



2022
ANNUAL
REPORT
TO
OUR
SHAREHOLDERS



Safety Insurance[®]
AUTO • HOME • BUSINESS

We help you manage life's storms

*The key
to our success:*

SERVICE.



*The key to our
customers' success:*

SAFETY.



Safety Insurance was founded in 1979 with a belief that we would succeed as a company if customers were given the best possible service. As we've grown and expanded our product line to include a full portfolio of property and casualty insurance products, staying committed to that belief has meant even more. At Safety, we do everything possible to make it easy for our agents and policyholders to do business with us.

Today, Safety is the fifth largest private passenger automobile carrier, the second largest commercial automobile carrier, and the third largest homeowners carrier in Massachusetts. We support our network of independent agents with state-of-the-art tools that make the ease and convenience of doing business with Safety second to none.

Together with our agents, Safety Insurance remains a premier provider of property and casualty insurance in Massachusetts, New Hampshire, and Maine. We'll continue this tradition into the future.

Dear Fellow Stockholders:

Safety Insurance had another financially successful year with a combined ratio of 97.2% and GAAP earnings per diluted share of \$3.15. Our non-GAAP operating earnings per diluted share, which exclude the impact of changes in unrealized gains/losses on equity investments, realized gains/losses on investments, and other-than-temporary impairments, was \$5.05. While industry challenges around inflation continue to exist, we again achieved operating profitability and have successfully maintained our strong financial position. Our commitment to strong underwriting results and enhanced investment returns, remains unchanged. As always, we focus on pricing our products appropriately for the risks we are insuring while generating the capital to grow our business in new and creative ways.

To achieve these goals, our long-standing strategy is to maintain and develop strong independent agent relationships. In contrast to some of our competitors, Safety distributes its products exclusively through independent agents. We continue to work with our extensive network of agents throughout Massachusetts, New Hampshire and Maine. We support them with a full suite of insurance products and information technology services, which enables them to better serve their customers and more easily transact business with us.

Our strategy of providing agents with value and unparalleled service has enabled Safety to establish strong relationships with agency partners and to capture a larger share of the total business written by each agent. We position ourselves as the preferred insurance carrier for those agents and are ranked first or second in over 70% of their agencies based on direct written premium. We have translated our competitive advantage and extensive knowledge of the market to become the second largest commercial automobile carrier, the fifth largest private passenger automobile carrier and the third largest homeowners carrier in Massachusetts.

Safety is proud of our history as an independent agency company and remains committed to the agency channel. In December 2022, Safety acquired, through a wholly-owned subsidiary, the assets and operations of Northeast Insurance Agency, Inc (“Northeast/Metrowest”). Since 1989, Northeast/Metrowest has provided personal and commercial insurance to properly protect its customers by determining the best coverage to suit their unique needs. Over that time, Northeast/Metrowest has grown to include over \$40 million in policy premiums and continues to expand its offerings to its customers.

This acquisition is an exciting opportunity to strengthen our standing within the independent agency channel while positioning us for future prosperity. Over 30% of our current policies are handled in our Service Center and there will be numerous synergies that can be recognized by both Safety and Northeast/Metrowest, that will enhance our policyholder engagement.

Cash Dividends Paid Per Common Share (Dollars)



Total Revenues (Excluding Changes in Unrealized Gains on Equity Investments) (Dollars in Millions)



Our insurance agency efforts are focused on providing our independent agency partners and our shared customers easy to use technology tools that make doing business with Safety, second to none. We continue to focus on customer engagement by giving our policyholders a variety of ways to interact with us in the underwriting, claims, and billing areas.

We also continue to invest in digital technology enhancements for our core systems that are aimed at providing our independent agents and consumers with useful tools to enhance the user experience. To assist in these efforts, we have an in-house Innovation Lab whose purpose is to foster a culture of innovative thinking, monitor the InsurTech landscape and provide Safety and our independent agents with the tools and processes necessary to continuously improve the customer experience. During 2022, the Innovation Lab did substantial research, performed multiple proof of concepts, initiated pilot projects, participated in industry sponsored InsureTech events and presented fully functional technologies to the business for their use. Specific 2022 projects completed by the Innovation Lab included partnering with Safety's Commercial Underwriting department to introduce a no code low code product into our technology toolset, which was used to develop an underwriting workbench. A proof of concept was also developed in partnership with our Service Center to explore the development of a Customer System of Record application. Finally, the Innovation Lab also partnered with the Claims department to select an outbound electronic claims payment system which we will look to implement in 2023.

Our investment objective continues to focus on maximizing total returns while investing conservatively. Net effective annual yield on our investment portfolio was 3.2% for the year ended December 31, 2022. Our duration on fixed maturities was 3.8 years at December 31, 2022. We additionally generated \$12.5 million on our partnership investments and \$9.2 million in realized gains in 2022. We continue to believe that our current portfolio position and strong underlying operating cash flow provides sufficient liquidity to meet our needs.

Our insurance subsidiaries "A" (Excellent) rating was reaffirmed by A.M. Best on May 25, 2022. In reaffirming the rating, A.M. Best recognized our solid risk-adjusted capitalization, historically strong operating income, favorable loss reserve development, and market position as a leading property and casualty insurance writer in the New England region. A.M. Best also noted our low investment leverage and disciplined underwriting approach as important strengths.

We were also named to the 2022 Ward's 50 group of top performing property and casualty insurance companies. Ward Group analyzed the financial performance of nearly 3,000 property-casualty insurance companies based in the United States and identified the top performances based on objective data and subjective quality measures. Each company must pass primary safety and consistency tests and are measured and scored along five-year average returns on equity, assets, total revenue, growth in revenue, growth in surplus, and combined ratio.

Safety's book value per share decreased to \$54.88 at December 31, 2022 from a record high of \$62.47 at December 31, 2021 resulting

We again achieved operating profitability and have successfully maintained our strong financial position.

Total Shareholders' Equity
(Excluding Unrealized Gains and Losses)
(Dollars in Millions)



Non-GAAP Operating Income
(Dollars in Millions)



Safety Insurance is committed to developing environmentally and socially-conscious solutions.

which it operates, and that the effective management of ESG issues will help drive the continued success of the business. To that end, Safety Insurance is committed to developing environmentally and socially-conscious solutions for our employees, our community, our investors and our independent agency partners and policyholders. We continue to make indelible impacts in our communities in various ways, from the Parent's Supervised Driving Program Guide and the In Control Advanced Driver Training, which encourage new and young drivers to be responsible and drive safe.

Our employees give both their time and their financial resources to charities of all types, and the company promotes corporate citizenship through charitable donations and company-sponsored volunteer activities.

Safety is committed to making a positive impact on the communities where our employees live and work through our matching gift program, corporate giving and employee volunteerism. The Safety Insurance Charitable Foundation financially supports a wide array of charities in areas such as community service, education, job training, homelessness, arts/culture, food banks, youth programs, healthcare, medical research and disaster relief.

For the environment, we continue to efficiently operate our physical footprint in the heart of Boston, Massachusetts. We are committed to investigating additional ways to measure and reduce our overall carbon footprint in line with industry practices. Most importantly, ESG risk management is incorporated into our formal Enterprise Risk Management Program. Through this program, our senior leadership team oversees the management and risk mitigation process and works with the Board of Directors to evolve our ESG strategy and monitor ESG initiatives.

With the support of an experienced, knowledgeable and dedicated senior management team, we continue to achieve operational and financial success. The ongoing commitment of our employees, allows us to continually provide the best service possible to our independent agent partners and policyholders. This has resulted in a history of strong returns and enduring value for our stockholders. We appreciate your long-term participation as a stockholder of Safety Insurance Group.

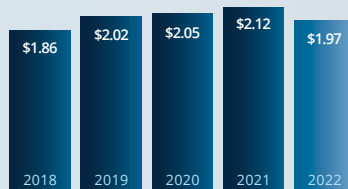
Sincerely,



George M. Murphy

President and Chief Executive Officer

Total Assets
(Dollars in Billions)





AUTO

Private passenger automobile insurance is our primary product representing 52.0% of our direct written premiums. We also offer insurance for commercial vehicles used for business purposes, insuring individual vehicles as well as commercial fleets, which represented 17.4% of our direct written premium in 2022. We are the fifth largest private passenger automobile carrier and the second largest commercial automobile carrier in Massachusetts, capturing approximately 7.7% and 12.6% of the respective markets.

Net Written Premiums

(Dollars in Thousands)





HOME

We write policies on homes, condominiums, and apartments and offer a broad selection of coverage forms for qualified policyholders. We are the third largest homeowner carrier in Massachusetts, representing 25.3% of our total direct written premium.



Net Written Premiums
(Dollars in Thousands)





COMMERCIAL PROPERTY PRODUCTS

We offer *business owner policies* providing liability and property coverage to small and medium-sized commercial accounts. For larger commercial accounts, or 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 property products make up 5.3% of our total direct written premium.

Net Written Premiums

(Dollars in Thousands)



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2022

Or

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	Trading Symbol	Name of each exchange on which registered
Common Shares, \$0.01 par value per share	SAFT	The Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

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, 2022, was approximately \$1,370,785,946.

As of February 21, 2023 there were 14,800,434 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, which Safety Insurance Group, Inc. ("Safety", the "Company", "we", "our", "us") intends to file within 120 days after its December 31, 2022 year-end, are incorporated by reference into Part II and Part III hereof.

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, commercial automobile, and homeowners insurance in Massachusetts. In addition to these coverages, we offer a portfolio of other insurance products, including dwelling fire, umbrella and business owner policies. Operating exclusively in Massachusetts, New Hampshire and Maine through our insurance company subsidiaries, Safety Insurance Company ("Safety Insurance"), Safety Indemnity Insurance Company ("Safety Indemnity"), Safety Property and Casualty Insurance Company ("Safety P&C"), and Safety Northeast Insurance Company ("Safety Northeast") (together referred to as the "Insurance Subsidiaries"), we have established strong relationships with independent insurance agents, who numbered 843 in 1,071 locations throughout these three states during 2022. We have used these relationships and, in particular, our extensive knowledge of the Massachusetts market to become the fifth largest private passenger automobile carrier and the second largest commercial automobile carrier in Massachusetts, capturing an approximate 7.7% and 12.6% share, respectively, of the Massachusetts private passenger and commercial automobile markets in 2022 according to statistics compiled by Commonwealth Automobile Reinsurers ("CAR"). We also are the third largest homeowners insurance carrier in Massachusetts with a 6.5% share of that market in 2021. We were ranked the 57th largest automobile writer in the country according to S&P Global Market Intelligence, based on 2021 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 insurance in New Hampshire during 2008 and Maine in 2016. The table below shows the amount of direct written premiums written in each state during the year ended December 31, 2022, 2021, and 2020.

Direct Written Premiums	Years Ended December 31,		
	2022	2021	2020
Massachusetts	\$ 782,790	\$ 765,007	\$ 764,479
New Hampshire	36,519	34,261	32,334
Maine	4,009	2,871	1,899
Total	<u>\$ 823,318</u>	<u>\$ 802,139</u>	<u>\$ 798,712</u>

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 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 is 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. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Our Competitive Strengths

We Have Strong Relationships with Independent Agents. In 2022, independent agents accounted for approximately 63.8% of the Massachusetts personal lines insurance market measured by direct written premiums as compared to approximately 37.0% nationwide, based on data made available by Independent Insurance Agents and Brokers of America, Inc. and CAR. For that reason, our strategy is centered around, and we sell exclusively through, a network of independent agents. 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 them effectively address 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, New Hampshire and Maine. We must compete with other insurance carriers for the business of independent agents.

We Have a History of Profitable Operations. In 41 out of 42 years since our inception in 1979, we have been profitable. We have achieved our profitability, among other things, by:

- operating as the fifth largest private passenger auto premium insurance carrier, the second largest commercial auto insurance carrier, and third largest homeowner insurance carrier in Massachusetts.
- 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 its long tenure in the industry;
- introducing new lines and forms of insurance products;
- investing in technology to provide our agents with state-of-the-art tools that make the ease and convenience of doing business with us second to none; and
- maintaining a high-quality investment portfolio.

We Continue to Develop and Deploy Advanced Technology and Services for Our Business. We have dedicated significant human and financial resources to the development and deployments of advanced information systems and technologies, customer and agent facing websites, mobile applications, and customer engagement tools including online chat and text. Over the last several years we have modernized all of our core systems along with many of our surround systems and technology platforms in an effort to increase efficiencies within the organization and provide a better user experience for our employees, agents, and customers. These modern systems and platforms position us to continue to take advantage of the latest in InsureTech offerings, Software as a Service (SaaS) products and cloud-based technologies to improve the customer experience, engage with customers on their terms, and assist with customer retention all while improving operational efficiencies and reducing operational costs. We also continue to expand our usage of Robotics Process Automation throughout the organization to automate manual processes, streamline the software testing process and perform application performing testing to insure a robust technical environment.

We Have an Experienced, Committed and Knowledgeable Management Team. Our senior management team has an average of over 29 years of experience with Safety and a demonstrated ability to operate successfully within the property and casualty market.

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, New Hampshire and Maine markets in all lines of business;
- implement rates, forms and billing options that allow us to cross-sell private passenger automobile, homeowners, dwelling fire, and personal umbrella policies in the personal lines market and commercial automobile, business owner policies, commercial property package and commercial umbrella policies in the commercial lines market in order to capture a larger share of the total Massachusetts, New Hampshire and Maine 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.

Property and Casualty Insurance Market

Introduction. We are licensed by the respective state insurance departments to transact property and casualty insurance in Massachusetts, New Hampshire, and Maine. All of our business is regulated by these departments, with the most extensive oversight from our domestic regulator, the Massachusetts Division of Insurance (“Division”).

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 owner, personal umbrella, dwelling fire and commercial umbrella insurance policies are written by Safety Insurance at standard rates and written by Safety Indemnity at preferred rates. In December 2006, we formed Safety P&C to offer homeowners and commercial automobile insurance. In November 2020, we formed Safety Northeast to offer at ultra preferred rates, which became licensed to write homeowners insurance products in Massachusetts.

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.

Direct Written Premiums	Years Ended December 31,					
	2022		2021		2020	
Private passenger automobile	\$ 427,665	52.0 %	\$ 429,819	53.6 %	\$ 438,824	54.9 %
Commercial automobile	143,571	17.4	129,832	16.2	118,773	14.9
Homeowners	208,577	25.3	199,886	24.9	199,482	25.0
Business owners	24,200	2.9	23,334	2.9	22,317	2.8
Personal umbrella	8,441	1.0	8,417	1.1	8,087	1.0
Dwelling fire	9,667	1.2	9,698	1.2	10,148	1.3
Commercial umbrella	1,197	0.2	1,153	0.1	1,081	0.1
Total	<u>\$ 823,318</u>	<u>100.0 %</u>	<u>\$ 802,139</u>	<u>100.0 %</u>	<u>\$ 798,712</u>	<u>100.0 %</u>

Our product lines are as follows:

Private Passenger Automobile (52.0% of 2022 direct written premiums). Private passenger automobile insurance is our primary product. These 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.

Commercial Automobile (17.4% of 2022 direct written premiums). 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 (excluding long-haul trucking), and insure individual vehicles as well as commercial fleets.

Homeowners (25.3% of 2022 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.

Business Owner Policies (2.9% of 2022 direct written premiums). We serve eligible small and medium sized commercial accounts with a program that covers apartments and residential condominiums; mercantile establishments, including 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.

Personal Umbrella (1.0% of 2022 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 write policies at standard rates with limits of \$1,000 to \$5,000.

Dwelling Fire (1.2% of 2022 direct written premiums). We underwrite dwelling fire insurance, which is a limited form of a homeowner's policy for non-owner occupied residences. We write all forms of dwelling fire coverage at standard rates.

Commercial Umbrella (0.2% of 2022 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. 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.

The insurance industry can also be impacted by terrorism, and we have filed and received approval for a number of terrorism endorsements, which limit our liability and property exposure according to the Terrorism Risk Insurance Act of 2002, the Terrorism Risk Insurance Extension Act of 2005, the Terrorism Risk Insurance Program

Reauthorization Act of 2007, the Terrorism Risk Insurance Program Reauthorization of 2015 and the Terrorism Risk Insurance Program Reauthorization Act of 2019. 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 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 to cancel any coverage bound, in accordance with applicable law. In total, our independent agents numbered 843 and had 1,071 offices (some agencies have more than one office) and approximately 10,015 customer service representatives during 2022.

Voluntary Agents. In 2022, we obtained approximately 96.5% 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 December 31, 2022, we had agreements with 739 voluntary agents. Our voluntary agents are located in all regions of Massachusetts, New Hampshire and Maine.

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 prior year performance of our agents. 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 direct written premiums. No individual agency generated more than 8.7% of our direct written premiums in 2022.

Massachusetts law guarantees that CAR provides motor vehicle insurance coverage to all eligible risks. Under the MAIP, personal automobile policies are assigned to us for three years, unless the policyholder is offered a voluntary policy by another insurer. All Massachusetts agents are authorized to submit eligible business to the MAIP for random assignment to a carrier such as Safety Insurance. We are allocated all private passenger residual market business through the MAIP.

CAR runs a reinsurance pool for ceded commercial automobile policies through the Commercial Automobile Program (the "Commercial Automobile Program"). CAR has appointed Safety and three other servicing carriers to process ceded commercial automobile insurance. Safety was reappointed for this program on January 1, 2022 for an additional five-year term. Historically, CAR ran a separate reinsurance pool for Taxi, Limousine and Car Service risks; however, beginning with the January 1, 2022 policy year, this pool was combined into the Commercial Automobile Program. Approximately \$190,000 of ceded premium is spread equitably among the four servicing carriers. Subject to the review of the Massachusetts Commissioner of Insurance ("the Commissioner"), 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.

We are assigned independent agents by CAR who can submit commercial business to us in the Commercial Automobile Program and the Taxi/Limo Program, and we classify those agents as Exclusive Representative Producers (“ERPs”).

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.

Line of Business	Years Ended December 31,					
	2022		2021		2020	
	Exposures	Change	Exposures	Change	Exposures	Change
Private passenger automobile:						
Voluntary agents	387,463	(0.9)%	390,919	(4.4)%	408,873	(2.4)%
MAIP	2,140	1.4	2,110	(36.0)	3,298	(42.9)
Total private passenger automobile	389,603	(0.9)	393,029	(4.6)	412,171	(2.9)
Commercial automobile:						
Voluntary agents	66,214	0.6	65,848	3.2	63,828	(4.8)
ERP	3,700	(1.5)	3,755	(1.2)	3,802	(50.8)
Total commercial automobile	69,914	0.5	69,603	2.9	67,630	(9.6)
Other:						
Homeowners	152,884	(0.7)	153,980	(2.3)	157,611	(0.8)
Business owners	8,624	(1.7)	8,770	0.4	8,735	(1.9)
Personal umbrella	21,099	(2.0)	21,530	(2.7)	22,124	(2.2)
Dwelling fire	5,715	(4.8)	6,000	(7.0)	6,454	(2.7)
Commercial umbrella	658	(2.1)	672	3.1	652	(4.7)
Total other	188,980	(1.0)	190,952	(2.4)	195,576	(1.1)
Total	648,497	(0.8)	653,584	(3.2)	675,377	(3.1)
Total voluntary agents	642,657	(0.8)	647,719	(3.1)	668,277	(2.3)

In 2022, 65.2% of the private passenger automobile exposures we insure had an other than private passenger policy with us, compared to 65.6% and 66.1% in 2021 and 2020, respectively. In addition, 81.9% of our homeowners’ policyholders had a matching automobile policy with us in 2022 compared to 82.6% in 2021 and 82.8% in 2020.

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, New Hampshire and Maine 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;
- to price our products competitively, including offering discounts when and where appropriate for safer drivers for our personal automobile products, loss-free credits for our homeowner products, paperless e-Customer discounts, 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.

We have a comprehensive branding campaign using a variety of radio, television, digital, social and print advertisements.

Commission Schedule and Profit Sharing Plan. We have several programs designed to attract profitable new business from agents by paying them competitive commissions. 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.

Further, we have a competitive agency incentive commission program under which we pay agents a percentage 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 Agents Virtual Community 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. We are also committed to providing our agents with new information through our Resource Center articles on SafetyInsurance.com to keep their customers informed on how to best protect their auto, home and business. 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 telephone. Finally, we believe that the knowledge and experience of our employees enhances the quality of support we provide.

Underwriting and Insurance Operations

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

- pricing of our private passenger automobile, commercial automobile, homeowners, dwelling fire, personal umbrella, business owner, and commercial umbrella policies;
- developing new products, coverages, forms and discounts, as well as expansion into new states;
- 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. Subject to the applicable state insurance department's review, we set rates for all of our products using our own loss experience, industry loss cost data, residual market deficits, catastrophe modeling and prices charged by our competitors. We have four pricing segments for most products, utilizing Safety Insurance for standard rates, Safety Indemnity for preferred rates, Safety Northeast for ultra preferred rates and Safety P&C for high value homeowners rates.

Massachusetts Residual Automobile Insurance Markets. CAR establishes the rates for personal automobile policies assigned to carriers through the MAIP. In accordance with Massachusetts law, insurers may only charge MAIP policyholders the lower of the MAIP rate or the company's competitive voluntary market rate. CAR also sets rates for commercial automobile policies, including taxi/limousine/car service policies, reinsured through the CAR residual market pool. All commercial automobile business and taxi/limousine/car service business that is not written in the voluntary market in Massachusetts is apportioned to one of the servicing carriers that handles business on behalf of CAR. Every 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. We are one of four servicing carriers in CAR's Commercial Automobile Program.

Bulk Policy Transfers and New Voluntary Agents. From time to time, we receive proposals from an existing voluntary agent 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. We generally require any new voluntary agent to commit to transfer a portfolio to us consisting of at least 300 policies.

Policy Processing. Our underwriting department assists in processing policy applications, endorsements, renewals and cancellations. Our proprietary software applications, Safety Express and Safety Commercial Express, provide our agents with new business and endorsement entry, real-time policy issuance, immediate printing of declarations pages in agents' offices, policy downloads to most major agency management systems and data imports from Boston Software's SinglePoint (Massachusetts) and Vertafore's PL Rater (Massachusetts, New Hampshire and Maine) for personal lines.

Rate Pursuit. We aggressively monitor all insurance transactions to make sure we receive the correct premium for the risk insured. We accomplish this by verifying pricing criteria. For automobile policies, we verify proper classification of drivers, the make, model, and age of insured vehicles, and the availability of discounts. We also verify that operators are properly listed and classified, assignment of operators to vehicles, and vehicle garaging. In our homeowners and dwelling fire lines, we use third party software to evaluate property characteristics and we conduct property inspections. We have a premium audit program in our business owner program, as well as other loss control reviews for additional commercial lines of business.

Product Management. The Product Management department is responsible for the overall review and updating of our products. The department maintains an annual schedule where each line of business is reviewed and benchmarked against our major competitors. Product offerings, discounts, rate levels and underwriting guidelines are reviewed and updates are performed as required. The department is also responsible for updating producer materials such as rate and rule manuals, underwriting guidelines, and promotional materials. In conjunction with the underwriting operations area, the department works with third party vendors that assist with risk information, data, and rate pursuit for in-force policies. The department also provides product training and general marketplace education for the organization.

Legal and Regulatory Compliance. The Legal and Regulatory Compliance department provides legal and compliance support to all business units within the Company. The department serves as the primary liaison with regulators, government, and industry trade associations. The department also provides legal support to all areas of the company, including general corporate matters and vendor contracting. The department monitors legal and regulatory changes affecting the enterprise and provides guidance on how to comply with those changes. The department additionally reviews business unit operations to identify and address compliance vulnerabilities.

Business Intelligence. The Business Intelligence department uses Safety's data assets to support decision-making in areas including underwriting, pricing, claims, reserving, reinsurance and assessing catastrophe risks. Data analytics are used to analyze and estimate exposures, loss trends and other risks, and are leveraged to improve Company business performance and customer satisfaction.

Customer Engagement. The Customer Engagement department provides professional customer service to our agents and insureds by continuously identifying new ways to enhance the ease of doing business with us and by looking for new ways to personalize our services for each customer.

Technology

The focuses of our information technology ("IT") efforts are:

- to support the strategic goals, objectives and business needs of the Company by aligning our IT annual goals with those of the business assuring that IT resources are being utilized efficiently;
- to constantly re-engineer internal processes to allow more efficient operations, resulting in lower operating costs;
- to continuously improve the customer experience making it easier for independent agents and policyholders to transact business with us;

- to enable agents to efficiently provide their clients with a high level of service; and
- to maintain and support a secure computing environment.

We believe that our technology initiatives have increased revenue and decreased costs while at the same time improving the customer experience for our employees, agents, and policyholders. In 2021, we introduced our Safety Commercial Express commercial auto quoting and policy issuance system in Massachusetts for new business. During 2022, this system was updated to allow for agent processing of endorsements. We are continuously investing in new technologies including areas such as robotic process automation, artificial intelligence, and automated testing to improve company efficiency.

Innovation Lab. Since 2018 we have had an Innovation Lab to foster a culture of innovative thinking, monitor the InsureTech landscape and provide Safety, our independent agents, and policyholders with the tools and processes necessary to continuously improve the customer experience and remain competitive in both the current and future insurance marketplace. During 2022, the Innovation Lab did substantial research, performed multiple proof of concepts, initiated pilot projects, participated in industry sponsored InsureTech events and presented fully functional technologies to the business for their use. In 2022, the Innovation Lab partnered with Safety's Commercial Underwriting department to introduce a no code low code product into our technology toolset which was used to develop an underwriting workbench. A proof of concept was also developed in partnership with our Service Center to explore the development of a Customer System of Record application. The Innovation Lab also partnered with the Claims department to select an outbound electronic claims payment system which we will look to implement in 2023.

Internal Applications

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

Claims. A vendor supplied claims system provides the claims department with a workload management application that allows our claims and subrogation adjusters to better manage the claims process. 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 claims, which we believe helps reduce the total amount of our claims expense while also providing a better customer experience for the policyholder and claimant.

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 payments, and receiving subrogation receipts.

Billing. A vendor supplied 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. This billing system also allows for policyholder automatic payments (AutoPay) as well as electronic bill (eBill). We believe the sophistication of our direct bill systems help us to limit our bad debt expense. Our bad debt expense as a percentage of direct written premiums was 0.1% in 2022 and 2021.

External Applications

Our agent technology offerings are centralized within our agency portal and feature PowerDesk, Safety Express and Safety Commercial Express. PowerDesk is a web-based application that allows for billing inquiry, agent payments on behalf of their policyholders, policy inquiry and claims inquiry. Safety Express and Safety Commercial Express provide 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 SinglePoint, Vertafore's PL Rater, EZLynx and TurboRater. In addition, we provide our

agents with commission and claims download 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.

We also provide eBill, online bill pay (including credit and debit cards), online AutoPay registration, 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 agents' policyholders through our public website, SafetyInsurance.com.

Additionally, we provide policyholders with mobile technology through our Safety Mobile App for iPhone and Android devices. Safety Mobile provides consumers with 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

On casualty claims we utilize stringent claims settlement procedures, which include guidelines that establish settlement ranges for soft tissue injuries, which constituted approximately 58% of our bodily injury claims in 2022. If we are unable to settle these claims within our pricing guidelines, we explore other cost-effective options including alternative dispute resolutions and/or litigation. We believe that these procedures result in providing our adjusting staff 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. Our insureds can report claims directly by phone, web, or mobile application. In addition, we utilize an after-hours reporting vendor to ensure that new claims can be reported 24 hours per day and 365 days per year.

We believe that early notification results in our adjusters conducting prompt investigations of claims and compiling more accurate information about those claims. Our modern claims software provides our staff with efficient workplan management tools to assist our adjusters in handling claims quickly while providing high levels of customer service.

We believe the structure of our claims department allows us to respond quickly to claimants. The department is organized into distinct claim units that contain loss costs on injury claims. 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 investigation unit to investigate potential fraud in connection with claims presented. In cases where adjusters suspect fraud in connection with a claim, we deploy this special unit to conduct investigations. We deny payment in cases in which we have succeeded in accumulating sufficient evidence of fraud.

Our auto physical damage claims units handle physical damage claims arising in our private passenger and commercial automobile lines. Process automation has streamlined our claims function and in combination with established policy and procedures newly reported claims are handled in a proactive manner to ensure that coverages are verified, damages are appraised and claim payments are issued in a timely and efficient manner. This ensures the highest level of customer service to our insureds while reducing claim cycle times and mitigating claim handling expenses. We continue to vet and implement new methods of appraisal for vehicle damage, including vehicle photo only appraisals within the regulatory established guidelines. 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.

Our property claims division oversees physical damage claims arising in our homeowners and other than auto insurance lines. Property Field Adjusters are located remotely across our service areas to handle larger more complex property losses. Our modern claims software system and applications enables more efficient handling of the claim process and customer engagement from first notice of loss through settlement and potential subrogation. We also utilize house counsel on subrogation recoveries to reduce collection expenses and maximize damage recoveries.

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.

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, 2022 is adequate to cover the ultimate cost of losses and claims incurred as of that date.

Management determines its loss and loss adjustment expense ("LAE") reserve 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 \$423,452 to a high of \$481,902 as of December 31, 2022. The Company's net loss and LAE reserves, based on our actuaries' best estimate, were set at \$456,204 as of December 31, 2022. 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.

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, 2022, 2021 and 2020.

	Year Ended		
	2022	2021	2020
Reserves for losses and LAE at beginning of year	\$ 570,651	\$ 567,581	\$ 610,566
Less receivable from reinsurers related to unpaid losses and LAE	(90,667)	(106,311)	(122,372)
Net reserves for losses and LAE at beginning of year	<u>479,984</u>	<u>461,270</u>	<u>488,194</u>
Incurring losses and LAE, related to:			
Current year	549,258	515,400	459,400
Prior years	(57,279)	(53,673)	(54,844)
Total incurred losses and LAE	<u>491,979</u>	<u>461,727</u>	<u>404,556</u>
Paid losses and LAE related to:			
Current year	342,971	310,116	277,754
Prior years	172,788	132,897	153,726
Total paid losses and LAE	<u>515,759</u>	<u>443,013</u>	<u>431,480</u>
Net reserves for losses and LAE at end of period	456,204	479,984	461,270
Plus receivable from reinsurers related to unpaid losses and LAE	93,394	90,667	106,311
Reserves for losses and LAE at end of period	<u>\$ 549,598</u>	<u>\$ 570,651</u>	<u>\$ 567,581</u>

The following table represents the development of reserves, net of reinsurance, for calendar years 2012 through 2022. 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 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, 2022.

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.

	As of and for the Year Ended December 31,										
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Reserves for losses and											
LAE originally estimated:	\$ 456,204	\$ 479,984	\$ 461,270	\$ 488,194	\$ 476,321	\$ 490,969	\$ 476,597	\$ 485,716	\$ 420,767	\$ 394,668	\$ 371,657
Cumulative amounts paid as of:											
One year later		172,788	132,897	153,727	164,595	159,234	164,466	174,506	132,364	133,288	124,855
Two years later			202,320	216,822	230,294	241,032	231,473	250,306	189,367	178,411	175,822
Three years later				263,149	269,065	282,242	283,812	290,287	223,465	207,626	199,741
Four years later					293,203	304,009	305,024	310,140	241,589	223,743	213,847
Five years later						318,471	318,149	319,817	252,714	231,346	221,363
Six years later							325,785	325,669	255,581	234,480	223,829
Seven years later								328,703	256,733	235,562	225,169
Eight years later									257,956	235,807	225,320
Nine years later										236,039	225,354
Ten years later											225,356

	As of and for the Year Ended December 31,										
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Reserves re-estimated as of:											
One year later		\$ 422,705	\$ 407,597	\$ 433,350	\$ 434,273	\$ 434,481	\$ 434,813	\$ 440,268	\$ 390,452	\$ 357,300	\$ 342,767
Two years later			359,564	395,578	393,948	400,312	391,630	406,253	348,660	328,182	308,028
Three years later				365,786	372,282	376,584	372,379	376,201	313,100	295,788	283,592
Four years later					355,215	365,267	359,549	361,335	287,131	274,214	263,787
Five years later						355,415	352,330	353,983	276,309	255,368	250,064
Six years later							346,607	347,373	272,178	248,746	236,373
Seven years later								343,345	268,514	245,071	232,657
Eight years later									266,532	243,000	229,932
Nine years later										241,594	228,184
Ten years later											227,745

Cumulative (redundancy) deficiency 2022		(57,279)	(101,706)	(122,408)	(121,106)	(135,554)	(129,990)	(142,371)	(154,235)	(153,074)	(143,912)
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	As of and for the Year Ended December 31,										
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Gross liability-end of year	\$ 549,598	\$ 570,651	\$ 567,580	\$ 610,566	\$ 584,719	\$ 574,054	\$ 560,321	\$ 553,977	\$ 482,012	\$ 455,014	\$ 423,842
Reinsurance recoverables	93,394	90,667	106,310	122,372	108,398	83,085	83,724	68,261	61,245	60,346	52,185
Net liability-end of year	456,204	479,984	461,270	488,194	476,321	490,969	476,597	485,716	420,767	394,668	371,657
Gross estimated liability-latest		505,849	451,183	474,297	452,210	434,590	406,100	373,191	305,090	274,009	254,442
Reinsurance recoverables-latest		83,144	91,619	108,511	96,995	79,175	59,493	29,846	38,558	32,415	26,697
Net estimated liability-latest		422,705	359,564	365,786	355,215	355,415	346,607	343,345	266,532	241,594	227,745

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 2022 estimate for a previously incurred loss was \$150 and the loss was reserved at \$100 in 2018, the \$50 deficiency (later estimate minus original estimate) would be included in the cumulative (redundancy) deficiency in each of the years 2018-2021 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.

The table shows that we have substantially benefited in the current and prior years from releasing redundant reserves. In the years ended December 31, 2022, 2021, and 2020 we decreased loss reserves related to prior years by \$57,279, \$53,673 and \$54,844, 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 specific exposure to asbestos or environmental pollution liabilities.

Reinsurance

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 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 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. Most of our reinsurers have an A.M. Best rating of "A+" (Superior) or "A" (Excellent).

We maintain reinsurance coverage to help lessen the effect of losses from catastrophic events, maintaining coverage that during 2022 protected us in the event of a "135-year storm" (that is, a storm of a severity expected to occur once in a 135-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 2022, we purchased three layers of excess catastrophe reinsurance providing \$590,000 of coverage for property losses in excess of \$75,000 up to a maximum of \$665,000. Our reinsurers' co-participation is 80.0% of \$75,000 for the 1st layer, 80.0% of \$250,000 for the 2nd layer, and 80.0% of \$265,000 for the 3rd layer.

For 2023, we have purchased three layers of excess catastrophe reinsurance providing \$590,000 of coverage for property losses in excess of \$75,000 up to a maximum of \$665,000. Our reinsurers' co-participation is 75.0% of \$75,000 for the 1st layer, 75.0% of 250,000 for the 2nd layer and 75.0% of \$265,000 for the 3rd layer.

We also have casualty excess of loss reinsurance for large casualty losses occurring in our automobile, homeowners, dwelling fire, and business owner 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 \$2,500 up to a maximum of \$20,000, for our homeowners, and business owners. 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.

Our reinsurance program excludes coverage for acts of terrorism. The Terrorism Risk Insurance Program Reauthorization Act of 2019 was signed into law on December 20, 2019 which extended the Terrorism Risk Insurance Act ("TRIA") through the year 2027. 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. TRIA provides reinsurance for certified acts of terrorism.

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, a state-established body that, in part, 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. 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. On July 1, 2022, the FAIR Plan purchased \$1,800,000 of catastrophe reinsurance for property losses with retention of \$100,000.

At December 31, 2022, we also had \$115,058 due from CAR comprising of loss and loss adjustment expense reserves, unearned premiums and reinsurance recoverables.

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, since 2008, several new companies have entered the market. 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 MAPFRE SA, Government Employees Insurance Company, Arbella Mutual Insurance Company and Liberty Mutual Insurance Company, which held 20.9%, 16.2%, 7.8% and 7.7% market shares based on premiums, respectively, in 2022 according to CAR.

We are the second largest writer of commercial automobile insurance in Massachusetts with a market share of 12.6% in 2022. Other principal competitors in the Massachusetts commercial automobile insurance market are MAPFRE SA, Arbella Mutual Insurance Company and Progressive Casualty Insurance Company, which held 13.8 %, 10.6% and 8.8% market shares based on premium, respectively, according to CAR. This includes our share of residual market business as one of four servicing carriers in CAR's Commercial Automobile Program.

We are the third largest writer of homeowners insurance business in Massachusetts, with a market share of 6.5% in 2021. Our principal competitors within the Massachusetts homeowners insurance market are MAPFRE SA, Liberty Mutual and The Andover Companies, which held 12.2%, 9.2% and 6.2% market shares respectively in 2021 (according to S&P Global Market Intelligence).

Human Capital

At December 31, 2022, we employed 538 employees who all work in the New England region. The management team establishes hiring and compensation practices for our Company. The Board is periodically updated on key employee engagement and employee relations measures. In addition, the Board's Compensation Committee is responsible for reviewing performance and approving compensation paid to senior leaders. Our Human Resources team, led by our Chief Financial Officer, supports the Compensation Committee in the execution of its responsibilities. In addition to the day-to-day support, they provide to our management team, the Human Resources team monitors the pulse of our employee population.

As noted in our 2021 Environmental, Social and Governance ("ESG") Report, located on our Company website, we create a workplace where all employees are treated with dignity and respect, and individual differences are valued, all with the goal of securing the trust and satisfaction of our employees. The Company is committed to a policy of inclusiveness and is committed to actively seeking out highly-qualified candidates with diverse gender, race, color, religion, ethnicity, age, marital status, handicap, sexual orientation, gender identity or expression, and backgrounds. The Company prioritizes an environment where employees are respected, inspired to perform at their best, and are recognized for their contributions. We persistently work to improve the employee experience in support of our continuing strategic objective to attract, retain and develop talent in the insurance industry. Our commitment to a robust talent pool starts at the top. The Board engages with the Compensation Committee annually to review executive level compensation, consider key pipeline talent and conduct succession planning. In addition, our leadership team conducts a comprehensive

annual review process across our organization each year. We have a history of promotion from within as approximately 20% of our organization has 25 years of experience at Safety.

We offer competitive pay and benefits to our employees. In addition to competitive salaries, all management level employees are included in our long-term incentive compensation program where they can receive a combination of time and performance-based awards. The Company also engages in a number of additional practices to ensure pay fairness, including:

- Centralized compensation function ensuring consistent programs and practices across the enterprise;
- Enterprise-wide framework for evaluating and aligning roles and compensation levels based on job responsibilities, strategic importance of the role, and other relevant factors;
- Prohibition against asking external job applicants for current or historical compensation information;
- Individual compensation decisions consider each employee's experience, proficiency, and performance;
- Multiple levels of review and approval required for all compensation decisions.

We are committed to our extensive, long-standing policies and practices to ensure fair pay across the organization, while also staying attuned to external best practices and insights, and leveraging input from our pay consultants.

We further foster our culture through our robust learning and development program and our competitive benefit programs. Our extensive benefits include a variety of items, not limited to the following:

- Medical and vision plan options;
- Dental options;
- Company paid life-insurance;
- 401(k) plan with company matching contributions of 8%;
- Sick hours;
- Paid holidays;
- Flexible work schedules, including remote work arrangements;
- Tuition reimbursement that is not capped;
- Short and long-term disability;
- Family medical leave;
- Parental leave;
- Employee assistance program.

Prior to COVID-19, approximately half of our employees participated in a work from home program that helps contribute to a flexible work-life balance and allows the Company to minimize the real estate rented at our home office. In response to the pandemic, we quickly transitioned all other employees to a work from home environment and have the capacity for 100% of our workforce to work in a remote setting. Our employees are not covered by any collective bargaining agreement.

Our employees give both their time and their financial resources to charities of all types, and the Company promotes corporate citizenship through charitable donations and Company-sponsored volunteer activities. Safety is committed to making a positive impact on the communities where our employees live and work through our matching gift program, corporate giving and employee volunteerism. We help employees amplify their community impact by providing our employees with a 1:1 match on their donations to recognized charitable organizations. The Safety Insurance Charitable Foundation was established in 2005 and has provided financial support for a wide array of charities in areas such as community service, education, job training, homelessness, arts/culture, food banks, youth programs, healthcare, medical research and disaster relief.

The reputation of the Company depends on the conduct of its Board, officers, and employees. Every employee who is associated with Safety must play a part in maintaining our corporate reputation for the highest ethical standards. Management considers our relationship with our employees to be strong.

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, 2022, 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.

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 15.0% of our portfolio invested in senior bank loans and high yield bonds at December 31, 2022, 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. We utilize the services of third-party investment managers.

We believe that the incorporation of material, non-financial factors into investment selection and risk management has the potential to enhance long-term investment returns. We incorporate Environmental, Social & Governance ("ESG") factors managed for us by third-party investment managers. We measure our exposure to ESG risks at both individual asset classes and total portfolio levels.

The following table reflects the composition of our investment portfolio as of December 31, 2022 and 2021.

	As of December 31,			
	2022		2021	
	Estimated Fair Value	% of Portfolio	Estimated Fair Value	% of Portfolio
U.S. Treasury Securities	\$ 1,669	0.1 %	\$ 324	0.0 %
Obligations of states and political subdivisions	54,069	3.9	116,302	7.4
Residential mortgage-backed securities (1)	234,502	16.7	241,464	15.4
Commercial mortgage-backed securities	139,931	10.0	150,883	9.6
Other asset-backed securities	68,731	4.9	83,596	5.3
Corporate and other securities	551,253	39.3	625,710	39.8
Subtotal, fixed maturity securities	1,050,155	74.9	1,218,279	77.5
Short term investments	-	-	-	-
Equity securities (2)	240,155	17.1	264,945	16.9
Other invested assets (3)	112,850	8.0	87,911	5.6
	\$ 1,403,160	100.0 %	\$ 1,571,135	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 common stock, preferred stock, mutual funds and interests in mutual funds held to fund the Company's executive deferred compensation plan.

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

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 could be 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.

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, preferred stock, mutual funds and interests in 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 of the three-year period ended December 31, 2022, 2021 and 2020.

	Years Ended December 31,		
	2022	2021	2020
Average cash and invested securities (at cost)	\$ 1,462,761	\$ 1,466,133	\$ 1,401,881
Net investment income (1)	\$ 46,725	\$ 44,135	\$ 41,045
Net effective yield (2)	3.2 %	3.0 %	2.9 %

(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, 2022, 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.

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

	As of December 31,			
	2022		2021	
	Estimated Fair Value	Percent	Estimated Fair Value	Percent
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 234,152	22.3 %	\$ 242,911	19.9 %
Aaa/Aa	237,191	22.6	276,059	22.7
A	201,943	19.2	279,187	22.9
Baa	202,763	19.3	231,267	19.0
Ba	61,619	5.9	60,822	5.0
B	93,633	8.9	103,086	8.5
Caa/Ca	4,489	0.4	4,284	0.4
Not rated	14,365	1.4	20,663	1.6
Total	\$ 1,050,155	100.0 %	\$ 1,218,279	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.

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, 2022, 65.5% of our available for sale fixed maturity investments were rated Category 1 and 18.3% 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, 2022.

	As of December 31, 2022	
	Estimated Fair Value	Percent
Due in one year or less	\$ 4,665	0.4 %
Due after one year through five years	269,852	25.7
Due after five years through ten years	296,368	28.2
Due after ten years through twenty years	34,623	3.3
Due after twenty years	1,483	0.1
Asset-backed securities (1)	443,164	42.3
Totals	\$ 1,050,155	100.0 %

(1) Actual maturities of asset-backed securities may 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 the Company an "A (Excellent)" rating. Our "A" rating was reaffirmed by A.M. Best on May 26, 2022. 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 (Poor)." Publications of A.M. Best indicate that the "A" rating is assigned to those companies that in A.M. Best's opinion have an excellent ability to meet their ongoing 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 the Company'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. 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 state insurance departments, primarily through our domestic regulator, the Division, 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 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 financial and market conduct examinations of all licensees domiciled in Massachusetts. Our most recent financial condition examination was for the five-year period ending December 31, 2018. The Division had no material findings as a result of this examination.

We are also required to be licensed by the insurance department in each state in which we do business, as well as to comply with the various laws and regulations of those jurisdictions, including those governing our use of rates and policy forms in those states.

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 and that we file an annual Enterprise Risk Management report with the Commissioner.

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 December 31, 2022, the statutory surplus of Safety Insurance was \$782,200 and its net income for 2022 was \$66,197. A maximum of \$78,220 will be available during 2022 for such dividends without prior approval of the Commissioner.

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 shares 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 insurance 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 2022, 2021, and 2020 all our ratios for all our Insurance Subsidiaries were within the normal range.

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, 2022, our Insurance Subsidiaries had total adjusted capital in excess of amounts requiring company or regulatory action at any prescribed risk-based capital action level.

Own Risk Solvency Assessment. On January 11, 2017, the Division adopted the National Association of Insurance Commissioners’ Own Risk Solvency Assessment (“ORSA”) Act requiring the Company to file its assessment on an annual basis. ORSA is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios. We have completed this filing for the 2021 period.

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.

<u>Name</u>	<u>Age (1)</u>	<u>Position</u>	<u>Years Employed by Safety</u>
George M. Murphy	56	President, Chief Executive Officer	34
Christopher T. Whitford	40	Vice President, Chief Financial Officer and Secretary	10
James D. Berry	63	Vice President - Underwriting	40
John P. Drago	56	Vice President - Marketing	28
Ann M. McKeown	55	Vice President - Insurance Operations	33
Paul J. Narciso	59	Vice President - Claims	32
Stephen A. Varga	55	Vice President - Management Information Systems	30
Glenn R. Hiltbold	52	Vice President - Actuarial Services	23
David F. Brussard	71	Chairman of the Board, Director	-
Peter J. Manning	84	Director	-
Thalia M. Meehan	61	Lead Independent Director	-
Mary C. Moran	67	Director	-
John D. Farina	59	Director	-
Deborah E. Gray	59	Director	-

(1) As of February 16, 2023

George M. Murphy, CPCU, was appointed President and Chief Executive Officer of the Company effective April 1, 2016. He previously was the Vice President of Marketing since October 1, 2005. Mr. Murphy was appointed to the Board of Directors and to the Investment Committee in February 2016. Mr. Murphy has been employed by the Insurance Subsidiaries for over 34 years. Mr. Murphy is also on the Board of Trustees of the Insurance Library Association of Boston.

Christopher T. Whitford, was appointed Chief Financial Officer, Vice President and Secretary of the Company on March 2, 2020. Mr. Whitford, a Certified Public Accountant in Massachusetts, has been employed by the Insurance Subsidiaries for over 10 years, previously serving as the Company’s Controller since 2012, and began his career at PricewaterhouseCoopers in 2005. Mr. Whitford serves on the Audit Committee of Guaranty Fund Management Services and also serves on the Audit Committee of the Massachusetts Property Insurance Underwriting Association.

James D. Berry, CPCU, was appointed Vice President of Underwriting of the Company in July 2015, and was named as Secretary of the Insurance Subsidiaries at that time. Prior to that, he served as the Vice President of Insurance Operations since October 2005. Mr. Berry has been employed by the Insurance Subsidiaries for over 40 years and has directed the Company's Massachusetts Private Passenger line of business since 2001. Mr. Berry is the Chairman of the Board of Directors of the FAIR Plan and previously served as the Chairman of that organization's Executive Committee. He has served on several committees of CAR including Market Review and Defaulted Brokers and also served on Computer Sciences Corporation Series II and Exceed advisory councils. He also serves as the Treasurer of the In Control Family Foundation, is a member of their Executive Committee and is the Chairman of that organization's Business Development Committee.

John P. Drago was appointed Vice President of Marketing on February 1, 2016. Mr. Drago has been employed by the Insurance Subsidiaries for over 28 years and most recently served as Director of Marketing.

Ann M. McKeown was appointed Vice President of Insurance Operations of the Company on July 1, 2015. Ms. McKeown has been employed by the Insurance Subsidiaries for over 33 years wherein she has held management positions in the Underwriting, Information Technology, and Insurance Operations departments. Ms. McKeown has served on the MAIP Steering and Operations Committees of CAR.

Paul J. Narciso was appointed Vice President of 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 36 years of claim experience having worked at two national carriers prior to joining Safety. He has previously served on the Governing Board of the Massachusetts Insurance Fraud Bureau and the Claims Subcommittee at Commonwealth Automobile Reinsurers.

Stephen A. Varga was appointed Vice President of Management Information Systems of the Company on August 6, 2014. Mr. Varga has held various information technology positions with the Company since 1992 and most recently served as Senior Director of MIS.

Glenn R. Hiltbold was appointed Vice President of Actuarial Services of the Company on March 1, 2021. Mr. Hiltbold, a Fellow of the Casualty Actuarial Society, has held the Director of Actuarial Services position with the Company since 2004 and has been an employee of the Insurance Subsidiaries for 23 years.

David F. Brussard was appointed Chairman of the Board in March 2004 and has served as a director of the Company since October 2001. Mr. Brussard served as President and Chief Executive Officer of the Company from June 2001 until March 31, 2016. Mr. Brussard was also appointed Chairman of the Investment Committee on February 22, 2017.

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 32 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 is a former director of the Blue Hills Bank and a former director of Thermo Fisher Scientific and the Lahey Clinic. Mr. Manning qualifies as an "Audit Committee Financial Expert" as defined by the U.S. Securities and Exchange Commission rules. Mr. Manning serves as Chairperson of the Audit Committee and serves as a member of the Compensation and Nominating and Governance Committees.

Thalia M. Meehan was appointed Director of the Company on July 3, 2017 and Lead Independent Director on January 11, 2022. Ms. Meehan has also been appointed to serve as a member of the Investment Committee and the Nominating and Governance Committee, as well as Chairperson of the Compensation Committee of the Board. Ms. Meehan, a Chartered Financial Analyst, has over 30 years of experience in the investment sector. Ms. Meehan retired from Putnam Investments in 2016 with 27 years of experience and most recently served as a Team Leader and Portfolio Manager at Putnam Investments. Ms. Meehan currently serves on the Board of Cambridge Bancorp where she is a member of the Trust and Risk Committees. Ms. Meehan serves as Chairperson of the Nominating Committee and as a

member of the Steering Committee of the Municipal Securities Rulemaking Board and the Advisory Committee of the Board of Boston Women in Public Finance.

Mary C. Moran was appointed Director of the Company on March 27, 2020. Ms. Moran has over 40 years of financial experience in both private industry as well as consulting. Ms. Moran began her career at KPMG, previously Peat Marwick, where she became a Senior Manager before serving as Senior Vice President of Finance and Administration for Boston Sand and Gravel Company from 1990 to 2001. Since 2002 she has served as CEO of MCM Financial Consulting, focusing on projects within in the banking, construction, higher education, manufacturing, not-for-profit and professional services industries. Ms. Moran is currently a director of Care Dimensions where she serves on the finance and audit committee and is a former director and audit committee member of Danvers Bankcorp, the College of the Holy Cross and Catholic Memorial School. Ms. Moran graduated from Northeastern University with a M.B.A. and MS in Accounting and from the College of the Holy Cross with a degree in Economics. Ms. Moran qualifies as an “Audit Committee Financial Expert” as defined by the U.S. Securities and Exchange Commission rules. Ms. Moran serves as Chairperson of the Nominating and Governance Committee and serves as a member of the Audit and Compensation Committees.

John D. Farina was appointed Director of the Company on March 24, 2022. Mr. Farina recently retired from PricewaterhouseCoopers (“PwC”) as Northeast Managing Partner and as a member of PwC’s Global Board of Directors, where he was a member of the Risk & Quality and Operations Committees. He has 35 years of experience advising both domestic and multinational Fortune 500 companies on financial accounting, regulatory, and tax matters, with a deep expertise in the insurance industry. Mr. Farina also led PwC’s US Insurance Tax practice and has deep insurance industry expertise. During his time at PwC, Mr. Farina held a variety of senior leadership roles including Managing Partner of the Northeast Region, where he was responsible for approximately 3,800 partners and staff in five offices. In this role, he oversaw strategic planning, operations, finance, risk management, human capital, and marketing functions. Mr. Farina was elected by his fellow partners for two terms on both PwC’s US and Global Boards, providing 10 years of governance oversight to the firm. After retiring from PwC in 2021, Mr. Farina was elected to join the National Committee of St. Jude Children’s Research Hospital in Memphis, Tennessee, where he serves as the Vice Chair of the Audit & Compliance Committee. Mr. Farina has also served on several non-profit boards, including the Greater Boston Chamber of Commerce. Mr. Farina received his BBA in Accounting from Evangel University and is a CPA in Massachusetts and Texas. Mr. Farina qualifies as an “Audit Committee Financial Expert” as defined by the U.S. SEC rules.

Deborah E. Gray was appointed Director of the Company on March 24, 2022. Ms. Gray has also been appointed to serve as a member of the Nominating and Governance Committee and the Compensation Committee. She joins the Board with over 30 years of experience as a corporate attorney and General Counsel for both publicly traded and private entities in a diverse range of industries, including high tech, ed tech, Software-as-a-Service (SaaS), professional services and life sciences. Her legal and business expertise with high-growth companies, ranging from start-ups to publicly traded multibillion-dollar corporations, are beneficial to Safety, particularly in relation to risk management, compliance, data privacy and security, and corporate governance matters. Ms. Gray has served in various General Counsel roles over her 30-year career, including most recently providing her expertise as an outside General Counsel to a variety of companies. She is also currently Vice President and General Counsel of The Achievement Network, a private, non-profit, national education and technology organization where she leads all day-to-day legal, data privacy and security, and compliance initiatives. Prior to this role, Ms. Gray served as Vice President, General Counsel and Secretary at Acquia, Inc., a SaaS company where she led the creation and build out of its global legal, data security and corporate compliance functions including M&A, commercial contracts, licensing, real estate, employment, corporate and board of directors governance. Previously she held senior positions with Charles River Laboratories, International, Sapient Corporation and Harcourt General. Ms. Gray began her legal career at WilmerHale in Boston where she specialized in mergers and acquisitions, public offerings and SEC compliance matters. She also currently serves on the Board of Directors for The Home for Little Wanderers, serving as Secretary and a member of the Executive Committee, is a Trustee Emerita of Colby College, and a former Overseer of the Boston Symphony Orchestra.

The Company has adopted a Code of Business Conduct and Ethics (“Code of Ethics”) that applies to all employees, including executive officers, and to directors. The Code of Ethics is available on the About Us, Investor Information page of the Company’s website at www.safetyinsurance.com. If the Company ever were to amend or waive any provision of its Code of Ethics that applies to the Company’s principal executive officer, principal financial officer,

principal accounting officer or any person performing similar functions, the Company intends to satisfy its disclosure obligations, if any, with respect to any such waiver or amendment by posting such information on its website set forth above rather than by filing a Current Report on Form 8-K.

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.

We operate in a heavily regulated industry and are subject to regulations and laws in various jurisdictions:

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

General Regulation. We are subject to regulation by the state insurance department of each state in which we do business. In each jurisdiction, we must comply with various laws and regulations, including those involving:

- approval or filing of premium rates and policy forms;
- limitation of the right to cancel or non-renew policies in some lines;
- requirements to participate in residual markets;
- licensing of insurers and agents; and
- regulation of the right to withdraw from markets or terminate involvement with agencies;

We also are subject to enhanced regulation by our domestic regulator, the Division, from which we must obtain prior approval for certain corporate actions. Among other things, we must comply with laws and regulations governing:

- 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;
- 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;
- 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, New Hampshire and Maine require 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 each

state's insolvency fund. Members of the state's insolvency fund are assessed a proportionate share of the obligations and expenses of the fund in connection with an insolvent insurer. These assessments are made by the fund to cover the cost of paying eligible claims of policyholders of these insolvent insurers. Similarly, assessments are made by each state's commercial automobile insurance residual market mechanism to recover the shares of net 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, the Massachusetts Property Insurance 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.

Because we are unable to predict with certainty changes in the political, economic or regulatory environments of the states in which we operate 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.

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, 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 the 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.

Our private passenger automobile business is concentrated in in New England:

With a concentration of private passenger automobile insurance, our business may be adversely affected by conditions in this industry.

Approximately 52.0% of our direct written premiums for the year ended December 31, 2022 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 impact of additional competitors.

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. The Massachusetts market has seen an increased level of competition, particularly in the private passenger automobile insurance line, due to prior changes in regulatory conditions. To date, we have not had a significant decrease in our private passenger automobile insurance business. However, further competition and adverse results could include loss of market share, decreased revenue, and/or increased costs.

As writers of property insurance, our Insurance Subsidiaries are exposed to potential losses related to severe weather:

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 natural catastrophes, in the event of a major catastrophe resulting in property losses to us in excess of \$665,000 our losses would exceed the limits of this reinsurance in addition to losses from our co-participation retention of a portion of the risk up to \$665,000.

Climate change and increasing climate change regulation 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 and higher reinsurance costs. Changes in climate conditions may also cause our underlying modeling data to not adequately reflect frequency and severity, limiting our ability to effectively evaluate and manage risks of catastrophes and severe weather events. Among other impacts, this could result in not charging enough premiums or not obtaining timely state approvals for rate increases to cover the risks we insure. 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.

We are also subject to complex and changing laws and regulations relating to climate change which are difficult to predict and quantify and may have an adverse impact on our business. Changes in regulations relating to climate change or our own management decisions implemented as a result of assessing the impact of climate change on our business may result in an increase in the cost of doing business.

We are subject to economic and underwriting market conditions:

The impact of inflation and supply chain delays may increase loss severity.

Economic and market conditions outside of our control, such as inflation and supply chain issues, may adversely impact our underwriting profitability.

We operate in the highly competitive property and casualty insurance industry:

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 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, New Hampshire, and Maine, 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.

The success of our business is subject to operational risks:

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, to increase our underwriting capacity, and mitigate the volatility of losses on our financial condition and operations, 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. As a result, the Company may not be able to successfully purchase reinsurance and transfer a portion of the Company's risk through reinsurance arrangements. 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 or financial condition.

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 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.

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 an excellent 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 or 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.

The loss of key personnel could prevent us from fully implementing our business strategy and could significantly and negatively affect our financial condition or 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.

Acquisitions may not produce the anticipated benefits and may result in unintended consequences, which could have a material adverse impact on our financial condition or results of operations.

We may not be able to successfully integrate acquired businesses or achieve the expected synergies as a result of such acquisitions. The process of integrating an acquired business can be complex and costly and may create unforeseen operating difficulties that could result in the business performing differently than we expected, including through the loss of customers or in our failure to realize anticipated increased revenue growth or expense-related efficiencies.

If our agency business does not perform well, we may be required to recognize an impairment of our goodwill.

Goodwill represents the excess of the amounts we paid to acquire businesses over the fair value of their net assets at the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the “reporting unit” to which the goodwill relates. The fair value of the reporting unit could decrease if new business, customer retention, profitability or other drivers of performance differ from expectations. If it is determined that the goodwill has been impaired, we must write down the goodwill by the amount of the impairment, with a corresponding charge to net income (loss). These write downs could have a material adverse effect on our results of operations or financial condition.

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 47.3% 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.

A proxy contest with an activist shareholder could cause us to incur significant costs, divert management’s attention and resources, and have an adverse effect on our business

Activist shareholders may engage in proxy solicitations, advance shareholder proposals or director nominations or otherwise attempt to affect changes or acquire control over us. Responding to these actions can be costly and time-consuming and divert the attention of our Board and management from the management of our operations and the pursuit of our business strategies, particularly if such activist shareholders advocate for actions that are not supported by other

shareholders, our Board or management. In addition, perceived uncertainties as to our future direction may result in the loss of potential business opportunities, damage to our reputation and may make it more difficult to attract and retain qualified directors, personnel and business partners. These actions could also cause our stock price to experience periods of volatility.

We are subject to technology, cybersecurity and privacy risks:

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 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 or results of operations.

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.

Our business could be materially and adversely affected by a security breach or other attack involving our computer systems or the systems of one or more of our agents and vendors.

Our highly automated and networked organization is subject to cyber-terrorism and a variety of other cybersecurity threats. These threats come in a variety of forms, such as viruses and malicious software. Such threats can be difficult to prevent or detect, and if experienced, could interrupt or damage our operations, harm our reputation or have a material effect on our operations. Our technology and telecommunications systems are highly integrated and connected with other networks. Cyber-attacks involving these systems could be carried out remotely and from multiple sources and could interrupt, damage or otherwise adversely affect the operations of these critical systems. Cyber-attacks could result in the modification or theft of data, the distribution of false information or the denial of service to users. The risks of cyber-attacks could be exacerbated by geopolitical tensions, including hostile actions taken by nation-states and terrorist organizations. We obtain, utilize and maintain data concerning individuals and organizations with which we have a business relationship. Threats to data security can emerge from a variety of sources and change in rapid fashion, resulting in the ongoing need to expend resources to secure our data in accordance with customer expectations and statutory and regulatory requirements.

Our businesses must comply with regulations to control the privacy of customer, employee and third-party data, and state, federal and international regulations regarding data privacy, are becoming increasingly more onerous. A misuse or mishandling of confidential or proprietary information could result in legal liability, regulatory action and reputational harm. We could be subject to liability if confidential customer information is misappropriated from our technology systems. Despite the implementation of security measures, these systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Any well-publicized compromise of security could deter people from entering into transactions that involve transmitting confidential information to our systems, which could have a material adverse effect on our business and reputation. We rely on services and products provided by many vendors. In the event that one or more of our vendors fails to protect

personal information of our customers, claimants or employees, we may incur operational impairments, or could be exposed to litigation, compliance costs or reputational damage. We maintain cyber-liability insurance coverage to offset certain potential losses, subject to policy limits, such as liability to others, costs of related crisis management, data extortion, applicable forensics and certain regulatory defense costs, fines and penalties.

While, to date, we are not aware of having experienced a material breach of our cyber security systems, administrative, internal accounting and technical controls as well as other preventive actions may be insufficient to prevent physical and electronic break-ins, denial of service, cyber-attacks, business email compromises, ransomware or other security breaches to our systems or those of third parties with whom we do business.

We believe that we have established and implemented appropriate security measures to provide reasonable assurance that our information technology systems are secure and appropriate controls and procedures to enable us to identify and respond to unauthorized access to such systems. While we have not experienced material cyber-incidents to date, the occurrence and effects of cyber-incidents may remain undetected for an extended period. We periodically engage third parties to evaluate and test the adequacy of our security measures, controls and procedures. Despite these security measures, controls and procedures, disruptions to and breaches of our information technology systems are possible.

We invest in securities which are subject to market risk:

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, 2022, based upon fair value measurement, 74.9% of our investment portfolio was invested in fixed maturity securities, 17.1% in equity securities and 8.0% 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 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 72 thousand square feet of leased space at 20 Custom House Street in downtown Boston, Massachusetts. Our lease will expire on December 31, 2028. This real estate space was remodeled in 2018 and included capital expenditures to update lighting as well as heating, ventilation and air condition systems with state of the art and environmentally focused technologies.

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.

Safety Insurance had been named in a lawsuit alleging that the Company improperly denied coverage to commercial insureds for loss of business income resulting from the COVID-19 pandemic. As a result of the lawsuit, the Company accrued a reserve of \$6,500 for legal defense costs included in loss and loss adjustment expense during the year ended December 31, 2021. As of December 31, 2022, the claim against the Company was closed and the accrual of \$6,500 was reversed.

On October 19, 2021, the Supreme Judicial Court of Massachusetts (the “Court”) unanimously ruled that property and casualty insurers must compensate third-party claimants under property damage coverage, part 4 of the standard Massachusetts automobile insurance policy, 2008 edition (standard policy), for the inherent diminished value (“IDV”) that occurs when their vehicles are damaged in a crash. This ruling overturned a previous decision by the Massachusetts Superior Court, which found that a Massachusetts auto insurance policy did not provide property damage coverage for inherent diminished value damages for third-party claimants. The Court placed the burden of proof on the individual claimant by explicitly specifying that the claimant must establish that the vehicle has suffered IDV damages and also the amount of IDV damages at issue. The Court further ruled that an insurer’s previous denial of coverage for such damages could not serve as the basis for a claim of unfair business practices. Based on the Court’s rulings, at this time the Company does not expect any claims for IDV damages to be material, and therefore has not accrued for a specific loss contingency

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II.

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

As of February 21, 2023, there were 20 holders of record of the Company's common stock, par value \$0.01 per share, and we estimate another 17,280 held in "Street Name."

The closing price of the Company's common stock on February 21, 2023 was \$87.32 per share. The Company's common stock trades on the NASDAQ stock exchange under the symbol SAFT.

During 2022 and 2021, the Company's Board of Directors declared four quarterly cash dividends to shareholders, which were paid and accrued in the amounts of \$52,995 and \$53,996, respectively. On February 22, 2023, the Company's Board of Directors declared a quarterly cash dividend of \$0.90 per share to shareholders of record on March 1, 2023 payable on March 15, 2023. The Company plans to continue to declare and pay quarterly cash dividends in 2023, 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.

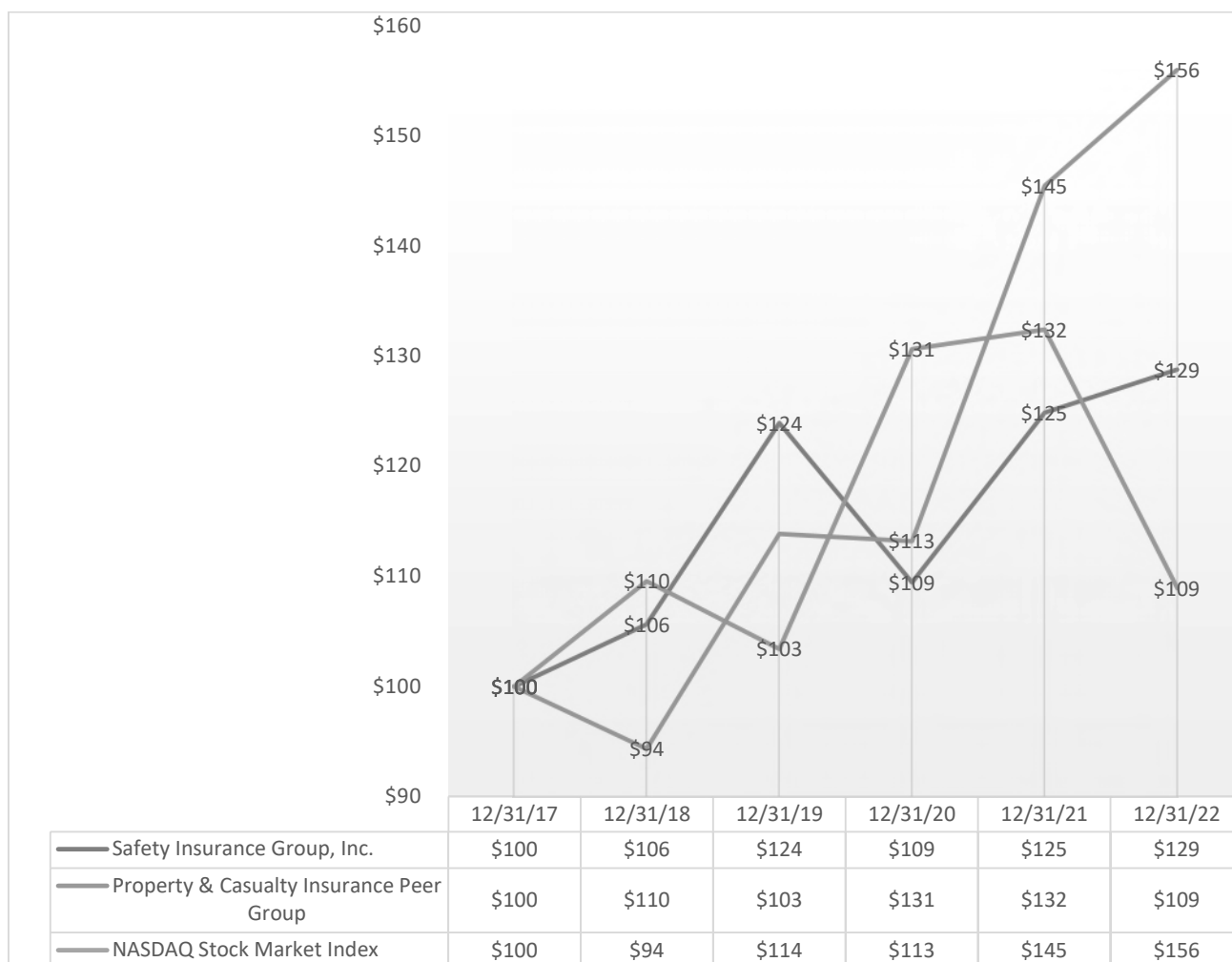
The information called for by Item 201 (d) of Regulation S-K regarding securities authorized for issuance under equity compensation plans will be contained in the Company's Proxy Statement for its Annual Meeting of Shareholders, which the Company intends to file with the U.S. Securities and Exchange Commission within 120 days after December 31, 2022 (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 14, 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, 2017 and ending on December 31, 2022 with the cumulative total return of the NASDAQ Stock Market Index and a peer group comprised of seven selected property & casualty insurance companies over the same period. The peer group consists of Donegal Group, Inc., Erie Indemnity Company, Horace Mann Educators Corporation, The Hanover Insurance Group, Inc., Mercury General Corp., Selective Insurance Group, Inc., and United Fire Group. Note that this peer group has changed from prior years due to acquisition activity. 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, 2017 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. [RESERVED]

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"), Safety Northeast Insurance Company ("Safety Northeast"), Safety Northeast Insurance Agency, Inc. ("SNIA"), and Safety Management Corporation ("SMC"), which is SNIA's holding company.

We are a leading provider of private passenger automobile (52.0% of our direct written premiums in 2022), commercial automobile, (17.4% of 2022 direct written premiums), and homeowners (25.3% of 2022 direct written premiums) insurance. In addition to these coverages, we offer a portfolio of other insurance products, including dwelling fire, umbrella and business owner policies (totaling 5.3% of 2022 direct written premiums). Operating exclusively in Massachusetts, New Hampshire and Maine through our insurance company subsidiaries, Safety Insurance, Safety Indemnity, Safety P&C, and Safety Northeast (together referred to as the "Insurance Subsidiaries"), we have established strong relationships with independent insurance agents, who numbered 843 in 1,071 locations throughout these three states during 2022. We have used these relationships and our extensive knowledge of the market to become the fifth largest private passenger automobile carrier and the second largest commercial automobile carrier in Massachusetts, capturing an approximate 7.7% and 12.6% share, respectively, of the Massachusetts private passenger and commercial automobile markets in 2022, according to statistics compiled by the Commonwealth Automobile Reinsurers ("CAR") based on automobile exposures. We are the third largest homeowners insurance carrier in Massachusetts, with a market share of 6.5% in 2021.

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 May 26, 2022.

Our Insurance Subsidiaries began writing insurance in New Hampshire during 2008 and Maine in 2016. In November 2020, we formed a fourth insurance subsidiary, Safety Northeast, which became licensed to write insurance products in Massachusetts. The table below shows the amount of direct written premiums in each state during the years ended December 31, 2022, 2021, and 2020.

Direct Written Premiums	Years Ended December 31,		
	2022	2021	2020
Massachusetts	\$ 782,790	\$ 765,007	\$ 764,479
New Hampshire	36,519	34,261	32,334
Maine	4,009	2,871	1,899
Total	\$ 823,318	\$ 802,139	\$ 798,712

Recent Events

On December 1, 2022, SNIA was established when the Company acquired the assets and operations of Northeast Metrowest Insurance Agency, Inc. (“Northeast / Metrowest”), an independent insurance agency, through its wholly-owned subsidiary, SMC. Since 1989, Northeast / Metrowest had provided personal and commercial insurance to properly protect its customers by determining the best coverage to suit their unique needs. Over time, Northeast / Metrowest had grown to include over \$40 million in policy premiums. SNIA will operate as a stand-alone business operation, providing personal and commercial property and casualty insurance products to customers on behalf of the Insurance Subsidiaries and third-party insurance carriers.

The Company had been named in a lawsuit alleging that the Company improperly denied coverage to commercial insureds for loss of business income resulting from the COVID-19 pandemic. Our position is that no coverage existed for this peril. As a result of the lawsuit, the Company accrued a reserve of \$6,500 for legal defense costs included in the loss and loss adjustment expenses during the year ended December 31, 2021. During the year ended December 31, 2022, the claim against the Company was closed and the accrual of \$6,500 was reversed.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses incurred for the year ended December 31, 2022 increased by \$30,252, or 6.6%, to \$491,979 from \$461,727 for the comparable 2021 period. The increase in losses is due to a return of pre-pandemic frequency in our private passenger automobile line of business and current market conditions including inflation and supply chain delays.

Loss, expense, and combined ratios calculated under U.S. generally accepted accounting principles for the quarter ended December 31, 2022 were 68.4%, 32.3%, and 100.7%, respectively, compared to 62.7%, 33.7%, and 96.4%, respectively, for the comparable 2021 period. Loss, expense, and combined ratios calculated under U.S. generally accepted accounting principles for the year ended December 31, 2022 were 64.9%, 32.3%, and 97.2%, respectively, compared to 59.6%, 33.4%, and 93.0%, respectively, for the comparable 2021 period. The 2022 decrease in the expense ratios in both periods is primarily driven by a decrease in contingent commission expense.

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.

Event	Years Ended December 31,		
	2022	2021	2020
Windstorms and hailstorms	\$ -	\$ 11,677	\$ 7,291
Total losses incurred (1)	\$ -	\$ 11,677	\$ 7,291

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

The following rate changes have been filed and approved by the insurance regulators of Massachusetts and New Hampshire in 2022 and 2021. Our Massachusetts private passenger automobile rates include a 13% commission rate for agents.

Line of Business	Effective Date	Rate Change
Massachusetts Commercial Automobile	May 1, 2022	3.1%
Massachusetts Homeowner	July 1, 2022	2.6%
Massachusetts Private Passenger Automobile	April 1, 2022	-2.3%
Massachusetts Private Passenger Automobile	December 1, 2022	3.5%
New Hampshire Commercial Automobile	September 1, 2022	5.8%
New Hampshire Homeowners	September 1, 2022	3.5%
New Hampshire Private Passenger Automobile	September 1, 2022	2.8%

Statutory Accounting Principles

Our results are reported in accordance with generally accepted accounting principles (“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 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,		
	2022	2021	2020
GAAP ratios:			
Loss ratio	64.9 %	59.6 %	52.5 %
Expense ratio	32.3	33.4	34.6
Combined ratio	97.2 %	93.0 %	87.1 %

Share-Based Compensation

On March 24, 2022, the Company’s Board of Directors adopted the Amended and Restated Safety Insurance Group, Inc. 2018 Long-Term Incentive Plan (the “Amended 2018 Plan”), which was subsequently approved by our shareholders at the 2022 Annual Meeting of Shareholders. The Amended 2018 Plan increases the share pool limit by adding 350,000 common shares to the previously adopted Safety Insurance Group, Inc. 2018 Long-Term Incentive Plan. The Amended 2018 Plan enables the grant of stock awards, performance shares, cash-based performance units, other stock-based awards, stock options, stock appreciation rights, and stock unit awards, each of which may be granted separately or in tandem with other awards. Eligibility to participate includes officers, directors, employees and other individuals who provide bona fide services to the Company. The Amended 2018 Plan supersedes the Company’s 2002 Management Omnibus Incentive Plan (“the 2002 Incentive Plan”).

The Amended 2018 Plan establishes a pool of 700,000 shares of common stock available for issuance to our employees and other eligible participants. The Board of Directors and the Compensation Committee intend to issue awards under the Amended 2018 Plan in the future.

The maximum number of shares of common stock between both the 2018 Amended Plan and 2002 Incentive Plan with respect to which awards may be granted is 3,200,000. No further grants will be allowed under the 2002 Incentive Plan. At December 31, 2022, there were 444,216 shares available for future grant. Grants outstanding under the plans as of December 31, 2022, were comprised of 138,482 restricted shares.

Grants made under the Incentive Plan during the years 2020 through 2022 were as follows.

Type of Equity Awarded	Effective Date	Number of Awards Granted	Fair Value per Share (1)	Vesting Terms
RS - Service	February 26, 2020	28,799	\$ 90.50	3 years, 30%-30%-40%
RS - Performance	February 26, 2020	24,062	\$ 90.50	3 years, cliff vesting (3)
RS	February 26, 2020	5,000	\$ 90.50	No vesting period (2)
RS - Performance	February 26, 2020	12,587	\$ 90.50	No vesting period (4)
RS	March 27, 2020	1,000	\$ 76.60	No vesting period (2)
RS - Service	February 24, 2021	33,840	\$ 79.27	3 years, 30%-30%-40%
RS - Performance	February 24, 2021	29,422	\$ 79.27	3 years, cliff vesting (3)
RS	February 24, 2021	6,000	\$ 79.27	No vesting period (2)
RS - Performance	February 24, 2021	20,038	\$ 79.27	No vesting period (4)
RS - Service	February 23, 2022	31,864	\$ 84.98	3 years, 30%-30%-40%
RS - Performance	February 23, 2022	26,037	\$ 84.98	3 years, cliff vesting (3)
RS	February 23, 2022	5,000	\$ 84.98	No vesting period (2)
RS	March 24, 2022	2,000	\$ 89.63	No vesting period (2)
RS - Performance	February 23, 2022	5,791	\$ 84.98	No vesting period (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) Board of Director members must maintain stock ownership equal to at least four times their annual cash retainer. This requirement must be met within five years of becoming a director.

(3) 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.

(4) The shares represent a true-up of previously awarded performance-based restricted share awards. The updated shares were calculated based on the attainment of pre-established performance objectives.

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 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 manage and model our exposure and adjust our reinsurance programs as a result of the changes to the models. As of January 1, 2022, we purchased three layers of excess catastrophe reinsurance providing \$590,000 of coverage for property losses in excess of \$75,000 up to a maximum of \$665,000. Our reinsurers' co-participation is 80.0% of \$75,000 for the 1st layer, 80.0% of \$250,000 for the 2nd layer, and 80.0% of \$265,000 for the 3rd layer. As a result of the changes to the models, our catastrophe reinsurance in 2022 protects us in the event of a "135-year storm" (that is, a storm of a severity expected to occur once in a 135-year period). Most of our reinsurers have an A.M. Best rating of "A+" (Superior) 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 commercial automobile insurance in Massachusetts. We also participate in the Massachusetts Property Insurance Underwriting Association ("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 buys reinsurance to reduce their exposure to catastrophe losses. On July 1, 2022, the FAIR Plan purchased \$1,800,000 of catastrophe reinsurance for property losses with retention of \$100,000.

We also had \$115,058 due from CAR comprising of loss and loss adjustment expense reserves, unearned premiums and reinsurance recoverables.

Non-GAAP Measures

Management has included certain non-generally accepted accounting principles ("non-GAAP") financial measures in presenting the Company's results. Management believes that these non-GAAP measures better explain the Company's results of operations and allow for a more complete understanding of the underlying trends in the Company's business. These measures should not be viewed as a substitute for those determined in accordance with GAAP. In addition, our definitions of these items may not be comparable to the definitions used by other companies.

Non-GAAP operating income and non-GAAP operating income per diluted share consist of our GAAP net income adjusted by the net realized gains on investments, net impairment losses on investments, changes in net unrealized gains on equity securities, credit loss benefit (expense) and taxes related thereto. Net income and earnings per diluted share are the GAAP financial measures that are most directly comparable to non-GAAP operating income and non-GAAP operating income per diluted share, respectively. A reconciliation of the GAAP financial measures to these non-GAAP measures is included in the financial highlights below.

Results of Operations

The following table shows certain of our selected financial results.

	Years Ended December 31,		
	2022	2021	2020
Direct written premiums	\$ 823,318	\$ 802,139	\$ 798,712
Net written premiums	\$ 773,735	\$ 764,526	\$ 763,537
Net earned premiums	\$ 758,505	\$ 774,328	\$ 771,078
Net investment income	46,725	44,135	41,045
Earnings from partnership investments	12,484	19,829	6,901
Net realized gains on investments	9,190	14,885	957
Change in net unrealized (losses) gains on equity investments	(44,386)	16,130	10,449
Credit loss benefit (expense)	14	363	(1,054)
Commission income	566	—	—
Finance and other service income	14,461	15,241	16,872
Total revenue	797,559	884,911	846,248
Loss and loss adjustment expenses	491,979	461,727	404,556
Underwriting, operating and related expenses	245,145	258,392	266,482
Other expense	330	—	—
Interest expense	524	522	440
Total expenses	737,978	720,641	671,478
Income before income taxes	59,581	164,270	174,770
Income tax expense	13,020	33,560	36,559
Net income	\$ 46,561	\$ 130,710	\$ 138,211
Earnings per weighted average common share:			
Basic	\$ 3.17	\$ 8.85	\$ 9.25
Diluted	\$ 3.15	\$ 8.80	\$ 9.18
Cash dividends paid per common share	\$ 3.60	\$ 3.60	\$ 3.60

Reconciliation of Net Income to Non-GAAP Operating Income:

Net income	\$ 46,561	\$ 130,710	\$ 138,211
Exclusions from net income:			
Net realized gains on investments	(9,190)	(14,885)	(957)
Change in net unrealized (losses) gains on equity investments	44,386	(16,130)	(10,449)
Credit loss (benefit) expense	(14)	(363)	1,054
Income tax benefit	(7,388)	6,589	2,174
Non-GAAP Operating income	\$ 74,355	\$ 105,921	\$ 130,033
Net income per diluted share	\$ 3.15	\$ 8.80	\$ 9.18
Exclusions from net income:			
Net realized gains on investments	(0.62)	(1.00)	(0.06)
Change in net unrealized losses (gains) on equity investments	3.02	(1.08)	(0.69)
Credit loss (benefit) expense	-	(0.02)	0.07
Income tax benefit	(0.50)	0.44	0.14
Non-GAAP Operating income per diluted share	\$ 5.05	\$ 7.14	\$ 8.64

YEAR ENDED DECEMBER 31, 2022 COMPARED TO YEAR ENDED DECEMBER 31, 2021

Direct Written Premiums. Direct written premiums for the year ended December 31, 2022 increased by \$21,179, or 2.6%, to \$823,318 from \$802,139 for the comparable 2021 period. The increase in direct written premium is the result of new business production, improved retention, and rate increases.

Net Written Premiums. Net written premiums for the year ended December 31, 2022 increased by \$9,209, or 1.2%, to \$773,735 from \$764,526 for the comparable 2021 period. The 2022 increase was primarily due to the factors that increased direct written premiums.

Net Earned Premiums. Net earned premiums for the year ended December 31, 2022 decreased by \$15,823, or 2.0%, to \$758,505 from \$774,328 for the comparable 2021 period.

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

	Year Ended December 31,	
	2022	2021
Written Premiums		
Direct	\$ 823,318	\$ 802,139
Assumed	28,835	31,359
Ceded	(78,418)	(68,972)
Net written premiums	\$ 773,735	\$ 764,526
Earned Premiums		
Direct	\$ 803,289	\$ 811,329
Assumed	28,976	30,583
Ceded	(73,760)	(67,584)
Net earned premiums	\$ 758,505	\$ 774,328

Net Investment Income. Net investment income for the year ended December 31, 2022 increased by \$2,590, or 5.9%, to \$46,725 from \$44,135 for the comparable 2021 period. The increase is a result of increases in interest rates on our fixed maturity portfolio as compared to the prior year. Net effective annual yield on the investment portfolio was 3.2% for the year ended December 31, 2022 compared to 3.0% for comparable 2021 period. Our duration was 3.8 years at December 31, 2022, compared to 3.6 years at December 31, 2021.

Earnings from Partnership Investments. Earnings from partnership investments were \$12,484 for the year ended December 31, 2022 compared to \$19,829 for the year ended December 31, 2021. The 2022 earnings reflect a decrease in investment appreciation and timing of cash proceeds received compared to the prior year. Timing and generation of these returns on capital can vary based on the results and transactions of the underlying partnerships.

Net Realized Gains on Investments. Net realized gains on investments were \$9,190 for the year ended December 31, 2022 compared to \$14,885 for the comparable 2021 period.

The gross unrealized gains and losses on investments in fixed maturity securities, including redeemable preferred stocks that have characteristics of fixed maturities, equity securities, including interests in mutual funds, and other invested assets were as follows:

	As of December 31, 2022				
	Cost or Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized		Estimated Fair Value
			Gains	Losses (3)	
U.S. Treasury securities	\$ 1,825	\$ —	\$ —	\$ (156)	\$ 1,669
Obligations of states and political subdivisions	57,319	—	282	(3,532)	54,069
Residential mortgage-backed securities (1)	259,878	—	385	(25,761)	234,502
Commercial mortgage-backed securities	156,303	—	107	(16,479)	139,931
Other asset-backed securities	74,160	—	—	(5,429)	68,731
Corporate and other securities	603,294	(678)	740	(52,103)	551,253
Subtotal, fixed maturity securities	1,152,779	(678)	1,514	(103,460)	1,050,155
Equity securities (2)	231,444	—	31,857	(23,146)	240,155
Other invested assets (4)	112,850	—	—	—	112,850
Totals	\$ 1,497,073	\$ (678)	\$ 33,371	\$ (126,606)	\$ 1,403,160

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

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

- (3) Our investment portfolio included 1,195 securities in an unrealized loss position at December 31, 2022.
(4) Other invested assets are accounted for under the equity method which approximates fair value.

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

	As of December 31, 2022	
	Estimated Fair Value	Percent
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 234,152	22.3 %
Aaa/Aa	237,191	22.6
A	201,943	19.2
Baa	202,763	19.3
Ba	61,619	5.9
B	93,633	8.9
Caa/Ca	4,489	0.4
Not rated	14,365	1.4
Total	\$ 1,050,155	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.

As of December 31, 2022, 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.

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 presents the length of time that they have been in a continuous unrealized loss position of December 31, 2022.

	As of December 31, 2022					
	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	\$ 1,669	\$ 156	\$ —	\$ —	\$ 1,669	\$ 156
Obligations of states and political subdivisions	34,178	2,504	3,072	1,028	37,250	3,532
Residential mortgage-backed securities	140,855	12,254	70,956	13,507	211,811	25,761
Commercial mortgage-backed securities	110,073	11,632	24,653	4,847	134,726	16,479
Other asset-backed securities	41,113	2,358	27,618	3,071	68,731	5,429
Corporate and other securities	386,401	28,048	131,046	24,055	517,447	52,103
Subtotal, fixed maturity securities	714,289	56,952	257,345	46,508	971,634	103,460
Equity securities	116,881	21,198	6,209	1,948	123,090	23,146
Total temporarily impaired securities	\$ 831,170	\$ 78,150	\$ 263,554	\$ 48,456	\$ 1,094,724	\$ 126,606

The Company's analysis of its fixed maturity portfolio at December 31, 2022 concluded that \$678 of unrealized losses were due to credit factors and were recorded as an allowance for expected credit losses at December 31, 2022, compared to \$691 at December 31, 2021. The Company concluded that outside of the securities that were recognized as credit impaired, the unrealized losses recorded on the fixed maturity portfolio at December 31, 2022 and December 31, 2021 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. Based upon the analysis performed, the Company's decision to hold these securities, the Company's current level of liquidity and our history of positive operating cash flows, management believes it is more likely than not that it will not be required to sell any of its securities before the anticipated recovery in the fair value to its amortized cost basis.

Specific qualitative analysis was also 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.

The majority of unrealized losses recorded on the investment portfolio at December 31, 2022 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.

For information regarding fair value measurements of our investment portfolio, refer to Item 8—Financial Statements and Supplementary Data, Note 16, Fair Value of Financial Instruments, of this Form 10-K.

Commission Income: Commission income includes revenues from new and renewal commissions paid by insurance carriers, which we recognize when earned.

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 decreased by \$780, or 5.1%, to \$14,461 for the year ended December 31, 2022 from \$15,241 for the comparable 2021 period. The decrease is primarily driven by a change in our late fee assessment policy.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses incurred for the year ended December 31, 2022 increased by \$30,252, or 6.6%, to \$491,979 from \$461,727 for the comparable 2021 period. The increase in losses is due to a return of pre-pandemic frequency in our private passenger automobile line of business and current market conditions including inflation and supply chain delays.

Our GAAP loss ratio for the years ended December 31, 2022 and 2021 were 64.9% and 59.6%, respectively. Our GAAP loss ratio excluding loss adjustment expenses was 56.0% and 50.0% for the years ended December 31, 2022 and 2021, respectively. Total prior year favorable development included in the pre-tax results for the year ended December 31, 2022 was \$57,279, compared to \$53,673, for the comparable 2021 period. The increase in the prior year favorable development in 2022 is primarily related to the reversal of \$6,500 legal expense reserve during the second quarter of 2022.

Underwriting, Operating and Related Expenses. Underwriting, operating and related expenses for the year ended December 31, 2022 decreased by \$13,247, or 5.1%, to \$245,145 from \$258,392 for the comparable 2021 period. Our GAAP expense ratio for the year ended December 31, 2022 decreased to 32.3% from 33.4% for the comparable 2021 period. The 2022 decrease is driven by a decrease in contingent commission expense.

Other Expense: Other expense includes the operating and related expenses associated with SNIA.

Interest Expense. Interest expense was \$524 and \$522 for the years ended December 31, 2022 and 2021, respectively. Interest expense primarily relates to the borrowing from the FHLB as noted within Item 8 – Financial Statements and Supplementary Data, Note 10, Debt, of this Form 10-K. The credit facility commitment fee included in interest expense was \$75 for each of the years ended December 31, 2022 and 2021.

Income Tax Expense. Our effective tax rates were 21.9% and 20.4% for the years ended December 31, 2022 and 2021, respectively. The effective rates for the year ended December 31, 2022 was higher than the statutory rate primary due to the impact of stock-based and executive compensation. The effective tax rates for the year end December 31, 2021 were lower than the statutory rates primarily due to the effects of tax-exempt investment income and the impact of stock-based compensation.

The comparison of results for the year ended December 31, 2021 compared to the year ended December 31, 2020 can be found in the Company's 2021 Annual Report on Form 10-K filed with the SEC on February 28, 2022.

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 \$44,326, \$141,394, and \$109,460 during the years ended December 31, 2022, 2021, and 2020, 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 \$19,988, \$65,989, and \$35,524 for the years ended December 31, 2022, 2021, and 2020, respectively, as purchases of fixed maturity and equity securities exceeded proceeds from the sales, paydowns, calls and maturities of fixed maturity and equity securities.

Net cash used for financing activities was \$62,641, \$65,571, and \$64,574 during the years ended December 31, 2022, 2021 and 2020, respectively. Net cash used for financing activities during the year ended December 31, 2022 and December 31, 2021 is comprised of dividend payments to shareholders and share buybacks, partially offset by the proceeds from a \$5,000 borrowing from the FHLB-Boston on December 29, 2022. The borrowing was for a term of one-month, bearing interest at a rate of 4.34%, and was repaid on January 27, 2023. Net cash used for financing activities during the year ended December 31, 2020 is comprised of dividend payments to shareholders and share buybacks, partially offset by the proceeds from a \$30,000 borrowing from the FHLB-Boston on March 17, 2020. The borrowing is for a term of five years, bearing interest at a rate of 1.42%. Interest is payable monthly, and the principal is due on the maturity date of March 17, 2025 but may be prepaid in whole or in part by the Company in advance.

The Insurance Subsidiaries maintain a high degree of liquidity within their respective investment portfolios in fixed maturity and short-term investments. 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 10, Debt, of this Form 10-K.

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 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 2022, the statutory surplus of Safety Insurance was \$782,200, and its net income for 2022 was \$66,197. As a result, a maximum of \$78,220 is available in 2022 for such dividends without prior approval of the Commissioner. As a result of this Massachusetts statute, the Insurance Subsidiaries had restricted net assets in the amount of \$703,980 at December 31, 2022. During the twelve months ended December 31, 2022, Safety Insurance recorded dividends to Safety of \$94,260.

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 2022 and 2021 were as follows:

Declaration Date	Record Date	Payment Date	Dividend per Common Share	Total Dividends Paid and Accrued
February 16, 2021	March 5, 2021	March 15, 2021	\$ 0.90	\$ 13,459
May 5, 2021	June 1, 2021	June 15, 2021	\$ 0.90	\$ 13,490
August 4, 2021	September 1, 2021	September 15, 2021	\$ 0.90	\$ 13,493
November 3, 2021	December 1, 2021	December 15, 2021	\$ 0.90	\$ 13,554
February 15, 2022	March 5, 2022	March 15, 2022	\$ 0.90	\$ 13,248
May 6, 2022	June 1, 2022	June 15, 2022	\$ 0.90	\$ 13,278
August 3, 2022	September 1, 2022	September 15, 2022	\$ 0.90	\$ 13,262
November 2, 2022	December 1, 2022	December 15, 2022	\$ 0.90	\$ 13,207

On February 15, 2023, our Board approved and declared a quarterly cash dividend on our common stock of \$0.90 per share to be paid on March 15, 2023 to shareholders of record on March 1, 2023. We plan to continue to declare and pay quarterly cash dividends in 2023, depending on our financial position and the regularity of our cash flows.

On February 23, 2022, the Board approved a share repurchase program of up to \$50,000 of the Company's outstanding common shares. The Board of Directors had cumulatively authorized increases to the existing share repurchase program of up to \$200,000 of its 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 may be modified, suspended or terminated at any time without prior notice. As of December 31, 2022, the Company had purchased 3,141,477 shares on the open market at a cost \$150,000. As of December 31, 2021, the Company had purchased 2,970,573 shares on the open market at a cost of \$135,397. In connection with the acquisition of Northeast / Metrowest, the Company reissued 58,113 shares valued at \$5,000.

The Company purchased an additional 170,904 shares on the open market at a cost of \$14,603 through February 23, 2022. As of that date, the previously authorized share repurchase program in the amount of \$150 million has been utilized.

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.

Contractual Obligations

We have obligations to make future payments under contracts and credit-related financial instruments and commitments.

As of December 31, 2022, the Company had loss and LAE reserves of \$549,598, unpaid reinsurance recoverables of \$93,394 and net loss and LAE reserves of \$456,204. 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. 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.

As part of the Company's investment activity, we have committed \$160,000 to investments in limited partnerships. The Company has contributed \$114,418 to these commitments as of December 31, 2022. As of December 31, 2022, the remaining committed capital that could be called is \$52,000, which includes potential recallable capital distributions.

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 estimated losses incurred but not yet reported ("IBNR") 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 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.

In estimating all our loss reserves, we follow the guidance prescribed by ASC 944, *Financial Services – Insurance*.

Management determines our loss and loss adjustment expense 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 \$423,452 to \$481,902 as of December 31, 2022 compared to a range of \$445,511 to \$504,580 as of December 31, 2021. 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 loss adjustment expense reserves based upon the analysis of our actuaries was \$456,204 as of December 31, 2022 compared to \$479,984 as of December 31, 2021.

The following table presents 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, 2022.

Line of Business	As of December 31, 2022		
	Low	Recorded	High
Private passenger automobile	\$ 179,072	\$ 188,083	\$ 194,457
Commercial automobile	98,783	106,920	109,347
Homeowners	79,920	86,064	93,927
All other	65,677	75,137	84,171
Total	\$ 423,452	\$ 456,204	\$ 481,902

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, 2022.

Line of Business	As of December 31, 2022		
	Case	IBNR	Total
Private passenger automobile	\$ 231,603	\$ (43,528)	\$ 188,075
CAR assumed private passenger auto	1	7	8
Commercial automobile	64,797	11,812	76,609
CAR assumed commercial automobile	18,099	12,213	30,312
Homeowners	80,253	(3,896)	76,357
FAIR Plan assumed homeowners	3,993	5,714	9,707
All other	39,984	35,152	75,136
Total net reserves for losses and LAE	\$ 438,730	\$ 17,474	\$ 456,204

At December 31, 2022 and 2021, our total IBNR reserves for our private passenger automobile line of business were comprised of \$(67,848) and \$(60,228) related to estimated ultimate decreases in the case reserves, including anticipated recoveries (i.e. salvage and subrogation), and \$24,320 and \$17,352 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 40.3% of our total reserves for CAR assumed commercial automobile business as of December 31, 2022 due to the reporting delays in the information we receive from CAR, as described further in the section on *Residual Market Loss and Loss Adjustment Expense Reserves*. Our IBNR reserves for FAIR Plan assumed homeowners are 58.9% of our total reserves for FAIR Plan assumed homeowners at December 31, 2022 due to similar reporting delays in the information we receive from FAIR Plan.

The following table presents 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, 2022.

Line of Business	As of December 31, 2022		
	Retained	Assumed	Net
Private passenger automobile	\$ 188,075		
CAR assumed private passenger automobile		\$ 8	
Net private passenger automobile			\$ 188,083
Commercial automobile	76,609		
CAR assumed commercial automobile		30,312	
Net commercial automobile			106,921
Homeowners	76,357		
FAIR Plan assumed homeowners		9,707	
Net homeowners			86,064
All other	75,136	—	75,136
Total net reserves for losses and LAE	\$ 416,177	\$ 40,027	\$ 456,204

Residual Market Loss and Loss Adjustment Expense Reserves

We are a participant in CAR, the FAIR Plan and other various residual markets and assume a portion of losses and LAE on business ceded by the industry participants to the residual markets. We estimate reserves for assumed losses and LAE that have not yet been reported to us by the residual markets. Our estimations are based upon the same factors we use for our own reserves, plus additional factors due to the nature of and the information we receive.

Residual market deficits consist of premium ceded to the various residual markets less losses and LAE and is allocated among insurance companies based on a various formulas (the “Participation Ratio”) that take into consideration a company’s voluntary market share.

Because of the lag in the various residual market estimations, and in order to try to validate to the extent possible the information provided, we estimate the effects of the actions of our competitors in order to establish our Participation Ratio.

Although we rely to a significant extent in setting our reserves on the information the various residual markets provide, we are cautious in our use of that information, because of the delays in receiving data from the various residual markets. As a result, we have to estimate our Participation Ratio and these reserves are subject to significant judgments and estimates.

Sensitivity Analysis

Establishment of appropriate reserves is an inherently uncertain process. There can be no certainty that currently established reserves based on our key assumptions regarding frequency and severity in our lines of business, or our assumptions regarding our share of the CAR loss 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. For the twelve months ended December 31, 2022, a 1 percentage-point change in the loss and LAE ratio would result in a change in reserves of \$7,588. Each 1 percentage-point change in the loss and loss expense ratio would have had a \$5,995 effect on net income, or \$0.41 per diluted share.

Our assumptions consider that past experience, adjusted for the effects of current developments and anticipated trends, are an appropriate basis for establishing our reserves. Our individual key assumptions could each have a reasonable possible range of plus or minus 5 percentage-points for each estimation, although there is no guarantee that our assumptions will not have more than a 5 percentage point variation. The following sensitivity tables present information for each of our primary lines of business on the effect each 1 percentage-point change in each of our key assumptions on unpaid frequency and severity could have on our retained (i.e., direct minus ceded) loss and LAE reserves and net income for the twelve months ended December 31, 2022. In evaluating the information in the table, it should be noted that a 1 percentage-point change in a single assumption would change estimated reserves by 1 percentage-point. A 1 percentage-point change in both our key assumptions would change estimated reserves within a range of plus or minus 2 percentage-points.

	-1 Percent Change in Frequency	No Change in Frequency	+1 Percent Change in Frequency
Private passenger automobile retained loss and LAE reserves			
-1 Percent Change in Severity			
Estimated decrease in reserves	\$ (3,761)	\$ (1,881)	\$ —
Estimated increase in net income	2,972	1,486	—
No Change in Severity			
Estimated (decrease) increase in reserves	(1,881)	—	1,881
Estimated increase (decrease) in net income	1,486	—	(1,486)
+1 Percent Change in Severity			
Estimated increase in reserves	—	1,881	3,761
Estimated decrease in net income	—	(1,486)	(2,972)
Commercial automobile retained loss and LAE reserves			
-1 Percent Change in Severity			
Estimated decrease in reserves	(1,532)	(766)	—
Estimated increase in net income	1,210	605	—
No Change in Severity			
Estimated (decrease) increase in reserves	(766)	—	766
Estimated increase (decrease) in net income	605	—	(605)
+1 Percent Change in Severity			
Estimated increase in reserves	—	766	1,532
Estimated decrease in net income	—	(605)	(1,210)
Homeowners retained loss and LAE reserves			
-1 Percent Change in Severity			
Estimated decrease in reserves	(1,527)	(764)	—
Estimated increase in net income	1,206	603	—
No Change in Severity			
Estimated (decrease) increase in reserves	(764)	—	764
Estimated increase (decrease) in net income	603	—	(603)
+1 Percent Change in Severity			
Estimated increase in reserves	—	764	1,527
Estimated decrease in net income	—	(603)	(1,206)
All other retained loss and LAE reserves			
-1 Percent Change in Severity			
Estimated decrease in reserves	(1,503)	(751)	—
Estimated increase in net income	1,187	594	—
No Change in Severity			
Estimated (decrease) increase in reserves	(751)	—	751
Estimated increase (decrease) in net income	594	—	(594)
+1 Percent Change in Severity			
Estimated increase in reserves	—	751	1,503
Estimated decrease in net income	—	(594)	(1,187)

Our estimated share of CAR loss and LAE reserves is based on assumptions about our Participation Ratio, the size of CAR, and the resulting deficit (similar assumptions apply with respect to the FAIR Plan). Our assumptions consider that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for establishing our CAR reserves. Each of our assumptions could have a reasonably possible range of plus or minus 5 percentage-points for each estimation.

The following sensitivity table presents information of the effect each 1 percentage-point change in our assumptions on our share of reserves for CAR and other residual markets could have on our assumed loss and LAE reserves and net income for the year ended December 31, 2022. In evaluating the information in the table, it should be noted that a 1 percentage-point change in our assumptions would change estimated reserves by 1 percentage-point.

	-1 Percent Change in Estimation	+1 Percent Change in Estimation
CAR assumed commercial automobile		
Estimated (decrease) increase in reserves	\$ (303)	\$ 303
Estimated increase (decrease) in net income	239	(239)
FAIR Plan assumed homeowners		
Estimated (decrease) increase in reserves	(97)	97
Estimated increase (decrease) in net income	77	(77)

Reserve Development Summary

The changes we have recorded in our reserves in the past illustrate the uncertainty of estimating reserves. Our prior year reserves decreased by \$57,279, \$53,673 and \$54,844 during the years ended December 31, 2022, 2021, and 2020, respectively.

The following table presents a comparison of prior year development of our net reserves for losses and LAE for the years ended December 31, 2022, 2021 and 2020, respectively. Each accident year represents all claims for an annual accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid. Our financial statements reflect the aggregate results of the current and all prior accident years.

Accident Year	Year Ended December 31,		
	2022	2021	2020
2012 & prior	\$ (423)	\$ (1,609)	\$ (2,723)
2013	(880)	(194)	(822)
2014	(521)	(1,534)	(452)
2015	(2,057)	(2,757)	(3,265)
2016	(1,662)	(1,096)	(5,496)
2017	(3,749)	(4,682)	(10,726)
2018	(7,233)	(10,190)	(16,697)
2019	(12,520)	(16,810)	(14,663)
2020	(18,985)	(14,801)	—
2021	(9,249)	—	—
All prior years	<u>\$ (57,279)</u>	<u>\$ (53,673)</u>	<u>\$ (54,844)</u>

At the end of each period, the reserves were re-estimated for all prior accident years. Our prior year reserves decreased by \$57,279, \$53,673, and \$54,844 for the years ended 2022, 2021, and 2020, respectively. The decreases in prior year reserves in 2022 resulted from re-estimations of prior year's ultimate loss and LAE liabilities and are primarily composed of reductions of \$20,241 in our retained automobile reserves and \$32,963 in our retained other than auto and homeowner's reserves. The decreases in prior year reserves in 2021 resulted from re-estimations of prior year's ultimate loss and LAE liabilities and are primarily composed of reductions of \$22,313 in our retained automobile reserves and \$26,220 in our retained other than auto and homeowner reserves. The decrease in prior year reserves during 2020 are primarily composed of reductions of \$26,902 in our retained automobile reserves and \$21,717 in our retained homeowners reserves. It is not appropriate to extrapolate future favorable or unfavorable development of reserves from this past experience.

The following table presents information by line of business for prior year development of our net reserves for losses and LAE for the year ended December 31, 2022.

Accident Year	Private Passenger Automobile	Commercial Automobile	Homeowners	All Other	Total
2012 & prior	\$ (343)	\$ (44)	\$ (53)	\$ 17	\$ (423)
2013	(7)	(4)	(76)	(793)	(880)
2014	(24)	315	(204)	(608)	(521)
2015	(275)	(386)	(601)	(795)	(2,057)
2016	142	(217)	(670)	(917)	(1,662)
2017	(752)	(790)	(921)	(1,286)	(3,749)
2018	(2,271)	(1,479)	(2,196)	(1,287)	(7,233)
2019	(4,624)	(2,255)	(3,765)	(1,876)	(12,520)
2020	(5,945)	(2,699)	(6,829)	(3,512)	(18,985)
2021	15	(1,654)	(819)	(6,791)	(9,249)
All prior years	\$ (14,084)	\$ (9,213)	\$ (16,134)	\$ (17,848)	\$ (57,279)

To further clarify the effects of changes in our reserve estimates for CAR and other residual markets, the next two tables break out the information in the table above by source of the business (i.e., non-residual market vs. residual market).

The following table presents information by line of business for prior year development of retained reserves for losses and LAE for the year ended December 31, 2022 that is, all our reserves except for business ceded or assumed from CAR and other residual markets.

Accident Year	Retained Private Passenger Automobile	Retained Commercial Automobile	Retained Homeowners	Retained All Other	Total
2012 & prior	\$ (343)	\$ (44)	\$ (53)	\$ 17	\$ (423)
2013	(7)	(4)	(76)	(793)	(880)
2014	(24)	315	(204)	(608)	(521)
2015	(275)	(342)	(601)	(795)	(2,013)
2016	142	(189)	(668)	(917)	(1,632)
2017	(752)	(680)	(922)	(1,286)	(3,640)
2018	(2,271)	(1,141)	(2,139)	(1,287)	(6,838)
2019	(4,624)	(1,773)	(3,578)	(1,876)	(11,851)
2020	(5,945)	(1,899)	(6,246)	(3,512)	(17,602)
2021	15	(400)	(628)	(6,791)	(7,804)
All prior years	\$ (14,084)	\$ (6,157)	\$ (15,115)	\$ (17,848)	\$ (53,204)

The following table presents information by line of business for prior year development of reserves assumed from residual markets for losses and LAE for the year ended December 31, 2022.

Accident Year	CAR Assumed Private Passenger Automobile	CAR Assumed Commercial Automobile	FAIR Plan Homeowners	Total
2015	\$ —	\$ (44)	\$ —	\$ (44)
2016	—	(28)	(2)	(30)
2017	—	(110)	1	(109)
2018	—	(338)	(57)	(395)
2019	—	(482)	(187)	(669)
2020	—	(800)	(583)	(1,383)
2021	—	(1,254)	(191)	(1,445)
All prior years	\$ —	\$ (3,056)	\$ (1,019)	\$ (4,075)

The improved retained private passenger and commercial automobile results were primarily due to fewer IBNR claims than previously estimated and better than previously estimated severity on our established bodily injury and property damage case reserves. Our retained other than auto and homeowners line of business prior year reserves decreased, due primarily to fewer IBNR claims than previously estimated.

In estimating all our loss reserves, we follow the guidance prescribed by ASC 944, *Financial Services-Insurance*.

For further information, see “Results of Operations: *Losses and Loss Adjustment Expenses*.”

Investment Impairments

The Company uses a systematic methodology to evaluate declines in fair values below cost or amortized cost of our investments. Some of the factors considered in assessing impairment of fixed maturities due to credit losses include the extent to which the fair value is less than amortized cost, the financial condition of and the near and long-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, the historical volatility of the fair value of the security and whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value. This methodology ensures that we evaluate available evidence concerning any declines in a disciplined manner.

For fixed maturities that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the expected credit loss component of the impairment from the amount related to all other factors. The expected credit loss component is recognized as an allowance for expected credit losses. The allowance is adjusted for any additional credit losses and subsequent recoveries, which are booked in income as either credit loss expense or credit loss benefit, respectively. Upon recognizing a credit loss, the cost basis is not adjusted. The impairment related to all other factors (non-credit factors) is reported in other comprehensive income.

For further information, see “Results of Operations: *Credit Loss Benefit (Expense)*.”

Forward-Looking Statements

Forward-looking statements might include one or more of the following, among others:

- Projections of revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- Descriptions of plans or objectives of management for future operations, products or services;
- Forecasts of future economic performance, liquidity, need for funding and income;
- Legal and regulatory commentary;
- Descriptions of assumptions underlying or relating to any of the foregoing; and
- Future performance of credit markets.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “aim,” “projects,” or words of similar meaning and expressions that indicate future events and trends, or future or conditional verbs such as “will,” “would,” “should,” “could,” or “may.” All statements that address expectations or projections about the future, including statements about the Company’s strategy for growth, product development, market position, expenditures and financial results, are forward-looking statements.

Forward-looking statements are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. There are a number of factors, many of which are beyond our control, that could cause actual future conditions, events, results or trends to differ significantly and/or materially from historical results or those projected in the forward-looking statements. These factors include but are not limited to:

- The competitive nature of our industry and the possible adverse effects of such competition;
- Conditions for business operations and restrictive regulations in Massachusetts;
- The possibility of losses due to claims resulting from severe weather;
- The impact of inflation and supply chain delays on loss severity;

- The possibility that the Commissioner may approve future rule changes that change the operation of the residual market;
- The possibility that existing insurance-related laws and regulations will become further restrictive in the future;
- Our possible need for and availability of additional financing, and our dependence on strategic relationships, among others;
- Other risks and factors identified from time to time in our reports filed with the SEC. Refer to Part I, Item 1A — Risk Factors.

Some other factors, such as market, operational, liquidity, interest rate, equity and other risks, are described elsewhere in this Annual Report on Form 10-K. Factors relating to the regulation and supervision of our Company are also described or incorporated in this report. There are other factors besides those described or incorporated in this report that could cause actual conditions, events or results to differ from those in the forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We do not undertake any obligation to update publicly or revise any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk. Market risk is the risk that we will incur losses due to adverse changes in market rates and prices. We have exposure to market risk through our investment activities and our financing activities. Our primary market risk exposure is to changes in interest rates. We use both fixed and variable rate debt as sources of financing. We have not entered, and do not plan to enter, into any derivative financial instruments for trading or speculative purposes.

Interest Rate Risk. Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. Our exposure to interest rate changes primarily results from our significant holdings of fixed rate investments and from our financing activities. Our fixed maturity investments include U.S. and foreign government bonds, securities issued by government agencies, obligations of state and local governments and governmental authorities, corporate bonds and asset-backed securities, most of which are exposed to changes in prevailing interest rates.

We manage our exposure to risks associated with interest rate fluctuations through active review of our investment portfolio by our management and Board and consultation with third-party financial advisors. As a general matter, we do not attempt to match the durations of our assets with the durations of our liabilities, and the majority of our liabilities are “short tail.” Our goal is to maximize the total after-tax return on all of our investments. An important strategy that we employ to achieve this goal is to try to hold enough in cash and short-term investments in order to avoid liquidating longer-term investments to pay claims.

Based upon the results of interest rate sensitivity analysis, the following table shows the interest rate risk of our investments in fixed maturities, measured in terms of fair value (which is equal to the carrying value for all our fixed maturity securities).

	-100 Basis Point Change	No Change	+100 Basis Point Change
As of December 31, 2022			
Estimated fair value	\$ 1,092,151	\$ 1,050,155	\$ 1,007,772
Estimated increase (decrease) in fair value	\$ 41,996	\$ —	\$ (42,383)
As of December 31, 2021			
Estimated fair value	\$ 1,261,399	\$ 1,218,279	\$ 1,174,068
Estimated increase (decrease) in fair value	\$ 43,120	\$ —	\$ (44,211)

With respect to floating rate debt, we are exposed to the effects of changes in prevailing interest rates. At December 31, 2022, we had no debt outstanding under our credit facility. Assuming the full utilization of our current available credit facility, a 2.0% increase in the prevailing interest rate on our variable rate debt would result in interest expense increasing approximately \$600 for 2022, assuming that all of such debt is outstanding for the entire year.

In addition, in the current market environment, our investments can also contain liquidity risks.

Equity Risk. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

SAFETY INSURANCE GROUP, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the shareholders and the Board of Directors of Safety Insurance Group, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Safety Insurance Group, Inc. and subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive (loss) income, changes in shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2022, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Item 9A. Controls and Procedures*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting

principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Losses and Loss Adjustment Expense Reserves – Refer to Notes 2 and 12 to the financial statements

Critical Audit Matter Description

The Company establishes loss and loss adjustment expense 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. The loss and loss adjustment expense reserves are determined in accordance with commonly accepted actuarial reserving techniques on the basis of the Company's historical information and experience. In determining the loss and loss adjustment expense reserves, the Company analyzes historical data and estimates the impact of various loss development factors, such as the Company's historical loss experience and that of the industry, trends in claims frequency and severity, the Company's mix of business, the Company's 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.

Given the subjectivity of estimating the ultimate cost to settle the liabilities for reported and unreported losses due to uncertainties caused by various factors including frequency and severity of claims, as well as future legislative, judicial, and legal uncertainties, performing audit procedures to evaluate whether the ultimate cost of loss and loss adjustment expense reserves were appropriately recorded as of December 31, 2022 required a high degree of auditor judgment and an increased extent of effort, including the need to involve our actuarial specialists.

How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to loss and loss adjustment expense reserves included the following, among others:

1. We tested the effectiveness of the Company's controls related to loss and loss adjustment expense reserves, including controls over inputs, methods, and assumptions used in the Company's estimation process.
2. We tested the underlying data that served as the basis for the Company's analysis, including historical claims, to test that the inputs to the actuarial estimate were complete and accurate.
3. With the assistance of our actuarial specialists, we evaluated the methods and assumptions used by the Company to estimate loss and loss adjustment expense reserves by:
 - a. Assessing the reasonableness of the Company's analysis, developing independent estimates of loss and loss adjustment expense reserves and comparing such estimates to the Company's recorded loss and

loss adjustment expense reserves.

- b. Comparing the Company's prior year estimates of expected incurred losses to actual experience during the current year to identify potential management bias in the determination of loss and loss adjustment expense reserves.

Northeast Metrowest Insurance Agency, Inc. Acquisition – Refer to Note 2 to the Financial Statements

Critical Audit Matter Description

The Company completed the acquisition of Northeast Metrowest Insurance Agency, Inc. ("Northeast") on December 1, 2022. The Company accounted for the acquisition of Northeast under the acquisition method of accounting for business combinations. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values, including customer relationship intangible assets. Management estimated the fair value of such intangible assets using an income approach that considered cash flows expected to be generated by the acquired business relationships, a weighted average cost of capital discount rate reflecting the relative risk of achieving the anticipated cash flows, profits, the time value of money and other relevant inputs. Changes in the assumptions could impact the amount allocated to acquired intangible assets and ultimately the amount recorded as goodwill.

Given the fair value determination of customer relationship intangible assets requires management to make significant estimates and assumptions regarding projected cash flows and discount rates, performing audit procedures to evaluate the reasonableness of those estimates and assumptions required a high degree of auditor judgment, and an increased extent of effort, including involving fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the fair value of distribution and customer relationship intangible assets acquired from Northeast included the following, among others:

1. We tested the effectiveness of controls over the valuation methodology used for these acquired intangible assets, including management's controls over assumptions used in developing estimated future cash flows, and discount rates used to present value cash flows.
2. We assessed the reasonableness of management's forecasts by comparing the projection to historical cash flow results of Northeast, as well as to certain peer companies of Northeast. We also performed sensitivity analyses to evaluate the impact of changes in assumptions to the valuation of the customer relationship intangible assets.
3. We assessed the knowledge, skill, ability and objectivity of management's valuation specialist and evaluated the work performed.
4. With the assistance of fair value specialists, we evaluated:
 - The reasonableness of the valuation methodology, and
 - The reasonableness of the discount rate used to present value the expected cash flows by:
 - a. Testing the source information underlying the determination of the discount rate and testing mathematical accuracy of the calculation.
 - b. Developing a range of independent estimates and comparing those to the discount rate selected by management to evaluate the inputs used in the calculation.
5. We evaluated whether the estimated cash flows were consistent with evidence obtained in other areas of the audit.

6. We tested the accuracy and evaluated the relevance of the data used by management on the date of the acquisition.

/s/ Deloitte & Touche LLP
Boston, Massachusetts
February 28, 2023

We have served as the Company's auditor since 2021.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Safety Insurance Group, Inc.

Opinion on the Financial Statements

We have audited the consolidated statement of operations, comprehensive (loss) income, changes in shareholders' equity and cash flows of Safety Insurance Group Inc and its subsidiaries (the "Company") for the year ended December 31, 2020, including the related notes and schedules listed in the index appearing under Item 15 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the Company for the year ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
February 26, 2021

We served as the Company's auditor from 1983 to 2020.

Safety Insurance Group, Inc. and Subsidiaries
Consolidated Balance Sheets

(Dollars in thousands, except share data)

	December 31, 2022	December 31, 2021
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (amortized cost: \$1,152,779 and \$1,187,857, allowance for expected credit losses of \$678 and \$691)	\$ 1,050,155	\$ 1,218,279
Equity securities, at fair value (cost: \$231,444 and \$211,848)	240,155	264,945
Other invested assets	112,850	87,911
Total investments	1,403,160	1,571,135
Cash and cash equivalents	25,300	63,603
Accounts receivable, net of allowance for expected credit losses of \$1,446 and \$1,808	192,542	170,953
Receivable for securities sold	877	9,256
Accrued investment income	8,212	7,401
Taxes recoverable	—	1,508
Receivable from reinsurers related to paid loss and loss adjustment expenses	12,988	18,234
Receivable from reinsurers related to unpaid loss and loss adjustment expenses	93,394	90,667
Ceded unearned premiums	28,453	23,795
Deferred policy acquisition costs	75,582	73,024
Deferred income taxes	21,074	—
Equity and deposits in pools	33,648	33,592
Operating lease right-of-use-assets	23,336	27,115
Goodwill	17,093	—
Intangible assets	7,856	—
Other assets	29,054	27,108
Total assets	\$ 1,972,569	\$ 2,117,391
Liabilities		
Loss and loss adjustment expense reserves	\$ 549,598	\$ 570,651
Unearned premium reserves	433,375	413,487
Accounts payable and accrued liabilities	73,875	76,598
Payable for securities purchased	1,359	16,477
Payable to reinsurers	11,444	9,192
Deferred income taxes	—	15,240
Taxes payable	1,729	—
Debt	35,000	30,000
Operating lease liabilities	23,336	27,115
Other liabilities	30,854	31,458
Total liabilities	1,160,570	1,190,218
Commitments and contingencies (Note 8)		
Shareholders' equity		
Common stock: \$0.01 par value; 30,000,000 shares authorized; 17,879,095 and 17,813,370 shares issued	179	178
Additional paid-in capital	222,049	216,070
Accumulated other comprehensive (loss) income, net of taxes	(80,538)	24,579
Retained earnings	815,309	821,743
Treasury stock, at cost: 3,083,364 and 2,970,573 shares	(145,000)	(135,397)
Total shareholders' equity	811,999	927,173
Total liabilities and shareholders' equity	\$ 1,972,569	\$ 2,117,391

The accompanying notes are an integral part of these financial statements.

Safety Insurance Group, Inc. and Subsidiaries
Consolidated Statements of Operations

(Dollars in thousands, except per share data)

	Years Ended December 31,		
	2022	2021	2020
Net earned premiums	\$ 758,505	\$ 774,328	\$ 771,078
Net investment income	46,725	44,135	41,045
Earnings from partnership investments	12,484	19,829	6,901
Net realized gains on investments	9,190	14,885	957
Change in unrealized gains on equity securities	(44,386)	16,130	10,449
Credit loss benefit (expense)	14	363	(1,054)
Commission income	566	—	—
Finance and other service income	14,461	15,241	16,872
Total revenue	797,559	884,911	846,248
Losses and loss adjustment expenses	491,979	461,727	404,556
Underwriting, operating and related expenses	245,145	258,392	266,482
Other expense	330	—	—
Interest expense	524	522	440
Total expenses	737,978	720,641	671,478
Income before income taxes	59,581	164,270	174,770
Income tax expense	13,020	33,560	36,559
Net income	\$ 46,561	\$ 130,710	\$ 138,211
Earnings per weighted average common share:			
Basic	\$ 3.17	\$ 8.85	\$ 9.25
Diluted	\$ 3.15	\$ 8.80	\$ 9.18
Cash dividends paid per common share	\$ 3.60	\$ 3.60	\$ 3.60
Number of shares used in computing earnings per share:			
Basic	14,607,483	14,828,736	15,002,755
Diluted	14,710,611	14,925,726	15,119,027

The accompanying notes are an integral part of these financial statements.

Safety Insurance Group, Inc. and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income

(Dollars in thousands)

	Years Ended December 31,		
	2022	2021	2020
Net income	\$ 46,561	\$ 130,710	\$ 138,211
Other comprehensive (loss) income, net of tax:			
Unrealized holding (losses) gains during the period, net of income tax (benefit) expense of (\$26,013), (\$4,569), and \$6,936 .	(97,857)	(17,189)	26,093
Reclassification adjustment for net realized gains on investments included in net income, net of income tax expense of (\$1,930), (\$3,126), and (\$201).	(7,260)	(11,759)	(756)
Other comprehensive (loss) income, net of tax:	(105,117)	(28,948)	25,337
Comprehensive (loss) income	\$ (58,556)	\$ 101,762	\$ 163,548

The accompanying notes are an integral part of these financial statements.

Safety Insurance Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income, Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2019	\$ 177	202,321	28,190	661,553	(83,835)	\$ 808,406
Net income	—	—	—	138,211	—	138,211
Unrealized gains on securities available for sale, net of deferred federal income taxes	—	—	25,337	—	—	25,337
Restricted share awards issued	1	528	—	—	—	529
Recognition of employee share-based compensation	—	6,930	—	—	—	6,930
Dividends paid and accrued	—	—	—	(54,735)	—	(54,735)
Acquisition of treasury stock	—	—	—	—	(39,999)	(39,999)
Balance at December 31, 2020	178	209,779	53,527	745,029	(123,834)	884,679
Net income	—	—	—	130,710	—	130,710
Unrealized gains on securities available for sale, net of deferred federal income taxes	—	—	(28,948)	—	—	(28,948)
Restricted share awards issued	—	475	—	—	—	475
Recognition of employee share-based compensation	—	5,816	—	—	—	5,816
Dividends paid and accrued	—	—	—	(53,996)	—	(53,996)
Acquisition of treasury stock	—	—	—	—	(11,563)	(11,563)
Balance at December 31, 2021	178	216,070	24,579	821,743	(135,397)	927,173
Net income	—	—	—	46,561	—	46,561
Unrealized losses on securities available for sale, net of deferred federal income taxes	—	—	(105,117)	—	—	(105,117)
Restricted share awards issued	1	—	—	—	—	1
Recognition of employee share-based compensation	—	5,979	—	—	—	5,979
Dividends paid and accrued	—	—	—	(52,995)	—	(52,995)
Reissuance of treasury stock	—	—	—	—	5,000	5,000
Acquisition of treasury stock	—	—	—	—	(14,603)	(14,603)
Balance at December 31, 2022	<u>\$ 179</u>	<u>\$ 222,049</u>	<u>\$ (80,538)</u>	<u>\$ 815,309</u>	<u>\$ (145,000)</u>	<u>\$ 811,999</u>

The accompanying notes are an integral part of these financial statements.

Safety Insurance Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 46,561	\$ 130,710	\$ 138,211
Adjustments to reconcile net income to net cash provided by operating activities:			
Investment amortization, net	1,693	4,234	6,541
Fixed asset depreciation, net	6,610	6,896	7,527
Stock based compensation	5,980	6,292	7,459
(Credit) provision for deferred income taxes	(8,371)	5,323	5,159
Net realized gains on investments	(9,190)	(14,885)	(957)
Credit loss (benefit) expense	(14)	(363)	1,054
Earnings from partnership investments	(8,388)	(13,896)	(1,932)
Change in net unrealized gains on equity securities	44,386	(16,130)	(10,449)
Changes in assets and liabilities:			
Accounts receivable, net	(21,589)	8,194	14,222
Accrued investment income	(811)	644	359
Receivable from reinsurers	2,519	10,842	13,948
Ceded unearned premiums	(4,658)	(1,389)	12,776
Deferred policy acquisition costs	(2,558)	1,938	(675)
Taxes recoverable/payable	3,237	(1,229)	724
Other assets	(6,477)	(3,346)	(15)
Loss and loss adjustment expense reserves	(21,053)	3,070	(42,985)
Unearned premium reserves	19,888	(8,414)	(20,318)
Accounts payable and accrued liabilities	(2,680)	(2,876)	4,310
Payable to reinsurers	2,252	956	(4,675)
Other liabilities	(3,011)	24,823	(20,824)
Net cash provided by operating activities	<u>44,326</u>	<u>141,394</u>	<u>109,460</u>
Cash flows from investing activities:			
Fixed maturities purchased	(215,092)	(355,561)	(217,269)
Short term investments purchased	—	—	(441)
Equity securities purchased	(52,192)	(59,296)	(49,326)
Other invested assets purchased	(20,204)	(32,814)	(11,868)
Proceeds from sales and paydowns of fixed maturities	154,491	213,665	126,555
Proceeds from maturities, redemptions, and calls of fixed maturities	86,406	144,910	86,390
Proceed from sales of equity securities	43,348	26,724	34,542
Proceeds from other invested assets redeemed	2,933	4,608	5,839
Acquisition, net of cash received	(17,586)	—	—
Fixed assets purchased	(2,092)	(8,225)	(9,946)
Net cash used for investing activities	<u>(19,988)</u>	<u>(65,989)</u>	<u>(35,524)</u>
Cash flows from financing activities:			
Proceeds from FHLB loan	5,000	—	30,000
Dividends paid to shareholders	(53,038)	(54,008)	(54,575)
Acquisition of treasury stock	(14,603)	(11,563)	(39,999)
Net cash used for financing activities	<u>(62,641)</u>	<u>(65,571)</u>	<u>(64,574)</u>
Net decrease in cash and cash equivalents	(38,303)	9,834	9,362
Cash and cash equivalents at beginning of year	63,603	53,769	44,407
Cash and cash equivalents at end of period	\$ 25,300	\$ 63,603	\$ 53,769
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Federal and state income taxes	\$ 19,119	\$ 29,190	\$ 31,080
Interest	\$ 507	\$ 507	\$ 388

The accompanying notes are an integral part of these financial statements.

1. Basis of Presentation

The consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include Safety Insurance Group, Inc. and its subsidiaries (the “Company”). The subsidiaries consist of Safety Insurance Company, Safety Indemnity Insurance Company, Safety Property and Casualty Insurance Company, Safety Northeast Insurance Company, Safety Northeast Insurance Agency, Inc. (“SNIA”), and Safety Management Corporation (“SMC”), which is SNIA’s holding company. All intercompany transactions have been eliminated.

The Company was incorporated on June 25, 2001 in the State of Delaware. On October 16, 2001, the Company acquired all of the issued and outstanding common stock of Thomas Black Corporation (“TBC”) and its property and casualty subsidiaries. TBC subsequently merged with and into Safety Insurance Group, Inc. with Safety Insurance Group, Inc. being the corporation surviving the merger.

The Company is a leading provider of property and casualty insurance, focused primarily on the Massachusetts market. The Company’s principal product line is private passenger automobile insurance, which accounted for 52.0% of its direct written premiums in 2022. The Company primarily operates through its insurance company subsidiaries, Safety Insurance Company, Safety Indemnity Insurance Company, Safety Property and Casualty Insurance Company, and Safety Northeast Insurance Company (together referred to as the “Insurance Subsidiaries”).

The Insurance Subsidiaries began writing private passenger automobile and homeowners insurance in New Hampshire during 2008, personal umbrella insurance in New Hampshire during 2009, and commercial automobile insurance in New Hampshire during 2011. The Insurance Subsidiaries began writing all of these lines of business in Maine during 2016.

Safety Northeast Insurance Agency, Inc., was established on December 1, 2022, when the Company acquired the assets and operations of Northeast Metrowest Insurance Agency, Inc. (“Northeast / Metrowest”), an independent insurance agency, through its wholly-owned subsidiary, SMC. SNIA provides personal and commercial property and casualty insurance products to customers on behalf of the Insurance Subsidiaries and third-party insurance carriers. The Company conducted business with Northeast / Metrowest prior to its acquisition. During the eleven months prior to December 1, 2022, all commissions paid to Northeast / Metrowest were reflected as expenses and were conducted at standard market rates.

As part of the purchase of SNIA, the Company paid cash, reissued treasury stock of \$5,000 and incurred a contingent liability of \$2,407, included in other liabilities, which is expected to be paid one year after the transaction.

Management has assessed and concluded that there were no conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date the consolidated financial statements were issued.

2. Summary of Significant Accounting Policies

Investments

Investments in fixed maturities, which include taxable and non-taxable bonds and redeemable preferred stocks, are reported at fair value. Fair values for fixed maturity securities are based on estimates obtained from independent pricing services. Unrealized gains or losses on fixed maturity securities reported at fair value are excluded from earnings and reported in a separate component of shareholder’s equity known as “accumulated other comprehensive income net of taxes” until realized. For fixed maturities that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the credit loss component of the impairment from the amount related to all other factors and reports the credit loss component as credit loss expense. The impairment related to all other factors (non-credit factors) is reported in accumulated other comprehensive income. The allowance for expected credit losses is adjusted for any additional credit losses and

subsequent recoveries. Upon recognizing a credit loss, the cost basis is not adjusted. See Note 3 for further details of the Company's accounting for impairments of available-for-sale investments.

Investments in equity securities, which include interests in common stocks, mutual funds and a real estate investment trust ("REIT"), are reported at fair value. Fair values for equity securities are derived from external market quotations, with the exception of the REIT whose fair value was determined using the trust's net asset value obtained from its audited financial statements. Changes in unrealized gains or losses on equity securities are recognized in earnings.

Other invested assets consist of investments in limited partnerships. The partnership interest is accounted for using the equity method of accounting and recorded in earnings from partnership investments. The carrying value of these investments are written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method (including assessment for other-than-temporary impairment), the Company uses financial information provided by the investee, generally on a three month lag.

Realized gains or losses on the sale or maturity of investments are determined based on the specific cost identification method.

Investment income is recognized on an accrual basis of accounting. Bonds not backed by other loans are amortized using the interest method. Loan-backed bonds and structured securities are amortized using the interest method and significant changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method.

Cash and Cash Equivalents

Cash and cash equivalents includes money market accounts and U.S. Treasury bills with original maturities of three months or less from the date of purchase. U.S. Treasury bills are stated at amortized cost, which approximates fair value.

Accounts Receivable

Amounts included in accounts receivable represent premiums as well as finance charges, the majority of which are billed on a monthly installment basis. Accounts receivable are stated net of allowances for doubtful accounts. At December 31, 2022 and 2021, these allowances were \$1,446 and \$1,808, respectively. Uncollected premium balances over ninety days past due are written off.

Deferred Policy Acquisition Costs

Amounts that vary with and are primarily related to the successful acquisition of a new or renewal insurance contract, principally commissions and premium taxes, are deferred and amortized ratably over the effective period of the policy. All other acquisition expenses are expensed as incurred. Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income, and if not, are charged to expense. Future investment income attributable to related premiums is not taken into account in measuring the recoverability of the carrying value of this asset. Amortization of acquisition costs in the amount of \$146,013, \$146,573 and \$146,955 were included in underwriting, operating and other expenses for the years ended 2022, 2021 and 2020, respectively.

Equity and Deposits in Pools

Equity and deposits in pools represents the net receivable amounts from the residual market mechanisms, Commonwealth Automobile Reinsurers ("CAR") for automobile and Massachusetts Property Insurance Underwriting Association ("FAIR Plan") for homeowners insurance in Massachusetts. See Note 11 for a discussion of the Company's accounting for amounts assumed from residual markets.

Equipment and Leasehold Improvements

Property, equipment, leasehold improvements, and software which are included in other assets are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line or accelerated method over the estimated useful lives of the related assets, which range from 3 to 10 years. Amortization of leasehold improvements is provided using the straight-line method over the term of the lease. The costs of computer software developed or obtained for internal use are capitalized and amortized over the estimated life of the business system, beginning when the software is ready for its intended use. Maintenance and repairs are charged to expense as incurred.

Business Combinations

The Company accounts for acquisitions of entities that qualify as businesses using the acquisition method of accounting in accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations*. Purchase consideration is allocated to the assets acquired, including customer relationship intangible assets, and liabilities assumed based on their estimated fair values at acquisition. Management estimated the fair value of such intangible assets using an income approach that considered cash flows expected to be generated by the acquired business relationships, a weighted average cost of capital discount rate reflecting the relative risk of achieving the anticipated cash flows, profits, the time value of money, and other relevant inputs. The excess of the total purchase consideration over the fair value of the identified net assets acquired is recognized as goodwill. The results of acquired businesses are included in the results of operations beginning from the date of acquisition. Acquisition related costs are expensed as incurred. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the allocation of purchase consideration and to the fair values of assets acquired and liabilities assumed to the extent that additional information becomes available. After this period, any subsequent adjustments are recorded in earnings.

Goodwill

Goodwill generated through acquisition is carried at cost, net of impairments. Goodwill is not amortized but is reviewed for impairment at least annually or more frequently when indicators of potential impairment exist. Management first evaluates impairment of goodwill by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after performing the qualitative assessment, management determines it is more likely than not that the fair value of the reporting unit is less than its carrying amount, a quantitative assessment to determine the fair value of the reporting unit. Management’s determination of the fair value of the reporting unit incorporates multiple inputs into discounted cash flow calculations, including levels of economic capital required to support the business, future business growth, earnings projections, and the weighted average cost of capital used for purposes of discounting. Goodwill is impaired up to the amount that the carrying value of the reporting unit exceeds the fair value. The Company did not recognize any goodwill impairments during the year ended December 31, 2022.

Intangible Assets

Acquired intangible assets are amortized over their useful lives on a straight-line basis over the period of expected benefit, generally 10 years. The Company recognized \$44 of amortization expense for the year ended December 31, 2022 and expects to recognize \$786 of amortization expense annually. Intangible assets are assessed for impairment generally when events or circumstances indicate a potential impairment. If it is determined that the carrying amount of the asset is not recoverable, the asset is written down to fair value and an impairment loss is recognized. The Company did not identify any impairment indicators during the year ended December 31, 2022.

Revenue Recognition

The Company recognizes revenue under both ASC 944, *Financial Services – Insurance* (“ASC 944”) and ASC 606, *Revenue from Contracts with Customers* (“ASC 606”).

Premiums are earned over the terms of the respective policies, which are generally one year. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of the policies.

Ceded premiums are charged to income over the terms of the respective policies and the applicable term of the reinsurance contracts with third-party reinsurers. Ceded unearned premiums represent the unexpired portion of premiums ceded to CAR and other reinsurers.

Premiums received in advance of the policy effective date are recorded as a liability and not recognized as income until earned. Such amounts are included in accounts payable and accrued liabilities and totaled \$12,858 and \$10,630 at December 31, 2022 and 2021, respectively.

Finance and other service income primarily include revenues from premium installment charges, which are recognized when earned.

Commission revenue includes new and renewal commissions paid by insurance carriers. These commissions are earned at the later of the effective date or billing date, as all rights are passed to the insured, the obligation to pay a claim resides with the insurance carrier, and no further performance obligation exists for the Company. Under the terms of its contracts with insurance carriers, the Company can earn additional, variable commission revenue in the form of annual contingent underwriting commissions (“CUC”) based on the underwriting performance of the insurance book of business. Each carrier contract and related CUC is calculated independently. Under ASC 606, the Company must estimate the amount of consideration that will be received in the coming year such that a significant reversal of revenue is not probable. As such, CUC is recognized as a contract asset as policies are issued using applicable premium and payout factors based on the estimated loss ratio from the contract.

Losses and Loss Adjustment Expenses

Liabilities for losses and loss adjustment expenses (“LAE”) include case basis estimates for open claims reported prior to year-end and estimates of unreported claims and claim adjustment expenses, net of salvage and subrogation. The estimates are continually reviewed and modified to reflect current conditions, and any resulting adjustments are reflected in current operating results. Adjustments for anticipated salvage and subrogation are recorded on incurred and reported and incurred but not reported losses.

The Company determines its 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 reported to us to calculate our share of the residual market. For each accident year and each coverage within a line of business our actuaries calculate the ultimate losses incurred.

Reinsurance

Liabilities for unearned premiums and unpaid losses are stated before deductions for ceded reinsurance. The ceded amounts are carried as receivables. Earned premiums are stated net of deductions for ceded reinsurance.

The Company, as primary insurer, will be required to pay losses in their entirety in the event that the reinsurers are unable to discharge their obligations under the reinsurance agreements.

Advertising Costs

Advertising costs are charged to expense when they are incurred. Total advertising costs were \$2,399, \$2,232 and \$2,311 for the years ended December 31, 2022, 2021, and 2020, respectively, and are included in underwriting, operating and related expenses.

Income Taxes

The Company and its subsidiaries file a consolidated U.S. federal income tax return. The method of allocation among members of the consolidated group is subject to a written agreement approved by the Board of Directors (the “Board”). The consolidated tax liability is allocated on the basis of the members’ proportionate contribution to consolidated taxable income.

Deferred income taxes are generally recognized when assets and liabilities have different values for financial statement and tax reporting purposes, and for other temporary taxable and deductible differences as defined by ASC 740, *Income Taxes*. A valuation allowance is established where management has assessed that it is more likely than not that the Company will not be able to utilize the full deferred tax asset.

Earnings per Weighted Average Common share

Basic earnings per weighted average common share (“EPS”) are calculated by dividing net income by the weighted average number of basic common shares outstanding during the period. Diluted earnings per share amounts are based on the weighted average number of common shares including non-vested performance stock grants.

The following table sets forth the computation of basic and diluted EPS for the periods indicated.

	Years Ended December 31,		
	2022	2021	2020
Earnings attributable to common shareholders - basic and diluted:			
Net income from continuing operations	\$ 46,561	\$ 130,710	\$ 138,211
Allocation for participating shares	(205)	575	636
Net income from continuing operations attributed to common shareholders	<u>\$ 46,356</u>	<u>\$ 131,285</u>	<u>\$ 138,847</u>
Earnings per share denominator - basis and diluted			
Total weighted average common shares outstanding, including participating shares	14,672,234	14,894,532	15,071,955
Less: weighted average participating shares	(64,751)	(65,796)	(69,200)
Basic earnings per share denominator	<u>14,607,483</u>	<u>14,828,736</u>	<u>15,002,755</u>
Common equivalent shares- non-vested performance stock grants	103,128	96,990	116,272
Diluted earnings per share denominator	<u>14,710,611</u>	<u>14,925,726</u>	<u>15,119,027</u>
Basic earnings per share	<u>\$ 3.17</u>	<u>\$ 8.85</u>	<u>\$ 9.25</u>
Diluted earnings per share	<u>\$ 3.15</u>	<u>\$ 8.80</u>	<u>\$ 9.18</u>
Undistributed earnings attributable to common shareholders - basic and diluted:			
Net income from continuing operations attributable to common shareholders -Basic	\$ 3.17	\$ 8.85	\$ 9.25
Dividends declared	(3.60)	(3.60)	(3.60)
Undistributed earnings	<u>\$ (0.43)</u>	<u>\$ 5.25</u>	<u>\$ 5.65</u>
Net income from continuing operations attributable to common shareholders -Diluted	\$ 3.15	\$ 8.80	\$ 9.18
Dividends declared	(3.60)	(3.60)	(3.60)
Undistributed earnings	<u>\$ (0.45)</u>	<u>\$ 5.20</u>	<u>\$ 5.58</u>

Diluted EPS excludes non vested performance stock grants with exercise prices and exercise tax benefits greater than the average market price of the Company’s common stock during the period because their inclusion would be anti-dilutive. There were no anti-dilutive non-vested performance stock grants for the years ended December 31, 2022, 2021 and 2020.

Share-Based Compensation

ASC 718, *Compensation —Stock Compensation* (“ASC 718”), requires the Company to measure and recognize the cost of employee services received in exchange for an award of equity instruments. Under the provisions of ASC 718, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant).

See Note 7 for further information regarding share-based compensation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which removes certain exceptions to the general principles of ASC 740, including exceptions to intra-period tax allocation where there is a loss from continuing operations, foreign subsidiary treatment and for calculating interim income taxes when the year-to-date loss exceeds the anticipated loss. The update also clarifies and amends existing guidance related to changes in tax laws, business combinations, employee stock plans, among others. The Company adopted the ASU effective January 1, 2021. As a result of adoption, there was no impact on the Company’s financial position, results of operations, cash flows, or disclosures.

On March 20, 2019, the SEC adopted amendments to Regulation S-K and related rules and forms to modernize and simplify certain disclosure requirements for public companies. The amendments are intended to reduce the costs and burdens of the disclosure process and while continuing to require disclosure of all material information. The amended rules generally were effective on May 2, 2019 and reduced disclosures but some provisions added new requirements. On August 26, 2020, the SEC adopted additional amendments to Regulation S-K to modernize certain disclosure requirements relating to the description of business, legal proceedings and risk factors which are required to be disclosed in the Form 10-K. The amended rules are effective for filings on or after November 9, 2020. The adoption of the new rules did not have a material impact on the Company’s financial position, results of operations, cash flows, or disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which changes the fair value measurement disclosure requirements under ASC 820. The Company’s adoption of ASU 2018-13 on January 1, 2020 did not have an impact on the fair value disclosures included in Note 16 – Fair Value of Financial Instruments.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements*, which amends the guidance for the impairment of financial instruments and is expected to result in more timely recognition of impairment losses. The update introduces an impairment model referred to as the current expected credit loss (“CECL”) model. The impairment model is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The ASU is also intended to reduce the complexity of the current guidance by decreasing the number of credit impairment models that entities use to account for debt instruments. For public business entities that are SEC filers, the amendments in ASU No. 2016-13 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the updated guidance on January 1, 2020 using the modified retrospective approach. The updated guidance did not have a material impact on the opening balance of retained earnings. The Company has elected not to measure expected credit losses for accrued interest receivables related to its finance receivables and fixed maturity securities. At January 1, 2020, the Company recognized an allowance for expected credit losses related to its available-for-sale (“AFS”) debt securities of \$2,510.

Segments

The Company comprises one business segment: property and casualty insurance operations. Management organizes the business around private passenger automobile insurance in Massachusetts sold exclusively through

independent agents and offers other personal and commercial insurance as complementary products. In accordance with ASC 280, *Segment Reporting*, the financial information of the segment is presented consistent with the way results are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

3. Investments

The gross unrealized gains and losses on investments in fixed maturity securities, including redeemable preferred stocks that have characteristics of fixed maturities, and equity securities, including interests in mutual funds, and other invested assets, were as follows for the periods indicated.

As of December 31, 2022					
	Cost or Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized		Estimated Fair Value
			Gains	Losses (3)	
U.S. Treasury securities	\$ 1,825	\$ —	\$ —	\$ (156)	\$ 1,669
Obligations of states and political subdivisions	57,319	—	282	(3,532)	54,069
Residential mortgage-backed securities (1)	259,878	—	385	(25,761)	234,502
Commercial mortgage-backed securities	156,303	—	107	(16,479)	139,931
Other asset-backed securities	74,160	—	—	(5,429)	68,731
Corporate and other securities	603,294	(678)	740	(52,103)	551,253
Subtotal, fixed maturity securities	1,152,779	(678)	1,514	(103,460)	1,050,155
Equity securities (2)	231,444	—	31,857	(23,146)	240,155
Other invested assets (4)	112,850	—	—	—	112,850
Totals	\$ 1,497,073	\$ (678)	\$ 33,371	\$ (126,606)	\$ 1,403,160

As of December 31, 2021					
	Cost or Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized		Estimated Fair Value
			Gains	Losses (3)	
U.S. Treasury securities	\$ 318	\$ —	\$ 6	\$ —	\$ 324
Obligations of states and political subdivisions	111,578	—	4,847	(123)	116,302
Residential mortgage-backed securities (1)	237,026	—	5,941	(1,503)	241,464
Commercial mortgage-backed securities	146,318	—	5,007	(442)	150,883
Other asset-backed securities	83,376	—	475	(255)	83,596
Corporate and other securities	609,241	(691)	20,647	(3,487)	625,710
Subtotal, fixed maturity securities	1,187,857	(691)	36,923	(5,810)	1,218,279
Equity securities (2)	211,848	—	54,861	(1,764)	264,945
Other invested assets (4)	87,911	—	—	—	87,911
Totals	\$ 1,487,616	\$ (691)	\$ 91,784	\$ (7,574)	\$ 1,571,135

- (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 include common stock, preferred stock, mutual funds and interests in mutual funds held to fund the Company's executive deferred compensation plan.
- (3) The Company's investment portfolio included 1,195 and 444 securities in an unrealized loss position at December 31, 2022 and December 31, 2021, respectively.
- (4) Other invested assets are accounted for under the equity method which approximates fair value.

The amortized cost and the estimated fair value of fixed maturity securities, by maturity, are shown below for the period indicated. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	As of December 31, 2022	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 4,899	\$ 4,665
Due after one year through five years	289,109	269,852
Due after five years through ten years	328,816	296,368
Due after ten years through twenty years	38,044	34,623
Due after twenty years	1,570	1,483
Asset-backed securities	490,341	443,164
Totals	\$ 1,152,779	\$ 1,050,155

The gross realized gains and losses on sales of investments were as follows for the periods indicated.

	Years Ended December 31,		
	2022	2021	2020
Gross realized gains			
Fixed maturity securities	\$ 1,511	\$ 3,666	\$ 1,645
Equity securities	12,367	12,275	6,864
Gross realized losses			
Fixed maturity securities	(2,987)	(1,036)	(2,166)
Equity securities	(1,701)	(20)	(5,386)
Net realized gains on investments	\$ 9,190	\$ 14,885	\$ 957

In the normal course of business, the Company enters into transactions involving various types of financial instruments, including investments in fixed maturities and equity securities. Investment transactions have credit exposure to the extent that a counter party may default on an obligation to the Company. Credit risk is a consequence of carrying, trading and investing in securities. To manage credit risk, the Company focuses on higher quality fixed income securities, reviews the credit strength of all companies in which it invests, limits its exposure in any one investment and monitors the portfolio quality, taking into account credit ratings assigned by recognized statistical rating organizations.

The following tables as of December 31, 2022 and 2021 present the gross unrealized losses included in the Company's investment portfolio and the fair value of those securities aggregated by investment category. The tables also present the length of time that they have been in a continuous unrealized loss position.

	As of December 31, 2022					
	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	\$ 1,669	\$ 156	\$ —	\$ —	\$ 1,669	\$ 156
Obligations of states and political subdivisions	34,178	2,504	3,072	1,028	37,250	3,532
Residential mortgage-backed securities	140,855	12,254	70,956	13,507	211,811	25,761
Commercial mortgage-backed securities	110,073	11,632	24,653	4,847	134,726	16,479
Other asset-backed securities	41,113	2,358	27,618	3,071	68,731	5,429
Corporate and other securities	386,401	28,048	131,046	24,055	517,447	52,103
Subtotal, fixed maturity securities	714,289	56,952	257,345	46,508	971,634	103,460
Equity securities	116,881	21,198	6,209	1,948	123,090	23,146
Total temporarily impaired securities	\$ 831,170	\$ 78,150	\$ 263,554	\$ 48,456	\$ 1,094,724	\$ 126,606

	As of December 31, 2021					
	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	2,985	85	1,012	38	3,997	123
Residential mortgage-backed securities	97,116	1,502	11	1	97,127	1,503
Commercial mortgage-backed securities	29,660	442	—	—	29,660	442
Other asset-backed securities	39,266	255	—	—	39,266	255
Corporate and other securities	181,470	3,140	11,436	347	192,906	3,487
Subtotal, fixed maturity securities	350,497	5,424	12,459	386	362,956	5,810
Equity securities	19,457	1,559	1,029	205	20,486	1,764
Total temporarily impaired securities	\$ 369,954	\$ 6,983	\$ 13,488	\$ 591	\$ 383,442	\$ 7,574

At December 31, 2022, U.S. Government residential mortgage backed securities with a fair value of \$40,195 are pledged as collateral for a borrowing with the Federal Home Loan Bank of Boston (“FHLB-Boston”) as described in Note 10 – Debt. These securities are included in fixed maturity securities on the Company’s Consolidated Balance Sheets.

Impairments

For fixed maturities that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the credit loss component of the impairment from the amount related to all other factors. The expected credit loss component is recognized as an allowance for expected credit losses. The allowance is adjusted for any additional credit losses and subsequent recoveries, which are booked in income as either credit loss expense or credit loss benefit, respectively. Upon recognizing a credit loss, the cost basis is not adjusted. The impairment related to all other factors (non-credit factors) is reported in other comprehensive income.

For fixed maturities where the Company records a credit loss, a determination is made as to the cause of the impairment and whether the Company expects a recovery in the value. For fixed maturities where the Company expects a recovery in value, the constant effective yield method is utilized, and the investment is amortized to par.

For fixed maturity investments the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery in value, the full amount of the impairment is included in credit loss expense. The new cost basis of the investment is the previous amortized cost basis less the impairment recognized in credit loss expense. The new cost basis is not adjusted for any subsequent recoveries in fair value.

The Company uses a systematic methodology to evaluate declines in fair values below cost or amortized cost of our investments. Some of the factors considered in assessing impairment of fixed maturities due to credit losses include the extent to which the fair value is less than amortized cost, the financial condition of and the near and long-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, the historical volatility of the fair value of the security and whether it is more like than not that the Company will be required to sell the investment prior to an anticipated recovery in value.

As of December 31, 2022, the Company concluded that \$678 of unrealized losses were due to credit factors and were recorded as an allowance for expected credit losses, compared to \$691 as of December 31, 2021. The Company concluded that outside of the securities that were recognized as credit impaired, the unrealized losses recorded on the fixed maturity portfolio at December 31, 2022 and 2021 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. Based upon the analysis performed, the Company’s decision to hold these securities, the Company’s current level of liquidity and our history of positive operating cash flows, management believes it is more likely than not that it will not be required to sell any of its securities before the anticipated recovery in the fair value to its amortized cost basis.

The following tables represent a reconciliation of the beginning and ending balances of the allowance for expected credit losses on fixed maturities classified as available for sale.

	Year Ended December 31,	
	2022	2021
Beginning of period	\$ 691	\$ 1,054
Credit losses on securities with no previously recorded credit losses	193	9
Net increases (decreases) in allowance on previously impaired securities	98	(137)
Reduction due to sales	(304)	(235)
Writeoffs charged against allowance	—	—
Recoveries of amounts previously written off	—	—
Ending balance of period	\$ 678	\$ 691

The Company holds no subprime mortgage debt securities. All of the Company's holdings in mortgage-backed securities are either U.S. Government or Agency guaranteed or are rated investment grade by either Moody's or Standard & Poor's.

Net Investment Income

The components of net investment income were as follows for the periods indicated.

	Years Ended December 31,		
	2022	2021	2020
Interest on fixed maturity securities	\$ 40,886	\$ 36,160	\$ 37,727
Dividends on equity securities	6,746	6,421	5,044
Equity in earnings of other invested assets	2,304	4,895	1,378
Interest on other assets	61	22	27
Total Investment Income	49,997	47,498	44,176
Investment expenses	3,272	3,363	3,131
Net investment income	\$ 46,725	\$ 44,135	\$ 41,045

4. Allowance for Expected Credit Losses

The Company's financial instruments include premiums and accounts receivable, and reinsurance recoverables.

Premiums and accounts receivable are reported net of an allowance for expected credit losses. The allowance is based upon the Company's ongoing review of amounts outstanding, historical loss data, including delinquencies and write-offs, current and forecasted economic conditions and other relevant factors. Credit risk is partially mitigated by the Company's ability to cancel the policy if the policyholder does not pay the premium and the Company writes off premiums receivable balances that are more than 90 days overdue.

The following tables present the balances of premiums receivable, net of the allowance for expected credit losses, for the years ended December 31, 2022 and 2021, and changes in the allowance for expected credit losses for the years ended December 31, 2022 and 2021.

	At and For the Year Ended December 31, 2022		At and For the Year ended December 31, 2021	
	Accounts Receivable Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses	Accounts Receivable Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses
Balance, beginning of period	\$ 170,953	\$ 1,808	\$ 179,147	\$ 1,754
Current period change for expected credit losses		1,339		2,339
Writeoffs of uncollectable accounts receivable		(1,701)		(2,285)
Balance, end of period	\$ 192,542	\$ 1,446	\$ 179,953	\$ 1,808

Reinsurance recoverables include amounts due from reinsurers for both paid and unpaid losses. The Company cedes insurance to CAR and to other reinsurers. The Company has a property catastrophe excess of loss agreement and a casualty excess of loss agreement that qualify as reinsurance treaties and are designed to protect against large or unusual loss and LAE activity. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance. A probability-of-default methodology which reflects current and forecasted economic conditions is used to estimate the amount of uncollectible reinsurance due to credit-related factors and the estimate is reported in an allowance for estimated uncollectible reinsurance. Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance. Changes in the allowance, as well as any subsequent collections of amounts previously written off, are reported as part of claims and claim adjustment expenses.

The majority of the Company's reinsurance recoverable on paid and unpaid losses is a result of our participation as a servicing carrier in the CAR Commercial Automobile Program, which represents 94% of the total reinsurance recoverable on paid and unpaid losses at December 31, 2022 and 2021, respectively. The remaining 6% of amounts due from reinsurers are related to our other excess of loss and quota share contracts. For amounts due under these contracts, the Company utilizes updated A.M. Best credit ratings on a quarterly basis to determine the allowance for expected credit losses. As of December 31, 2022 and 2021, all reinsurers under these programs are rated "A" or better by A.M. Best. Certain of the Company's reinsurance recoverables are collateralized by letters of credit, funds held or trust agreements. The Company's analysis concludes that there are no expected credit losses at December 31, 2022 or 2021.

5. Equipment and Leasehold Improvements

The carrying value of equipment and leasehold improvements by classification was as follows for the periods indicated. Equipment and leasehold improvements are included in other assets in the consolidated balance sheets.

	As of December 31,	
	2022	2021
Software	\$ 58,079	\$ 57,463
Computer equipment	15,649	15,425
Leasehold improvements	8,264	8,264
Other equipment	3,132	3,132
Furniture and fixtures	4,346	4,346
Total cost	89,470	88,630
Less accumulated depreciation and amortization	71,342	65,188
Equipment and leasehold improvements, net	\$ 18,128	\$ 23,442

Depreciation and amortization expense for the years ended December 31, 2022, 2021, and 2020 was \$7,876, \$6,896 and \$7,526, respectively and is included in underwriting, operating and related expenses.

6. Employee Benefit Plan

The Company sponsors the Safety Insurance Company 401(k) qualified defined contribution retirement plan (the "Retirement Plan"). The Retirement Plan is available to all eligible employees of the Company. An employee must be 21 years of age to be eligible to participate in the Retirement Plan and is allowed to contribute on a pre-tax basis up to the maximum allowed under federal law. The Retirement Plan is administered by the Company and is subject to the provisions of the Employee Retirement Income Security Act of 1974. At the close of each Retirement Plan year, the Company makes a matching contribution equal to 100% of the amount each participant contributed during the plan year from their total pay, up to a maximum amount of 8% of the participant's base salary, to those participants who have contributed to the Retirement Plan and were employed on the last day of the Retirement Plan year. Compensation expense related to the Retirement Plan was \$3,382, \$3,433, and \$3,388 for the years ended December 31, 2022, 2021, and 2020, respectively.

7. Share-Based Compensation

2018 Long Term Incentive Plan

On March 24, 2022, the Company's Board of Directors adopted the Amended and Restated Safety Insurance Group, Inc. 2018 Long-Term Incentive Plan ("the Amended 2018 Plan"), which was subsequently approved by our shareholders at the 2022 Annual Meeting of Shareholders. The Amended 2018 Plan increases the share pool limit by adding 350,000 common shares to the previously adopted Safety Insurance Group, Inc. 2018 Long-Term Incentive Plan. The Amended 2018 Plan enables the grant of stock awards, performance shares, cash-based performance units, other stock-based awards, stock options, stock appreciation rights, and stock unit awards, each of which may be granted separately or in tandem with other awards. Eligibility to participate includes officers, directors, employees and other individuals who provide bona fide services to the Company. The Amended 2018 Plan supersedes the Company's 2002 Management Omnibus Incentive Plan ("the 2002 Incentive Plan").

The Amended 2018 Plan establishes a pool of 700,000 shares of common stock available for issuance to our employees and other eligible participants. The Board of Directors and the Compensation Committee intend to issue awards under the Amended 2018 Plan in the future.

The maximum number of shares of common stock between the Amended 2018 Plan and the 2002 Incentive Plan with respect to which awards may be granted is 3,200,000. No further grants will be allowed under the 2002 Incentive Plan. At December 31, 2022, there were 444,216 shares available for future grant.

Restricted Stock

Service-based restricted stock awarded in the form of unvested shares is recorded at the market value of the Company's common stock on the grant date and amortized ratably as compensation expense over the requisite service period. Service-based restricted stock awards generally vest over a three-year period and vest 30% on the first and second anniversaries of the grant date and 40% on the third anniversary of the grant date, except for non-executive employees' restricted stock awards granted prior to 2018 which vest ratably over a five-year service period and independent directors' stock awards which vest immediately. Our independent directors are subject to stock ownership guidelines, which require them to have a value equal to four times their annual cash retainer.

In addition to service-based awards, the Company grants performance-based restricted shares to certain employees. These performance shares cliff vest after a three-year performance period provided certain performance measures are attained. A portion of these awards, which contain a market condition, vest according to the level of total shareholder return achieved by the Company compared to its property-casualty insurance peers over a three-year period. The remainder, which contain a performance condition, vest according to the level of Company's combined ratio results compared to a target based on its property-casualty insurance peers.

Actual payouts can range from 0% to 200% of target shares awarded depending upon the level of achievement of the respective market and performance conditions during a three calendar-year performance period. Compensation expense for share awards with a performance condition is based on the probable number of awards expected to vest using the performance level most likely to be achieved at the end of the performance period.

Performance-based awards with market conditions are accounted for and measured differently from awards that have a performance or service condition. The effect of a market condition is reflected in the award's fair value on the grant date. That fair value is recognized as compensation cost over the requisite service period regardless of whether the market-based performance objective has been satisfied.

All of the Company's restricted stock awards are issued as incentive compensation and are equity classified.

The following table summarizes restricted stock activity under the Amended 2018 Plan assuming a target

payout for the performance-based shares.

	Years Ended December 31,					
	2022		2021		2020	
	Shares Under Restriction	Weighted Average Fair Value	Shares Under Restriction	Weighted Average Fair Value	Shares Under Restriction	Weighted Average Fair Value
Outstanding at beginning of year	65,171	\$ 84.30	66,550	\$ 85.16	78,202	\$ 79.09
Granted	38,864	85.22	39,840	79.27	34,799	90.10
Vested and unrestricted	(38,328)	86.02	(40,763)	80.82	(43,757)	78.10
Forfeited	(2,294)	83.10	(456)	81.17	(2,694)	87.70
Outstanding at end of period	<u>63,413</u>	<u>\$ 83.87</u>	<u>65,171</u>	<u>\$ 84.30</u>	<u>66,550</u>	<u>\$ 85.16</u>

	Years Ended December 31,					
	2022		2021		2020	
	Performance-based Shares Under Restriction	Weighted Average Fair Value	Performance-based Shares Under Restriction	Weighted Average Fair Value	Performance-based Shares Under Restriction	Weighted Average Fair Value
Outstanding at beginning of year	72,418	\$ 86.53	71,964	\$ 84.94	84,105	\$ 79.34
Granted (1)	31,828	86.35	49,460	77.56	36,649	84.68
Vested and unrestricted	(26,504)	92.52	(48,666)	75.05	(42,123)	73.55
Forfeited	(2,673)	83.01	(340)	87.43	(6,667)	84.86
Outstanding at end of period	<u>75,069</u>	<u>\$ 84.46</u>	<u>72,418</u>	<u>\$ 86.53</u>	<u>71,964</u>	<u>\$ 84.94</u>

(1) Includes a true-up of previously awarded performance-based restricted share awards. The updated shares were calculated based on the attainment of pre-established performance objectives.

As of December 31, 2022, there was \$5,370 of unrecognized compensation expense related to non-vested restricted stock awards that is expected to be recognized over a weighted average period of 1.4 years. The total fair value of the shares that were vested and unrestricted during the years ended December 31, 2022, 2021, and 2020 was \$5,749, \$6,947 and \$6,516, respectively. For the years ended December 31, 2022, 2021, and 2020, the Company recorded compensation expense related to awards under the Incentive Plan of \$4,724, \$4,971, and \$5,893, net of income tax benefit of \$1,256, \$1,321, and \$1,566, respectively.

8. Commitments and Contingencies

Commitments

As part of the Company's investment activity, we have committed \$160,000 to investments in limited partnerships. The Company has contributed \$114,418 to these commitments as of December 31, 2022. As of December 31, 2022, the remaining committed capital that could be called is \$52,000, which includes potential recallable capital distributions.

Contingencies

Various claims, generally incidental to the conduct of normal business, are pending or alleged against the Company from time to time. In the opinion of management, based in part on the advice of legal counsel, the ultimate resolution of such claims will not have a material adverse effect on the Company's consolidated financial statements. However, if estimates of the ultimate resolutions of those proceedings are revised, liabilities related to those proceedings could be adjusted in the near term.

The Company had been named in a lawsuit alleging that the Company improperly denied coverage to commercial insureds for loss of business income resulting from the COVID-19 pandemic. Our position is that no coverage existed for this peril. As a result of the lawsuit, the Company accrued a reserve of \$6,500 for legal defense costs included in Loss and Losses Adjustment Expenses during the year ended December 31, 2021. During the year ended December 31, 2022, the claim against the Company was closed and the accrual of \$6,500 was reversed.

On October 19, 2021, the Supreme Judicial Court of Massachusetts (the “Court”) unanimously ruled that property and casualty insurers must compensate third-party claimants under property damage coverage, part 4 of the standard Massachusetts automobile insurance policy, 2008 edition (standard policy), for the inherent diminished value (“IDV”) that occurs when their vehicles are damaged in a crash. This ruling overturned a previous decision by the Massachusetts Superior Court, which found that a Massachusetts auto insurance policy did not provide property damage coverage for inherent diminished value damages for third-party claimants. The Court placed the burden of proof on the individual claimant by explicitly specifying that the claimant must establish that the vehicle has suffered IDV damages and also the amount of IDV damages at issue. The Court further ruled that an insurer’s previous denial of coverage for such damages could not serve as the basis for a claim of unfair business practices. Based on the Court’s rulings, at this time the Company does not expect any claims for IDV damages to be material, and therefore has not accrued for a specific loss contingency.

Massachusetts law requires that insurers licensed to do business in Massachusetts participate 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. It is anticipated that there will be additional assessments from time to time relating to various insolvencies. Although the timing and amounts of any future assessments are not known, based upon existing knowledge, management’s opinion is that such future assessments will not have a material effect upon the financial position of the Company.

9. Leases

The Company has various non-cancelable, long-term operating leases, the largest of which are for office space including the corporate headquarters, agency locations, VIP claims centers and law offices. Other operating leases consist of auto leases and various office equipment. The Company has no finance leases. Our leases have remaining lease terms of one year to eight years, some of which include options to extend the leases for up to five years.

Certain lease agreements contain renewal options and, in addition to the minimum annual rentals, generally provide for payment of a share of the real estate taxes and operating expenses in excess of a base amount. Rental expense for our office space, law offices and VIP claims centers was \$3,948, \$3,852 and \$3,477 for the years ended December 31, 2022, 2021, and 2020, respectively. All leases expire prior to 2029. The Company expects that in the normal course of business, leases that expire will be renewed.

In calculating lease liabilities the Company uses its incremental borrowing rate as of the application date based on original lease terms. The components of lease expense were as follows:

	Year Ended December 31,		
	2022	2021	2020
Operating lease cost	\$ 4,214	\$ 4,464	\$ 4,591

Other information related to leases was as follows:

	Year Ended December 31,		
	2022	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 4,757	\$ 4,979	\$ 5,073
Weighted average remaining lease term			
Operating leases	5.75 Years	6.65 Years	7.57 Years
Weighted average discount rate			
Operating leases	2.39%	2.34%	2.33%

Maturities of lease liabilities were as follows:

	Operating Leases	
2023	\$	4,521
2024		4,269
2025		3,867
2026		3,857
2027		3,857
Thereafter		3,860
Total lease payments		24,231
Less imputed interest		(895)
Total	\$	23,336

10. Debt

On August 10, 2018, the Company extended its Revolving Credit Agreement (the “Credit Agreement”) with Citizens Bank, N.A. (formerly known as RBS Citizens, N.A. (“Citizens Bank”)) to a maturity date of August 10, 2023. The Credit Agreement provides a \$30,000 revolving credit facility with an accordion feature allowing for future expansion of the committed amount up to \$50,000. Loans under the credit facility bear interest at the Company’s option at either (i) the LIBOR rate plus 1.25% per annum or (ii) the higher of Citizens Bank prime rate or 0.5% above the federal funds rate plus 1.25% per annum. The Credit Agreement has additional language to select an alternate benchmark interest rate to replace the LIBOR rate when it is no longer available for use. Interest only is payable prior to maturity.

The Company’s obligations under the credit facility are secured by pledges of its assets and the capital stock of its operating subsidiaries. The credit facility is guaranteed by the Company’s non-insurance company subsidiaries. The credit facility contains covenants including requirements to maintain minimum risk-based capital ratios and statutory surplus of Safety Insurance Company as well as limitations or restrictions on indebtedness, liens, and other matters. As of December 31, 2022, the Company was in compliance with all covenants. In addition, the credit facility includes customary events of default, including a cross-default provision permitting the lenders to accelerate the facility if the Company (i) defaults in any payment obligation under debt having a principal amount in excess of \$10,000 or (ii) fails to perform any other covenant permitting acceleration of all such debt.

The Company had no amounts outstanding on its credit facility at December 31, 2022 or 2021. The credit facility commitment fee included in interest expense was computed at a rate of 0.25% per annum on the \$30,000 commitment at December 31, 2022 and 2021.

The Company is a member of the FHLB-Boston. Membership in the FHLB-Boston allows the Company to borrow money at competitive interest rates provided the loan is collateralized by specific U.S Government residential mortgage backed securities. At December 31, 2022, the Company has the ability to borrow approximately \$201,396 using eligible invested assets that would be used as collateral.

On March 17, 2020, the Company borrowed \$30,000 from the FHLB-Boston for a term of five-years, bearing interest at a rate of 1.42%. Interest is payable monthly and the principal is due on the maturity date of March 17, 2025 but may be prepaid in whole or in part by the Company in advance with a minor penalty for prepayment.

On December 29, 2022, the Company borrowed \$5,000 from the FHLB-Boston for a term of one-month, bearing interest at a rate of 4.34%. The interest and principal was paid on the maturity date of January 27, 2023.

The Company estimates the fair value of the FHLB-Boston loans by discounting cash flows using the interest rate stated in the loan agreements, which is an observable input. As such, the loans are categorized as Level 2 within the fair value hierarchy. The fair value of the outstanding loans was \$35,807 and \$31,061 at December 31, 2022 and 2021, respectively. The loans are fully collateralized by specific U.S. Government residential mortgage-backed securities with a fair value of \$40,195 and \$40,398 at year ended December 31, 2022 and 2021, respectively. The borrowing is outstanding from the FHLB-Boston at year ended December 31, 2022 and 2021.

Interest expense on the FHLB-Boston borrowing was \$524 and \$522 for the year ended December 31, 2022 and 2021, respectively.

11. Reinsurance

The Company cedes insurance to CAR and to other reinsurers. The Company has various excess of loss and quota share agreements that qualify as reinsurance treaties and are designed to protect against large or unusual loss and LAE activity. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Company is subject to concentration of credit risk with respect to reinsurance ceded. At December 31, 2022, reinsurance receivables on paid and unpaid loss and LAE with a carrying value of \$99,688 and ceded unearned premiums of \$26,377 were associated with CAR. At December 31, 2021, reinsurance receivables on paid and unpaid loss and LAE with a carrying value of \$106,608 and ceded unearned premiums of \$21,841 were associated with CAR. The Company assumes a proportionate share of the obligations from CAR. The Company makes an estimate of its share of assumed activity from the most recent quarter reported by CAR and records adjustments to the reported activity to reflect its anticipated final assumed obligations. The Company's participation in CAR resulted in assumed net losses of \$3,326, \$5,002 and \$3,480 for the years ended December 31, 2022, 2021 and 2020, respectively.

CAR has been, with few exceptions, required by law to issue a policy to any applicant who seeks it. As a servicing carrier of CAR, this requirement has applied to the Company.

The effect of assumed and ceded premiums on net written and earned premiums and losses and LAE incurred is as follows.

	Years Ended December 31,		
	2022	2021	2020
Written Premiums			
Direct	\$ 823,318	\$ 802,139	\$ 798,712
Assumed	28,835	31,359	26,316
Ceded	(78,418)	(68,972)	(61,491)
Net written premiums	<u>\$ 773,735</u>	<u>\$ 764,526</u>	<u>\$ 763,537</u>
Earned Premiums			
Direct	\$ 803,289	\$ 811,329	\$ 815,981
Assumed	28,976	30,583	29,365
Ceded	(73,760)	(67,584)	(74,268)
Net earned premiums	<u>\$ 758,505</u>	<u>\$ 774,328</u>	<u>\$ 771,078</u>
Loss and LAE			
Direct	\$ 515,535	\$ 473,162	\$ 428,018
Assumed	18,627	16,873	18,595
Ceded	(42,183)	(28,308)	(42,057)
Net loss and LAE	<u>\$ 491,979</u>	<u>\$ 461,727</u>	<u>\$ 404,556</u>

12. Loss and Loss Adjustment Expense Reserves

The following table sets forth a reconciliation of beginning and ending reserves for losses and loss adjustment expenses (“LAE”), as shown in the Company’s consolidated financial statements for the periods indicated.

	Year Ended December 31,		
	2022	2021	2020
Reserves for losses and LAE at beginning of year	\$ 570,651	\$ 567,581	\$ 610,566
Less receivable from reinsurers related to unpaid losses and LAE	(90,667)	(106,311)	(122,372)
Net reserves for losses and LAE at beginning of year	479,984	461,270	488,194
Incurring losses and LAE, related to:			
Current year	549,258	515,400	459,400
Prior years	(57,279)	(53,673)	(54,844)
Total incurred losses and LAE	491,979	461,727	404,556
Paid losses and LAE related to:			
Current year	342,971	310,116	277,754
Prior years	172,788	132,897	153,726
Total paid losses and LAE	515,759	443,013	431,480
Net reserves for losses and LAE at end of period	456,204	479,984	461,270
Plus receivable from reinsurers related to unpaid losses and LAE	93,394	90,667	106,311
Reserves for losses and LAE at end of period	\$ 549,598	\$ 570,651	\$ 567,581

At the end of each period, the reserves were re-estimated for all prior accident years. The Company’s prior year reserves decreased by \$57,279, \$53,673, and \$54,844, for the years ended December 31, 2022, 2021, and 2020, respectively, and resulted from re-estimations of prior years’ ultimate loss and LAE liabilities. The decrease in prior year reserves during 2022 was primarily composed of reductions of \$20,241 in the Company’s retained automobile and \$32,963 in the Company’s retained other than auto and homeowners reserves. The decrease in prior year reserves during 2021 was primarily composed of reductions of \$22,313 in the Company’s retained automobile and \$26,220 in the Company’s retained other than auto and homeowners reserves. The decrease in prior year reserves during 2020 was primarily composed of reductions of \$26,902 in the Company’s retained automobile and \$21,717 in the Company’s retained homeowners reserves.

The Company’s private passenger automobile line of business prior year reserves decreased during the years ended December 31, 2022, 2021 and 2020 primarily due to improved retained private passenger results. 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 is information about incurred and paid claims development as of December 31, 2022, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts for our three largest lines of business. The cumulative number of reported claims include claims closed with payment, claims closed without payment and all open claims. It does not include anticipated IBNR claims. For the Private Passenger Automobile and Commercial Automobile lines of business, claim count is defined on a claimant basis where several claim counts may arise from a single auto accident. For Homeowners and all other lines of business, claim count is defined on an accident basis.

The information about incurred claims and allocated claim adjustment expense, net of reserves and paid ultimate claims development for the years ended December 31, 2013 to 2021 is presented as required supplementary information.

Private Passenger Automobile Liability

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development of Reported Claims	Cumulative Number of Reported Claims
	(Unaudited)											
2013	\$ 183,367	\$ 183,517	\$ 183,264	\$ 181,492	\$ 179,167	\$ 176,713	\$ 175,684	\$ 175,718	\$ 175,362	\$ 175,374	(\$ 84)	54,248
2014		187,305	187,104	186,798	183,119	181,312	179,251	179,267	179,268	179,264	(336)	52,787
2015			190,036	190,236	188,317	184,477	181,299	179,451	179,248	178,951	(204)	52,980
2016				192,912	192,318	185,009	180,486	177,009	176,600	176,700	(392)	49,386
2017					185,673	184,429	182,068	177,941	177,320	176,564	(1,723)	46,257
2018						176,411	175,222	170,447	168,185	166,046	(3,040)	43,085
2019							176,171	174,439	170,477	166,940	(4,648)	40,564
2020								130,335	125,888	120,060	(5,880)	26,172
2021									146,997	147,391	(18,015)	29,994
2022										157,921	2,617	27,388
										Total	\$ 1,645,211	

Private Passenger Automobile Liability

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(Unaudited)									
2013	\$ 79,049	\$ 135,031	\$ 152,472	\$ 163,694	\$ 169,634	\$ 172,736	\$ 173,890	\$ 174,574	\$ 174,639	\$ 174,858
2014		79,151	136,434	156,693	166,815	173,163	176,616	177,360	177,968	178,324
2015			76,934	138,255	156,483	168,641	173,816	176,652	177,782	178,357
2016				78,862	137,917	154,964	167,458	171,865	174,410	175,803
2017					77,519	133,037	153,675	164,467	169,024	172,362
2018						72,895	126,456	143,656	154,169	159,066
2019							72,219	127,910	143,570	154,633
2020								52,962	88,037	102,601
2021									56,826	111,516
2022										61,227
									Total	\$ 1,468,747
									All outstanding liabilities before 2013, net of reinsurance	346
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 176,810

Private Passenger Automobile Physical Damage

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred-but- Not-Reported Liabilities Plus Expected Development of Reported Claims	Cumulative Number of Reported Claims
	(Unaudited)											
2013	\$ 114,389	\$ 114,239	\$ 113,034	\$ 112,197	\$ 112,096	\$ 112,060	\$ 112,029	\$ 112,003	\$ 111,989	\$ 111,970	\$ -	131,703
2014		123,421	123,622	122,410	122,327	122,341	122,213	122,188	122,182	122,163	-	135,006
2015			140,219	136,661	134,101	133,737	133,581	133,530	133,523	133,552	(3)	144,276
2016				129,528	124,922	122,116	121,717	121,543	121,570	121,615	(5)	126,091
2017					128,340	126,304	124,128	123,715	123,777	123,779	(35)	124,026
2018						129,450	130,145	128,426	128,090	128,003	(63)	119,760
2019							128,698	126,648	124,332	123,858	(116)	117,022
2020								98,546	97,244	97,644	(451)	81,852
2021									122,943	122,549	(1,379)	89,521
2022										141,041	(23,926)	92,198
										Total	\$ 1,226,174	

Private Passenger Automobile Physical Damage

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(Unaudited)									
2013	\$ 120,843	\$ 115,904	\$ 112,894	\$ 112,162	\$ 112,085	\$ 112,060	\$ 112,029	\$ 112,003	\$ 111,988	\$ 111,970
2014		130,732	126,414	122,668	122,402	122,350	122,251	122,216	122,189	122,163
2015			143,532	136,760	134,066	133,701	133,639	133,596	133,575	133,555
2016				133,530	124,298	122,023	121,795	121,660	121,634	121,618
2017					132,409	126,822	124,286	123,844	123,839	123,795
2018						138,036	132,591	128,624	128,154	128,054
2019							134,429	128,173	124,467	123,974
2020								102,764	98,819	98,083
2021									123,636	123,847
2022										142,002
									Total	\$ 1,229,061
									All outstanding liabilities before 2013, net of reinsurance	-
									Liabilities for claims and claim adjustment expenses, net of reinsurance	(\$ 2,887)

Commercial Automobile Liability

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development of Reported Claims	Cumulative Number of Reported Claims
	(Unaudited)											
2013	\$ 29,175	\$ 29,541	\$ 28,377	\$ 26,864	\$ 26,310	\$ 25,986	\$ 25,443	\$ 25,353	\$ 25,140	\$ 25,052	\$ 1	5,784
2014		34,117	34,105	34,376	33,914	32,948	32,438	32,200	32,052	32,313	2	6,086
2015			35,371	36,150	36,610	37,730	38,015	38,257	37,995	37,630	(62)	7,212
2016				37,954	39,416	40,947	40,916	40,679	40,996	40,767	56	6,457
2017					42,865	41,373	41,055	39,369	39,232	38,185	(6)	6,134
2018						41,347	40,115	38,589	37,322	36,014	107	5,744
2019							51,679	49,163	48,783	46,964	666	5,682
2020								35,010	31,930	30,869	2,867	3,463
2021									41,814	39,564	229	4,260
2022										43,496	12,054	3,893
									Total	\$ 370,854		

Commercial Automobile Liability

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(Unaudited)									
2013	\$ 8,502	\$ 17,079	\$ 19,625	\$ 21,129	\$ 22,434	\$ 23,867	\$ 24,507	\$ 24,732	\$ 24,789	\$ 24,799
2014		9,426	17,853	21,968	25,253	27,886	30,420	31,298	31,451	32,085
2015			11,181	21,700	26,018	29,804	31,537	33,416	34,976	35,302
2016				9,991	19,902	25,711	32,274	36,237	38,275	39,233
2017					10,407	20,106	24,409	28,721	31,389	33,569
2018						9,704	18,499	23,544	26,774	29,336
2019							12,113	22,480	28,373	36,048
2020								7,025	13,166	16,268
2021									7,883	17,925
2022										10,941
									Total	\$ 275,506
									All outstanding liabilities before 2013, net of reinsurance	-
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 95,348

Commercial Automobile Physical Damage

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development of Reported Claims	Cumulative Number of Reported Claims
	(Unaudited)											
2013	\$ 13,666	\$ 13,567	\$ 13,298	\$ 13,180	\$ 13,057	\$ 13,047	\$ 13,071	\$ 13,057	\$ 13,057	\$ 13,055	\$ -	12,298
2014		17,426	16,925	15,455	15,419	15,353	15,381	15,373	15,376	15,376	-	13,545
2015			20,223	19,047	19,021	18,974	18,641	18,535	18,525	18,523	-	15,468
2016				20,216	18,506	17,909	17,808	17,725	17,713	17,721	1	13,593
2017					19,691	19,200	19,021	18,834	18,780	18,774	2	13,113
2018						21,230	19,937	19,270	19,210	19,196	2	12,907
2019							20,039	19,652	18,956	18,685	0	12,757
2020								16,507	16,334	16,606	198	9,620
2021									20,156	21,524	(124)	11,494
2022										27,459	(345)	12,118
									Total	<u>\$ 186,919</u>		

Commercial Automobile Physical Damage

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(Unaudited)									
2013	\$ 12,665	\$ 13,378	\$ 13,114	\$ 13,074	\$ 13,065	\$ 13,060	\$ 13,066	\$ 13,057	\$ 13,057	\$ 13,055
2014		15,377	15,862	15,424	15,388	15,381	15,376	15,373	15,376	15,376
2015			17,787	18,910	18,667	18,549	18,541	18,530	18,525	18,523
2016				17,228	18,143	17,763	17,712	17,709	17,712	17,721
2017					17,957	19,336	18,915	18,787	18,786	18,772
2018						18,842	19,842	19,236	19,208	19,194
2019							18,128	19,161	18,752	18,681
2020								15,550	16,596	16,407
2021									18,610	21,620
2022										24,381
									Total	\$ 183,730
									All outstanding liabilities before 2013, net of reinsurance	-
									Liabilities for claims and claim adjustment expenses, net of reinsurance	<u>\$ 3,189</u>

Homeowners Liability

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development of Reported Claims	Cumulative Number of Reported Claims
	(Unaudited)											
2013	\$ 9,768	\$ 9,768	\$ 9,337	\$ 7,578	\$ 5,978	\$ 5,312	\$ 5,147	\$ 5,147	\$ 5,167	\$ 5,096	\$ -	265
2014		11,494	11,494	9,738	7,388	7,120	6,984	6,984	6,818	6,620	-	261
2015			12,965	12,555	9,908	9,201	9,201	9,201	8,172	7,582	117	288
2016				10,594	10,594	10,594	9,847	9,491	9,491	8,873	151	277
2017					11,276	10,058	9,328	8,585	7,819	7,053	267	269
2018						9,951	9,951	9,951	9,768	8,616	375	254
2019							14,130	13,848	11,949	11,371	396	261
2020								14,664	13,708	11,025	700	222
2021									12,797	12,797	(1,094)	210
2022										12,973	4,724	173
										Total	\$ 92,006	

Homeowners Liability

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
	(Unaudited)										
2013	\$ 527	\$ 2,337	\$ 3,080	\$ 3,493	\$ 3,829	\$ 4,038	\$ 4,209	\$ 4,247	\$ 4,255	\$ 4,267	
2014		340	1,834	3,212	4,200	4,828	6,315	6,368	6,419	6,419	
2015			428	3,319	4,267	5,205	6,445	7,022	7,215	7,302	
2016				647	2,669	4,257	5,387	6,300	7,128	7,628	
2017					305	1,676	2,913	3,593	4,217	4,765	
2018						551	2,039	3,972	4,597	5,664	
2019							1,634	3,343	5,183	6,038	
2020								220	3,254	3,845	
2021									218	3,388	
2022										450	
									Total	\$ 49,766	
	All outstanding liabilities before 2013, net of reinsurance										-
	Liabilities for claims and claim adjustment expenses, net of reinsurance										\$ 42,240

Homeowners Property Damage

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development of Reported Claims	Cumulative Number of Reported Claims
	(Unaudited)											
2013	\$ 56,298	\$ 56,199	\$ 55,722	\$ 52,464	\$ 51,077	\$ 49,973	\$ 49,463	\$ 49,456	\$ 49,455	\$ 49,453	\$ 126	5,698
2014		59,160	60,213	59,751	57,331	55,127	54,607	54,602	54,560	54,556	251	6,077
2015			152,586	152,049	162,377	162,788	162,722	162,354	162,244	162,244	462	20,076
2016				67,116	66,442	64,208	61,262	60,019	59,898	59,857	312	5,421
2017					80,736	76,560	70,689	68,737	67,530	67,388	385	6,011
2018						83,443	82,581	77,970	74,989	73,996	461	8,239
2019							77,976	73,697	68,769	65,624	705	5,452
2020								80,093	76,638	72,622	344	6,108
2021									75,696	75,011	(8,085)	6,335
2022										72,523	(4,404)	4,770
										Total	\$ 753,274	

Homeowners Property Damage

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(Unaudited)									
2013	\$ 38,661	\$ 48,456	\$ 49,702	\$ 49,612	\$ 49,653	\$ 49,620	\$ 49,328	\$ 49,327	\$ 49,327	\$ 49,328
2014		40,409	52,161	54,088	54,224	54,262	54,274	54,306	54,305	54,306
2015			112,563	145,337	160,572	161,745	161,773	161,850	161,783	161,781
2016				44,103	57,238	59,155	59,449	59,403	59,428	59,493
2017					46,366	64,401	66,181	66,892	66,765	66,826
2018						57,704	70,959	72,078	73,119	73,307
2019							49,121	61,905	63,536	64,427
2020								50,304	65,927	68,706
2021									51,390	67,998
2022										48,906
									Total	\$ 715,078
									All outstanding liabilities before 2013, net of reinsurance	1,030
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 39,226

The following is unaudited supplementary information about average historical claims duration as of December 31, 2022.

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)

Years	1	2	3	4	5	6	7	8	9	10
Private Passenger Automobile Liability	43.0%	32.8%	10.5%	6.4%	3.0%	1.7%	0.6%	0.3%	0.1%	0.1%
Private Passenger Automobile Physical Damage	106.2%	(4.3)%	(2.4)%	(0.3)%	(0.1)%	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial Automobile Liability	26.2%	25.2%	12.2%	11.8%	7.1%	5.8%	3.0%	0.7%	1.2%	0.0%
Commercial Automobile Physical Damage	94.4%	6.7%	(2.1)%	(0.4)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Homeowners Liability	5.8%	24.0%	15.5%	10.2%	11.0%	10.4%	3.2%	0.9%	0.1%	0.3%
Homeowners Property Damage	71.6%	21.1%	4.6%	0.8%	0.0%	0.0%	(0.1)%	0.0%	0.0%	0.0%

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated balance sheets is as follows.

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid claims and Claim Adjustment Expenses

	December 31, 2022
Net outstanding liabilities	
Private Passenger Automobile Liability	\$ 176,810
Private Passenger Automobile Physical Damage	(2,887)
Commercial Automobile Liability	95,348
Commercial Automobile Physical Damage	3,189
Homeowners Liability	42,240
Homeowners Property Damage	39,226
Other Short-Duration Insurance Lines	72,813
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	\$ 426,739
Reinsurance recoverable on unpaid claims	
Private Passenger Automobile Liability	\$ 120
Private Passenger Automobile Physical Damage	-
Commercial Automobile Liability	86,788
Commercial Automobile Physical Damage	2,836
Homeowners Liability	-
Homeowners Property Damage	3,270
Other Short-Duration Insurance Lines	380
Total reinsurance recoverable on unpaid claims	\$ 93,394
Unallocated claims adjustment expenses	29,465
Total gross liability for unpaid claims and claim adjustment expenses	\$ 549,598

Due to the nature of the risks that the Company underwrites and has historically underwritten, management does not believe that it has an exposure to asbestos or environmental pollution liabilities.

13. Income Taxes

A summary of the income tax expense in the consolidated statements of operations is shown below.

	Years Ended December 31,		
	2022	2021	2020
Current Income Taxes:			
Federal	\$ 21,317	\$ 28,222	\$ 31,133
State	74	15	267
	<u>21,391</u>	<u>28,237</u>	<u>31,400</u>
Deferred Income Taxes:			
Federal	(8,371)	5,323	5,159
State	—	—	—
	<u>(8,371)</u>	<u>5,323</u>	<u>5,159</u>
Total income tax expense	<u>\$ 13,020</u>	<u>\$ 33,560</u>	<u>\$ 36,559</u>

The income tax expense attributable to the consolidated results of operations is different from the amounts determined by multiplying income before federal income taxes by the statutory federal income tax rate. The sources of the difference and the tax effects of each were as follows for the periods indicated.

	Years Ended December 31,		
	2022	2021	2020
Federal income tax expense at statutory rate	\$ 12,512	\$ 34,496	\$ 36,702
Investment income, net	(559)	(1,060)	(1,394)
State taxes, net	58	11	211
Non deductible expenses	468	613	697
Tax related to share-based stock compensation	222	(101)	(298)
Other, net	319	(399)	641
Total income tax expense	<u>\$ 13,020</u>	<u>\$ 33,560</u>	<u>\$ 36,559</u>

The deferred income tax asset (liability) represents the tax effects of temporary differences attributable to the Company's consolidated federal tax return group. Its components were as shown in the following table for the periods indicated.

	Years Ended December 31,	
	2022	2021
Deferred tax assets:		
Discounting of loss reserves	\$ 4,790	\$ 5,447
Discounting of unearned premium reserve	17,546	16,813
Net unrealized losses on investments	16,917	—
Bad debt allowance	329	430
Employee benefits	4,506	4,364
Rent incentive	684	797
Total deferred tax assets before valuation allowance	<u>44,772</u>	<u>27,851</u>
Valuation allowance for deferred tax assets	—	—
Total deferred tax assets	<u>44,772</u>	<u>27,851</u>
Deferred tax liabilities:		
Deferred acquisition costs	(15,872)	(15,335)
Investments	(2,662)	(10,319)
Net unrealized gains on investments	—	(11,025)
Loss reserve transition adjustment	(831)	(1,108)
Software development costs	(2,913)	(3,591)
Premium acquisition expenses	(461)	(380)
Depreciation	(959)	(1,333)
Total deferred tax liabilities	<u>(23,698)</u>	<u>(43,091)</u>
Net deferred tax assets (liability)	<u>\$ 21,074</u>	<u>\$ (15,240)</u>

The Company believes that the positions taken on its income tax returns for open tax years will be sustained upon examination by the Internal Revenue Service ("IRS"). Therefore, the Company has not recorded any liability for

uncertain tax positions under ASC 740, *Income Taxes*.

During the years ended December 31, 2022 and December 31, 2021 there were no material changes to the amount of the Company's unrecognized tax benefits or to any assumptions regarding the amount of its ASC 740 liability.

As of December 31, 2022 and December 31, 2021, the Company had no unrecognized tax benefits, and none which if recognized would affect the effective tax rate. The Company does not currently anticipate significant changes in the amount of unrecognized income tax benefits during the next twelve months.

The Company records interest and penalties associated with audits as a component of income before income taxes. Penalties are recorded in underwriting, operating and other expenses, and interest expense is recorded in interest expenses in the consolidated statements of operations. The Company had no interest and penalties related to income taxes accrued as of December 31, 2022 and 2021.

In the Company's opinion, adequate tax liabilities have been established for all open years. However, the amount of these tax liabilities could be revised in the near term if estimates of the Company's ultimate liability are revised. All tax years prior to 2019 are closed.

14. Share Repurchase Program

On August 3, 2007, the Board of Directors approved a share repurchase program of up to \$30,000 of the Company's outstanding common shares. The Board of Directors had cumulatively authorized increases to the existing share repurchase program of up to \$200,000 of its 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, 2022, the Company purchased 170,904 shares on the open market under the program at a cost of \$14,603. During the year ended December 31, 2021, the Company purchased 139,405 shares on the open market under the program at a cost of \$11,563. During the year ended December 31, 2020, the Company purchased 551,598 shares on the open market under the program at a cost of \$39,999. As of December 31, 2022, the Company had purchased 3,141,477 shares on the open market at cost of \$150,000. As of December 31, 2021, the Company had purchased 2,970,573 shares on the open market at a cost of \$135,397.

15. Statutory Net Income and Surplus

Statutory Accounting Practices

The Company's insurance company subsidiaries, domiciled in the Commonwealth of Massachusetts, prepare statutory financial statements in accordance with the accounting practices prescribed or permitted by the Division. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted statutory accounting practices include practices not prescribed by the Division, but allowed by the Division. Statutory net income was \$66,197, \$97,169, and \$121,446 for the years ended December 31, 2022, 2021, and 2020, respectively. Statutory capital and surplus of the Company's insurance subsidiaries was \$782,200 and \$826,979 at December 31, 2022 and 2021, respectively.

Dividends

The Insurance 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 Commonwealth of Massachusetts Commissioner of Insurance (the “Commissioner”). 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 December 31, 2022, the statutory capital and surplus of Safety Insurance was \$782,200 and its net income for 2022 was \$66,197. As a result, a maximum of \$78,220 is available in 2023 for such dividends without prior approval of the Commissioner. During the year ended December 31, 2022, Safety Insurance recorded dividends of \$94,260. As result of this Massachusetts statute, the Insurance Subsidiaries had restricted net assets in the amount of \$703,980 at December 31, 2022.

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. 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. As of December 31, 2022, the Insurance Subsidiaries had total adjusted capital of \$782,200, which is in excess of amounts requiring company or regulatory action at any prescribed risk-based capital action level. Minimum statutory capital and surplus, or company action level risk-based capital, was \$200,806 at December 31, 2022.

16. Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosure* provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). ASC 820 establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (“observable inputs”) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (“unobservable inputs”). The fair value hierarchy in ASC 820 prioritizes fair value measurements into three levels based on the nature of the inputs as follows:

Level 1 — Valuations based on quoted prices in active markets for identical assets and liabilities;

Level 2 — Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments; and

Level 3 — Valuations based on unobservable inputs.

Fair values for the Company’s fixed maturity securities are based on prices provided by its custodian bank and its investment managers. Both the Company’s custodian bank and investment managers use a variety of independent, nationally recognized pricing services to determine market valuations. If the pricing service cannot provide fair value determinations, the Company obtains non-binding price quotes from broker-dealers. A minimum of two quoted prices is

obtained for the majority of the Company's available-for-sale fixed maturity securities in its investment portfolio. The Company uses a third-party pricing service as its primary provider of quoted prices from third-party pricing services and broker-dealers. To provide reasonable assurance of the validity of each price or quote, a secondary third-party pricing service or broker-dealer quote is obtained from the Company's custodian or investment managers. An examination of the pricing data is then performed for each security. If the variance between the primary and secondary price quotes for a security is within an accepted tolerance level, the quoted price obtained from the Company's primary source is used for the security. If the variance between the primary and secondary price quotes exceeds an accepted tolerance level, the Company obtains a quote from an alternative source, if possible, and documents and resolves any differences between the pricing sources. In addition, the Company may request that its investment managers and its traders provide input as to which vendor is providing prices that its traders believe are reflective of fair value for the security. Following this process, the Company may decide to value the security in its financial statements using the secondary or alternative source if it believes that pricing is more reflective of the security's value than the primary pricing provided by its custodian bank. The Company analyzes market valuations received to verify reasonableness, to understand the key assumptions used and their sources, and to determine an appropriate ASC 820 fair value hierarchy level based upon trading activity and the observability of market inputs. Based on this evaluation and investment class analysis, each price is classified into Level 1, 2 or 3.

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1), (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2) or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

The Company's Level 1 securities consist of equity securities whose values are based on quoted prices in active markets for identical assets. The Company's Level 2 securities are comprised of available-for-sale fixed maturity securities whose fair value was determined using observable market inputs. The Company's Level 3 security consists of an investment in the Federal Home Loan Bank of Boston related to Safety Insurance Company's membership stock, which is not redeemable in a short-term time frame. Fair values for securities for which quoted market prices were unavailable were estimated based upon reference to observable inputs such as benchmark interest rates, market comparables, and other relevant inputs. Investments valued using these inputs include U.S. Treasury securities, obligations of states and political subdivisions, corporate and other securities, commercial and residential mortgage-backed securities, and other asset-backed securities. Inputs into the fair value application that are utilized by asset class include but are not limited to:

- *Obligations of states and political subdivisions*: overall credit quality, including assessments of market sectors and the level and variability of sources of payment such as general obligation, revenue or lease; credit support such as insurance, state or local economic and political base, prefunded and escrowed to maturity covenants.
- *Corporate and other securities*: overall credit quality, the establishment of a risk adjusted credit spread over the applicable risk-free yield curve for discounted cash flow valuations; assessments of the level of industry economic sensitivity, company financial policies, indenture restrictive covenants, and/or security and collateral.
- *Residential mortgage-backed securities*: U.S. agency pass-throughs, collateralized mortgage obligations ("CMOs"), non U.S. agency CMOs: estimates of prepayment speeds based upon historical prepayment rate trends, underlying collateral interest rates, original weighted average maturity, vintage year, borrower credit quality characteristics, interest rate and yield curve forecasts, U.S. government support programs, tax policies, and delinquency/default trends.
- *Commercial mortgage-backed securities*: overall credit quality, including assessments of the level and variability of credit support and collateral type such as office, retail, or lodging, predictability of cash flows for the deal structure, prevailing economic market conditions.

- *Other asset-backed securities*: overall credit quality, estimates of prepayment speeds based upon historical trends and characteristics of underlying loans, including assessments of the level and variability of collateral, revenue generating agreements, area licenses agreements, product sourcing agreements and equipment and property leases.
- *FHLB-Boston*: value is equal to the cost of the member stock purchased.

In order to ensure the fair value determination is representative of an exit price (consistent with ASC 820), the Company's procedures for validating quotes or prices obtained from third parties include, but are not limited to, obtaining a minimum of two price quotes for each fixed maturity security if possible, as discussed above, the periodic testing of sales activity to determine if there are any significant differences between the market price used to value the security as of the balance sheet date and the sales price of the security for sales that occurred around the balance sheet date, and the periodic review of reports provided by its external investment manager regarding those securities with ratings changes and securities placed on its "Watch List." In addition, valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by the Company's external investment manager, whose investment professionals are familiar with the securities being priced and the markets in which they trade, to ensure the fair value determination is representative of an exit price.

All unadjusted estimates of fair value for our fixed maturities priced by the pricing services as described above are included in the amounts disclosed in Level 2. With the exception of the FHLB-Boston security, which is categorized as a Level 3 security, the Company's entire portfolio was priced based upon quoted market prices or other observable inputs as of December 31, 2022. There were no significant changes to the valuation process during the year ended December 31, 2022. As of December 31, 2022 and December 31, 2021, no quotes or prices obtained were adjusted by management. All broker quotes obtained were non-binding.

At December 31, 2022 and December 31, 2021, investments in fixed maturities classified as available-for-sale had a fair value which equaled carrying value of \$1,050,155 and \$1,218,279, respectively. At December 31, 2022 and December 31, 2021 the Company held no short-term investments. The carrying values of cash and cash equivalents and investment income accrued approximated fair value.

The following tables summarize the Company's total fair value measurements for investments for the periods indicated.

	As of December 31, 2022			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasury securities	\$ 1,669	\$ —	\$ 1,669	\$ —
Obligations of states and political subdivisions	54,069	—	54,069	—
Residential mortgage-backed securities	234,502	—	234,502	—
Commercial mortgage-backed securities	139,931	—	139,931	—
Other asset-backed securities	68,731	—	68,731	—
Corporate and other securities	551,253	—	551,253	—
Equity securities	199,705	197,450	—	2,255
Total investment securities	\$ 1,249,860	\$ 197,450	\$ 1,050,155	\$ 2,255

	As of December 31, 2021			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasury securities	\$ 324	\$ —	\$ 324	\$ —
Obligations of states and political subdivisions	116,302	—	116,302	—
Residential mortgage-backed securities	241,464	—	241,464	—
Commercial mortgage-backed securities	150,883	—	150,883	—
Other asset-backed securities	83,596	—	83,596	—
Corporate and other securities	625,710	—	625,710	—
Equity securities	226,375	224,677	—	1,698
Total investment securities	\$ 1,444,654	\$ 224,677	\$ 1,218,279	\$ 1,698

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2022 or 2021.

The following tables summarize the changes in the Company’s Level 3 fair value securities for the periods indicated.

	Years Ended December 31,		
	2022	2021	2020
Balance at beginning of period	\$ 1,698	\$ 1,698	\$ 516
Net gains and losses included in earnings	—	—	—
Net gains included in other comprehensive income	—	—	—
Purchases	557	—	1,182
Sales	—	—	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at end of period	<u>\$ 2,255</u>	<u>\$ 1,698</u>	<u>\$ 1,698</u>

Transfers in and out of Level 3 are attributable to changes in the ability to observe significant inputs in determining fair value exit pricing. As noted in the table above, no transfers were made in or out of Level 3 during 2022, 2021 and 2020. The Company held one Level 3 security at December 31, 2022.

As of December 31, 2022 and December 31, 2021, there were approximately \$40,450 and \$38,570 in a REIT and is included in equity securities in the consolidated balance sheets. The REIT is excluded from the fair value hierarchy because the fair value is recorded using the net asset value per share practical expedient. The net asset value per share of this REIT is derived from member ownership in the capital venture to which a proportionate share of independently appraised net assets is attributed. The fair value was determined using the trust’s net asset value obtained from its audited financial statements. The Company is required to submit a request 45 days before a quarter end to dispose of the security.

17. Subsequent Events

The Company has evaluated subsequent events for recognition or disclosure in the consolidated financial statements on Form 10-K filed herewith and no events have occurred that require recognition or disclosure.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On June 1, 2021, Deloitte and Touche LLP (“Deloitte”) was engaged as the new independent registered public accounting firm of Safety to perform independent audit services for the Company for the fiscal year ending December 31, 2021. Deloitte’s engagement was approved by the Audit Committee of the Board. The appointment of Deloitte was a result of a competitive request for proposal process undertaken by the Audit Committee.

PricewaterhouseCoopers LLP’s (“PwC”) audit report on the Company’s consolidated financial statements for the fiscal year ended December 31, 2020 did not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal year ended December 31, 2020, there were (i) no disagreements (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between the Company and PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of PwC would have caused PwC to make reference thereto in its reports on the consolidated financial statements of the Company for such years, and (ii) no reportable events (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

During the fiscal year ended December 31, 2020, neither the Company, nor any party on behalf of the Company, consulted with Deloitte with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered with respect to the Company’s consolidated financial statements, and no written report or oral advice was provided to the Company by Deloitte that was an important factor considered by the Company in reaching its decision as to any accounting, auditing or financial reporting issue, or (ii) any matter that was subject to any disagreement (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures [as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)] as of the end of the period covered by this report. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures are adequate and effective and ensure that all information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and that information required to be disclosed in such reports is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our

evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2022.

Deloitte & Touche LLP, the Company's independent registered public accounting firm, has audited the effectiveness of Safety Insurance Group, Inc.'s internal control over financial reporting as of December 31, 2022, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

During the eleven months ended December 1, 2022, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management's Annual Report on Internal Control Over Financial Reporting and the Report of the Independent Registered Public Accounting Firm are set forth in Item 8. In accordance with guidance issued by the Securities and Exchange Commission, the Company may exclude acquisitions from management's assessment of the effectiveness of internal control over financial reporting for the first year in which the acquisition occurred. The Company's management has excluded the assessment of internal controls of SNIA, which was acquired on December 1, 2022, and further discussed in Note 1, Basis of Presentation. As December 31, 2022, SNIA accounted for an immaterial amount of consolidated assets and revenue.

Other than the matter described above, there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rules 13a-15 and 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

The Company had no information required to be disclosed on a Form 8-K during the fourth fiscal quarter of 2021 that has not already been reported.

The following disclosures relate to actions taken by the Board of Directors of the Company (the "Board"), the Compensation Committee of the Board and the Board of Directors of Safety Insurance Company and would otherwise have been filed during the first fiscal quarter of 2023 on a Form 8-K.

- On February 22, 2023, the Compensation Committee of the Board approved the 2022 annual executive cash bonus pool in the total amount of \$1,424 pursuant to the Annual Performance Incentive Plan. Of the total pool, the following amounts were allocated to the Company's CEO and Named Executive Officers: George M. Murphy, \$474; Christopher T. Whitford, \$153; James D. Berry, \$174; Stephen A. Varga, \$142; and Paul J. Narciso, \$136.
- On February 22, 2023, the Compensation Committee of the Board approved executive long-term incentive awards to certain members of senior management pursuant to our 2018 Amended Long-Term Incentive Plan. The long-term incentive awards were granted in a total amount of \$3,350 in the form of restricted stock, to be effective on and given a fair value of the closing price of our common stock on February 22, 2023. Of the total award, 45% vests in three annual installments of 30% on February 22, 2024, 30% on February 22, 2025, and 40% on February 22, 2026 and were allocated to the Company's Named Executive Officers as follows: George M. Murphy, \$450 worth of restricted stock; Christopher T. Whitford, \$169 worth of restricted stock; James D. Berry, \$158 worth of restricted stock; Stephen A. Varga, \$180 worth of restricted stock; and Paul J. Narciso, \$180 worth of restricted stock. Of the total award, 55% vests over a three-year performance period commencing on January 1, 2023 and ending on December 31, 2025. Vesting of these shares is dependent upon the attainment of pre-established performance objectives and were allocated to the Named Executive Officers as follows: George M. Murphy \$550 worth of restricted stock; Christopher T. Whitford, \$206 worth of restricted stock; James D. Berry, \$192 worth of restricted stock; Stephen A. Varga, \$220 worth of restricted stock; and Paul J. Narciso, \$220 worth of restricted stock.
- Upon recommendation from the Compensation Committee, on February 22, 2023, the Board approved executive deferred compensation awards pursuant to the Executive Incentive Compensation Plan in the total amount of \$1,365. Of the total award, the following amounts were allocated to the Company's CEO and Named Executive Officers: George M. Murphy, \$418; Christopher T. Whitford, \$148; James D. Berry, \$178; Stephen A. Varga, \$141; and Paul J. Narciso, \$139.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable

PART III

ITEMS 10-14.

Within 120 days after the close of its fiscal year, the Company intends to file with the Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 as amended, which will include the matters required by these items.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as a part of this report:

1. Financial Statements: The Consolidated Financial Statements for the year ended December 31, 2022 are contained herein as listed in the Index to Consolidated Financial Statements.
2. Financial Statement Schedules: The Financial Statement Schedules are contained herein as listed in the Index to Financial Statement Schedules.
3. Exhibits: The exhibits are contained herein as listed in the Index to Exhibits.

SAFETY INSURANCE GROUP, INC.

INDEX TO FINANCIAL STATEMENT SCHEDULES

<u>Schedules</u>		<u>Page</u>
I	Summary of Investments – Other than Investments in Related Parties as of December 31, 2022	103
II	Condensed Financial Information of the Registrant at December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021 and 2020	104
III	Supplementary Insurance Information at December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021 and 2020	106
IV	Reinsurance for the years ended December 31, 2022, 2021 and 2020	107
V	Valuation and Qualifying Accounts at December 31, 2022, 2021 and 2020 and for the years ended December 31, 2022, 2021 and 2020	108
VI	Supplemental Information Concerning Property and Casualty Insurance Operations at December 31, 2022, 2021 and 2020 and for the years ended December 31, 2022, 2021 and 2020	109

Safety Insurance Group, Inc.

Summary of Investments—Other than Investments in Related Parties

Schedule I

At December 31, 2022

(Dollars in thousands)

	Cost or Amortized Cost	Estimated Fair Value	Amount at which shown in the Balance Sheet
Fixed maturities:			
U.S. government and government agencies and authorities	\$ 261,703	\$ 236,171	\$ 236,171
Obligations of states and political subdivisions	57,319	54,069	54,069
Corporate and other securities	833,757	759,915	759,915
Total fixed maturities	1,152,779	1,050,155	1,050,155
Equity securities:			
Common stocks:			
Industrial, miscellaneous and all other	231,444	240,155	240,155
Total equity securities	231,444	240,155	240,155
Other invested assets (1)	112,850	112,850	112,850
Total investments	\$ 1,497,073	\$ 1,403,160	\$ 1,403,160

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

Safety Insurance Group, Inc.

Condensed Financial Information of the Registrant

Condensed Balance Sheets

Schedule II

(Dollars in thousands)

	Years Ended December 31,	
	2022	2021
Assets		
Investments in consolidated affiliates	\$ 813,916	\$ 929,136
Other	9	24
Total assets	\$ 813,925	\$ 929,160
Liabilities		
Accounts payable and other liabilities	\$ 1,926	\$ 1,987
Total liabilities	1,926	1,987
Shareholders' equity	811,999	927,173
Total liabilities and shareholders' equity	\$ 813,925	\$ 929,160

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

Safety Insurance Group, Inc.

Condensed Financial Information of the Registrant

Condensed Statements of Operations and Comprehensive (Loss) Income

Schedule II

(Dollars in thousands)

	Years Ended December 31,		
	2022	2021	2020
Revenues	\$ —	\$ —	\$ —
Expenses	3,255	1,755	1,833
Net loss	(3,255)	(1,755)	(1,833)
Earnings from consolidated subsidiaries	49,816	132,465	140,044
Net income	46,561	130,710	138,211
Other comprehensive (loss) income, net of tax	(105,117)	(28,948)	25,337
Comprehensive (loss) income	\$ (58,556)	\$ 101,762	\$ 163,548

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

Safety Insurance Group, Inc.

Condensed Financial Information of the Registrant

Condensed Statements of Cash Flows

Schedule II

(Dollars in thousands)

	Years Ended December 31,		
	2022	2021	2020
Net income	\$ 46,561	\$ 130,710	\$ 138,211
Adjustments to reconcile net income to net cash provided by operating activities:			
Earnings from consolidated subsidiaries	(49,816)	(132,465)	(140,044)
Dividends received from consolidated subsidiaries(1)	94,260	49,488	89,156
Amortization of restricted stock expense	6,022	6,304	7,248
Changes in assets and liabilities:			
Intercompany receivable / payable	(11,376)	11,821	(93)
Other assets	15	15	15
Accounts payable and accrued liabilities	(75)	(302)	81
Net cash provided by operating activities	85,591	65,571	94,574
Contributed capital	(17,950)	—	—
Net cash provided by investing activities	(17,950)	—	—
Dividends paid	(53,038)	(54,008)	(54,575)
Acquisition of treasury stock	(14,603)	(11,563)	(39,999)
Net cash used for financing activities	(67,641)	(65,571)	(94,574)
Net increase in cash and cash equivalents	—	—	—
Cash and cash equivalents, beginning of year	—	—	—
Cash and cash equivalents, end of year	\$ —	\$ —	\$ —

- (1) No portion of the dividends received from operating subsidiaries during 2022, 2021 or 2020 represent returns of capital and therefore no portion is presented as an investing activity.

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

Safety Insurance Group, Inc.
Supplementary Insurance Information

Schedule III

(Dollars in thousands)

Segment	As of December 31,			Years Ended December 31,	
	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Expenses	Unearned Premiums	Earned Premiums	Net Investment Income
Property and Casualty Insurance					
2022	\$ 75,582	\$ 549,598	\$ 433,375	\$ 758,505	\$ 46,725
2021	73,024	570,651	413,487	774,328	44,135
2020	74,962	567,581	421,901	771,078	41,045

Segment	Years Ended December 31,					
	Premium Revenue	Net Investment Income	Benefits, Claims, Losses, and Settlement Expenses	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Premiums Written
Property and Casualty Insurance						
2022	\$ 758,505	\$ 46,725	\$ 491,979	\$ 146,013	\$ 99,132	\$ 773,735
2021	774,328	44,135	461,727	146,573	111,819	764,526
2020	771,078	41,045	404,556	146,955	119,527	763,537

Safety Insurance Group, Inc.

Reinsurance

Schedule IV

(Dollars in thousands)

Property and Casualty Insurance Earned Premiums	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percent of Amount Assumed to Net
Years ended December 31,					
2022	\$ 803,289	\$ 73,760	\$ 28,976	\$ 758,505	3.8%
2021	811,329	67,584	30,583	774,328	3.9%
2020	815,981	74,268	29,365	771,078	3.8%

Safety Insurance Group, Inc.
Valuation and Qualifying Accounts

Schedule V

(Dollars in thousands)

	Balance at Beginning of Period	Additions		Deductions(1)	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
Allowance for doubtful accounts Years Ended December 31,					
2022	\$ 1,808	\$ 1,339	\$ —	\$ 1,701	\$ 1,446
2021	1,754	2,339	—	2,285	1,808
2020	578	3,294	—	2,118	1,754

(1) Deductions represent write-offs of accounts determined to be uncollectible.

Safety Insurance Group, Inc.

Supplemental Information Concerning Property and Casualty Insurance Operations

Schedule VI

(Dollars in thousands)

<u>Affiliation With Registrant</u>	<u>As of December 31,</u>			<u>Years Ended December 31,</u>	
	<u>Deferred Policy Acquisition Costs</u>	<u>Reserves for Unpaid Claims and Claims Adjustment Expenses</u>	<u>Unearned Premiums</u>	<u>Earned Premiums</u>	<u>Net Investment Income</u>
Consolidated Property & Casualty Subsidiaries					
2022	\$ 75,582	\$ 549,598	\$ 433,375	\$ 758,505	\$ 46,725
2021	73,024	570,651	413,487	774,328	44,135
2020	74,962	567,581	421,901	771,078	41,045

<u>Affiliation With Registrant</u>	<u>Years Ended December 31,</u>				
	<u>Claims and Claims Adjustment Expenses Incurred Related to</u>		<u>Amortization of Deferred Policy Acquisition Costs</u>	<u>Paid Claims and Claims Adjustment Expenses</u>	<u>Premiums Written</u>
	<u>Current Year</u>	<u>Prior Year</u>			
Consolidated Property & Casualty Subsidiaries					
2022	\$ 549,258	\$ (57,279)	\$ 146,013	\$ 515,759	\$ 773,735
2021	515,400	(53,673)	146,573	443,013	764,526
2020	459,400	(54,844)	146,955	431,480	763,537

SAFETY INSURANCE GROUP, INC.

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
3.1	Form of Amended and Restated Certificate of Incorporation of Safety Insurance Group, Inc. ⁽¹⁹⁾
3.2	Form of Amended and Restated Bylaws of Safety Insurance Group, Inc. ⁽¹⁹⁾
4	Form of Stock Certificate for the Common Stock ⁽¹⁾
4.1	Description of Safety Insurance Group, Inc. Capital Stock ⁽¹⁸⁾
10.1	Lease Agreement between Thomas Black Corporation and Aman, Inc. for the lease of office space located on the 1st through 6th, 11th and 12th floors of 20 Custom House Street, Boston, Massachusetts, dated June 11, 1987, and as amended on October 11, 1988, September 14, 1989, September 19, 1990, February 23, 1994, December 20, 1996, June 24, 2002, July 26, 2004 and April 5, 2007, November 7, 2017 ⁽²⁾⁽¹⁴⁾
10.2	Tax Indemnity Agreement by and among Safety Holdings, Inc. and the Management Team, dated October 16, 2001 ⁽¹⁾
10.3	2001 Restricted Stock Plan ⁽¹⁾⁽³⁾
10.4	Executive Incentive Compensation Plan ⁽¹⁾⁽³⁾
10.5	2002 Management Omnibus Incentive Plan, as Amended ⁽⁵⁾
10.6	Safety Insurance Company Executive Incentive Compensation Plan—Basic Document ⁽³⁾⁽⁴⁾⁽⁷⁾
10.7	Safety Insurance Company Executive Incentive Compensation Plan—Adoption Agreement ⁽³⁾⁽⁴⁾⁽⁷⁾
10.8	Safety Insurance Company Executive Incentive Compensation Plan—Rabbi Trust Agreement ⁽³⁾⁽⁴⁾⁽⁷⁾
10.9	Form of Restricted Stock Notice and Agreement (with vesting) under the 2002 Management Omnibus Incentive Plan ⁽³⁾⁽⁴⁾
10.10	Form of Restricted Stock Notice and Agreement (without vesting) under the 2002 Management Omnibus Incentive Plan ⁽³⁾⁽⁴⁾
10.11	Form of Nonqualified Stock Option Notice and Agreement under the 2002 Management Omnibus Incentive Plan ⁽³⁾⁽⁴⁾
10.12	Form of Incentive Stock Option Notice and Agreement under the 2002 Management Omnibus Incentive Plan ⁽³⁾⁽⁴⁾
10.13	Form of Stock Appreciation Right Notice and Agreement under the 2002 Management Omnibus Incentive Plan ⁽³⁾⁽⁴⁾
10.14	Annual Performance Incentive Plan ⁽³⁾⁽⁵⁾
10.15	Amendment to Annual Performance Incentive Plan ⁽³⁾⁽⁶⁾
10.16	Amendment to Management Omnibus Incentive Plan dated December 31, 2008 ⁽³⁾⁽⁶⁾
10.17	Amendment to Management Omnibus Incentive Plan dated August 4, 2010 ⁽³⁾⁽⁸⁾
10.18	Amendment to Management Omnibus Incentive Plan, as Amended dated March 11, 2013 ⁽³⁾⁽⁹⁾
10.19	Form of Restricted Stock Notice and Agreement (with performance-based vesting) under the 2002 Management Omnibus Plan, as Amended ⁽³⁾⁽⁹⁾
10.20	Amended and Restated Revolving Credit Agreement with RBS Citizens ⁽¹⁰⁾

10.21	Form of Restricted Stock Notice and Agreement (with performance-based vesting) under the 2002 Management Omnibus Plan, As Amended ⁽³⁾⁽¹¹⁾
10.22	Form of Restricted Stock Notice and Agreement (with performance-based vesting) under the 2002 Management Omnibus Plan, As Amended ⁽³⁾⁽¹²⁾
10.23	Form of Restricted Stock Notice and Agreement under the 2002 Management Omnibus Plan, As Amended ⁽³⁾⁽¹²⁾
10.24	Employment Agreement by and between Safety Insurance Group, Inc. and John Drago as of April 1, 2016 ⁽³⁾⁽¹³⁾
10.25	Employment Agreement by and between Safety Insurance Group, Inc. and George M. Murphy as of April 1, 2016 ⁽³⁾⁽¹³⁾
10.26	Employment Agreement by and between Safety Insurance Group, Inc. and individual executive member as of January 1, 2021. ⁽³⁾⁽¹⁷⁾
10.27	2018 Long-Term Incentive Plan ⁽¹⁵⁾
10.28	Employment Agreement by and between Safety Insurance Group, Inc. and Christopher T. Whitford as of March 2, 2020. ⁽³⁾⁽¹⁶⁾
10.29	Employment Agreement by and between Safety Insurance Group, Inc. and Glenn R. Hiltbold as of March 1, 2021. ⁽³⁾⁽¹⁷⁾
21	Subsidiaries of Safety Insurance Group, Inc. ⁽¹⁹⁾
23.1	Consent of Deloitte & Touche LLP ⁽¹⁹⁾
23.2	Consent of PricewaterhouseCoopers LLP ⁽¹⁹⁾
24	Power of Attorney (contained on the signature page herein)
31.1	CEO Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ⁽¹⁹⁾
31.2	CFO Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ⁽¹⁹⁾
32.1	CEO Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ⁽¹⁹⁾
32.2	CFO Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ⁽¹⁹⁾
101.INS	Inline XBRL Instance Document ⁽¹⁹⁾
101.SCH	Inline XBRL Taxonomy Extension Schema ⁽¹⁹⁾
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase ⁽¹⁹⁾
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase ⁽¹⁹⁾
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase ⁽¹⁹⁾
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase ⁽¹⁹⁾
104	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101) ⁽¹⁹⁾

(1) Incorporated herein by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-87056) filed April 26, 2002, and as amended on Form S-8 (Reg. No. 333-110676) filed on November 21, 2003, as

- amended on Form S-8 (Reg. No. 333-140423) filed on February 2, 2007, and as amended on Form S-8 (Reg. No. 333-226690) filed on August 8, 2018.
- (2) Incorporated herein by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-87056) filed April 26, 2002, and as amended on Form S-8 (Reg. No. 333-110676) filed on November 21, 2003, as amended on Form S-8 (Reg. No. 333-140423) filed on February 2, 2007, and as amended on Form S-8 (Reg. No. 333-226690) filed on August 8, 2018 and as incorporated herein by reference on Form 10-Q for the quarterly period ended March 31, 2007, as filed on May 5, 2007, and as incorporated by reference to the Registrant's Form 10-K for the year ended December 31, 2017, as filed on February 28, 2018.
 - (3) Denotes management contract or compensation plan or arrangement.
 - (4) Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2004 filed on March 16, 2005.
 - (5) Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2006 filed on March 1, 2007.
 - (6) Incorporated herein by reference to the Registrant's Form 8-K filed on December 31, 2008.
 - (7) Incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended September 30, 2008, as filed on November 7, 2008.
 - (8) Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2010 filed on March 14, 2011.
 - (9) Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2012 filed on March 18, 2013
 - (10) Incorporated herein by reference to the Registrant's Form 8-K filed on August 27, 2013.
 - (11) Incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended June 30, 2013, as filed on August 9, 2013.
 - (12) Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2014 filed on March 2, 2015
 - (13) Incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended June 30, 2016, as filed on August 5, 2016.
 - (14) Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2017, as filed on February 28, 2018.
 - (15) Incorporated herein by reference to the Registrant's Definitive Proxy Statement filed on April 11, 2018.
 - (16) Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2019, as filed on February 28, 2020.
 - (17) Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2020, as filed on February 26, 2021.
 - (18) Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2021, as filed on February 28, 2022.
 - (19) Included herein.

ITEM 16. FORM 10-K SUMMARY

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 28, 2023

Safety Insurance Group, Inc.

By: /s/ George M. Murphy
George M. Murphy,
President, Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints George M. Murphy and Christopher T. Whitford, and each of them individually, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each such attorney-in-fact and agent, or his substitutes, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, to all intents and purposes and as fully as he might or could do in person, hereby ratifying and confirming all that each such attorney-in-fact and agent, or his substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed by the following persons in the capacities and on the date indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ George M. Murphy</u> George M. Murphy	President, Chief Executive Officer	February 28, 2023
<u>/s/ Christopher T. Whitford</u> Christopher T. Whitford	Vice President, Chief Financial Officer, Secretary, and Principal Accounting Officer	February 28, 2023
<u>/s/ David F. Brussard</u> David F. Brussard	Director	February 28, 2023
<u>/s/ Peter J. Manning</u> Peter J. Manning	Director	February 28, 2023
<u>/s/ Thalia M. Meehan</u> Thalia M. Meehan	Lead Independent Director	February 28, 2023
<u>/s/ Mary C. Moran</u> Mary C. Moran	Director	February 28, 2023
<u>/s/ John D. Farina</u> John D. Farina	Director	February 28, 2023
<u>/s/ Deborah E. Gray</u> Deborah E. Gray	Director	February 28, 2023

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EXECUTIVE OFFICERS

George M. Murphy, CPCU

President and Chief Executive Officer

Christopher T. Whitford, CPA

Vice President, Chief Financial Officer and Secretary

James D. Berry, CPCU

Vice President—Underwriting

John P. Drago

Vice President—Marketing

Glenn R. Hiltbold, FCAS

Vice President—Actuarial Services

Ann M. McKeown

Vice President—Insurance Operations

Paul J. Narciso

Vice President—Claims

Stephen A. Varga

Vice President—Management Information Systems

BOARD OF DIRECTORS

David F. Brussard ^{(3)(C)}

Chairperson

John D. Farina ⁽¹⁾⁽³⁾

Deborah E. Gray ⁽²⁾⁽⁴⁾

Peter J. Manning ^{(1)(C)(2)}

Thalia M. Meehan ^{(2)(C)(3)(4)}

Lead Independent Director

Mary C. Moran ^{(1)(4)(C)}

George M. Murphy ⁽³⁾

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Investment Committee

(4) Member of the Nominating and Governance Committee

(C) Chairperson of the committee referenced

Shareholder Information

Transfer Agent

Broadridge Shareholder Services
C/O Broadridge Corporate Issuer Solutions
P.O. Box 1342
Brentwood, NY 11717-0718
Shareholder inquiries:
877-830-4936
www.shareholder.broadridge.com

Independent Auditors

Deloitte & Touche LLP
Boston, MA

General Counsel

DLA Piper
Boston, MA

Executive Offices

20 Custom House Street
Boston, MA 02110
617-951-0600
<http://www.SafetyInsurance.com>

Stock Listing

We are listed on the NASDAQ Global Select Market under the symbol "SAFT."

Office of Investor Relations

20 Custom House Street
Boston, MA 02110
Tel: 877-951-2522
Fax: 617-603-4837
e-Mail: InvestorRelations@SafetyInsurance.com

Annual Meeting of Shareholders

Wednesday, May 17, 2023 at 10:00 A.M. EST
20 Custom House Street, Boston, MA 02110

Annual Report to Shareholders

Anyone interested in a copy of our Annual Report on Form 10-K, or any of our other public information, including press releases, Section 16 reports and other SEC filings, may obtain a copy without charge by either contacting the Office of Investor Relations listed above or by viewing and downloading from our Web site: www.SafetyInsurance.com, under "About Safety," "Investor Information."



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20 Custom House Street
Boston, MA 02110
617-951-0600

www.SafetyInsurance.com