance and other service income increased by $183 or 1.0% to $18,553 for the year ended December 31, 2012 from $18,370 for the comparable 2011 period.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses incurred for year ended December 31, 2012 decreased by $44,423, or 9.5%, to $422,217 from $466,640 for the comparable 2011 period. Our GAAP loss ratio for the year ended December 31, 2012 decreased to 65.7% from 78.0% for the comparable 2011 period. Included in pre-tax results for the year ended December 31, 2012 is approximately $10,332 attributable to catastrophic weather event losses sustained throughout the year compared to $61,384 for the comparable 2011 period. Our GAAP loss ratio excluding loss adjustment expenses for the year ended December 31, 2012 decreased to 56.8% from 68.6% for the comparable 2011 period. The total prior year favorable development included in pre-tax results for the year ended December 31, 2012 was $17,310 compared to $36,683 for the comparable 2011 period.

Underwriting, Operating and Related Expenses. Underwriting, operating and related expenses for year ended December 31, 2012 increased by $20,981, or 11.7%, to $200,138 from $179,157 for the comparable 2011 period primarily due to an increase in commissions to agents as a result of premium increases, as discussed above. Our GAAP expense ratios for the year ended December 31, 2012 increased to 31.2% from 29.9% for the comparable 2011 period.

Interest Expenses. Interest expense for the years ended December 31, 2012 and 2011 was $88. The credit facility commitment fee included in interest expense was $75 for each of the years ended December 31, 2012 and 2011.

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Income Tax Expense. Our effective tax rates were 28.7% and 4.0% for the years ended December 31, 2012 and 2011, respectively. These effective rates were lower than the statutory rate of 35.0% primarily due to adjustments for tax-exempt investment income.

Net Income. Net income for the year ended December 31, 2012 was $57,404 compared to $13,702 for the comparable 2011 period. This increase was primarily attributable to the decrease in losses and loss adjustment expenses, as discussed above.

Liquidity and Capital Resources

As a holding company, Safety's assets consist primarily of the stock of our direct and indirect subsidiaries. Our principal source of funds to meet our obligations and pay dividends to shareholders, therefore, is dividends and other permitted payments from our subsidiaries, principally Safety Insurance. Safety is the borrower under our credit facility.

Safety Insurance's sources of funds primarily include premiums received, investment income and proceeds from sales and redemptions of investments. Safety Insurance's principal uses of cash are the payment of claims, operating expenses and taxes, the purchase of investments and payment of dividends to Safety.

Net cash provided by operating activities was $110,861, $104,311, and $39,475 during the years ended December 31, 2013, 2012, and 2011, respectively. Our operations typically generate positive cash flows from operations as most premiums are received in advance of the time when claim and benefit payments are required. These positive operating cash flows are expected to continue to meet our liquidity requirements.

Net cash used for investing activities was $51,295, $74,445 and $12,413 during the years ended December 31, 2013, 2012 and 2011, respectively, as purchases of fixed maturity and equity securities exceeded sales, paydowns, calls and maturities of fixed maturity and equity securities.

Net cash used for financing activities was $39,072, $32,393, and $29,463 during the years ended December 31, 2013, 2012 and 2011, respectively. Net cash used for financing activities is primarily comprised of dividend payments to shareholders and the acquisition of treasury stock.

The Insurance Subsidiaries maintain a high degree of liquidity within their respective investment portfolios in fixed maturity and short-term investments. In recent years, global financial markets experienced unprecedented and challenging conditions, including a tightening in the availability of credit, the failure of several large financial institutions and concerns about the creditworthiness of the sovereign debt of several European and other countries. We believe that recent and ongoing government actions, including The Emergency Economic Stabilization Act of 2008, the 2009 American Recovery and Reinvestment Act and other U.S. and global government programs and the quality of the assets we hold will allow us to realize these securities' anticipated long-term economic value. Furthermore, as of December 31, 2013, we had the intent and ability to retain such investments for the period of time anticipated to allow for this expected recovery in fair value. We do not anticipate the need to sell these securities to meet the Insurance Subsidiaries cash requirements. We expect the Insurance Subsidiaries to generate sufficient operating cash to meet all short-term and long-term cash requirements. However, there can be no assurance that unforeseen business needs or other items will not occur causing us to have to sell securities before their values fully recover; thereby causing us to recognize additional impairment charges in that time period.

Credit Facility

For information regarding our Credit Facility, please refer to Item 8 Financial Statements and Supplementary Data, Note 8, Debt, of this Form 10-K.

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Recent Accounting Pronouncements

For information regarding Recent Accounting Pronouncements, please refer to Item 8 Financial Statements and Supplementary Data, Note 2, Summary of Significant Accounting Policies, of this Form 10-K.

Regulatory Matters

Our insurance company's subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of the Commissioner. The Massachusetts statute limits the dividends an insurer may pay in any twelve-month period, without the prior permission of the Commissioner, to the greater of (i) 10% of the insurer's surplus as of the preceding December 31 or (ii) the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices. Our insurance company subsidiaries may not declare an "extraordinary dividend" (defined as any dividend or distribution that, together with other distributions made within the preceding twelve months, exceeds the limits established by Massachusetts statute) until thirty days after the Commissioner has received notice of the intended dividend and has not objected. As historically administered by the Commissioner, this provision requires the Commissioner's prior approval of an extraordinary dividend. Under Massachusetts law, an insurer may pay cash dividends only from its unassigned funds, also known as earned surplus, and the insurer's remaining surplus must be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. At year-end 2013, the statutory surplus of Safety Insurance was $627,993, and its net income for 2013 was $53,078. As a result, a maximum of $62,799 is available in 2014 for such dividends without prior approval of the Commissioner. During the twelve months ended December 31, 2013, Safety Insurance recorded dividends to Safety of $36,114.

The maximum dividend permitted by law is not indicative of an insurer's actual ability to pay dividends, which may be constrained by business and regulatory considerations, such as the impact of dividends on surplus, which could affect an insurer's ratings or competitive position, the amount of premiums that can be written and the ability to pay future dividends.

Since the initial public offering of its common stock in November 2002, the Company has paid regular quarterly dividends to shareholders of its common stock. Quarterly dividends paid during 2013 and 2012 were as follows:

Declaration Date	Record Date	Payment Date	Dividend per Common Share	Total Dividends Paid and Accrued
November 4, 2013	**December 2, 2013**	**December 13, 2013**	**$ 0.60**	**$ 9,239**
August 7, 2013	**September 3, 2013**	**September 13, 2013**	**$ 0.60**	**$ 9,236**
May 6, 2013	**June 3, 2013**	**June 14, 2013**	**$ 0.60**	**$ 9,244**
February 15, 2013	**March 1, 2013**	**March 15, 2013**	**$ 0.60**	**$ 9,200**
November 2, 2012	December 3, 2012	December 14, 2012	$ 0.60	$ 9,193
August 1, 2012	September 4, 2012	September 14, 2012	$ 0.60	$ 9,191
May 3, 2012	June 1, 2012	June 15, 2012	$ 0.50	$ 7,652
February 15, 2012	March 1, 2012	March 15, 2012	$ 0.50	$ 7,598

On February 14, 2014, our Board approved and declared a quarterly cash dividend on our common stock of $0.60 per share to be paid on March 14, 2014 to shareholders of record on March 3, 2014. We plan to continue to declare and pay quarterly cash dividends in 2014, depending on our financial position and the regularity of our cash flows.

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On August 3, 2007, our Board approved a share repurchase program of up to $30,000 of the Company's outstanding common shares. As of September 30, 2013, the Board of Directors had authorized increases to the existing share repurchase program of up to $90,000 of the Company's outstanding common shares. On November 4, 2013, the Board of Directors again increased the existing share repurchase program by authorizing repurchase of up to $150,000 of the Company's outstanding common shares. Under the program, the Company may repurchase shares of its common stock for cash in public or private transactions, in the open market or otherwise. The timing of such repurchases and actual number of shares repurchased will depend on a variety of factors including price, market conditions and applicable regulatory and corporate requirements. The program does not require the Company to repurchase any specific number of shares and it may be modified, suspended or terminated at any time without prior notice.

During the year ended December 31, 2013, the Company purchased 90,902 of its common shares on the open market under the program at a cost of $4,799 resulting in total shares purchased since inception of the program of 1,819,547 at a cost of $60,368. No share purchases were made by the Company during the year ended December 31, 2012.

Management believes that the current level of cash flow from operations provides us with sufficient liquidity to meet our operating needs over the next 12 months. We expect to be able to continue to meet our operating needs after the next 12 months from internally generated funds. Since our ability to meet our obligations in the long term (beyond such twelve-month period) is dependent upon such factors as market changes, insurance regulatory changes and economic conditions, no assurance can be given that the available net cash flow will be sufficient to meet our operating needs. We expect that we would need to borrow or issue capital stock if we needed additional funds, for example, to pay for an acquisition or a significant expansion of our operations. There can be no assurance that sufficient funds for any of the foregoing purposes would be available to us at such time.

Off-Balance Sheet Arrangements

We have no material obligations under a guarantee contract meeting the characteristics identified in Accounting Standards Codification ("ASC") 460, *Guarantees.* We have no material retained or contingent interests in assets transferred to an unconsolidated entity. We have no material obligations, including contingent obligations, under contracts that would be accounted for as derivative instruments. We have no obligations, including contingent obligations, arising out of a variable interest in an unconsolidated entity held by, and material to, us, where such entity provides financing, liquidity, market risk or credit risk support to, or engages in leasing, hedging or research and development services with us. We have no direct investments in real estate and no holdings of mortgages secured by commercial real estate. Accordingly, we have no material off-balance sheet arrangements.

Contractual Obligations

We have obligations to make future payments under contracts and credit-related financial instruments and commitments. At December 31, 2013, certain long-term aggregate contractual obligations and credit-related commitments are summarized as follows:

	Payments Due by Period				
	Within One Year	Two to Three Years	Four to Five Years	After Five Years	Total
Loss and LAE reserves	$ 222,957	$ 200,206	$ 27,301	$ 4,550	$ 455,014
Purchase commitments	971	1,409			2,380
Operating leases	4,151	8,110	7,677		19,938
Total contractual obligations	$ 228,079	$ 209,725	$ 34,978	$ 4,550	$ 477,332

As of December 31, 2013, the Company had loss and LAE reserves of $455,014, unpaid reinsurance recoverables of $60,346 and net loss and LAE reserves of $394,668. Our loss and LAE reserves are estimates as described in more detail under *Critical Accounting Policies and Estimates*. The specific amounts and timing of obligations related to case reserves, IBNR reserves and related LAE reserves are not set contractually, and the amounts and timing of these obligations are unknown. Nonetheless, based upon our cumulative claims paid over the last ten years, the Company estimates that its loss and LAE reserves will be paid in the period shown above. While management believes that historical performance of loss payment patterns is a reasonable source for projecting future claims payments, there is inherent uncertainty in this estimated projected settlement of loss and LAE reserves, and as a result these estimates will differ, perhaps significantly, from actual future payments. Our operations typically generate substantial positive cash flows from operations as most premiums are received in advance of the time when claim and benefit payments are required. These positive operating cash flows are expected to continue to meet our liquidity requirements, including any unexpected variations in the timing of claim settlements.

Critical Accounting Policies and Estimates

Loss and Loss Adjustment Expense Reserves.

Significant periods of time can elapse between the occurrence of an insured loss, the reporting to us of that loss and our final payment of that loss. To recognize liabilities for unpaid losses, we establish reserves as balance sheet liabilities. Our reserves represent estimates of amounts needed to pay reported and unreported losses and the expenses of investigating and paying those losses, or loss adjustment expenses. Every quarter, we review our previously established reserves and adjust them, if necessary.

When a claim is reported, claims personnel establish a "case reserve" for the estimated amount of the ultimate payment. The amount of the reserve is primarily based upon an evaluation of the type of claim involved, the circumstances surrounding each claim and the policy provisions relating to the loss. The estimate reflects the informed judgment of such personnel based on general insurance reserving practices and on the experience and knowledge of the claims person. During the loss adjustment period, these estimates are revised as deemed necessary by our claims department based on subsequent developments and periodic reviews of the cases. When a claim is closed with or without a payment, the difference between the case reserve and the settlement amount creates a reserve deficiency if the payment exceeds the case reserve or a reserve redundancy if the payment is less than the case reserve.

In accordance with industry practice, we also maintain reserves for estimated losses incurred but not yet reported ("IBNR"). IBNR reserves are determined in accordance with commonly accepted actuarial reserving techniques on the basis of our historical information and experience. We review and make adjustments to incurred but not yet reported reserves quarterly. In addition, IBNR reserves can also be expressed as the total loss reserves required less the case reserves on reported claims.

When reviewing reserves, we analyze historical data and estimate the impact of various loss development factors, such as our historical loss experience and that of the industry, trends in claims frequency and severity, our mix of business, our claims processing procedures, legislative enactments, judicial decisions, legal developments in imposition of damages, and changes and trends in general economic conditions, including the effects of inflation. A change in any of these factors from the assumption implicit in our estimate can cause our actual loss experience to be better or worse than our reserves, and the difference can be material. There is no precise method, however, for evaluating the impact of any specific factor on the adequacy of reserves, because the eventual development of reserves is affected by many factors.

Management determines our loss and LAE reserves estimate based upon the analysis of our actuaries. A reasonable estimate is derived by selecting a point estimate within a range of indications as calculated by our actuaries using generally accepted actuarial techniques. The key assumption in most actuarial analysis is that past patterns of frequency and severity will repeat in the future, unless a significant change in the factors described above takes place. Our key factors and resulting assumptions are the ultimate frequency and severity of claims, based upon the most recent ten years of claims reported to the Company, and the data CAR reports to us to calculate our share of the residual market, as of the date of the applicable balance sheet. For each accident year and each coverage within a line of business our actuaries calculate the ultimate losses incurred. Our total reserves are the difference between the ultimate losses incurred and the cumulative loss and loss adjustment payments made to date. Our IBNR reserves are calculated as the difference between our total reserves and the outstanding case reserves at the end of the accounting period. To determine ultimate losses, our actuaries calculate a range of indications and select a point estimation using such actuarial techniques as:

Paid Loss Indications: This method projects ultimate loss estimates based upon extrapolations of historic paid loss trends. This method tends to be used on short tail lines such as automobile physical damage.

Incurred Loss Indications: This method projects ultimate loss estimates based upon extrapolations of historic incurred loss trends. This method tends to be used on long tail lines of business such as automobile liability and homeowner's liability.

Bornhuetter-Ferguson Indications: This method projects ultimate loss estimates based upon extrapolations of an expected amount of IBNR, which is added to current incurred losses or paid losses. This method tends to be used on small, immature, or volatile lines of business, such as our BOP and umbrella lines of business.

Bodily Injury Code Indications: This method projects ultimate loss estimates for our private passenger and commercial automobile bodily injury coverage based upon extrapolations of the historic number of accidents and the historic number of bodily injury claims per accident. Projected ultimate bodily injury claims are then segregated into expected claims by type of injury (e.g. soft tissue injury vs. hard tissue injury) based on past experience. An ultimate severity, or average paid loss amounts, is estimated based upon extrapolating historic trends. Projected ultimate loss estimates using this method are the aggregate of estimated losses by injury type.

Such techniques assume that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting our ultimate losses, total reserves and resulting IBNR reserves. It is possible that the final outcome may fall above or below these amounts as a result of a number of factors, including immature data, sparse data, or significant growth in a line of business. Using these methodologies our actuaries established a range of reasonably possible estimations for net reserves of approximately $364,146 to $401,265 as of December 31, 2013 compared to a range of $347,618 to $379,385 as of December 31, 2012. In general, the low and high values of the ranges represent reasonable minimum and maximum values of the indications based on the techniques described above. Our selected point estimate of net loss and LAE reserves based upon the analysis of our actuaries was $394,668 as of December 31, 2013 compared to $371,657 as of December 31, 2012 .

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The following tables present the point estimation of the recorded reserves and the range of estimations by line of business for net loss and LAE reserves as of December 31, 2013 and December 31, 2012.

	As of December 31, 2013		
Line of Business	**Low**	**Recorded**	**High**
Private passenger automobile	**$ 216,334**	**$ 232,362**	**$ 233,682**
Commercial automobile	**52,889**	**55,460**	**57,765**
Homeowners	**57,933**	**62,249**	**62,545**
All other	**36,990**	**44,597**	**47,273**
Total	**$ 364,146**	**$ 394,668**	**$ 401,265**

	As of December 31, 2012		
Line of Business	**Low**	**Recorded**	**High**
Private passenger automobile	$ 220,432	$ 232,663	$ 232,980
Commercial automobile	44,548	48,934	49,652
Homeowners	50,047	55,382	59,784
All other	32,591	34,678	36,969
Total	$ 347,618	$ 371,657	$ 379,385

The following table presents our total net reserves and the corresponding case reserves and IBNR reserves for each line of business as of December 31, 2013 and December 31, 2012.

	As of December 31, 2013		
Line of Business	**Case**	**IBNR**	**Total**
Private passenger automobile	**$ 233,250**	**$ (1,912)**	**$ 231,338**
CAR assumed private passenger auto	**487**	**538**	**1,025**
Commercial automobile	**37,304**	**5,976**	**43,280**
CAR assumed commercial automobile	**6,639**	**5,540**	**12,179**
Homeowners	**38,292**	**17,426**	**55,718**
FAIR Plan assumed homeowners	**2,676**	**3,855**	**6,531**
All other	**22,732**	**21,865**	**44,597**
Total net reserves for losses and LAE	**$ 341,380**	**$ 53,288**	**$ 394,668**

	As of December 31, 2012		
Line of Business	**Case**	**IBNR**	**Total**

Private passenger automobile	$ 232,695	$ (2,654)	$ 230,041
CAR assumed private passenger auto	1,378	1,244	2,622
Commercial automobile	33,665	4,521	38,186
CAR assumed commercial automobile	6,232	4,516	10,748
Homeowners	33,397	15,322	48,719
FAIR Plan assumed homeowners	2,552	4,111	6,663
All other	21,060	13,618	34,678
Total net reserves for losses and LAE	$ 330,979	$ 40,678	$ 371,657

At December 31, 2013 and 2012, our total IBNR reserves for our private passenger automobile line of business were comprised of $(25,196) and $(25,826) related to estimated ultimate decreases in

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the case reserves, including anticipated recoveries (i.e. salvage and subrogation), and $23,284 and $23,172 related to our estimation for not yet reported losses, respectively.

Our IBNR reserves consist of our estimate of the total loss reserves required less our case reserves. The IBNR reserves for CAR assumed commercial automobile business are 45.5%, respectively, of our total reserves for CAR assumed commercial automobile business as of December 31, 2013 due to the reporting delays in the information we receive from CAR, as described further in the section on *CAR Loss and Loss Adjustment Expense Reserves.* Our IBNR reserves for FAIR Plan assumed homeowners are 59.0% of our total reserves for FAIR Plan assumed homeowners at December 31, 2013 due to similar reporting delays in the information we receive from FAIR Plan.

The following tables present information by line of business for our total net reserves and the corresponding retained (i.e. direct less ceded) reserves and assumed reserves as of December 31, 2013 and 2012.

	As of December 31, 2013		
Line of Business	**Retained**	**Assumed**	**Net**
Private passenger automobile	**$ 231,338**		
CAR assumed private passenger automobile		**$ 1,025**	
Net private passenger automobile			**$ 232,363**
Commercial automobile	**43,280**		
CAR assumed commercial automobile		**12,179**	
Net commercial automobile			**55,459**
Homeowners	**55,718**		
FAIR Plan assumed homeowners		**6,531**	
Net homeowners			**62,249**
All other	**44,597**		**44,597**
Total net reserves for losses and LAE	**$ 374,933**	**$ 19,735**	**$ 394,668**

	As of December 31, 2012		
Line of Business	**Retained**	**Assumed**	**Net**
Private passenger automobile	$ 230,041		
CAR assumed private passenger automobile		$ 2,622	
Net private passenger automobile			$ 232,663
Commercial automobile	38,186		
CAR assumed commercial automobile		10,748	
Net commercial automobile			48,934
Homeowners	48,719		
FAIR Plan assumed homeowners		6,663	
Net homeowners			55,382
All other	34,678		34,678