

REFINITIV

## DELTA REPORT

10-Q

SAFT - SAFETY INSURANCE GROUP IN

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 3025

█ CHANGES 375

█ DELETIONS 133

█ ADDITIONS 2517

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## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

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

For the quarterly period ended **June September 30, 2023**

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)

Not Applicable

(Former name or former address, if changed since last report)

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

**Title of each class**

Common Stock, par value \$0.01 per share

**Trading Symbol**

SAFT

**Name of each exchange on which registered**

The Nasdaq Stock Market, LLC

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 the definition 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 2, 2023 November 1, 2023 there were 14,791,907 shares of common stock with a par value of \$0.01 per share outstanding.

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**Safety Insurance Group, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

(Dollars in thousands, except share data)

	June 30, 2023 (Unaudited)	December 31, 2022	September 30, 2023 (Unaudited)	December 31, 2022
<b>Assets</b>				
Investments:				
Fixed maturities, available for sale, at fair value (amortized cost: \$1,112,843 and \$1,152,779, allowance for expected credit losses of \$1,635 and \$678)	\$ 1,017,467	\$ 1,050,155		
Short term investments, at fair value (cost: \$79 and \$0)	79	—		
Equity securities, at fair value (cost: \$214,309 and \$231,444)	230,056	240,155		
Fixed maturities, available for sale, at fair value (amortized cost: \$1,117,352 and \$1,152,779, allowance for expected credit losses of \$1,231 and \$678)			\$ 1,005,225	\$ 1,050,155
Equity securities, at fair value (cost: \$216,589 and \$231,444)			223,152	240,155
Other invested assets	125,943	112,850	129,739	112,850
Total investments	1,373,545	1,403,160	1,358,116	1,403,160
Cash and cash equivalents	25,388	25,300	30,894	25,300
Accounts receivable, net of allowance for expected credit losses of \$996 and \$1,446	238,563	192,542		
Accounts receivable, net of allowance for expected credit losses of \$867 and \$1,446			258,267	192,542
Receivable for securities sold	607	877	845	877
Accrued investment income	7,200	8,212	7,688	8,212
Taxes recoverable	3,129	—	7,286	—
Receivable from reinsurers related to paid loss and loss adjustment expenses	27,494	12,988	30,006	12,988
Receivable from reinsurers related to unpaid loss and loss adjustment expenses	96,780	93,394	106,708	93,394
Ceded unearned premiums	29,973	28,453	29,819	28,453
Deferred policy acquisition costs	84,423	75,582	91,613	75,582
Deferred income taxes	20,515	21,074	21,307	21,074
Equity and deposits in pools	34,249	33,648	37,096	33,648
Operating lease right-of-use-assets	21,734	23,336	20,586	23,336
Goodwill	17,093	17,093	17,093	17,093
Intangible assets	7,439	7,856	7,242	7,856
Other assets	27,973	29,054	27,539	29,054
<b>Total assets</b>	<b>\$ 2,016,105</b>	<b>\$ 1,972,569</b>	<b>\$ 2,052,105</b>	<b>\$ 1,972,569</b>
<b>Liabilities</b>				
Loss and loss adjustment expense reserves	\$ 565,027	\$ 549,598	\$ 584,175	\$ 549,598
Unearned premium reserves	488,788	433,375	525,297	433,375
Accounts payable and accrued liabilities	59,557	73,875	61,757	73,875
Payable for securities purchased	—	1,359	2,059	1,359
Payable to reinsurers	13,069	11,444	24,526	11,444
Taxes payable	—	1,729	—	1,729
Debt	35,000	35,000	30,000	35,000
Operating lease liabilities	21,734	23,336	20,586	23,336
Other liabilities	39,180	30,854	33,956	30,854
<b>Total liabilities</b>	<b>1,222,355</b>	<b>1,160,570</b>	<b>1,282,356</b>	<b>1,160,570</b>
<b>Commitments and contingencies (Note 8)</b>				
<b>Shareholders' equity</b>				
Common stock: \$0.01 par value; 30,000,000 shares authorized; 17,949,717 and 17,879,095 shares issued	179	179		
Common stock: \$0.01 par value; 30,000,000 shares authorized; 17,949,484 and 17,879,095 shares issued	179	179		

Additional paid-in capital	<b>224,476</b>	222,049	<b>225,301</b>	222,049
Accumulated other comprehensive (loss) income, net of taxes	(74,055)	(80,538)	(87,607)	(80,538)
Retained earnings	<b>793,443</b>	815,309	<b>782,169</b>	815,309
Treasury stock, at cost: 3,157,577 and 3,083,364 shares	(150,293)	(145,000)	(150,293)	(145,000)
<b>Total shareholders' equity</b>	<b>793,750</b>	811,999	<b>769,749</b>	811,999
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,016,105</b>	\$ 1,972,569	<b>\$ 2,052,105</b>	\$ 1,972,569

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

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**Safety Insurance Group, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
**(Unaudited)**  
**(Dollars in thousands, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net earned premiums	\$ 202,225	\$ 188,333	\$ 393,960	\$ 375,421	\$ 214,425	\$ 189,931	\$ 608,385	\$ 582,385
Net investment income	13,836	11,635	27,490	22,225	14,005	11,112	41,495	38,832
Earnings from partnership investments	553	5,967	2,719	8,799	2,427	876	5,146	5,146
Net realized gains on investments	108	3,152	841	7,362	270	1,251	1,111	1,111
Change in net unrealized gains on equity securities	6,266	(28,885)	7,036	(41,919)	(9,184)	(14,364)	(2,148)	(2,148)
Credit loss expense	(35)	—	(957)	—	403	(207)	(554)	(554)
Commission income	1,758	—	3,241	—	1,918	—	5,159	5,159
Finance and other service income	4,732	3,403	8,872	6,720	5,094	3,749	13,966	13,966
<b>Total revenue</b>	<b>229,443</b>	183,605	<b>443,202</b>	378,608	<b>229,358</b>	192,348	<b>672,560</b>	631,227
Losses and loss adjustment expenses	143,523	112,715	310,676	235,881	159,521	124,069	470,197	438,197
Underwriting, operating and related expenses	62,582	60,872	122,615	122,466	65,217	60,373	187,832	179,832
Other expense	1,523	—	3,193	—	2,005	—	5,198	5,198
Interest expense	348	131	558	260	139	132	697	697
<b>Total expenses</b>	<b>207,976</b>	173,718	<b>437,042</b>	358,607	<b>226,882</b>	184,574	<b>663,924</b>	624,574
Income before income taxes	21,467	9,887	6,160	20,001	2,476	7,774	8,636	8,636
Income tax expense	4,466	1,986	1,496	4,262	527	1,582	2,023	2,023
<b>Net income</b>	<b>\$ 17,001</b>	\$ 7,901	<b>\$ 4,664</b>	\$ 15,739	<b>\$ 1,949</b>	\$ 6,192	<b>\$ 6,613</b>	\$ 6,613
<b>Earnings per weighted average common share:</b>								
Basic	\$ 1.15	\$ 0.54	\$ 0.32	\$ 1.07	\$ 0.13	\$ 0.42	\$ 0.45	\$ 0.45
Diluted	\$ 1.15	\$ 0.53	\$ 0.31	\$ 1.06	\$ 0.13	\$ 0.42	\$ 0.45	\$ 0.45
<b>Cash dividends paid per common share</b>	<b>\$ 0.90</b>	\$ 0.90	<b>\$ 1.80</b>	\$ 1.80	<b>\$ 0.90</b>	\$ 0.90	<b>\$ 2.70</b>	\$ 2.70

Number of shares used in computing earnings per share:	14,681,034	14,599,057	14,681,766	14,613,399	14,645,988	14,599,136	14,669,709	14,
Basic	<u>14,720,520</u>	<u>14,702,627</u>	<u>14,741,076</u>	<u>14,715,099</u>	<u>14,682,082</u>	<u>14,711,737</u>	<u>14,721,063</u>	<u>14,</u>
Diluted								

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

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**Safety Insurance Group, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income (Loss) Loss**  
**(Unaudited)**  
**(Dollars in thousands)**

	Three Months Ended June				Six Months Ended June				Three Months Ended September		Nine Months Ended September	
	30,		30,		30,		30,		2023	2022	2023	2022
	2023	2022	2023	2022	2023	2022	2023	2022	\$ 17,001	\$ 7,901	\$ 4,664	\$ 15,739
<b>Net income</b>									\$ 1,949	\$ 6,192	\$ 6,613	\$ 21,931
<b>Other comprehensive income (loss), net of tax:</b>												
Unrealized holding (losses) gains during the period, net of income tax benefit of (\$2,309), (\$9,755), \$1,899 and (\$21,460).					(8,687)		(36,696)		7,147		(80,727)	
Reclassification adjustment for net realized gains on investments included in net income, net of income tax benefit of (\$23), (\$662), (\$177), (\$1,546).					(85)		(2,490)		(664)		(5,816)	
Other comprehensive income (loss), net of tax:					(8,772)		(39,186)		6,483		(86,543)	
<b>Other comprehensive loss, net of tax:</b>												
Unrealized holding (losses) gains during the period, net of income tax benefit of (\$3,546), (\$7,311), (\$1,647) and (\$28,772).									(13,339)		(27,505)	(6,191)
Reclassification adjustment for net realized gains on investments included in net income, net of income tax benefit of (\$57), (\$263), (\$233) and (\$1,809).										(988)	(878)	(6,804)
Other comprehensive loss, net of tax:									(13,552)		(28,493)	(7,069)
<b>Comprehensive income (loss)</b>	<b>\$ 8,229</b>	<b>\$ (31,285)</b>	<b>\$ 11,147</b>	<b>\$ (70,804)</b>								
<b>Comprehensive loss</b>									<b>\$ (11,603)</b>	<b>\$ (22,301)</b>	<b>\$ (456)</b>	<b>\$ (93,105)</b>

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

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**Safety Insurance Group, Inc. and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**(Unaudited)**  
**(Dollars in thousands)**

	Accumulated						Total Shareholders' Equity	
	Additional		Comprehensive		Treasury			
	Common Stock	Paid-in Capital	Net of Taxes	Earnings	Stock			
Balance at December 31, 2021	\$ 178	\$ 216,070	\$ 24,579	\$ 821,743	\$ (135,397)	\$ 927,173		
Net income, January 1 to March 31, 2022	—	—	—	7,838	—	7,838		
Unrealized losses on securities available for sale, net of deferred federal income taxes	—	—	(47,357)	—	—	(47,357)		
Restricted share awards issued	1	603	—	—	—	—	604	
Recognition of employee share-based compensation, net of deferred federal income taxes	—	1,479	—	—	—	—	1,479	
Dividends paid and accrued	—	—	—	(13,246)	—	—	(13,246)	
Acquisition of treasury stock	—	—	—	—	(14,603)	—	(14,603)	
Balance at March 31, 2022	179	218,152	(22,778)	816,335	(150,000)	861,888		
Net income, April 1 to June 30, 2022	—	—	—	7,901	—	7,901		
Unrealized gains on securities available for sale, net of deferred federal income taxes	—	—	(39,186)	—	—	(39,186)		
Recognition of employee share-based compensation, net of deferred federal income taxes	—	1,301	—	—	—	—	1,301	
Dividends paid and accrued	—	—	—	(13,281)	—	—	(13,281)	
Balance at June 30, 2022	\$ 179	\$ 219,453	\$ (61,964)	\$ 810,955	\$ (150,000)	\$ 818,623		
Accumulated								
Other						Total		
Common		Paid-in		Comprehensive		Treasury		
Stock		Capital		Net of Taxes		Stock		
Balance at December 31, 2021	\$ 178	\$ 216,070	\$ 24,579	\$ 821,743	\$ (135,397)	\$ 927,173		
Net income, January 1 to March 31, 2022	—	—	—	7,838	—	7,838		
Unrealized losses on securities available for sale, net of deferred federal income taxes	—	—	(47,357)	—	—	(47,357)		
Restricted share awards issued	1	603	—	—	—	—	604	
Recognition of employee share-based compensation, net of deferred federal income taxes	—	1,479	—	—	—	—	1,479	
Dividends paid and accrued	—	—	—	(13,246)	—	—	(13,246)	
Acquisition of treasury stock	—	—	—	—	(14,603)	—	(14,603)	
Balance at March 31, 2022	179	218,152	(22,778)	816,335	(150,000)	861,888		
Net income, April 1 to June 30, 2022	—	—	—	7,901	—	7,901		
Unrealized gains on securities available for sale, net of deferred federal income taxes	—	—	(39,186)	—	—	(39,186)		
Recognition of employee share-based compensation, net of deferred federal income taxes	—	1,301	—	—	—	—	1,301	
Dividends paid and accrued	—	—	—	(13,281)	—	—	(13,281)	
Balance at June 30, 2022	179	219,453	(61,964)	810,955	(150,000)	818,623		

Net income, July 1 to September 30, 2022	—	—	—	6,192	—	6,192
Unrealized gains on securities available for sale, net of deferred federal income taxes	—	—	(28,493)	—	—	(28,493)
Recognition of employee share-based compensation, net of deferred federal income taxes	—	1,302	—	—	—	1,302
Dividends paid and accrued	—	—	—	(13,259)	—	(13,259)
<b>Balance at September 30, 2022</b>	<b>\$ 179</b>	<b>\$ 220,755</b>	<b>\$ (90,457)</b>	<b>\$ 803,888</b>	<b>\$ (150,000)</b>	<b>\$ 784,365</b>

	Accumulated					
	Other					
	Common		Additional		Comprehensive	
	Stock	Capital	Net of Taxes	Earnings	Treasury Stock	Shareholders' Equity
Balance at December 31, 2022	\$ 179	\$ 222,049	\$ (80,538)	\$ 815,309	\$ (145,000)	\$ 811,999
Net loss, January 1 to March 31, 2023	—	—	—	(12,337)	—	(12,337)
Unrealized gains on securities available for sale, net of deferred federal income taxes	—	—	15,255	—	—	15,255
Restricted share awards issued	—	522	—	—	—	522
Recognition of employee share-based compensation, net of deferred federal income taxes	—	733	—	—	—	733
Dividends paid and accrued	—	—	—	(13,247)	—	(13,247)
<b>Balance at March 31, 2023</b>	<b>179</b>	<b>223,304</b>	<b>(65,283)</b>	<b>789,725</b>	<b>(145,000)</b>	<b>802,925</b>
<b>Net income, April 1 to June 30, 2023</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>17,001</b>	<b>—</b>	<b>17,001</b>
Unrealized losses on securities available for sale, net of deferred federal income taxes	—	—	(8,772)	—	—	(8,772)
Restricted share awards issued	—	72	—	—	—	72
Recognition of employee share-based compensation, net of deferred federal income taxes	—	1,100	—	—	—	1,100
Dividends paid and accrued	—	—	—	(13,283)	—	(13,283)
Acquisition of treasury stock					(5,293)	(5,293)
<b>Balance at June 30, 2023</b>	<b>\$ 179</b>	<b>\$ 224,476</b>	<b>\$ (74,055)</b>	<b>\$ 793,443</b>	<b>\$ (150,293)</b>	<b>\$ 793,750</b>

	Accumulated					
	Other					
	Common		Additional		Comprehensive	
	Stock	Capital	Net of Taxes	Earnings	Treasury Stock	Shareholders' Equity
Balance at December 31, 2022	\$ 179	\$ 222,049	\$ (80,538)	\$ 815,309	\$ (145,000)	\$ 811,999
Net loss, January 1 to March 31, 2023	—	—	—	(12,337)	—	(12,337)
Unrealized gains on securities available for sale, net of deferred federal income taxes	—	—	15,255	—	—	15,255
Restricted share awards issued	—	522	—	—	—	522
Recognition of employee share-based compensation, net of deferred federal income taxes	—	733	—	—	—	733
Dividends paid and accrued	—	—	—	(13,247)	—	(13,247)
<b>Balance at March 31, 2023</b>	<b>179</b>	<b>223,304</b>	<b>(65,283)</b>	<b>789,725</b>	<b>(145,000)</b>	<b>802,925</b>
<b>Net income, April 1 to June 30, 2023</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>17,001</b>	<b>—</b>	<b>17,001</b>
Unrealized losses on securities available for sale, net of deferred federal income taxes	—	—	(8,772)	—	—	(8,772)
Restricted share awards issued	—	72	—	—	—	72
Recognition of employee share-based compensation, net of deferred federal income taxes	—	1,100	—	—	—	1,100
Dividends paid and accrued	—	—	—	(13,283)	—	(13,283)

Acquisition of treasury stock	—	—	—	—	(5,293)	(5,293)
<b>Balance at June 30, 2023</b>	<b>179</b>	<b>224,476</b>	<b>(74,055)</b>	<b>793,443</b>	<b>(150,293)</b>	<b>793,750</b>
Net income, July 1 to September 30, 2023	—	—	—	1,949	—	<b>1,949</b>
Unrealized losses on securities available for sale, net of deferred federal income taxes	—	—	(13,552)	—	—	(13,552)
Recognition of employee share-based compensation, net of deferred federal income taxes	—	<b>825</b>	—	—	—	<b>825</b>
Dividends paid and accrued	—	—	—	(13,223)	—	(13,223)
<b>Balance at September 30, 2023</b>	<b>\$ 179</b>	<b>\$ 225,301</b>	<b>\$ (87,607)</b>	<b>\$ 782,169</b>	<b>\$ (150,293)</b>	<b>\$ 769,749</b>

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

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**Safety Insurance Group, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**(Dollars in thousands)**

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Cash flows from operating activities:</b>				
Net income	\$ 4,664	\$ 15,739	\$ 6,613	\$ 21,931
Adjustments to reconcile net income to net cash provided by operating activities:				
Investment amortization, net	(193)	446	(219)	999
Fixed asset depreciation, net	3,339	3,379	5,104	4,990
Stock based compensation	2,428	3,384	3,252	4,686
(Credit) provision for deferred income taxes	(1,163)	5,963		
Provision for deferred income taxes			1,647	4,025
Net realized gains on investments	(841)	(7,362)	(1,111)	(8,613)
Credit loss expense	957	—	554	207
Earnings from partnership investments	(2,403)	(4,703)	(4,830)	(5,579)
Change in net unrealized gains on equity securities	(7,036)	41,919	2,148	56,283
Changes in assets and liabilities:				
Accounts receivable, net	(46,021)	(11,882)	(65,725)	(17,020)
Accrued investment income	1,012	301	524	(970)
Receivable from reinsurers	(17,892)	9,625	(30,332)	(1,441)
Ceded unearned premiums	(1,520)	(2,612)	(1,366)	(2,765)
Deferred policy acquisition costs	(8,841)	(494)	(16,031)	(3,638)
Taxes recoverable/payable	(4,911)	(14,645)	(9,068)	(16,042)
Other assets	(1,890)	(6,422)	(5,021)	(4,902)
Loss and loss adjustment expense reserves	15,429	(22,506)	34,577	(25,239)
Unearned premium reserves	55,413	7,968	91,922	23,617
Accounts payable and accrued liabilities	(13,920)	(21,703)	(11,759)	(17,194)
Payable to reinsurers	1,625	4,151	13,082	13,431

Other liabilities	8,326	(821)	3,102	(3,400)
Net cash used for operating activities	(13,438)	(275)		
Net cash provided by operating activities			17,063	23,366
<b>Cash flows from investing activities:</b>				
Fixed maturities purchased	(30,126)	(113,425)	(59,685)	(150,507)
Short term investments purchased	(79)	(5)	—	(5)
Equity securities purchased	(21,382)	(26,677)	(34,243)	(41,809)
Other invested assets purchased	(12,782)	(11,798)	(14,075)	(14,863)
Proceeds from sales and paydowns of fixed maturities	63,243	83,865	84,198	106,367
Proceeds from maturities, redemptions, and calls of fixed maturities	5,320	62,560	9,879	68,474
Proceed from sales of equity securities	39,638	22,401	51,724	33,898
Proceeds from other invested assets redeemed	2,414	887	2,487	1,133
Fixed assets purchased	(552)	(691)	(1,402)	(1,522)
Net cash provided by investing activities	45,694	17,117	38,883	1,166
<b>Cash flows from financing activities:</b>				
Proceeds from FHLB loan	20,000	—	20,000	—
Payments on FHLB loan	(20,000)	—	(25,000)	—
Dividends paid to shareholders	(26,928)	(26,759)	(40,112)	(39,897)
Acquisition of treasury stock	(5,240)	(14,603)	(5,240)	(14,603)
Net cash used for financing activities	(32,168)	(41,362)	(50,352)	(54,500)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>88</b>	<b>(24,520)</b>	<b>5,594</b>	<b>(29,968)</b>
Cash and cash equivalents at beginning of year	25,300	63,603	25,300	63,603
<b>Cash and cash equivalents at end of period</b>	<b>\$ 25,388</b>	<b>\$ 39,083</b>	<b>\$ 30,894</b>	<b>\$ 33,635</b>

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

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*In this Form 10-Q, Notes to the Unaudited Consolidated Financial Statements, dollar amounts are presented in thousands, except per share data.*

### **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 preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

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. ("SNTA"), and Safety Management Corporation ("SMC"), which is SNTA's holding company. All intercompany commission transactions, including commission income and underwriting, operating and related

expenses, have been eliminated. Commission income totaled ~~\$259~~ \$256 and ~~\$439~~ \$695 for the three and ~~six~~ nine months ended ~~June 30, 2023~~ September 30, 2023, respectively.

The financial information for the three and ~~six~~ nine months ended ~~June~~ September 30, 2023 and 2022 is unaudited; however, in the opinion of the Company, the information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial condition, results of operations, and cash flows for the periods. The financial information as of December 31, 2022 is derived from the audited consolidated financial statements included in the Company's 2022 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 28, 2023.

These unaudited interim consolidated financial statements may not be indicative of financial results for the full year and should be read in conjunction with the audited consolidated financial statements included in the Company's 2022 Annual Report on Form 10-K filed with the SEC on February 28, 2023.

The Company is a leading provider of property and casualty insurance focused primarily on the Massachusetts market. The Company's principal product line is automobile insurance. 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.

SNIA 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. Subsequent to the acquisition date, all business conducted with SNIA was considered an intercompany transaction and have been eliminated. As of ~~June 30, 2023~~ September 30, 2023, fiduciary assets held by SNIA were immaterial and less than ~~\$100.~~ \$200.

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## 2. Recent Accounting Pronouncements

There are no recent accounting pronouncements that are ~~applicable~~ significant to the Company.

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### 3. 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.

	Three Months Ended June 30, Six Months Ended June 30, Three Months Ended September 30, Nine Months Ended September 30				2023 2022 2023 2022 2023 2022 2023 2022			
	2023	2022	2023	2022	2023	2022	2023	2022
<b>Earnings attributable to common shareholders - basic and diluted:</b>								
Net income from continuing operations	\$ 17,001	\$ 7,901	\$ 4,664	\$ 15,739	\$ 1,949	\$ 6,192	\$ 6,613	\$ 21,
Allocation of income for participating shares	(78)	(36)	(21)	(71)	(9)	(27)	(30)	
Net income from continuing operations attributed to common shareholders	\$ 16,923	\$ 7,865	\$ 4,643	\$ 15,668	\$ 1,940	\$ 6,165	\$ 6,583	\$ 21,
<b>Earnings per share denominator - basic and diluted</b>								
Total weighted average common shares outstanding, including participating shares	14,748,502	14,664,329	14,748,430	14,679,049	14,712,993	14,663,455	14,736,488	14,673,
Less: weighted average participating shares	(67,468)	(65,272)	(66,664)	(65,650)	(67,005)	(64,319)	(66,779)	(65,
Basic earnings per share denominator	14,681,034	14,599,057	14,681,766	14,613,399	14,645,988	14,599,136	14,669,709	14,608,
Common equivalent shares- non-vested performance stock grants	39,486	103,570	59,310	101,700	36,094	112,601	51,354	104,
Diluted earnings per share denominator	14,720,520	14,702,627	14,741,076	14,715,099	14,682,082	14,711,737	14,721,063	14,713,
Basic earnings per share	\$ 1.15	\$ 0.54	\$ 0.32	\$ 1.07	\$ 0.13	\$ 0.42	\$ 0.45	\$ 1
Diluted earnings per share	\$ 1.15	\$ 0.53	\$ 0.31	\$ 1.06	\$ 0.13	\$ 0.42	\$ 0.45	\$ 1
<b>Undistributed earnings attributable to common shareholders - basic and diluted:</b>								
Net income from continuing operations attributable to common shareholders -Basic	\$ 1.15	\$ 0.54	\$ 0.32	\$ 1.07	\$ 0.13	\$ 0.42	\$ 0.45	\$ 1
Dividends declared	(0.90)	(0.90)	(1.80)	(1.80)	(0.90)	(0.90)	(2.70)	(2
Undistributed earnings	\$ 0.25	\$ (0.36)	\$ (1.48)	\$ (0.73)	\$ (0.77)	\$ (0.48)	\$ (2.25)	\$ (0
Net income from continuing operations attributable to common shareholders -Diluted	\$ 1.15	\$ 0.53	\$ 0.31	\$ 1.06	\$ 0.13	\$ 0.42	\$ 0.45	\$ 1
Dividends declared	(0.90)	(0.90)	(1.80)	(1.80)	(0.90)	(0.90)	(2.70)	(2
Undistributed earnings	\$ 0.25	\$ (0.37)	\$ (1.49)	\$ (0.74)	\$ (0.77)	\$ (0.48)	\$ (2.25)	\$ (0

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 403 anti-dilutive shares related to non-vested stock grants for the three months ended September 30, 2023 and no anti-dilutive shares related to non-vested stock grants for the three months ended June 30, 2023 and 2022, respectively. There were 2,731 anti-dilutive shares related to non-vested stock grants for the six months ended June 30, 2023 and no anti-dilutive shares related to non-vested stock grants for the nine months ended June 30, 2022, September 30, 2023 and 2022.

### 4. 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

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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

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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 Amended 2018 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 ~~June 30, 2023~~ September 30, 2023, there were 373,422 shares available for future grant.

**Accounting and Reporting for Stock-Based Awards**

Accounting Standards Codification ("ASC") 718, *Compensation — Stock Compensation*, 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).

**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 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.

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The following table summarizes restricted stock activity under the Amended 2018 Plan during the **six** **nine** months ended **June 30, 2023** **September 30, 2023** assuming a target payout for the 2023 performance-based shares.

	Shares Under Restriction	Weighted		Performance-based		Weighted		Shares Under Restriction	Weighted		Performance-based		Weighted		
		Average		Shares Under Restriction		Average			Average		Shares Under Restriction		Average		
		Fair Value	Restriction	Fair Value	Restriction	Fair Value	Restriction		Fair Value	Restriction	Fair Value	Restriction	Fair Value	Restriction	
Outstanding at beginning of year	63,413	\$ 83.87		75,069	\$ 84.46		63,413	\$ 83.87		75,069	\$ 84.46				
Granted	40,101	80.03		30,693 (1)	81.81		40,101	80.03		30,693 (1)	81.81				
Vested and unrestricted	(36,352)	83.87		(26,599)	90.50		(36,352)	83.87		(26,599)	90.50				
Forfeited	—	—		(172)	83.39		(233)	81.62		(172)	83.39				
Outstanding at end of period	67,162	\$ 81.58		78,991	\$ 81.40		66,929	\$ 81.58		78,991	\$ 81.40				

(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 and granted under the Amended 2018 Plan.

As of **June 30, 2023** **September 30, 2023**, there was **\$7,366** **\$5,470** of unrecognized compensation expense related to non-vested restricted stock awards that is expected to be recognized over a weighted average period of **1.7** **1.4** years. The total fair value of the shares that were vested and unrestricted during the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was \$5,456 and \$5,749, respectively. For the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022, the Company recorded compensation expense related to restricted stock of **\$1,918** **\$2,569** and **\$2,673** **\$3,702**, net of income tax benefits of **\$510** **\$683** and **\$711** **\$984**, respectively, within Underwriting, operating and related expenses on the Consolidated Statements of Operations.

## 5. Investments

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

		As of June 30, 2023					As of September 30, 2023										
		Cost or Amortized		Allowance for Expected Credit		Gross Unrealized		Estimated Fair Value		Cost or Amortized		Allowance for Expected Credit		Gross Unrealized		Estimated Fair Value	
		Cost	Amortized	Gains	Losses	Gains	Losses (3)	Fair Value	Cost	Amortized	Gains	Losses	Gains	Losses (3)	Fair Value		
U.S. Treasury securities		\$ 1,824	\$ —	\$ —	\$ (155)	\$ 1,669		\$ 2,421	\$ —	\$ —	\$ —	\$ (164)	\$ 2,257				
Obligations of states and political subdivisions		38,892	—	251	(2,875)	36,268	38,787	—	170	(3,810)	35,147						
Residential mortgage-backed securities (1)		248,439	—	274	(24,940)	223,773	259,055	—	59	(34,717)	224,397						
Commercial mortgage-backed securities		158,640	—	82	(16,807)	141,915	157,421	—	—	(18,253)	139,168						
Other asset-backed securities		68,001	—	—	(4,266)	63,735	67,610	—	4	(3,945)	63,669						
Corporate and other securities		597,047	(1,635)	1,171	(46,476)	550,107	592,058	(1,231)	758	(50,998)	540,587						
Subtotal, fixed maturity securities		1,112,843	(1,635)	1,778	(95,519)	1,017,467	1,117,352	(1,231)	991	(111,887)	1,005,225						
Short term investments		79	—	—	—	79											
Equity securities (2)		214,309	—	27,348	(11,601)	230,056	216,589	—	23,041	(16,478)	223,152						
Other invested assets (4)		125,943	—	—	—	125,943	129,739	—	—	—	129,739						
Totals		\$ 1,453,174	\$ (1,635)	\$ 29,126	\$ (107,120)	\$ 1,373,545	\$ 1,463,680	\$ (1,231)	\$ 24,032	\$ (128,365)	\$ 1,358,116						

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		As of December 31, 2022							
		Cost or Amortized		Allowance for Expected Credit		Gross Unrealized		Estimated Fair Value	
		Cost	Amortized	Gains	Losses	Gains	Losses (3)	Fair Value	
		\$	\$	\$	\$	\$	\$	\$	
U.S. Treasury securities		\$ 1,825	\$ —	\$ —	\$ —	\$ (156)	\$ (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
<b>Totals</b>	<b>\$ 1,497,073</b>	<b>\$ (678)</b>	<b>\$ 33,371</b>	<b>\$ (126,606)</b>	<b>\$ 1,403,160</b>

- (1) Residential mortgage-backed securities consist 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 1,153 1,119 and 1,195 securities in an unrealized loss position at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.
- (4) Other invested assets are accounted for under the equity method which approximated 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 June 30, 2023				As of September 30, 2023			
	Amortized Cost		Estimated Fair Value		Amortized Cost		Estimated Fair Value	
	\$	17,462	\$	16,794	\$	25,248	\$	24,765
Due in one year or less								
Due after one year through five years		320,662		300,013		324,368		302,274
Due after five years through ten years		267,771		242,386		256,445		227,508
Due after ten years through twenty years		31,217		28,527		26,589		23,160
Due after twenty years		651		324		616		284
Asset-backed securities		475,080		429,423		484,086		427,234
<b>Totals</b>	<b>\$</b>	<b>1,112,843</b>	<b>\$</b>	<b>1,017,467</b>	<b>\$</b>	<b>1,117,352</b>	<b>\$</b>	<b>1,005,225</b>

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Gross realized gains								
Fixed maturity securities	\$ 300	\$ 521	\$ 839	\$ 993	\$ 436	\$ 302	\$ 1,275	\$ 1,295
Equity securities	1,843	3,489	3,366	7,414	1,869	2,029	5,235	9,443
Gross realized losses								
Fixed maturity securities	(300)	(810)	(922)	(996)	(1,338)	(1,044)	(2,260)	(2,040)
Equity securities	(1,735)	(48)	(2,442)	(49)	(697)	(36)	(3,139)	(85)
Net realized gains on investments	\$ 108	\$ 3,152	\$ 841	\$ 7,362	\$ 270	\$ 1,251	\$ 1,111	\$ 8,613

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.

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The following tables as of **June 30, 2023** **September 30, 2023** and December 31, 2022 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 June 30, 2023						As of September 30, 2023					
	Less than 12 Months		12 Months or More		Total		Less than 12 Months		12 Months or More		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Treasury securities	\$ —	\$ —	\$ 1,669	\$ 155	\$ 1,669	\$ 155	\$ 594	\$ 4	\$ 1,663	\$ 160	\$ 2,257	\$ 164
Obligations of states and political subdivisions	8,976	142	23,544	2,733	32,520	2,875	3,728	172	27,752	3,638	31,480	3,810
Residential mortgage-backed securities	54,301	2,803	148,295	22,137	202,596	24,940	42,077	1,844	177,655	32,873	219,732	34,717
Commercial mortgage-backed securities	14,559	898	122,179	15,909	136,738	16,807	8,872	399	130,296	17,854	139,168	18,253
Other asset-backed securities	6,381	470	57,353	3,796	63,734	4,266	5,818	390	52,847	3,555	58,665	3,945
Corporate and other securities	186,872	7,394	304,830	39,082	491,702	46,476	112,458	4,376	359,076	46,622	471,534	50,998
Subtotal, fixed maturity securities	271,089	11,707	657,870	83,812	928,959	95,519	173,547	7,185	749,289	104,702	922,836	111,887
Equity securities	43,547	3,893	62,851	7,708	106,398	11,601	77,095	7,389	45,975	9,089	123,070	16,478
Total temporarily impaired securities	<b>\$ 314,636</b>	<b>\$ 15,600</b>	<b>\$ 720,721</b>	<b>\$ 91,520</b>	<b>\$ 1,035,357</b>	<b>\$ 107,120</b>	<b>\$ 250,642</b>	<b>\$ 14,574</b>	<b>\$ 795,264</b>	<b>\$ 113,791</b>	<b>\$ 1,045,906</b>	<b>\$ 128,365</b>

	As of December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	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

At June 30, 2023 September 30, 2023, U.S. Government residential mortgage backed securities with a fair value of \$59,783 \$51,185 are pledged as collateral for a borrowing with the Federal Home Loan Bank of Boston ("FHLB-Boston") as described in Note 9 – 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 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 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

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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 **June 30, 2023** **September 30, 2023** and December 31, 2022, the Company concluded that **\$1,635** **\$1,231** and \$678, respectively, of unrealized losses were due to credit factors and were recorded as an allowance for expected credit losses expense. The Company concluded that outside of the securities that were recognized as credit impaired, the unrealized losses recorded on the fixed maturity portfolio at **June** **September** 30, 2023 and 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. 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 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 table represents a reconciliation of the beginning and ending balances of the allowance for expected credit losses on fixed maturities classified as available for sale.

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Beginning of period	\$ 1,600	\$ 691	\$ 678	\$ 691	\$ 1,635	\$ 691	\$ 678	\$ 691
Credit losses on securities with no previously recorded credit losses	363	—	717	—	195	193	912	193
Net increases (decreases) in allowance on previously impaired securities	(246)	—	322	—	(77)	98	245	98
Reduction due to sales	(82)	—	(82)	—	(522)	(84)	(604)	(84)
Writeoffs charged against allowance	—	—	—	—	—	—	—	—
Recoveries of amounts previously written off	—	—	—	—	—	—	—	—
Ending balance of period	\$ 1,635	\$ 691	\$ 1,635	\$ 691	\$ 1,231	\$ 898	\$ 1,231	\$ 898

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:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Interest on fixed maturity securities	\$ 11,960	\$ 9,746	\$ 23,704	\$ 18,851	\$ 12,101	\$ 10,074	\$ 35,805	\$ 28,925
Dividends on equity securities	1,484	1,436	3,094	2,756	1,562	1,442	4,656	4,198
Equity in earnings of other invested assets	1,194	1,249	2,280	2,265	1,425	379	3,705	2,644
Interest on other assets	34	8	65	15	69	23	134	38

Total investment income	14,672	12,439	29,143	23,887	15,157	11,918	44,300	35,805
Investment expenses	836	804	1,653	1,662	1,152	806	2,805	2,468
Net investment income	\$ 13,836	\$ 11,635	\$ 27,490	\$ 22,225	\$ 14,005	\$ 11,112	\$ 41,495	\$ 33,337

#### 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

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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 FHLB-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.

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- *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.
- *Federal Home Loan Bank of Boston ("FHLB-Boston"):* value is equal to the cost of the member stock purchased, which is expected to be the exit price.

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 (consistent with ASC 820).

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 **June 30, 2023** **September 30, 2023**. There were no significant changes to the valuation process during the **six** **nine** months ended **June 30, 2023** **September 30, 2023**. As of **June 30, 2023** **September 30, 2023** and December 31, 2022, no quotes or prices obtained were adjusted by management. All broker quotes obtained were non-binding.

At **June 30, 2023** **September 30, 2023** and December 31, 2022, investments in fixed maturities classified as available-for-sale had a fair value which equaled carrying value of **\$1,017,467** **\$1,005,225** and **\$1,050,155**, respectively. At **June 30, 2023** **September 30, 2023** and December 31, 2022, the Company held **\$79** and **\$0** of **no** short-term investments, respectively. 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 June 30, 2023				As of September 30, 2023			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
	\$ 1,669	\$ —	\$ 1,669	\$ —	\$ 2,257	\$ —	\$ 2,257	\$ —
U.S. Treasury securities	\$ 1,669	\$ —	\$ 1,669	\$ —	\$ 2,257	\$ —	\$ 2,257	\$ —
Obligations of states and political subdivisions	36,268	—	36,268	—	35,147	—	35,147	—
Residential mortgage-backed securities	223,773	—	223,773	—	224,397	—	224,397	—
Commercial mortgage-backed securities	141,915	—	141,915	—	139,168	—	139,168	—
Other asset-backed securities	63,735	—	63,735	—	63,669	—	63,669	—
Corporate and other securities	550,107	—	550,107	—	540,587	—	540,587	—
Short term investments	79	—	79	—				
Equity securities	193,228	190,936	—	2,292	187,498	185,412	—	2,086
Total investment securities	<u>\$ 1,210,774</u>	<u>\$ 190,936</u>	<u>\$ 1,017,546</u>	<u>\$ 2,292</u>	<u>\$ 1,192,723</u>	<u>\$ 185,412</u>	<u>\$ 1,005,225</u>	<u>\$ 2,086</u>

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	As of December 31, 2022			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
	\$ 1,669	\$ —	\$ 1,669	\$ —
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	<u>\$ 1,249,860</u>	<u>\$ 197,450</u>	<u>\$ 1,050,155</u>	<u>\$ 2,255</u>

As of **June 30, 2023** **September 30, 2023** and December 31, 2022, there were approximately **\$36,828** **\$35,654** and **\$40,450**, respectively, in a real estate investment trust ("REIT"). 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 financial statements. The Company is required to submit a request 45 days before a quarter end to dispose of the security.

There were no transfers between Level 1 and Level 2 during the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022.

The following table summarizes the changes in the Company's Level 3 fair value securities for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023		2022		2023		2022	
	Level 3	Level 3	Level 3	Level 3	Level 3	Level 3	Level 3	Level 3
	Fair Value Securities	Fair Value Securities	Fair Value Securities	Fair Value Securities	Fair Value Securities	Fair Value Securities	Fair Value Securities	Fair Value Securities
Balance at beginning of period	\$ 2,935	\$ 1,698	\$ 2,255	\$ 1,698	\$ 2,292	\$ 2,055	\$ 2,255	\$ 1,698
Net gains and losses included in earnings	—	—	—	—	—	—	—	—
Net gains included in other comprehensive income	—	—	—	—	—	—	—	—
Purchases	—	357	680	357	—	—	680	357
Sales	(643)	—	(643)	—	(206)	—	(849)	—
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—
Balance at end of period	\$ 2,292	\$ 2,055	\$ 2,292	\$ 2,055	\$ 2,086	\$ 2,055	\$ 2,086	\$ 2,055
Amount of total losses included in earnings attributable to the change in unrealized losses related to assets still held at end of period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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 the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022. The Company held one Level 3 security at **June 30, 2023** **September 30, 2023** and 2022.

## 6. Allowance for Expected Credit Losses

The Company's financial instruments measured at amortized cost 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.

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The following tables present the balances of premiums receivable, net of the allowance for expected credit losses and changes in the allowance for expected credit losses for the three and **six** nine months ended **June 30, 2023** **September 30, 2023** and 2022.

	At and For the		At and For the		At and For the		At and For the		
	Three Months Ended June		Three Months Ended June		Three Months Ended		Three Months Ended		
	30, 2023		30, 2022		September 30, 2023		September 30, 2022		
	Accounts	Receivable	Accounts	Receivable	Accounts	Receivable	Accounts	Receivable	
	Net of	Allowance	Net of	Allowance	Net of	Allowance	Net of	Allowance	
	for	for	for	for	for	for	for	for	
	Expected	Expected	Expected	Expected	Expected	Expected	Expected	Expected	
	Credit	Credit	Credit	Credit	Credit	Credit	Credit	Credit	
	Losses	Losses	Losses	Losses	Losses	Losses	Losses	Losses	
	Balance, beginning of period	\$ 205,560	\$ 1,262	\$ 167,096	\$ 1,733	\$ 238,563	\$ 996	\$ 182,835	\$ 1,677
	Current period change for expected credit losses		420		313		713		312
	Writeoffs of uncollectable accounts receivable		(686)		(369)		(842)		(400)
	Balance, end of period	\$ 238,563	\$ 996	\$ 182,835	\$ 1,677	\$ 258,267	\$ 867	\$ 187,973	\$ 1,589

	At and For the		At and For the		At and For the		At and For the		
	Six Months Ended June		Six months ended June		Nine Months Ended		Nine months ended		
	30, 2023		30, 2022		September 30, 2023		September 30, 2022		
	Accounts	Receivable	Accounts	Receivable	Accounts	Receivable	Accounts	Receivable	
	Net of	Allowance	Net of	Allowance	Net of	Allowance	Net of	Allowance	
	for	for	for	for	for	for	for	for	
	Expected	Expected	for Expected	Expected	Expected	Expected	Expected	Expected	
	Credit	Credit	Credit	Credit	Credit	Credit	Credit	Credit	
	Losses	Losses	Losses	Losses	Losses	Losses	Losses	Losses	
	Balance, beginning of period	\$ 192,542	\$ 1,446	\$ 170,953	\$ 1,808	\$ 192,542	\$ 1,446	\$ 170,953	\$ 1,808
	Current period change for expected credit losses		904		714		1,480		1,026
	Writeoffs of uncollectable accounts receivable		(1,354)		(845)		(2,059)		(1,245)
	Balance, end of period	\$ 238,563	\$ 996	\$ 182,835	\$ 1,677	\$ 258,267	\$ 867	\$ 187,973	\$ 1,589

Reinsurance recoverables include amounts due from reinsurers for both paid and unpaid losses. The Company cedes insurance to Commonwealth Automobile Reinsurers ("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 loss adjustment expenses ("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 uncollectable 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 uncollectable 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 losses and loss 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 June 30, 2023 September 30, 2023 and December 31, 2022. 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 June 30, 2023 September 30, 2023 and December 31, 2022, most of the 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 June 30, 2023 September 30, 2023 or December 31, 2022.

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## 7. Loss and Loss Adjustment Expense Reserves

The following table sets forth a reconciliation of beginning and ending reserves for losses and LAE, as shown in the Company's consolidated financial statements for the periods indicated.

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Reserves for losses and LAE at beginning of year	\$ 549,598	\$ 570,651	\$ 549,598	\$ 570,651
Less receivable from reinsurers related to unpaid losses and LAE	(93,394)	(90,667)	(93,394)	(90,667)
Net reserves for losses and LAE at beginning of year	456,204	479,984	456,204	479,984
Incurred losses and LAE, related to:				
Current year	332,197	265,154	505,194	403,173
Prior years	(21,521)	(29,273)	(34,997)	(43,223)
Total incurred losses and LAE	310,676	235,881	470,197	359,950
Paid losses and LAE related to:				
Current year	165,914	141,809	223,945	236,571
Prior years	132,719	114,449	224,989	149,977
Total paid losses and LAE	298,633	256,258	448,934	386,548
Net reserves for losses and LAE at end of period	468,247	459,607	477,467	453,386
Plus receivable from reinsurers related to unpaid losses and LAE	96,780	88,538	106,708	92,026
Reserves for losses and LAE at end of period	\$ 565,027	\$ 548,145	\$ 584,175	\$ 545,412

At the end of each period, the reserves were re-estimated for all prior accident years. The Company's prior year reserves decreased by \$21,521 \$34,997 and \$29,273 \$43,223 for the **six** **nine** months ended **June** **September** 30, 2023 and 2022, respectively, and resulted from re-estimations of prior year's ultimate loss and LAE liabilities. The decreases in prior years reserves during the **six** **nine** months ended **June** **30**, **2023** **September** 30, 2023 and 2022 are primarily composed of reductions in our retained automobile and retained homeowners lines reserves.

The Company's automobile lines of business reserves decreased for the **six** **nine** months ended **June** **30, 2023** **September** 30, 2023 and 2022, 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. 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.

## **8. Commitments and Contingencies**

### **Commitments**

As part of the Company's investment activity, we have committed \$160,000 \$170,000 to investments in limited partnerships. The Company has contributed \$127,047 \$128,339 to these commitments as of **June** **30, 2023** **September** 30, 2023. As of **June** **30, 2023** **September** 30, 2023, the remaining committed capital that could be called is \$40,200 \$48,919, which includes potential recallable capital contributions.

### **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.

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On October 19, 2021, the Supreme Judicial Court of Massachusetts (the "SJC") 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 (the "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 SJC 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 SJC 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. On June 20, 2023, the **Commonwealth of Massachusetts Suffolk** Superior Court denied a motion brought by the plaintiffs seeking class certification. **The plaintiffs have since filed a motion to amend the complaint, seeking to address the concerns raised by the Superior Court in denying their motion for class certification; Safety has opposed the motion to amend the complaint, which has yet to be heard or ruled on by the Superior Court.** Based on the SJC'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 are not expected to have a material effect upon the financial position of the Company.

## 9. Debt

On ~~August 10, 2018~~ August 10, 2023, 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~~ August 10, 2028. 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 the higher of the Citizens Bank prime rate, the daily SOFR rate plus 1.25% per annum, or 0.5% above the federal funds rate plus 1.25% per annum. rate. 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 ~~June 30, 2023~~ September 30, 2023, 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 ~~June 30, 2023~~ September 30, 2023 and December 31, 2022. The credit facility commitment fee included in interest expense was computed at a rate of ~~0.25%~~ 0.20% per annum on the \$30,000 commitment at ~~June 30, 2023 and 2022~~ September 30, 2023.

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 ~~June 30, 2023~~ September 30, 2023, the Company has the ability to borrow ~~\$186,981~~ \$177,098 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.

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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.

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On March 7, 2023, the Company borrowed \$15,000 from FHLB-Boston for a term of one-month, bearing an interest rate of 4.92%. The interest and principal was paid on the maturity date of April 5, 2023.

On June 29, 2023, the Company borrowed \$5,000 from FHLB-Boston for a term of one-week, bearing an interest rate of 5.24%. The interest and principal was paid on the maturity date of July 6, 2023.

The Company estimates the fair value of the FHLB-Boston loans by discounting cash flows using the interest rate stated in the loan agreement, 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 \$35,642 at June 30, 2023 and \$35,807 at September 30, 2023 and December 31, 2022, respectively. The loans are fully collateralized by specific U.S. Government residential mortgage-backed securities with a fair value of \$59,783 at June 30, 2023 and \$51,185 at September 30, 2023 and December 31, 2022, respectively. The borrowing is outstanding from the FHLB-Boston at June 30, 2023 and December 31, 2022.

Interest expense on the FHLB-Boston borrowing was \$359 at June 30, 2023 and \$119 at September 30, 2023 and December 31, 2022, respectively. Interest expense on the FHLB-Boston borrowing was \$514 at June 30, 2023 and \$634 at September 30, 2023 and December 31, 2022, respectively. Interest expense on the FHLB-Boston borrowing was \$216 at June 30, 2023 and \$325 at September 30, 2023 and December 31, 2022, respectively.

## 10. Income Taxes

Federal income tax expense for the six months ended June 30, 2023 September 30, 2023 and 2022 has been computed using estimated effective tax rates. These rates are revised, if necessary, at the end of each successive interim period to reflect the current estimates of the annual effective tax rates. The effective rate in 2023 was higher than the statutory rate primarily due to effects of the change in unrealized gains on equity securities and the impact of stock-based compensation.

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. Therefore, the Company has not recorded any liability for uncertain tax positions under ASC 740, *Income Taxes*.

During the six months ended June 30, 2023 September 30, 2023, 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.

All tax years prior to 2019 2020 are closed. There are no current examinations ongoing.

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.

## 11. Share Repurchase Program

On February 23, 2022, the Board of Directors approved a share repurchase program of up to \$50,000 of the Company's outstanding common shares. The Board of Directors has 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 three and six months ended June 30, 2023, the Company purchased 74,213 shares at a cost 21

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No share purchases were made by the Company during the three months ended **June 30, 2022**, **September 30, 2023** and **2022**. The Company **purchased 74,213 shares at a cost of \$5,240** during the nine months ended **September 30, 2023** and **purchased 170,904 shares at a cost of \$14,603** during the **six nine months ended June 30, 2022** **September 30, 2022**. Included in the cost of treasury stock acquired during 2023 is the one percent excise tax imposed as part of the Inflation Reduction Act, which

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became effective January 1, 2023. As of **June 30, 2023** **September 30, 2023** and December 31, 2022, the Company had purchased 3,215,690 and 3,141,477 shares at a cost of \$155,240 and \$150,000, respectively.

**12. Leases**

The Company has various non-cancelable, long-term operating leases, the largest of which are for office space including the corporate headquarters, 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.

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:

					Three Months Ended June 30,		Six Months Ended June 30,				Three Months Ended September 30,		Nine Months Ended September 30,			
	2023		2022		2023		2022		2023		2022		2023		2022	
	Operating lease cost	\$ 1,042	Operating lease cost	\$ 1,069	Operating lease cost	\$ 2,050	Operating lease cost	\$ 2,141	Operating lease cost	\$ 1,038	Operating lease cost	\$ 1,052	Operating lease cost	\$ 3,089	Operating lease cost	\$ 3,193

Other information related to leases was as follows:

					Three Months Ended June 30,		Six Months Ended June 30,				Three Months Ended September 30,		Nine Months Ended September 30,			
	2023		2022		2023		2022		2023		2022		2023		2022	
	Operating cash flows from operating leases	\$ 1,175	Operating cash flows from operating leases	\$ 1,205	Operating cash flows from operating leases	\$ 2,318	Operating cash flows from operating leases	\$ 2,413	Operating cash flows from operating leases	\$ 1,171	Operating cash flows from operating leases	\$ 1,188	Operating cash flows from operating leases	\$ 3,489	Operating cash flows from operating leases	\$ 3,601
Cash paid for amounts included in the measurement of lease liabilities:																
Operating cash flows from operating leases																
Weighted average remaining lease term																
Operating leases																
Weighted average discount rate																
Operating leases																

Maturities of lease liabilities were as follows:



	<b>Operating Leases</b>	<b>Operating Leases</b>
2023	\$ 2,327	\$ 1,156
2024	4,431	4,431
2025	4,034	4,034
2026	3,980	3,980
2027	3,973	3,973
Thereafter	3,906	3,905
Total lease payments	<u>22,651</u>	<u>21,479</u>
Less imputed interest	(917)	(893)
<b>Total</b>	<b>\$ 21,734</b>	<b>\$ 20,586</b>

### 13. Subsequent Events

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

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### Item 2.

#### **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," "the 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, commercial automobile, homeowners and commercial other-than-auto insurance in Massachusetts. In addition to private passenger automobile insurance (which represented 52.0% of our direct written premiums

in 2022), we offer a portfolio of other insurance products, including commercial automobile (17.4% of 2022 direct written premiums), homeowners (25.3% of 2022 direct written premiums) and 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 at December 31, 2022. We have used these relationships and our extensive knowledge of the Massachusetts market to become the third largest private passenger automobile carrier and the second largest commercial automobile insurance carrier in Massachusetts, capturing an approximate 7.9% 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 also the third largest homeowners insurance carrier in Massachusetts with a 6.5% share of the Massachusetts homeowners insurance market.

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 June 15, 2023.

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Our Insurance Subsidiaries began writing insurance in New Hampshire during 2008 and in Maine in 2016. In November 2020, we formed a fourth insurance subsidiary, Safety Northeast, which became licensed to write insurance

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products in Massachusetts.

The table below shows the amount of direct written premiums written in each state during the three and **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022.

<b>Direct Written Premiums</b>	<b>Three Months Ended June 30, Six Months Ended June 30,</b>			<b>Three Months Ended September 30, Nine Months Ended September 30,</b>			<b>2022</b>
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	
Massachusetts	\$ 247,819	\$ 204,591	\$ 455,771	\$ 385,682	\$ 253,608	\$ 206,830	\$ 592,512
New Hampshire	10,689	9,034	19,301	16,674	11,686	9,935	26,608
Maine	1,649	951	2,937	1,713	1,830	1,113	4,767
<b>Total</b>	<b>\$ 260,157</b>	<b>\$ 214,576</b>	<b>\$ 478,009</b>	<b>\$ 404,069</b>	<b>\$ 267,124</b>	<b>\$ 217,878</b>	<b>\$ 621,947</b>

#### *Recent Trends and Events*

Beginning on February 2, 2023 and through February 5, 2023, the Northeast region experienced a severe winter weather event ("February Winter Freeze") over a thirty-six hour period, whereby temperatures reached lows of negative 40 degrees Fahrenheit, including windchill. As a result of the February Winter Freeze, the Company received approximately 800 claims totaling \$32,100 of losses and loss adjustment expenses for the **six nine** months ended **June 30, 2023** **September 30, 2023**.

**Losses and Loss Adjustment Expenses.** Losses and loss adjustment expenses incurred for the three months ended **June 30, 2023** **September 30, 2023** increased by **\$30,808** **\$35,452**, or **27.3%** **28.6%**, to **\$143,523** **\$159,521** from **\$112,715** **\$124,069** for the comparable 2022 period. Losses and loss adjustment expenses incurred for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** increased by **\$74,795**, **\$110,247**, or **31.7%** **30.6%**, to **\$310,676** **\$470,197** from **\$235,881** **\$359,950** for the comparable 2022 period. The increase in losses for the three months ended September 30, 2023 is due to continued inflationary impacts on our Private Passenger Automobile line of business, increased total automobile losses due to multiple flood events, and a high wind event that impacted our Homeowners line of business. The impact these weather events had on losses and loss adjustment expenses was approximately \$3,000. The increase in losses for the nine months ended September 30, 2023 also included the February Winter Freeze.

**Direct and Net Written Premiums.** For the quarter ended **June 30, 2023** **September 30, 2023**, the Company achieved its **third** **fourth** consecutive quarter of double-digit growth in direct and net written premiums. For the three months ended **June 30, 2023** **September 30, 2023**, direct written premium growth and net written premium growth were **21.2%** **22.6%** and **20.8%** **22.2%**, respectively. The increase in premium is driven by new business production, improved retention, and rate increases. For the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, the Company achieved policy count growth across all lines of business, including **13.5%** **14.1%**, **4.0%** **5.9%** and **9.1%** **9.7%** in Private Passenger Automobile, Commercial Automobile and Homeowners lines, respectively, compared to the same period in 2022. Additionally, for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, average written premium per policy increased **9.4%** **10.7%**, **5.2%** **4.5%** and **3.9%** **4.5%** in Private Passenger Automobile, Commercial Automobile and Homeowners lines, respectively, compared to the same period in 2022.

Non-generally accepted accounting principles ("non-GAAP") operating income, as defined below, was **\$11,993** **\$8,673** for the three months ended **June 30, 2023**, compared to non-GAAP operating loss of **\$803** **September 30, 2023** and **\$7,870** for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, respectively, compared to operating income of **\$28,230** **\$16,715** and **\$43,039** **\$59,754** for the comparable 2022 periods, respectively. The decrease in non-GAAP operating income for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** was primarily the result of an increase in losses and loss adjustment expenses compared to the prior period. Non-GAAP operating income was **\$0.80** **\$0.59** per diluted share for the three months ended **June 30, 2023**, compared to non-GAAP operating loss of **\$0.07** **September 30, 2023** and **\$0.54** per diluted share, for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, respectively, compared to operating income of **\$1.91** **\$1.13** and **\$2.92** **\$4.05** per diluted share, respectively, for the comparable 2022 period.

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The following rate changes have been filed and approved by the insurance regulators of Massachusetts, New Hampshire and Maine in 2023 and 2022.

Line of Business	Effective Date	Rate Change
<b>Massachusetts Private Passenger Automobile</b>	<b>January 1, 2024</b>	<b>3.5%</b>
<b>New Hampshire Commercial Automobile</b>	<b>November 1, 2023</b>	<b>7.9%</b>
<b>New Hampshire Homeowners</b>	<b>October 1, 2023</b>	<b>6.0%</b>
<b>Maine Private Passenger Automobile</b>	<b>October 1, 2023</b>	<b>7.3%</b>
<b>New Hampshire Private Passenger Automobile</b>	<b>September 1, 2023</b>	<b>6.5%</b>
<b>Massachusetts Homeowners</b>	<b>August 1, 2023</b>	<b>3.9%</b>
<b>Massachusetts Private Passenger Automobile</b>	<b>July 1, 2023</b>	<b>4.3%</b>
<b>Massachusetts Commercial Automobile</b>	<b>May 1, 2023</b>	<b>4.0%</b>
<b>Massachusetts Private Passenger Automobile</b>	<b>December 1, 2022</b>	<b>3.5%</b>
<b>New Hampshire Commercial Automobile</b>	<b>September 1, 2022</b>	<b>5.8%</b>
<b>New Hampshire Homeowners</b>	<b>September 1, 2022</b>	<b>3.5%</b>

New Hampshire Private Passenger Automobile	September 1, 2022	2.8%
Massachusetts Homeowners	July 1, 2022	2.6%
Massachusetts Commercial Automobile	May 1, 2022	3.1%
Massachusetts Private Passenger Automobile	April 1, 2022	-2.3%

#### 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 Generally Accepted Accounting Principles ("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 outlined in the following table.

GAAP ratios:	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023		2022		2023		2022	
	2023	2022	2023	2022	2023	2022	2023	2022
Loss ratio	71.0 %	59.8 %	78.9 %	62.8 %	74.4 %	65.3 %	77.3 %	63.7 %
Expense ratio	30.9	32.3	31.1	32.6	30.4	31.8	30.9	32.3
Combined ratio	101.9 %	92.1	110.0 %	95.4 %	104.8 %	97.1	108.2 %	96.0 %

#### 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 Amended 2018 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 June 30, 2023 September 30, 2023, there were 374,422 373,422 shares available for future grant.

A summary of share based awards granted under the Incentive Plan during the **six nine** months ended **June 30, 2023** **September 30, 2023** is as follows:

Type of Equity Awarded	Effective Date	Number of	Fair		Vesting Terms
		Awards	Value per		
		Granted	Share (1)		
RS - Service	February 23, 2023	33,101	\$ 80.24	3 years, 30%-30%-40%	
RS - Performance	February 23, 2023	25,990	\$ 80.24	3 years, cliff vesting (3)	
RS - Performance	February 23, 2023	4,703	\$ 80.24	3 years, cliff vesting (4)	
RS	February 23, 2023	6,000	\$ 80.24	No vesting period (2)	
RS	May 17, 2023	1,000	\$ 71.78	No vesting period (2)	

- (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 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 and granted under the Amended 2018 Plan.

#### *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 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 during 2023 that protects us in the event of a "129-year storm" (that is, a storm of a severity expected to occur once in a 129-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").

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.

We are a participant in CAR, a state-established body that runs the residual market reinsurance programs for commercial automobile insurance in Massachusetts under which premiums, expenses, losses and loss adjustment expenses on ceded business are shared by all insurers writing automobile insurance in Massachusetts. 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.

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As a response to the exposure to catastrophe losses, on July 1, 2023, the FAIR Plan purchased \$1,475,000 of catastrophe reinsurance for property losses with retention of \$100,000.

At **June 30, 2023** **September 30, 2023**, we had a \$123,833 recoverable from CAR which comprises loss adjustment expense reserves, unearned premiums and reinsurance recoverable.

*Non-GAAP Measures*

Management has included certain 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 (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.

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**Results of Operations**

**Three and Six Nine Months Ended June 30, 2023 September 30, 2023 Compared to Three and Six Nine Months Ended June 30, 2022 September 30, 2022**

The following table shows certain of our selected financial results.

Three Months Ended June 30,	Six Months Ended June 30,	Three Months Ended September 30,	Nine N
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	2023	2022	2023	2022	2023	2022	2022
Direct written premiums	\$ 260,157	\$ 214,576	\$ 478,009	\$ 404,069	\$ 267,124	\$ 217,878	\$ 217,878
Net written premiums	\$ 244,969	\$ 202,724	\$ 447,853	\$ 380,776	\$ 251,087	\$ 205,428	\$ 205,428
Net earned premiums	\$ 202,225	\$ 188,333	\$ 393,960	\$ 375,421	\$ 214,425	\$ 189,931	\$ 189,931
Net investment income	13,836	11,635	27,490	22,225	14,005	11,112	11,112
Earnings from partnership investments	553	5,967	2,719	8,799	2,427	876	876
Net realized gains on investments	108	3,152	841	7,362	270	1,251	1,251
Change in net unrealized gains on equity securities	6,266	(28,885)	7,036	(41,919)	(9,184)	(14,364)	(14,364)
Credit loss expense	(35)	—	(957)	—	403	(207)	(207)
Commission income	1,758	—	3,241	—	1,918	—	—
Finance and other service income	4,732	3,403	8,872	6,720	5,094	3,749	3,749
Total revenue	229,443	183,605	443,202	378,608	229,358	192,348	192,348
Losses and loss adjustment expenses	143,523	112,715	310,676	235,881	159,521	124,069	124,069
Underwriting, operating and related expenses	62,582	60,872	122,615	122,466	65,217	60,373	60,373
Other expense	1,523	—	3,193	—	2,005	—	—
Interest expense	348	131	558	260	139	132	132
Total expenses	207,976	173,718	437,042	358,607	226,882	184,574	184,574
Income before income taxes	21,467	9,887	6,160	20,001	2,476	7,774	7,774
Income tax expense	4,466	1,986	1,496	4,262	527	1,582	1,582
Net income	\$ 17,001	\$ 7,901	\$ 4,664	\$ 15,739	\$ 1,949	\$ 6,192	\$ 6,192
Earnings per weighted average common share:							
Basic	\$ 1.15	\$ 0.54	\$ 0.32	\$ 1.07	\$ 0.13	\$ 0.42	\$ 0.42
Diluted	\$ 1.15	\$ 0.53	\$ 0.31	\$ 1.06	\$ 0.13	\$ 0.42	\$ 0.42
Cash dividends paid per common share	\$ 0.90	\$ 0.90	\$ 1.80	\$ 1.80	\$ 0.90	\$ 0.90	\$ 0.90

#### Reconciliation of Net Income to Non-GAAP Operating (Loss) Income

#### Reconciliation of Net Income to Non-GAAP Operating Income

<b>Net income</b>	\$ 17,001	\$ 7,901	\$ 4,664	\$ 15,739	\$ 1,949	\$ 6,192	\$ 6,192
Exclusions from net income:							
Net realized gains on investments	(108)	(3,152)	(841)	(7,362)	(270)	(1,251)	(1,251)
Change in net unrealized gains on equity securities	(6,266)	28,885	(7,036)	41,919	9,184	14,364	14,364
Credit loss expense	35	-	957	-	(403)	207	207
Income tax benefit (expense) on exclusions from net income	1,331	(5,404)	1,453	(7,257)			
Income tax expense on exclusions from net income					(1,787)	(2,797)	(2,797)
<b>Non-GAAP Operating income (loss)</b>	<b>\$ 11,993</b>	<b>\$ 28,230</b>	<b>\$ (803)</b>	<b>\$ 43,039</b>	<b>\$ 8,673</b>	<b>\$ 16,715</b>	<b>\$ 16,715</b>
<b>Net income per diluted share</b>	<b>\$ 1.15</b>	<b>\$ 0.53</b>	<b>\$ 0.31</b>	<b>\$ 1.06</b>	<b>\$ 0.13</b>	<b>\$ 0.42</b>	<b>\$ 0.42</b>
Exclusions from net income:							
Net realized gains on investments	(0.01)	(0.21)	(0.06)	(0.50)	(0.02)	(0.09)	(0.09)
Change in net unrealized (gains) on equity securities	(0.43)	1.96	(0.48)	2.85			
Change in net unrealized gains on equity securities					0.63	0.98	0.98
Credit loss expense	-	-	0.06	-	(0.03)	0.01	0.01
Income tax benefit (expense) on exclusions from net income	0.09	(0.37)	0.10	(0.49)			
<b>Non-GAAP Operating income (loss) per diluted share</b>	<b>\$ 0.80</b>	<b>\$ 1.91</b>	<b>\$ (0.07)</b>	<b>\$ 2.92</b>			
Income tax benefit expense on exclusions from net income					(0.12)	(0.19)	(0.19)
<b>Non-GAAP Operating income per diluted share</b>	<b>\$ 0.59</b>	<b>\$ 1.13</b>	<b>\$ (0.07)</b>	<b>\$ 2.92</b>			

**Direct Written Premiums.** Direct written premiums for the three months ended **June 30, 2023** **September 30, 2023** increased by **\$45,581**, **\$49,246**, or **21.2%** **22.6%**, to **\$260,157** **\$267,124** from **\$214,576** **\$217,878** for the comparable 2022 period. Direct written premiums for the **six nine** months ended **June 30, 2023** **September 30, 2023** increased by **\$73,940**, **\$123,186**, or **18.3%** **19.8%**, to **\$478,009** **\$745,133** from **\$404,069** **\$621,947** for the comparable 2022 period. The increases in direct written premium and net written premium are a result of new business production, improved retention, and rate increases. For the **six nine** months ended **June 30, 2023** **September 30, 2023**, the Company

achieved policy count growth across all lines of business, including **13.5%** **14.1%**, **4.0%** **5.9%** and **9.1%** **9.7%** in Private Passenger Automobile, Commercial Automobile and Homeowners lines, respectively, compared to the same period in 2022. Additionally, for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, average written premium per policy increased **9.4%** **10.7%**, **5.2%** **4.5%** and **3.9%** **4.5%** in Private Passenger Automobile, Commercial Automobile and Homeowners lines, respectively, compared to the same period in 2022.

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**Net Written Premiums.** Net written premiums for the three months ended **June 30, 2023** **September 30, 2023** increased by **\$42,245** **\$45,659**, or **20.8%** **22.2%**, to **\$244,969** **\$251,087** from **\$202,724** **\$205,428** for the comparable 2022 period. Net written premiums for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** increased by **\$67,077** **\$112,736**, or **17.6%** **19.2%**, to **\$447,853** **\$698,940** from **\$380,776** **\$586,204** for the comparable 2022 period. The increase was primarily due to the factors that increased direct written premiums.

**Net Earned Premiums.** Net earned premiums for the three months ended **June 30, 2023** **September 30, 2023** increased by **\$13,892** **\$24,494**, or **7.4%** **12.9%**, to **\$202,225** **\$214,425** from **\$188,333** **\$189,931** for the comparable 2022 period. Net earned premiums for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** increased by **\$18,539** **\$43,033**, or **4.9%** **7.6%**, to **\$393,960** **\$608,385** from **\$375,421** **\$565,352** for the comparable 2022 period.

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

Written Premiums	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023		2022		2023		2022	
	Direct	Assumed	Ceded	Net written premiums	Direct	Assumed	Ceded	Net written premiums
Written Premiums	\$ 260,157	\$ 8,528	(23,716)	\$ 244,969	\$ 267,124	\$ 7,472	(23,509)	\$ 251,087
Direct	\$ 214,576	7,967	(19,819)	\$ 202,724	\$ 217,878	6,460	(18,910)	\$ 205,428
Assumed	\$ 478,009	15,758	(45,914)	\$ 447,853	\$ 745,133	23,230	(69,423)	\$ 698,940
Ceded	\$ 404,069	14,708	(38,001)	\$ 380,776	\$ 621,947	21,168	(56,911)	\$ 586,204
Net written premiums								
<b>Earned Premiums</b>								
Earned Premiums	\$ 217,281	\$ 7,605	(22,661)	\$ 198,953	\$ 231,249	\$ 6,839	(23,663)	\$ 202,190
Direct	\$ 422,836	15,518	(44,394)	\$ 395,472	\$ 654,085	22,357	(18,756)	\$ 597,662
Assumed	\$ 395,472	15,338	(35,389)	\$ 375,421	\$ 597,662	21,835	(68,057)	\$ 565,352
Ceded	\$ 395,472	15,338	(35,389)	\$ 375,421	\$ 597,662	21,835	(68,057)	\$ 565,352
Net earned premiums								

**Net Investment Income.** Net investment income for the three months ended **June 30, 2023** **September 30, 2023** increased by **\$2,201** **\$2,893**, or **18.9%** **26.0%**, to **\$13,836** **\$14,005** from **\$11,635** **\$11,112** for the comparable 2022 period. Net investment income for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** increased by **\$5,265** **\$8,158**, or **23.7%** **24.5%**, to **\$27,490** **\$41,495** from **\$22,225** **\$33,337** for the comparable 2022 period. The increase is a result of increases in interest rates on our fixed maturity portfolio as compared to the prior year. Net effective annualized yield on the investment portfolio was **3.9%** **4.0%** for the three months ended **June 30, 2023** **September 30, 2023** compared to **3.2%** **3.0%** for the comparable 2022 period. Net effective annualized yield on the investment portfolio was **3.9%** for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** compared to **3.0%** **3.1%** for the comparable 2022 period. The investment portfolio's duration on fixed maturities was **3.7** **3.6** years at **June 30, 2023** **September 30, 2023** compared to **3.8** years at **December 31, 2022**.

*Earnings from Partnership Investments.* Earnings from partnership investments were \$553 \$2,427 for the three months ended June September 30, 2023 compared to \$5,967 \$876 for the comparable 2022 period. Earnings from partnership investments were \$2,719 \$5,146 for the six nine months ended June 30, 2023 September 30, 2023 compared to \$8,799 \$9,675 for the comparable 2022 period. The nine month 2023 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 was \$108 \$270 for the three months ended June 30, 2023 September 30, 2023 compared to \$3,152 \$1,251 for the comparable 2022 period. Net realized gains on investments was \$841 \$1,111 for the six nine months ended June 30, 2023 September 30, 2023 compared to \$7,362 \$8,613 for the comparable 2022 period. The decrease in net realized gains is driven by an increase in realized losses.

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

		As of June 30, 2023					As of September 30, 2023				
		Cost or Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized		Estimated Fair Value	Cost or Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized		Estimated Fair Value
				Gains	Losses (3)				Gains	Losses (3)	
U.S. Treasury securities		\$ 1,824	\$ —	\$ —	\$ (155)	\$ 1,669	\$ 2,421	\$ —	\$ —	\$ (164)	\$ 2,257
Obligations of states and political subdivisions		38,892	—	251	(2,875)	36,268	38,787	—	170	(3,810)	35,147
Residential mortgage-backed securities (1)		248,439	—	274	(24,940)	223,773	259,055	—	59	(34,717)	224,397
Commercial mortgage-backed securities		158,640	—	82	(16,807)	141,915	157,421	—	—	(18,253)	139,168
Other asset-backed securities		68,001	—	—	(4,266)	63,735	67,610	—	4	(3,945)	63,669
Corporate and other securities		597,047	(1,635)	1,171	(46,476)	550,107	592,058	(1,231)	758	(50,998)	540,587
Subtotal, fixed maturity securities		1,112,843	(1,635)	1,778	(95,519)	1,017,467	1,117,352	(1,231)	991	(111,887)	1,005,225
Short term investments		79	—	—	—	79	—	—	—	—	—
Equity securities (2)		214,309	—	27,348	(11,601)	230,056	216,589	—	23,041	(16,478)	223,152
Other invested assets (4)		125,943	—	—	—	125,943	129,739	—	—	—	129,739
Totals		\$ 1,453,174	\$ (1,635)	\$ 29,126	\$ (107,120)	\$ 1,373,545	\$ 1,463,680	\$ (1,231)	\$ 24,032	\$ (128,365)	\$ 1,358,116

- (1) Residential mortgage-backed securities consist 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) Our investment portfolio included 1,153 1,119 securities in an unrealized loss position at June 30, 2023 September 30, 2023.
- (4) Other invested assets accounted for under the equity method which approximated fair value.

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

	As of June 30, 2023				As of September 30, 2023	
	Estimated		Percent		Estimated	
	Fair Value	Percent	Fair Value	Percent		
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 223,773	22.0 %	\$ 224,395	22.3 %		
Aaa/Aa	220,712	21.7	215,401	21.4		
A	210,141	20.7	202,891	20.2		
Baa	204,165	20.1	196,976	19.6		
Ba	54,812	5.4	45,850	4.6		
B	84,755	8.3	83,561	8.3		
Caa/Ca	4,432	0.4	3,849	0.4		
Not rated	14,677	1.4	32,302	3.2		
Total	\$ 1,017,467	100.0 %	\$ 1,005,225	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 June September 30, 2023, 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.

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The following table illustrates the gross unrealized losses included in our investment portfolio and the fair value of those securities, aggregated by investment category. The table also illustrates the length of time that they have been in a continuous unrealized loss position as of June 30, 2023 September 30, 2023.

	As of June 30, 2023						As of September 30, 2023					
	Less than 12 Months		12 Months or More		Total		Less than 12 Months		12 Months or More		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Treasury securities	\$ —	\$ —	\$ 1,669	\$ 155	\$ 1,669	\$ 155	\$ 594	\$ 4	\$ 1,663	\$ 160	\$ 2,257	\$ 164

Obligations of states and political subdivisions	8,976	142	23,544	2,733	32,520	2,875	3,728	172	27,752	3,638	31,480	3,810
Residential mortgage-backed securities	54,301	2,803	148,295	22,137	202,596	24,940	42,077	1,844	177,655	32,873	219,732	34,717
Commercial mortgage-backed securities	14,559	898	122,179	15,909	136,738	16,807	8,872	399	130,296	17,854	139,168	18,253
Other asset-backed securities	6,381	470	57,353	3,796	63,734	4,266	5,818	390	52,847	3,555	58,665	3,945
Corporate and other securities	186,872	7,394	304,830	39,082	491,702	46,476	112,458	4,376	359,076	46,622	471,534	50,998
Subtotal, fixed maturity securities	271,089	11,707	657,870	83,812	928,959	95,519	173,547	7,185	749,289	104,702	922,836	111,887
Equity securities	43,547	3,893	62,851	7,708	106,398	11,601	77,095	7,389	45,975	9,089	123,070	16,478
Total temporarily impaired securities	\$ 314,636	\$ 15,600	\$ 720,721	\$ 91,520	\$ 1,035,357	\$ 107,120	\$ 250,642	\$ 14,574	\$ 795,264	\$ 113,791	\$ 1,045,906	\$ 128,365

As of **June 30, 2023** **September 30, 2023** and December 31, 2022, the Company concluded that **\$1,635** **\$1,231** and \$678, respectively, of unrealized losses were due to credit factors and were recorded as an allowance for expected credit losses expense. The Company concluded that outside of the securities that were recognized as credit impaired, the unrealized losses recorded on the fixed maturity portfolio at **June** **September** 30, 2023 and 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. 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 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.

For information regarding fair value measurements of our investment portfolio, refer to Item 1-Financial Statements, Note 5, Investments, of this Form 10-Q.

**Commission Income:** Commission income includes revenues from new and renewal commissions paid by insurance carriers, which we recognize when earned. Commission income for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** was **\$1,758** **\$1,918** and **\$3,241**, **\$5,159**, respectively.

**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 for the three months ended **June 30, 2023** **September 30, 2023** increased by **\$1,329**, **\$1,345**, or **39.1%** **35.9%**, to **\$4,732** **\$5,094** from **\$3,403** **\$3,749** for the comparable 2022 period. Finance and other service income for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, increased by **\$2,152**, **\$3,497**, or **32.0%** **33.4%**, to **\$8,872** **\$13,966** from **\$6,720** **\$10,469** for the comparable 2022 period. The increase is primarily driven by the increase in policy counts and changes to our fee assessment policies.

***Losses and Loss Adjustment Expenses.*** Losses and loss adjustment expenses incurred for the three months ended **June 30, 2023** **September 30, 2023** increased by **\$30,808** **\$35,452**, or **27.3%** **28.6%**, to **\$143,523** **\$159,521** from **\$112,715** **\$124,069** for the comparable 2022 period. Losses and loss adjustment expenses incurred for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** increased by **\$74,795**, **\$110,247**, or **31.7%** **30.6%**, to **\$310,676** **\$470,197** from **\$235,881** **\$359,950** for the comparable 2022 period. The increase in losses for the six month losses from the comparable 2022 period three months ended September 30, 2023 is due to continued inflationary impacts on our Private Passenger Automobile line of business, increased total automobile losses due to multiple flood events, and a high wind event that impacted our Homeowners line of business. The increase in losses for the nine months ended September 30, 2023 also included the February Winter Freeze of approximately \$32,100, as well as current market conditions including inflation. Freeze.

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Our GAAP loss ratio for the three months ended **June 30, 2023** **September 30, 2023** increased to **71.0%** **74.4%** from **59.8%** **65.3%** for the comparable 2022 period. Our GAAP loss ratio for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** increased to **78.9%** **77.3%** from **62.8%** **63.7%** for the comparable 2022 period. Our GAAP loss ratio excluding loss adjustment expenses for the three months ended

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**June 30, 2023** **September 30, 2023** was **62.2%** **65.7%** compared to 53.5% for the comparable 2022 period. Our GAAP loss ratio excluding loss adjustment expenses for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** was **69.0%** **67.8%** compared to **54.4%** **54.6%** for the comparable 2022 period. Total prior year favorable development included in the pre-tax results for the three months ended **June 30, 2023** **September 30, 2023** was **\$9,988** **\$13,476** compared to **\$16,861** **\$13,950** for the comparable 2022 period. Total prior year favorable development included in the pre-tax results for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** was **\$21,521** **\$34,997** compared to **\$29,273** **\$43,223** for the comparable 2022 period. The decrease in the prior year favorable development in 2023 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 three months ended **June 30, 2023** **September 30, 2023** increased by **\$1,710**, **\$4,844**, or **2.8%** **8.0%**, to **\$62,582** **\$65,217** from **\$60,872** **\$60,373** for the comparable 2022 period. Underwriting, operating and related expenses for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** increased by **\$149**, **\$4,993**, or **0.1%** **2.7%**, to **\$122,615** **\$187,832** from **\$122,466** **\$182,839** for the comparable 2022 period. The slight increase in the three months and **six** **nine** months ended **June 30, 2022** **September 30, 2023** is driven by an increase in base commissions resulting from the increase in written premiums, offset by a decrease in contingent commission expenses. Our GAAP expense ratio for the three months ended **June 30, 2023** **September 30, 2023** decreased to **30.9%** **30.4%** from **32.3%** **31.8%** for the comparable 2022 period. Our GAAP expense ratio for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** decreased to **31.1%** **30.9%** from **32.6%** **32.3%** for the comparable 2022 period.

***Interest Expense.*** Interest expense was **\$348** **\$139** and **\$131** **\$132** for the three months ended **June 30, 2023** **September 30, 2023** and 2022, respectively. Interest expense was **\$558** **\$697** for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** compared to **\$260** **\$392** for the comparable 2022 period. The credit facility commitment fee included in interest expense was \$37 for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022. The increase in interest expense is due to higher interest rates on outstanding debt in 2023.

**Income Tax Expense.** Our effective tax rate was 20.8% 21.3% and 20.1% 20.3% for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. The effective tax rate was 24.3% 23.4% and 21.3% 21.0% for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. The effective tax rate in 2023 was higher than the statutory rate primarily due to the effects of the change in unrealized gains on equity securities and the impact of stock-based compensation.

**Net Income.** Net income for the three months ended June 30, 2023 September 30, 2023 was \$17,001 \$1,949 compared to net income of \$7,901 \$6,192 for the comparable 2022 period. Net income for the six nine months ended June 30, 2023 September 30, 2023 was \$4,664 \$6,613 compared to net income of \$15,739 \$21,931 for the comparable 2022 period.

**Non-GAAP Operating Income (loss).** Non-GAAP operating income, as defined above, was \$11,993 \$8,673 for the three months ended June 30, 2023 September 30, 2023 compared to \$28,230 \$16,715 for the comparable 2022 period. Non-GAAP operating loss income was \$803 \$7,870 for the six nine months ended June 30, 2023 September 30, 2023 compared to Non-GAAP operating income of \$43,039 \$59,754 for the comparable 2022 period.

#### 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 the payment of dividends to Safety.

Net cash used for provided by operating activities was \$13,438 \$17,063 and \$275 \$23,366 during the six nine months ended June 30, 2023 2023 and 2022, 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. Positive operating cash flows are expected in the future to meet our liquidity requirements.

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Net cash provided by investing activities was \$45,694 \$38,883 and \$17,117 \$1,166 during the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Fixed maturities, equity securities, and other invested assets purchased were \$64,290 \$108,003 for the six

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nine months ended June 30, 2023 September 30, 2023 compared to \$151,900 \$207,179 for the comparable prior year period. Proceeds from maturities, redemptions, calls and sales, of securities were \$110,615 \$148,288 during the six nine months ended June 30, 2023 September 30, 2023 compared to \$169,713 \$209,872 for the comparable prior year period.

Net cash used for financing activities was ~~\$32,168~~ \$50,352 and ~~\$41,362~~ \$54,500 during the ~~six~~nine months ended ~~June 30, 2023~~ September 30, 2023 and 2022, respectively. Net cash used for financing activities during the ~~six~~nine months ended ~~June 30, 2023~~ September 30, 2023 consisted of dividend payments to shareholders and the acquisition of treasury stock.

The Insurance Subsidiaries maintain a high degree of liquidity within their respective investment portfolios in fixed maturity and equity securities. 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 1- Financial Statements, Note 9, Debt, of this Form 10-Q.

#### *Recent Accounting Pronouncements*

There are no recent accounting pronouncements that are applicable to the Company.

#### *Regulatory Matters*

Our 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 Commissioner of the Division of Insurance of Massachusetts (the "Commissioner"). The Massachusetts statute limits the dividends an insurer may pay in any twelve-month period, without the prior permission of the Commissioner, to the greater of (i) 10% of the insurer's surplus as of the preceding December 31 or (ii) the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices. Our insurance company subsidiaries may not declare an "extraordinary dividend" (defined as any dividend or distribution that, together with other distributions made within the preceding twelve months, exceeds the limits established by Massachusetts statute) until thirty days after the Commissioner has received notice of the intended dividend and has not objected. As historically administered by the Commissioner, this provision requires the Commissioner's prior approval of an extraordinary dividend. Under Massachusetts law, an insurer may pay cash dividends only from its unassigned funds, also known as earned surplus, and the insurer's remaining surplus must be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. At December 31, 2022, the statutory surplus of Safety Insurance was \$782,200, and its statutory 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. 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 ~~six~~nine months ended ~~June 30, 2023~~ September 30, 2023, Safety Insurance paid dividends to Safety of ~~\$31,169~~ \$43,606.

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.

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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 2023 were as follows:

Declaration Date	Total					Record Date	Total				
	Record Date	Payment Date	Dividend per Common Share	Dividends Paid and Accrued	Record Date		Payment Date	Dividend per Common Share	Dividends Paid and Accrued		
February 15, 2023	March 1, 2023	March 15, 2023	\$ 0.90	\$ 13,247	March 1, 2023	March 15, 2023	\$ 0.90	\$ 13,247			
May 3, 2023	June 1, 2023	June 15, 2023	\$ 0.90	\$ 13,283	June 1, 2023	June 15, 2023	\$ 0.90	\$ 13,283			
August 2, 2023					September 1, 2023	September 15, 2023	\$ 0.90	\$ 13,223			

On August 2, 2023 November 1, 2023, our Board approved and declared a quarterly cash dividend of \$0.90 per share which will be paid on September 15, 2023 December 15, 2023 to shareholders of record on September 1, 2023 December 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 of Directors approved a share repurchase program of up to \$50,000 of the Company's outstanding common shares. As of June 30, 2023 September 30, 2023, the Board of Directors has 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 us to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice.

No shares were purchased by the Company during the three months ended September 30, 2023. During the three and six nine months ended June 30, 2023 September 30, 2023, the Company purchased 74,213 shares at a cost of \$5,240. As of June 30, 2023 September 30, 2023, the Company had purchased 3,215,690 shares of common stock at a cost of \$155,240. As of December 31, 2022, the Company had purchased 3,141,477 shares of common stock at a cost of \$150,000.

Under the program, Safety may repurchase shares of its common stock for cash in public or private transactions, in the open market or otherwise, at management's discretion. 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 Safety to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notices.

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.

#### *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 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 \$200,196 at December 31, 2022.

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### *Off-Balance Sheet Arrangements*

We have no material obligations under a guarantee contract meeting the characteristics identified in Accounting Standards Codification ("ASC") 460, *Guarantees*. We have no material retained or contingent interests in assets transferred to an unconsolidated entity. We have no material obligations, including contingent obligations, under contracts that would be accounted for as derivative instruments. We have no obligations, including contingent

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obligations, arising out of a variable interest in an unconsolidated entity held by, and material to, us, where such entity provides financing, liquidity, market risk or credit risk support to, or engages in leasing, hedging or research and development services with us. We have no direct investments in real estate and no holdings of mortgages secured by commercial real estate. Accordingly, we have no material off-balance sheet arrangements.

## **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 LAE reserves estimate based upon the analysis of our actuaries. A reasonable estimate is derived by selecting a point estimate within a range of indications as calculated by our actuaries using generally accepted actuarial techniques. The key assumption in most actuarial analysis is that past patterns of frequency and severity will repeat in the future, unless a significant change in the factors described above takes place. Our key factors and resulting assumptions are the ultimate frequency and severity of claims, based upon the most recent ten years of claims reported to the Company, and the data CAR reports to us to calculate our share of the residual

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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

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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 **\$437,459** **\$445,388** to **\$495,670** **\$506,966** as of **June 30, 2023** **September 30, 2023**. In general, the low and high values of the ranges represent reasonable minimum and maximum values of the indications based on the techniques described above. Our selected point estimate of net loss and LAE reserves based upon the analysis of our actuaries was **\$468,247** **\$477,467** as of **June 30, 2023** **September 30, 2023**.

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 **June 30, 2023** **September 30, 2023**.

Line of Business	As of June 30, 2023			As of September 30, 2023		
	Low	Recorded	High	Low	Recorded	High
Private passenger automobile	\$ 181,003	\$ 188,881	\$ 201,840	\$ 189,123	\$ 201,167	\$ 213,986
Commercial automobile	94,346	102,141	106,130	100,673	105,280	111,955
Homeowners	90,827	96,407	100,023	88,915	96,364	99,814
All other	71,283	80,818	87,677	66,677	74,656	81,211
<b>Total</b>	<b>\$ 437,459</b>	<b>\$ 468,247</b>	<b>\$ 495,670</b>	<b>\$ 445,388</b>	<b>\$ 477,467</b>	<b>\$ 506,966</b>

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The following table presents our total net reserves and the corresponding case reserves and IBNR reserves for each line of business as of **June 30, 2023** **September 30, 2023**.

Line of Business	As of June 30, 2023			As of September 30, 2023		
	Case	IBNR	Total	Case	IBNR	Total
Private passenger automobile	\$ 241,770	\$ (52,898)	\$ 188,872	\$ 257,577	\$ (56,418)	\$ 201,159
CAR assumed private passenger auto	1	8	9	-	8	8
Commercial automobile	62,386	9,047	71,433	70,221	5,094	75,315
CAR assumed commercial automobile	18,831	11,877	30,708	17,772	12,193	29,965
Homeowners	91,445	(5,681)	85,764	91,771	(5,665)	86,106
FAIR Plan assumed homeowners	5,191	5,452	10,643	4,917	5,341	10,258
All other	43,136	37,682	80,818	42,587	32,069	74,656
<b>Total net reserves for losses and LAE</b>	<b>\$ 462,760</b>	<b>\$ 5,487</b>	<b>\$ 468,247</b>	<b>\$ 484,845</b>	<b>\$ (7,378)</b>	<b>\$ 477,467</b>

At **June 30, 2023** **September 30, 2023**, our total IBNR reserves for our private passenger automobile line of business was comprised of **(\$81,831)** **88,712** related to estimated ultimate decreases in the case reserves, including anticipated recoveries (i.e. salvage and subrogation), and **\$28,933** **\$32,294** related to our estimation for not yet reported losses.

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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 **38.7%** **40.7%** of our total reserves for CAR assumed commercial automobile business as of **June**

30, 2023 September 30, 2023, 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 51.2% 52.1% of our total reserves for FAIR Plan assumed homeowners at June 30, 2023 September 30, 2023, 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 June 30, 2023 September 30, 2023.

Line of Business	As of June 30, 2023			As of September 30, 2023		
	Retained	Assumed	Net	Retained	Assumed	Net
Private passenger automobile	\$ 188,872	\$ 9	\$ 188,881	\$ 201,159	\$ 8	\$201,167
CAR assumed private passenger automobile						
Net private passenger automobile						
Commercial automobile	71,433	30,708	102,141	75,315	29,965	105,280
CAR assumed commercial automobile						
Net commercial automobile						
Homeowners	85,764	10,643	96,407	86,106	10,258	96,364
FAIR Plan assumed homeowners						
Net homeowners						
All other	80,818	—	80,818	74,656	—	74,656
Total net reserves for losses and LAE	\$ 426,887	\$ 41,360	\$ 468,247	\$ 437,236	\$ 40,231	\$477,467

#### *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, consists 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 takes 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 must try to estimate the effects of the actions of our competitors in order to establish our Participation Ratio.

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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 **six nine** months ended **June 30, 2023** **September 30, 2023**, a 1 percentage-point change in the loss and LAE ratio would result in a change in reserves of **\$3,941**, **\$6,084**. Each 1 percentage-point change in the loss and loss expense ratio would have had a **\$3,113**, **\$4,806** effect on net income, or **\$0.21**, **\$0.33** per diluted share.

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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 **six nine** months ended **June 30, 2023** **September 30, 2023**. 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.

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	<b>-1 Percent</b>	<b>No</b>	<b>+1 Percent</b>	<b>-1 Percent</b>	<b>No</b>	<b>+1 Percent</b>
	<b>Change in</b>	<b>Change in</b>	<b>Change in</b>	<b>Change in</b>	<b>Change in</b>	<b>Change in</b>
	<b>Frequency</b>	<b>Frequency</b>	<b>Frequency</b>	<b>Frequency</b>	<b>Frequency</b>	<b>Frequency</b>
<b>Private passenger automobile retained loss and LAE reserves</b>						
-1 Percent Change in Severity						
Estimated decrease in reserves	\$ (3,777)	\$ (1,889)	\$ —	\$ (4,023)	\$ (2,012)	\$ —
Estimated increase in net income	2,984	1,492	—	3,178	1,589	—
No Change in Severity						
Estimated (decrease) increase in reserves	(1,889)	—	1,889	(2,012)	—	2,012
Estimated increase (decrease) in net income	1,492	—	(1,492)	1,589	—	(1,589)
+1 Percent Change in Severity						
Estimated increase in reserves	—	1,889	3,777	—	2,012	4,023
Estimated decrease in net income	—	(1,492)	(2,984)	—	(1,589)	(3,178)
<b>Commercial automobile retained loss and LAE reserves</b>						
-1 Percent Change in Severity						
Estimated decrease in reserves	(1,429)	(714)	—	(1,506)	(753)	—

Estimated increase in net income	1,129	564	—	1,190	595	—
No Change in Severity						
Estimated (decrease) increase in reserves	(714)	—	714	(753)	—	753
Estimated increase (decrease) in net income	564	—	(564)	595	—	(595)
+1 Percent Change in Severity						
Estimated increase in reserves	—	714	1,429	—	753	1,506
Estimated decrease in net income	—	(564)	(1,129)	—	(595)	(1,190)
<b>Homeowners retained loss and LAE reserves</b>						
-1 Percent Change in Severity						
Estimated decrease in reserves	(1,715)	(858)	—	(1,722)	(861)	—
Estimated increase in net income	1,355	678	—	1,360	680	—
No Change in Severity						
Estimated (decrease) increase in reserves	(858)	—	858	(861)	—	861
Estimated increase (decrease) in net income	678	—	(678)	680	—	(680)
+1 Percent Change in Severity						
Estimated increase in reserves	—	858	1,715	—	861	1,722
Estimated decrease in net income	—	(678)	(1,355)	—	(680)	(1,360)
<b>All other retained loss and LAE reserves</b>						
-1 Percent Change in Severity						
Estimated decrease in reserves	(1,616)	(808)	—	(1,493)	(747)	—
Estimated increase in net income	1,277	638	—	1,179	590	—
No Change in Severity						
Estimated (decrease) increase in reserves	(808)	—	808	(747)	—	747
Estimated increase (decrease) in net income	638	—	(638)	590	—	(590)
+1 Percent Change in Severity						
Estimated increase in reserves	—	808	1,616	—	747	1,493
Estimated decrease in net income	—	(638)	(1,277)	—	(590)	(1,179)

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

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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

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reserves and net income for the **six nine** months ended **June September** 30, 2023. 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.

	<b>-1 Percent</b>		<b>+1 Percent</b>		<b>-1 Percent</b>		<b>+1 Percent</b>	
	<b>Change in</b>	<b>Estimation</b>						
<b>CAR assumed commercial automobile</b>								
Estimated (decrease) increase in reserves	\$	(307)	\$	307	\$	(300)	\$	300
Estimated increase (decrease) in net income		243		(243)		237		(237)
<b>FAIR Plan assumed homeowners</b>								
Estimated (decrease) increase in reserves		(106)		106		(103)		103
Estimated increase (decrease) in net income		84		(84)		81		(81)

*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 **\$21,521** **\$34,997** and **\$29,273** **\$43,223** during the **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022, respectively.

The following table presents a comparison of prior year development of our net reserves for losses and LAE for the **six nine** months ended **June September** 30, 2023 and 2022. 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.

<b>Accident Year</b>	<b>Six Months Ended June 30,</b>				<b>Nine Months Ended September 30,</b>			
	<b>2023</b>		<b>2022</b>		<b>2023</b>		<b>2022</b>	
2013 & prior	\$	(353)	\$	(431)	\$	(649)	\$	(857)
2014		(404)		(451)		(608)		(667)
2015		(1,062)		(1,301)		(1,868)		(1,777)
2016		(558)		(1,329)		(815)		(1,307)
2017		(2,328)		(1,832)		(3,178)		(2,259)
2018		(1,441)		(3,676)		(2,798)		(5,617)
2019		(4,124)		(5,889)		(6,638)		(8,033)
2020		(5,999)		(6,453)		(8,345)		(13,890)
2021		(2,543)		(7,911)		(4,466)		(8,816)
2022		(2,709)		—		(5,632)		—
All prior years	\$	(21,521)	\$	(29,273)	\$	(34,997)	\$	(43,223)

The decreases in prior years' reserves during the **six nine** months ended **June September** 30, 2023 and 2022 resulted from re-estimations of prior year ultimate loss and LAE liabilities. The 2023 decrease is composed of reductions of **\$6,076** **\$8,028** in our private passenger automobile reserves, **\$3,386** **\$5,898** in our commercial automobile reserves, **\$4,894** **\$9,070** in our homeowners reserves and **\$7,165** **\$12,001** in our other lines reserves. The 2022 decrease is primarily composed of reductions of **\$7,157** **\$10,668** in our retained private passenger automobile reserves, **\$2,652** **\$6,432** in our retained commercial automobile reserves, **\$6,026** **\$11,717** in our retained homeowners reserves and **\$11,173** **\$14,406** in our retained other lines reserves.

The following table presents information by line of business for prior year development of our net reserves for losses **June 30, 2023** September 30, 2023.

Accident Year	Private Passenger Commercial					Private Passenger Commercial				
	Automobile	Automobile	Homeowners	All Other	Total	Automobile	Automobile	Homeowners	All Other	Total
2013 & prior	\$ (90)	\$ —	\$ (145)	\$ (118)	\$ (353)	\$ (110)	\$ —	\$ (145)	\$ (394)	\$ (649)
2014	(34)	(23)	—	(347)	(404)	(47)	(24)	—	(537)	(608)
2015	(73)	(101)	(251)	(637)	(1,062)	(111)	(582)	(412)	(763)	(1,868)
2016	(34)	(270)	(235)	(19)	(558)	(103)	(318)	(373)	(21)	(815)
2017	(829)	(192)	(221)	(1,086)	(2,328)	(1,010)	(344)	(516)	(1,308)	(3,178)
2018	(127)	(524)	(411)	(379)	(1,441)	(31)	(627)	(486)	(1,654)	(2,798)
2019	(819)	(1,127)	(1,070)	(1,108)	(4,124)	(1,108)	(1,432)	(2,484)	(1,614)	(6,638)
2020	(2,147)	(653)	(2,197)	(1,002)	(5,999)	(2,203)	(1,107)	(3,484)	(1,551)	(8,345)
2021	(501)	(418)	(137)	(1,487)	(2,543)	(957)	(678)	(209)	(2,622)	(4,466)
2022	(1,422)	(78)	(227)	(982)	(2,709)	(2,348)	(786)	(961)	(1,537)	(5,632)
All prior years	\$ (6,076)	\$ (3,386)	\$ (4,894)	\$ (7,165)	\$ (21,521)	\$ (8,028)	\$ (5,898)	\$ (9,070)	\$ (12,001)	\$ (34,997)

The improved private passenger and commercial automobile results were primarily due to fewer 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 lines of business prior year reserves decreased, due primarily to fewer claims than previously estimated.

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 like 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: *Operations Net Impairment Losses on Investments*."

#### 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.

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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;
- The impact of investment, economic and underwriting market conditions, including interest rates and inflation;
- Our possible need for and availability of additional financing, and our dependence on strategic relationships, among others; and
- Other risks and factors identified from time to time in our reports filed with the SEC. Refer to Part I, Item 1A — Risk Factors of our 2022 Annual Report on Form 10-K for the year ended December 31, 2022.

Some other factors, such as market, operational, liquidity, interest rate, equity and other risks, are described elsewhere in this Quarterly Report on Form 10-Q. 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 3. Quantitative and Qualitative Information about Market Risk (Dollars in thousands)**

**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 of Directors and consultation with third-party financial advisors. As a general

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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		+100 Basis		-100 Basis		+100 Basis	
	Point Change	No Change	Point Change	No Change	Point Change	No Change	Point Change	
<b>As of June 30, 2023</b>								
<b>As of September 30, 2023</b>								
Estimated fair value	\$ 1,056,755	\$ 1,017,467	\$ 978,070	\$ 1,043,858	\$ 1,005,225	\$ 966,616	\$ 38,633	\$ — \$ (38,609)
Estimated increase (decrease) in fair value	\$ 39,288	\$ —	\$ (39,397)	\$ —	\$ —	\$ —	\$ —	\$ (38,609)

With respect to floating rate debt, we are exposed to the effects of changes in prevailing interest rates. At June 30, 2023 September 30, 2023, 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 2023, 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 4. 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.

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Please see "Item 1 — Financial Statements - Note 8, Commitments and Contingencies."

**Item 1A. Risk Factors**

There have been no subsequent material changes from the risk factors previously disclosed in the Company's 2022 Annual Report on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (Dollars in thousands)**

On February 23, 2022, the Board of Directors approved an additional share repurchase of up to \$50,000 of the Company's outstanding common shares. The Board of Directors has 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 No shares were repurchased during the three and six months ended June 30, 2023, the Company purchased 74,213 shares at a cost of \$5,240. September 30, 2023.

Period	Total number of shares purchase	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1-30, 2023	—	—	—	778,184
May 1-31, 2023	74,213	\$ 70.61	74,213	703,971
June 1-30, 2023	—	—	—	703,971
<b>Total</b>	<b>74,213</b>	<b>\$ 70.61</b>	<b>74,213</b>	

  

Period	Total number of shares purchase	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
July 1-31, 2023	—	—	—	703,971
August 1-31, 2023	—	—	—	703,971
September 1-30, 2023	—	—	—	703,971
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	

**Item 3. Defaults Upon Senior Securities**

None.

#### Item 4. Mine Safety Disclosures

None.

#### Item 5. Other Information

During the three months ended **June 30, 2023** **September 30, 2023**, none of the officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) or directors of the Company adopted, terminated or modified any contract, instruction or written plan for the purchase and sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement," as such term is defined in Item 408(a) of Regulation S-K.

#### Item 6. Exhibits

The exhibits are contained herein as listed in the Exhibit Index.

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### SAFETY INSURANCE GROUP, INC.

#### EXHIBIT INDEX

Exhibit Number	Description
10.1	<a href="#">Amendment No. 5 to Amended and Restated Credit Agreement, dated August 10, 2023, between the Registrant and Citizens Bank, N.A.(2)</a>
11.0	<a href="#">Statement re: Computation of Per Share Earnings(1)</a>
31.1	<a href="#">CEO Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002(2)</a>
31.2	<a href="#">CFO Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002(2)</a>
32.1	<a href="#">CEO Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002(2)</a>
32.2	<a href="#">CFO Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002(2)</a>
101.INS	Inline XBRL Instance Document(2)
101.SCH	Inline XBRL Taxonomy Extension Schema(2)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase(2)

101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase(2)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase(2)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase(2)
104	The cover page from this Current Report on form 10-Q, formatted in Inline XBRL(2)

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(1) Not included herein as the information is included as part of this Form 10-Q, Item 1 – Financial Statements, Note 3, Earnings per Weighted Average Common Share.  
 (2) Included herein.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 4, November 3, 2023

**SAFETY INSURANCE GROUP, INC.** (Registrant)

By: /s/ CHRISTOPHER T. WHITFORD  
 Christopher T. Whitford  
*Vice President, Chief Financial Officer, Secretary and Principal  
 Accounting Officer*

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**Exhibit 10.1**

[Execution Version](#)

**AMENDMENT NO. 5 TO AMENDED AND RESTATED CREDIT AGREEMENT**

This **AMENDMENT NO. 5 TO AMENDED AND RESTATED CREDIT AGREEMENT** (this “Agreement”) is made as of August 10, 2023, by and among **SAFETY INSURANCE GROUP, INC.**, a Delaware corporation (the “Borrower”), the lenders who are or may become party to the Credit Agreement referred to

below (collectively, the "Lenders"), and **CITIZENS BANK, N.A.**, as administrative agent for the Lenders (the "Administrative Agent"). Capitalized terms used and not defined in this Agreement shall have the meanings ascribed thereto in the Credit Agreement referred to below.

**WHEREAS**, the Borrower, the Lenders, and the Administrative Agent are parties to that certain Amended and Restated Revolving Credit Agreement, dated as of August 14, 2008, among the Borrower, the Administrative Agent and the Lenders (as amended, restated or otherwise modified from time to time, the "Credit Agreement");

**WHEREAS**, the Borrower, the Lenders, and the Administrative Agent desire to amend the Credit Agreement as set forth herein;

**NOW THEREFORE**, the parties hereto hereby agree as follows:

**1. Amendments to Credit Agreement.**

- a) **Composite Credit Agreement.** On the Fifth Amendment Effective Date, the Credit Agreement is hereby amended to delete the bold, stricken text (indicated textually in the same manner as the following example: ~~stricken text~~) and to add the bold, double-underlined text (indicated textually in the same manner as the following example: double-underlined text) as set forth in the pages of the Amended Credit Agreement attached as Annex A hereto.
- b) **Exhibits to Credit Agreement.** On the Fifth Amendment Effective Date, Exhibit B to the Credit Agreement (form of Loan Request) is hereby deleted in its entirety and a new Exhibit B is substituted in its stead as attached hereto as Annex B.
2. **Continued Validity of Security Documents.** The Security Documents shall remain in full force and effect, and each of the Borrower and the Subsidiary Guarantors listed as signatories hereto reaffirms the continued validity and enforceability of the Security Documents.
3. **Reaffirmation of Guaranty.** Each of the Subsidiary Guarantors hereby expressly reaffirms its unconditional joint and several guaranty of the Obligations (other than, with respect to any Subsidiary Guarantor, the Excluded Swap Obligations) pursuant to the Subsidiary Guaranty and acknowledges and agrees that it continues to be subject to and bound by the Subsidiary Guaranty in all respects.

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**4. Conditions to Effectiveness.** The effectiveness of this Agreement is subject to the satisfaction of the following conditions precedent (such date that each of the following conditions shall have been satisfied (or waived by the Administrative Agent) being referred to herein as the "Fifth Amendment Effective Date"):

- a) **Execution of this Agreement.** The execution and delivery of this Agreement by the Borrower, Subsidiary Guarantors, Lenders and Administrative Agent.
- b) **Fee Letter.** The Administrative Agent shall have received that certain Fee Letter, dated as of the Fifth Amendment Effective Date, between the Administrative Agent and the Borrower (the "Amendment No. 5 Fee Letter").
- c) **Payment of Other Fees and Expenses.** All costs, fees, expenses (including, without limitation, reasonable, documented, out-of-pocket legal fees and expenses of consultants and other advisors) and other compensation due and payable to the Administrative Agent and the applicable Lenders, pursuant to this Agreement, the Amendment No. 5 Fee Letter or the other Loan Documents, shall have been paid (or shall concurrently be paid).

**5. Representations and Warranties.** Each of the Borrower and each Subsidiary Guarantor represents and warrants that all the representations as set forth in each of the Loan Documents are true and correct in all material respects on and as of the date hereof. All such representations and warranties are hereby ratified, affirmed and incorporated herein by reference, with the same force and effect as though set forth herein in their entirety. Each of the Borrower and the Subsidiary Guarantors further represents and warrants as follows:

- a) the execution, delivery and performance by the Borrower and each Subsidiary Guarantor of this Agreement have been duly authorized by all necessary corporate action;
- b) the Borrower and each Subsidiary Guarantor has the power and authority to execute, deliver and perform its obligations under this Agreement and the Credit Agreement, as amended hereby; and
- c) this Agreement constitutes the legal, valid and binding obligations of the Borrower and each Subsidiary Guarantor enforceable against the Borrower and such Subsidiary Guarantor in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

**6. Release of Subsidiary Guarantor.**

- a) In connection with Safety Northeast Insurance Agency, Inc. (formerly known as Safety Asset Management Corporation), a Massachusetts corporation ("Safety Northeast"), no longer being designated as a Subsidiary Guarantor as of the date hereof, the Borrower has requested that the Administrative Agent release (i)

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Safety Northeast from its Obligations under the Loan Documents, and (ii) the Lien of the Administrative Agent on the Collateral owned by Safety Northeast. Accordingly, the Administrative Agent hereby release as of the date hereof (i) Safety Northeast from its Obligations under the Loan Documents (except to the extent such obligations survive such release by their terms), and (ii) all Liens on the Collateral owned by Safety Northeast. By their execution, each Lender irrevocably authorizes the Administrative Agent to (i) release any Lien on any property granted to or held by the Administrative Agent under any Loan Document by Safety Northeast (including execution of any terminations and releases) and (ii) release Safety Northeast from its obligations under any Loan Document.

- b) Nothing herein shall be deemed a release by the Administrative Agent of (i) any of Borrower or any Subsidiary of the Borrower (other than Safety Northeast) from any of its Obligations under the Loan Documents, or (ii) any Liens securing the Obligations (other than Liens on the Collateral owned by Safety Northeast). Each of Borrower and each Subsidiary of the Borrower (other than Safety Northeast) acknowledges and agrees that the Credit Agreement and the other Loan Documents and the Liens granted thereunder remain in full force and effect as of the date hereof.
- c) Safety Northeast hereby acknowledges and agrees that it has no offsets, defenses, claims, or counterclaims against the Administrative Agent or any Lender or any parents, affiliates, predecessors, successors, or assigns thereof, or their respective officers, directors, employees, attorneys, or representatives, with respect to the Obligations, and that if Safety Northeast now has, or ever did have, any offsets, defenses, claims, or counterclaims against such Persons, whether known or unknown, at law or in equity, from the beginning of the world through this date and through the time of execution of this Agreement, all of them are hereby expressly WAIVED, and Safety Northeast hereby RELEASES such Persons from any liability therefor.
- d) After the execution of this Agreement, the Administrative Agent agrees to promptly sign and to deliver to the Borrower or its counsel any and all instruments and documents confirming or evidencing (a) all releases, terminations and cancellations of the Liens and security interests of the Administrative Agent on the Collateral owned by Safety Northeast in order to evidence the discharge or to effect the cancellation or termination of any filings with respect to any Lien or security interest granted to the Administrative Agent or Lenders and (b) the release of Safety Northeast from the Obligations and its obligations under the Loan Documents.

**7. Post-Closing Matters.** Notwithstanding anything to the contrary contained in this Agreement, the Credit Agreement or the other Loan Documents, the parties hereto acknowledge and agree that the Borrower shall deliver to the Administrative Agent prior to August 31, 2023 (or such later date as the Administrative Agent may agree in its sole discretion):

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- a) updated Schedules to the Credit Agreement;
- b) a favorable legal opinions addressed to the Lenders and the Administrative Agent, in form and substance reasonably satisfactory to the Lenders and the Administrative Agent, from DLA Piper LLP (US), counsel to the Borrower and the Subsidiary Guarantors;
- c) the Confirmation Agreement, duly executed by the Borrower and Subsidiary Guarantors;
- d) an incumbency certificate from the Borrower and each of the Subsidiary Guarantors, signed by a duly authorized officer of such Person, and giving the name and bearing a specimen signature of each individual who shall be authorized: (a) to sign, in the name and on behalf of the Borrower and each such Subsidiary Guarantor, each of the Loan Documents to which the Borrower or such Subsidiary Guarantor is or is to become a party; (b) in the case of the Borrower, to make Loan Requests and Conversion Requests; and (c) to give notices and to take other action on its behalf under the Loan Documents;
- e) evidence that all corporate (or other) action necessary for the valid execution, delivery and performance by the Borrower and each of the Subsidiary Guarantors of this Agreement, the other Loan Documents to which it is or is to become a party shall have been duly and effectively taken, reasonably satisfactory to the Lenders; and
- f) copies, certified by a duly authorized officer of the Borrower to be true and complete, of the Governing Documents for each of the Borrower and each of the Subsidiary Guarantors as in effect on such date of certification.

**8. Scope of this Agreement.** Except as specifically provided in this Agreement, all of the terms and provisions of the Credit Agreement and the other Loan Documents are unaffected hereby and shall remain and continue in full force and effect.

**9. Governing Law.** This Agreement shall be a contract to be governed by and construed in accordance with the internal laws of the Commonwealth of Massachusetts (without regard to principles of conflicts of laws) and shall take effect as an instrument under seal.

**10. No Waiver.** Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower, or any right of the Administrative Agent or any Lender consequent thereon.

**11. Miscellaneous.** The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof. This Agreement may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In proving this Agreement, it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought. Delivery of an executed signature page of this Agreement by facsimile or electronic transmission shall be effective as delivery of a manually executed counterpart thereof.

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**IN WITNESS WHEREOF**, the undersigned have duly executed this Agreement as a sealed instrument as of the date first above written.

**BORROWER:**

**SAFETY INSURANCE GROUP, INC.,**

By: /s/ Christopher Whitford  
Name: Christopher Whitford  
Title: Vice President, Treasurer and Chief Financial Officer

[Safety Insurance – Signature Page to Amendment No. 5 to Amended and Restated Credit Agreement]

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**SUBSIDIARY GUARANTORS:**

**SAFETY MANAGEMENT CORPORATION**  
(formerly known as Whiteshirts Management Corporation)

By: /s/ Christopher Whitford  
Name: Christopher Whitford  
Title: Vice President, Treasurer and Chief Financial Officer

**Acknowledged and Agreed:**

**SAFETY NORTHEAST INSURANCE AGENCY, INC.** (formerly known as Safety Asset Management Corporation)

By: /s/ Christopher Whitford  
Name: Christopher Whitford  
Title: Vice President, Treasurer and Chief Financial Officer

[Safety Insurance – Signature Page to Amendment No. 5 to Amended and Restated Credit Agreement]

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**LENDER AND ADMINISTRATIVE AGENT:**

**CITIZENS BANK, N.A.**, as Lender and as  
Administrative Agent

By: /s/ John F. Kendrick  
Name: John F. Kendrick  
Title: Vice President

[Safety Insurance – Signature Page to Amendment No. 5 to Amended and Restated Credit Agreement]

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**ANNEX A**

Conformed Credit Agreement

[see attached]

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**ANNEX B**

Updated Exhibit B to Credit Agreement

[see attached]

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*Annex A to Amendment No. 5 to Amended and Restated Credit Agreement*

**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT**

Dated as of August 14, 2008

among

**SAFETY INSURANCE GROUP, INC.**

**THE LENDERS LISTED ON SCHEDULE I HERETO**

and

**CITIZENS BANK, N.A., as Administrative Agent**

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#### **AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT**

This **AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT** (this "Credit Agreement") is made as of August 14, 2008, by and among **SAFETY INSURANCE GROUP, INC.**, a Delaware corporation (the "Borrower"), **CITIZENS BANK, N.A.**, a national banking association ("Citizens"), and the other lending institutions listed on Schedule 1 hereto (collectively, the "Lenders"), and **CITIZENS BANK, N.A.**, as administrative agent for itself and such other lending institutions (in such capacity, the "Administrative Agent").

#### **WITNESSETH**

**WHEREAS**, the Borrower has heretofore entered into a Revolving Credit Agreement dated as of November 27, 2002, with the financial institutions from time to time party thereto (collectively, the "Existing Lenders") and the Administrative Agent (as amended and in effect immediately prior to the date hereof, the "Existing Credit Agreement"), pursuant to which the Existing Lenders made certain loans to the Borrower and extended certain financial accommodations;

**WHEREAS**, the Borrower desires to amend and restate the terms and provisions of the Existing Credit Agreement, in the form hereof, and the Existing Lenders and the Administrative Agent are willing to so amend and restate the Existing Credit Agreement in order to, among other things, add a letter of credit sub-facility and provide for an optional increase in a maximum amount of Twenty Million Dollars (\$20,000,000), with the proceeds of any Loans to be used to provide for working capital and for other general corporate purposes of the Borrower and its Subsidiaries; and

**WHEREAS**, the Administrative Agent and the Lenders have agreed to such modification all on and subject to the terms and conditions of this Credit Agreement.

**NOW, THEREFORE**, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereto hereby agree to amend and restate the Existing Credit Agreement in its entirety as follows:

**1. DEFINITIONS AND RULES OF INTERPRETATION.**

**1.1. Definitions.** The following terms shall have the meanings set forth in this §1 or elsewhere in the provisions of this Credit Agreement referred to below:

**Adjustment Date.** The first day of the month immediately following the month in which a Compliance Certificate is to be delivered by the Borrower pursuant to §7.4(c).

**Administrative Agent's Office.** The Administrative Agent's office located at 28 State Street, 15th Floor, Boston, MA 02109, or such other location as the Administrative Agent may designate from time to time.

**Administrative Agent.** Citizens Bank, N.A., acting as agent for the Lenders, and each other Person appointed as the successor Administrative Agent in accordance with §13.9.

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Administrative Agent's Special Counsel. Morgan, Lewis & Bockius LLP or such other counsel as may be approved by the Administrative Agent.

Affected Lender. See §4.11.

Affiliate. Any Person which, directly or indirectly, controls, is controlled by or is under common control with the Borrower. "Control" of the Borrower means the power, directly or indirectly, (a) to vote ten percent (10%) or more of the Capital Stock (on a fully diluted basis) of the Borrower having ordinary voting power for the election of directors, managing members or general partners (as applicable); or (b) to direct or cause the direction of the management and policies of the Borrower (whether by contract or otherwise).

Aggregate Statutory Surplus. The sum of the Statutory Surplus of each of the direct Insurance Subsidiaries.

Applicable Lending Office. means for any Lender, such Lender's office, branch or affiliate designated for SOFR Loans, Base Rate Loans, or Letters of Credit or participations therein, as applicable, as notified to the Administrative Agent, any of which offices may be changed by such Lender.

Assignment and Acceptance. See §14.1.

Available Tenor. means, as of any date of determination and with respect to the then-current Benchmark, as applicable, (x) if such Benchmark is a term rate, any tenor for such Benchmark (or component thereof) that is or may be used for determining the length of an Interest Period pursuant to this Credit Agreement or (y) otherwise, any payment period for interest calculated with reference to such Benchmark (or component thereof), as applicable, that is or may be used for determining any frequency of making payments of interest calculated with reference to such Benchmark pursuant to this Credit Agreement, in each case, as of such date and not including, for the avoidance of doubt, any tenor for such Benchmark that is then-removed from the definition of "Interest Period" pursuant to Section 4.12.

Balance Sheet Date. December 31, 2007.

Base Rate. For any day, a rate per annum equal to the greatest of (a) the Administrative Agent's "prime rate" in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 0.50% per annum and (c) the Daily SOFR Rate on such day plus 1.25% per annum, provided that the Base Rate shall at no time be less than the Floor. If the Administrative Agent shall have determined (which determination shall be conclusive absent clearly manifest error) that it is unable to ascertain the Federal Funds Effective Rate or the Daily SOFR Rate for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms of the definition of the term Federal Funds Effective Rate, the Base Rate shall be determined without regard to clause (b) or (c), as applicable, of the preceding sentence until the circumstances giving rise to such inability no longer exist. Any change in the Base Rate due to a change in the Administrative Agent's "prime rate", the Federal Funds Effective Rate or the Daily SOFR Rate, as applicable, shall be effective from and including the effective date of such change in the Administrative Agent's "prime rate", the Federal Funds Effective Rate or the Daily SOFR Rate, as applicable, respectively.

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Base Rate Loans. Loans bearing interest calculated by reference to the Base Rate.

Benchmark. means, initially, the Term SOFR Reference Rate; provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the Term SOFR Reference Rate or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate pursuant to Section 4.12(a). Any reference to "Benchmark" shall include, as applicable, the published component used in the calculation thereof.

Benchmark Replacement. means, for any Available Tenor, the first alternative set forth in the order below that can be determined by the Administrative Agent for the applicable Benchmark Replacement Date:

(a) Daily Simple SOFR; or

(b) the sum of: (i) the alternate benchmark rate that has been selected by the Administrative Agent and the Borrower giving due consideration to (A) any selection or recommendation of a replacement benchmark rate or the mechanism for determining such a rate by the Relevant Governmental Body or (B) any evolving or then-prevailing market convention for determining a benchmark rate and an adjustment as a replacement to the then-current Benchmark for Dollar-denominated syndicated credit facilities at such time and (ii) the related Benchmark Replacement Adjustment;

provided, that any such Benchmark Replacement shall be administratively feasible as determined by the Administrative Agent in its sole discretion.

If the Benchmark Replacement as determined pursuant to clause (a) or (b) above would be less than the Floor, such Benchmark Replacement will be deemed to be the Floor for purposes of this Credit Agreement and the other Loan Documents.

Benchmark Replacement Adjustment, means, with respect to any replacement of the then-current Benchmark with an Unadjusted Benchmark Replacement, the spread adjustment, or method for calculating or determining such spread adjustment (which may be a positive or negative value or zero) that has been selected by the Administrative Agent and the Borrower giving due consideration to (a) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body or (b) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for Dollar-denominated syndicated credit facilities.

Benchmark Replacement Date, means a date and time determined by Administrative Agent, which date shall be no later than the earliest to occur of the following events with respect to the then-current Benchmark:

(a) in the case of clause (a) or (b) of the definition of "Benchmark Transition Event", the later of (i) the date of the public statement or publication of information referenced therein and (ii) the date on which the administrator of such Benchmark (or the published component used in the calculation thereof) permanently or indefinitely ceases to provide all Available Tenors of such Benchmark (or such component thereof); or

(b) in the case of clause (c) of the definition of "Benchmark Transition Event", the first date on which such Benchmark (or the published component used in the calculation thereof) has been determined and announced by or on behalf of the administrator of such Benchmark (or such component thereof) or the regulatory supervisor for the administrator of such Benchmark (or such component thereof) to be non-representative; provided that such non-representativeness will be determined by reference to the most recent statement or publication referenced in such clause (c) and even if any Available Tenor of such Benchmark (or such component thereof) continues to be provided on such date.

For the avoidance of doubt, the "Benchmark Replacement Date" will be deemed to have occurred in the case of clause (a) or (b) with respect to any Benchmark upon the occurrence of the applicable event or events set forth therein with respect to all then-current Available Tenors of such Benchmark (or the published component used in the calculation thereof).

Benchmark Transition Event, means the occurrence of one or more of the following events with respect to the then-current Benchmark:

(a) a public statement or publication of information by or on behalf of the administrator of such Benchmark (or the published component used in the calculation thereof) announcing that such administrator has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof), permanently or indefinitely; provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof);

(b) a public statement or publication of information by the regulatory supervisor for the administrator of such Benchmark (or the published component used in the calculation thereof), the Federal Reserve Board, the Federal Reserve Bank of New York, an insolvency official with jurisdiction over the administrator for such Benchmark (or such component), a resolution authority with jurisdiction over the administrator for such Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for such Benchmark (or such component), which states that the administrator of such Benchmark (or such component) has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof) permanently or indefinitely; provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof); or

(c) a public statement or publication of information by or on behalf of the administrator of such Benchmark (or the published component used in the calculation thereof) or the regulatory supervisor for the administrator of such Benchmark (or such component thereof) announcing that all Available Tenors of such Benchmark (or such component thereof) are not, or as of a specified future date will not be, representative.

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For the avoidance of doubt, a "Benchmark Transition Event" will be deemed to have occurred with respect to any Benchmark if a public statement or publication of information set forth above has occurred with respect to each then-current Available Tenor of such Benchmark (or the published component used in the calculation thereof).

"Benchmark Unavailability Period" means, the period (if any) (a) beginning at the time that a Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Loan Document in accordance with Section 4.12 and (b) ending at the time that a Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Loan Document in accordance with Section 4.12.

Borrower. Safety Insurance Group, Inc., a Delaware corporation.

Business Day. Any day on which lending institutions in Boston, Massachusetts and New York, New York, are open for the transaction of banking business.

Capital Assets. Fixed assets, both tangible (such as land, buildings, fixtures, machinery and equipment) and intangible (such as patents, copyrights, trademarks, franchises and good will); provided that Capital Assets shall not include any item customarily charged directly to expense or depreciated over a useful life of twelve (12) months or less in accordance with GAAP.

Capital Expenditures. Amounts paid or Indebtedness incurred by any Person in connection with (a) the purchase or lease by such Person of Capital Assets that would be required to be capitalized and shown on the balance sheet of such Person in accordance with GAAP or (b) the lease of any assets by any Person as lessee under any Synthetic Lease to the extent that such assets would have been Capital Assets had the Synthetic Lease been treated for accounting purposes as a Capitalized Lease; other than (i) expenditures made in connection with the replacement, substitution or restoration of assets to the extent financed (A) from insurance proceeds paid on account of the loss of or damage to the assets being replaced or restored, (B) with awards of compensation arising from the taking by eminent domain or condemnation of the asset being replaced, or (C) from the exchange of existing equipment and (ii) the purchase of plant, property, or equipment made within one hundred eighty (180) days of the sale of any asset permitted under §8.5.2 to the extent purchased with the proceeds of such sale.

Capital Stock. Any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

Capitalized Leases. Leases under which the Borrower or any of its Subsidiaries is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with GAAP.

Cash Equivalents. As to the Borrower and its Subsidiaries, (a) securities issued or directly and fully guaranteed or insured by the United States of America and having a maturity of not more than one (1) year from the date of acquisition; (b) certificates of deposit, time deposits

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and eurodollar time deposits with maturities of six (6) months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six (6) months and overnight bank deposits, in each case, (i) with any Lenders or (ii) with any domestic commercial bank organized under the laws of the United States of America or any state thereof or a foreign subsidiary of such bank, in each case having a rating of not less than A or its equivalent by S&P or any successor and having capital and surplus in excess of \$500,000,000; (c) repurchase obligations with a term of not more than thirty (30) days for underlying securities of the types described in clauses (a) and (b) above; (d) any commercial paper or finance company paper issued by (i) any Lender or any holding company controlling any Lender or (ii) any other Person that is rated not less than "P-2" or "A-2" or their equivalents by Moody's or S&P or their successors; (e) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's; (f) securities with maturities of six (6) months or less from the date of acquisition backed by standby letters of credit issued by any Lender or any commercial bank satisfying the requirements of clause (b)(ii) of this definition; and (g) shares of money market mutual or similar funds which invest at least ninety-five percent (95%) in assets satisfying the requirements of clauses (a) through (f) of this definition.

CERCLA. See §6.18(a).

Citizens. Has the meaning ascribed in the Recitals hereto.

Closing Date. means August 14, 2008.

Closing Fee. See §4.1.

Code. The Internal Revenue Code of 1986, as amended from time to time.

Collateral. All of the property, rights and interests of the Borrower and its Subsidiaries that are subject to the Liens created by the Security Documents.

Commitment. With respect to each Lender, the amount set forth on Schedule 1 hereto as the amount of such Lender's commitment to make Loans to, the Borrower, as the same may be reduced from time to time; or if such commitment is terminated pursuant to the provisions hereof, zero.

Commitment Fee. See §2.2.

Commitment Percentage. With respect to each Lender, the percentage set forth on Schedule 1 hereto as such Lender's percentage of the aggregate Commitments of all of the Lenders.

Commodity Exchange Act. The Commodity Exchange Act (7 U.S.C. § 1 et seq.), as amended from time to time, and any successor statute.

Compliance Certificate. See §7.4(c).

Confirmation Agreement. means that certain Confirmation and Ratification of Ancillary Loan Documents, to be dated within thirty (30) days of the Fifth Amendment Effective Date by and among the Borrower, the Subsidiary Guarantors and the Administrative Agent.

Conforming Changes. means, with respect to either the use or administration of the Benchmark, or the use, administration, adoption or implementation of any Benchmark Replacement, any technical, administrative or operational changes (including, for example and not by way of limitation or prescription, changes to the definition of "Base Rate," the definition of "Business Day," the definition of "Interest Period" or any similar or analogous definition, the definition of "Government Securities Business Day," timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, the applicability and length of lookback periods, the applicability of Section 4.6, and other technical, administrative or operational matters) that the Administrative Agent decides may be appropriate in connection with the use or administration of the Benchmark or to reflect the adoption and implementation of any Benchmark Replacement or to permit the use and administration thereof by the Administrative Agent in a manner substantially consistent with market practice (or, if the Administrative Agent decides that adoption of any portion of such market practice is not administratively feasible or if the Administrative Agent determines that no market practice for the administration of any such rate exists, in such other manner of administration as the Administrative Agent decides is reasonably necessary in connection with the administration of this Credit Agreement and the other Loan Documents).

Consolidated or consolidated. With reference to any term defined herein, shall mean that term as applied to the accounts of the Borrower and its Subsidiaries, consolidated in accordance with GAAP.

Consolidated Net Worth. As of any date of determination, Safety Insurance Group Inc.'s Consolidated total shareholder's equity calculated in accordance with GAAP (as reported in its annual and quarterly financial statements and reported to the SEC on forms 10K and 10Q).

Continuing Directors. With respect to any period of twenty-four (24) consecutive calendar months, any member of the board of directors of the Borrower who (a) was a member of such board of directors on the first day of such period, or (b) was nominated for election or elected to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination or election.

Conversion Request. A notice given by the Borrower to the Administrative Agent of the Borrower's election to convert or continue a Loan in accordance with §2.7.

Credit Agreement. This Amended and Restated Revolving Credit Agreement, including the Schedules and Exhibits hereto.

Daily Simple SOFR. means, for any day, a rate per annum equal to the greater of (a) the sum of (i) SOFR, with the conventions for this rate (which will include a lookback) being established by the Administrative Agent in accordance with the conventions for this rate selected or recommended by the Relevant Governmental Body for determining "Daily Simple SOFR" for

syndicated business loans; provided, that if the Administrative Agent decides that any such convention is not administratively feasible for the Administrative Agent, then the Administrative Agent may establish another convention in its reasonable discretion plus (ii) the Daily Simple SOFR Adjustment, and (b) the Floor.

Daily Simple SOFR Adjustment. means 0.100% per annum.

Daily SOFR Rate. means, for any day, a rate per annum equal to Term SOFR in effect on such day for a one-month Interest Period (subject to the Floor referred to in the definition of "Term SOFR").

Default. See §12.1.

Delinquent Lender. See §13.5.3.

Distribution. The declaration or payment of any dividend on or in respect of any shares of any class of Capital Stock of any Person, other than dividends payable solely in additional shares of Capital Stock of such Person; the purchase, redemption, defeasance, retirement or other acquisition of any shares of any class of Capital Stock of any Person, directly or indirectly through a Subsidiary of such Person or otherwise (including the setting apart of assets for a sinking or other analogous fund to be used for such purpose); the return of capital by any Person to its shareholders as such; or any other distribution on or in respect of any shares of any class of Capital Stock of any Person.

Division. See §6.1.1.

Dollars or \$. Dollars in lawful currency of the United States of America.

Drawdown Date. The date on which any Loan is made or is to be made, and the date on which any Loan is converted or continued in accordance with §2.7.

Eligible Assignee. Any of (a) (i) a commercial bank or finance company organized under the laws of the United States, or any State thereof or the District of Columbia, and having total assets in excess of \$1,000,000,000; (ii) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof or the District of Columbia, and having a net worth of at least \$100,000,000, calculated in accordance with generally accepted accounting principles; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "OECD"), or a political subdivision of any country, and having total assets in excess of \$1,000,000,000, provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of OECD; (iv) the central bank of any country which is a member of the OECD; (v) any investment company, investment fund, financial institution or other institutional lender (other than any financial institution which but for the amount of its total assets would have been an Eligible Assignee under clauses (i) through (iv) above) having total assets in excess of \$100,000,000; and (vi) if, but only if, any Event of Default has occurred and is continuing, any other bank, insurance company, commercial finance company or other financial institution or other Person approved by the Administrative Agent, such approval not to be unreasonably withheld.

Employee Benefit Plan. Any employee benefit plan within the meaning of §3(3) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate, other than a Guaranteed Pension Plan or a Multiemployer Plan.

Environmental Laws. See §6.18(a).

EPA. See §6.18(b).

ERISA. The Employee Retirement Income Security Act of 1974.

ERISA Affiliate. Any Person which is treated as a single employer with the Borrower under §414 of the Code.

ERISA Reportable Event. A reportable event with respect to a Guaranteed Pension Plan within the meaning of §4043 of ERISA and the regulations promulgated thereunder.

Event of Default. See §12.1.

Excluded Swap Obligation. With respect to any Subsidiary Guarantor, any Swap Obligations under an Interest Rate Agreement if, and only to the extent that and for so long as, all or a portion of the guaranty of such Subsidiary Guarantor of, or the grant by such Subsidiary Guarantor of a security interest to secure, such Swap Obligation (or any guaranty thereof) is or becomes illegal under the Commodity Exchange Act or any rule, regulation or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof) by virtue of such Subsidiary Guarantor's failure for any reason to constitute an "eligible contract participant" as defined in the Commodity Exchange Act and the regulations thereunder (an "ECP") at the time the guaranty of such Subsidiary Guarantor or the grant of such security interest otherwise would have become effective with respect to such Swap Obligation; provided, however, that if any Subsidiary Guarantor that was not an ECP at the Relevant Time with respect to any Swap Obligation thereafter becomes an ECP, then from and after such time such Swap Obligation shall no longer constitute an Excluded Swap Obligation with respect to such Subsidiary Guarantor. For purposes of this definition, "Relevant Time" means, with respect to any Subsidiary Guarantor and a given Swap Obligation, the later of (a) the date on which such Subsidiary Guarantor became a Subsidiary Guarantor (and in connection therewith provided a guaranty and/or granted a security interest to secure its guaranty) and (b) the date on which the Borrower or a Subsidiary Guarantor enters into such Swap Obligation. If a Swap Obligation under an Interest Rate Agreement arises under a master agreement governing more than one swap, such exclusions shall apply only to the portion of such Swap Obligation that is attributable to swaps for which such guaranty or security interest is or becomes illegal.

Existing Credit Agreement. Has the meaning ascribed in the Recitals hereto.

Federal Funds Effective Rate. For any day, a rate per annum (expressed as a decimal, rounded upwards, if necessary, to the next higher 1/100 of 1%) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Effective Rate for such

day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, (b) if such rate is not so published for any day, the Federal Funds Effective Rate for such day shall be the average of the quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it and (c) if the Federal Funds Effective Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Credit Agreement.

Federal Reserve Board. means the Board of Governors of the Federal Reserve System of the United States.

Fee Letter. The fee letter dated as of the Closing Date among the Borrower and the Administrative Agent.

Fees. Collectively, the Commitment Fee and the Closing Fee.

Financial Affiliate. A Subsidiary of the bank holding company controlling any Lender, which Subsidiary is engaging in any of the activities permitted by §4(e) of the Bank Holding Company Act of 1956 (12 U.S.C. §1843).

Floor. means 1.25% per annum.

GAAP or generally accepted accounting principles. (a) When used in §9, whether directly or indirectly through reference to a capitalized term used therein, means (i) principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, in effect for the fiscal year ended on the Balance Sheet Date, and (ii) to the extent consistent with such principles, the accounting practice of the Borrower reflected in its financial statements for the year ended on the Balance Sheet Date, and (b) when used in general, other than as provided above, means principles that are (i) consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, as in effect

from time to time, and (ii) consistently applied with past financial statements of the Borrower adopting the same principles, provided that in each case referred to in this definition of "GAAP" a certified public accountant would, insofar as the use of such accounting principles is pertinent, be in a position to deliver an unqualified opinion (other than a qualification regarding changes in GAAP) as to financial statements in which such principles have been properly applied.

Governing Documents. With respect to any Person, its certificate or articles of incorporation, its by-laws and all stockholder agreements, voting trusts and similar arrangements applicable to any of its Capital Stock.

Government Securities Business Day. means any day except for (a) a Saturday, (b) a Sunday or (c) a day on which the Securities Industry and Financial Markets Association (or any successor thereto) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

Governmental Authority. Any foreign, federal, state, regional, local, municipal or other government, or any department, commission, board, bureau, agency, public authority or instrumentality thereof, or any court or arbitrator.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of §3(2) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Hazardous Substances. See §6.18(b).

Incentive Arrangements. With respect to any Person, any stock appreciation rights, "phantom" stock plans, subscription and stockholders agreements and other incentive and bonus plans and similar arrangements made in connection with the retention of executives, officers or employees by such Person or any of its Subsidiaries.

Increase Option. See §2.10.1.

Indebtedness. As to any Person and whether recourse is secured by or is otherwise available against all or only a portion of the assets of such Person and whether or not contingent, but without duplication:

- (a) every obligation of such Person for money borrowed;
- (b) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses;
- (c) every reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person;
- (d) every obligation of such Person issued or assumed as the deferred purchase price of property or services (including securities purchase agreements but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith);
- (e) every obligation of such Person under any Capitalized Lease;
- (f) every obligation of such Person under any Synthetic Lease;
- (g) all sales by such Person of (i) accounts or general intangibles for money due or to become due, (ii) chattel paper, instruments or documents creating or evidencing a right to payment of money or (iii) other receivables (collectively "receivables"), whether pursuant to a purchase facility or otherwise, other than in connection with the disposition of the business operations of such Person relating thereto or a disposition of defaulted receivables for collection and not as a financing arrangement, and together with any obligation of such Person to pay any discount, interest, fees, indemnities, penalties, recourse, expenses or other amounts in connection therewith;
- (h) every obligation of such Person (an "equity related purchase obligation") to purchase, redeem, retire or otherwise acquire for value any shares of Capital Stock issued by such Person or any rights measured by the value of such Capital Stock;

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(i) every obligation of such Person under any forward contract, futures contract, swap, option or other financing agreement or arrangement (including, without limitation, caps, floors, collars and similar agreements), the value of which is dependent upon interest rates, currency exchange rates, commodities or other indices (a "derivative contract"),

(j) every obligation in respect of Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent that such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent that the terms of such Indebtedness provide that such Person is not liable therefor and such terms are enforceable under applicable law,

(k) every obligation, contingent or otherwise, of such Person guaranteeing, or having the economic effect of guarantying or otherwise acting as surety for, any obligation of a type described in any of clauses (a) through (j) (the "primary obligation") of another Person (the "primary obligor"), in any manner, whether directly or indirectly, and including, without limitation, any obligation of such Person (i) to purchase or pay (or advance or supply funds for the purchase of) any security for the payment of such primary obligation, (ii) to purchase property, securities or services for the purpose of assuring the payment of such primary obligation, or (iii) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such primary obligation.

The "amount" or "principal amount" of any Indebtedness at any time of determination represented by (t) any Indebtedness, issued at a price that is less than the principal amount at maturity thereof, shall be the amount of the liability in respect thereof determined in accordance with GAAP, (u) any Capitalized Lease shall be the principal component of the aggregate of the rentals obligation under such Capitalized Lease payable over the term thereof that is not subject to termination by the lessee, (v) any sale of receivables shall be the amount of unrecovered capital or principal investment of the purchaser (other than the Borrower or any of its wholly-owned Subsidiaries) thereof, excluding amounts representative of yield or interest earned on such investment, (w) any Synthetic Lease shall be the stipulated loss value, termination value or other equivalent amount, (x) any derivative contract shall be the maximum amount of any termination or loss payment required to be paid by such Person if such derivative contract were, at the time of determination, to be terminated by reason of any event of default or early termination event thereunder, whether or not such event of default or early termination event has in fact occurred, (y) any equity related purchase obligation shall be the maximum fixed redemption or purchase price thereof inclusive of any accrued and unpaid dividends to be comprised in such redemption or purchase price and (z) any guaranty or other contingent liability referred to in clause (k) shall be an amount equal to the stated or determinable amount of the primary obligation in respect of which such guaranty or other contingent obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith.

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**Insurance Regulatory Authorities.** Collectively, in relation to any Person, the insurance regulatory authorities, commissions, agencies, departments, boards or other authorities having jurisdiction over such Person or over the business of such Person.

**Insurance Subsidiaries.** Safety Insurance, Safety Indemnity, Safety Property and any other Subsidiary of the Borrower which is required to be licensed by any Insurance Regulatory Authority as an insurance company.

**Interest Payment Date.** (a) As to any Base Rate Loan, the first day of each calendar month with respect to interest accrued during the prior calendar month, including, without limitation, the calendar month which includes the Drawdown Date of such Base Rate Loan; and (b) as to any SOFR Loan in respect of which the Interest Period is (i) three (3) months or less, the last day of such Interest Period and (ii) more than three (3) months, the last day of each three (3) month interval from the first day of such Interest Period.

**Interest Period.** with respect to any applicable Loan or Borrowing, the period commencing on the date of such Loan or Borrowing and ending on the numerically corresponding day in the calendar month that is one, three, six or nine months thereafter (in each case, subject to the availability thereof), as specified in the applicable Loan Request; provided that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest

Period shall end on the next preceding Business Day, (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period, (iii) no Interest Period shall extend beyond the Maturity Date and (iv) no tenor that has been removed from this definition pursuant to Section 4.12(d) shall be available for specification in such Loan Request. For purposes hereof, the date of a Loan or Borrowing initially shall be the date on which such Loan or Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Loan or Borrowing. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

Interest Rate Agreement. Any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate futures contract, interest rate option agreement or other similar agreement or arrangement to which the Borrower is a party, designed to protect the Borrower against fluctuations in interest rates.

Investment Grade Securities. Any debt Investments having a fixed maturity which have a rating by the NAIC of 1 or 2, or, if the NAIC rating categories in effect on the date hereof change, such other rating or ratings of such Investments determined by the NAIC to be symbolic of investment grade quality.

Investments. All expenditures made and all liabilities incurred (contingently or otherwise) for the acquisition of stock or Indebtedness of, or for loans, advances, capital contributions or transfers of property to, or in respect of any guaranties (or other commitments as described under Indebtedness), or obligations of, any Person. In determining the aggregate

amount of Investments outstanding at any particular time: (a) the amount of any Investment represented by a guaranty shall be taken at not less than the principal amount of the obligations guaranteed and still outstanding; (b) there shall be included as an Investment all interest accrued with respect to Indebtedness constituting an Investment unless and until such interest is paid; (c) there shall be deducted in respect of each such Investment any amount received as a return of capital (but only by repurchase, redemption, retirement, repayment, liquidating dividend or liquidating distribution); (d) there shall not be deducted in respect of any Investment any amounts received as earnings on such Investment, whether as dividends, interest or otherwise, except that accrued interest included as provided in the foregoing clause (b) may be deducted when paid; and (e) there shall not be deducted from the aggregate amount of Investments any decrease in the value thereof.

Lender Affiliate. (a) With respect to any Lender, (i) an Affiliate of such Lender or (ii) any entity (whether a corporation, partnership, limited liability company, trust or legal entity) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by such Lender or an Affiliate of such Lender and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other entity (whether a corporation, partnership, limited liability company, trust or other legal entity) that is a fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

Lenders. Citizens and the other lending institutions listed on Schedule 1 hereto and any other Person who becomes an assignee of any rights and obligations of a Lender pursuant to §14.

Letter of Credit. See §2.9.1.

Letter of Credit Application. See §2.9.1.

Letter of Credit Fee. See §2.9.10.

Letter of Credit Participation. See §2.9.4.

Lien. Any mortgage, deed of trust, security interest, pledge, hypothecation, assignment, attachment, deposit arrangement, encumbrance, lien (statutory, judgment or otherwise), or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any Capitalized Lease, any Synthetic Lease, any financing lease involving substantially the same economic effect as any of the foregoing and the filing of any financing statement under the UCC or comparable law of any jurisdiction).

Loan Documents. This Credit Agreement, the Notes, the Security Documents and the Fee Letter.

Loan Request. See §2.6.

Loans. Revolving credit loans made or to be made by the Lenders to the Borrower pursuant to §2.

Material Adverse Effect. With respect to any event or occurrence of whatever nature (including any adverse determination in any litigation, arbitration or governmental investigation or proceeding):

- (a) a material adverse effect on the business, properties, condition (financial or otherwise), assets, operations or income of the Borrower and its Subsidiaries, taken as a whole; or
- (b) a material adverse effect on the ability of the Borrower and its Subsidiaries, to perform any of its respective Obligations under any of the Loan Documents to which it is a party.

Material Documents. The Tax Sharing Agreement.

Material Insurance License. Any license issued by a state to any Insurance Subsidiary that permits such Insurance Subsidiary to transact insurance business in such state and in respect of which the premiums written under the authority of such license account for more than twenty percent (20%) of Net Premiums Written during the then most recently ended fiscal year of the Borrower.

Maturity Date. August 10, 2028.

Maximum Drawing Amount. The maximum aggregate amount that the beneficiaries may at any time draw under outstanding Letters of Credit, as such aggregate amount may be reduced from time to time pursuant to the terms of the Letters of Credit.

Moody's. Moody's Investors Services, Inc. and any successor thereto.

Multiemployer Plan. Any multiemployer plan within the meaning of §3(37) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate.

NAIC. The National Association of Insurance Commissioners or any successor thereto, or in lieu thereof, any other association, agency or other organization performing substantially similar advisory, coordination or other life functions among insurance departments, insurance commissions and similar Governmental Authorities of the various states of the United States of America toward the promotion of uniformity in the practices of such Governmental Authorities.

Net Premiums Written. In relation to any Insurance Subsidiary for any particular period, (i) the sum of (A) all income on direct premiums written by such Insurance Subsidiary during such period arising from policies (if any) issued by such Insurance Subsidiary as the direct primary insurance carrier, plus (B) all income on premiums written and collected by such Insurance Subsidiary during such period arising from policies reinsured by such Insurance Subsidiary acting as a reinsurer for insurance ceded to it by another company which is the primary insurance carrier, less (ii) the sum of (A) all refunds of premiums due by such insurance company to insurers arising from endorsements, cancellations or audits, plus (B) all other premium expense by reason of insurance ceded by such insurance company to other insurance companies as reinsurers in order to reinsure such insurance company either as the primary insurance carrier or as a reinsurer, all as determined for such period in accordance with SAP.

Non-Admitted Assets. Assets of any Insurance Subsidiary which are prohibited by Insurance Regulatory Authorities from being treated as assets for statutory reporting purposes.

Non-U.S. Lender. See §4.2.3.

Note Record. A Record with respect to a Note.

Notes. See §2.4.

Obligations. All indebtedness, obligations and liabilities of any of the Borrower and its Subsidiaries to any of the Lenders and the Administrative Agent, individually or collectively, existing on the date of this Credit Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, arising or incurred under this Credit Agreement or any of the other Loan Documents or any Interest Rate Agreement or in respect of any of the Loans made or any of the Notes or other instruments at any time evidencing any thereof; provided, that Obligations of any Subsidiary Guarantor shall not include any Excluded Swap Obligations of such Subsidiary Guarantor.

Omnibus Amendment and Reaffirmation Agreement. The Omnibus Amendment and Reaffirmation Agreement, dated on or about the date hereof, among the Borrower, the Subsidiary Guarantors and the Administrative Agent.

outstanding. With respect to the Loans, the aggregate unpaid principal thereof as of any date of determination.

PBGC. The Pension Benefit Guaranty Corporation created by §4002 of ERISA and any successor entity or entities having similar responsibilities.

Perfection Certificates. The Perfection Certificates as defined in the Security Agreements.

Permitted Acquisition. See §8.5.1.

Permitted Liens. Liens permitted by §8.2.

Person. Any individual, corporation, limited liability company, partnership, limited liability partnership, trust, other unincorporated association, business, or other legal entity, and any Governmental Authority.

Portfolio Investments. Investments made by an Insurance Subsidiary in accordance with the Safety Insurance Investment Policy which are permitted by §8.3.

RCRA. See §6.18(a).

Real Estate. All real property at any time owned or leased (as lessee or sublessee) by the Borrower or any of its Subsidiaries.

Record. The grid attached to a Note, or the continuation of such grid, or any other similar record, including computer records, maintained by any Lender with respect to any Loan referred to in such Note.

Reference Period. As of any date of determination, the period of four (4) consecutive fiscal quarters of the Borrower and its Subsidiaries ending on such date, or if such date is not a fiscal quarter end date, the period of four (4) consecutive fiscal quarters most recently ended (in each case treated as a single accounting period).

Register. See §14.3.

Reimbursement Obligation. The Borrower's obligation to reimburse the Administrative Agent and the Lenders on account of any drawing under any Letter of Credit as provided in §2.9.6.

Relevant Governmental Body. means the Federal Reserve Board or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York.

Replacement Lender. See §4.11.

Replacement Notice. See §4.11.

Required Lenders. As of any date, the Lender holding more than fifty percent (50%) of the outstanding principal amount of the Notes on such date plus the unused portion of the Commitments on such date; and if no such principal is outstanding, the Lenders whose aggregate Commitments constitute more than fifty percent (50%) of the Total Commitment.

**Reserves.** In relation to any Insurance Subsidiary at any time, all reserves for payment of policy benefits, losses, claims, expenses and similar purposes determined in accordance with SAP.

**Restricted Payment.** In relation to the Borrower and its Subsidiaries, any (a) Distribution, (b) payment or prepayment by the Borrower or its Subsidiaries to the Borrower or any Affiliate of the Borrower, (c) derivatives or other transactions with any financial institution, commodities or stock exchange or clearinghouse (a "Derivatives Counterparty") obligating the Borrower or any Subsidiary to make payments to such Derivatives Counterparty as a result of any change in market value of any Capital Stock of the Borrower or such Subsidiary, or (d) any principal, interest or other amounts due in respect of any Indebtedness which by its terms is subordinated to payment of the Obligations.

**Risk Based Capital Ratio.** With respect to any Insurance Subsidiary and as at any date of determination, the ratio of (a) Total Adjusted Capital for such Insurance Subsidiary as of such date, to (b) the Authorized Control Level RBC for such Insurance Subsidiary as of such date, in each case as such terms are defined by the NAIC Risk-Based Capital (RBC) for Insurers Model Act.

**Safety Indemnity.** Safety Indemnity Insurance Company, a Massachusetts corporation.

**Safety Insurance.** Safety Insurance Company, a Massachusetts corporation.

**Safety Insurance Investment Policy.** The Asset Investment Criteria of Safety Insurance delivered by the Borrower to the Administrative Agent on or prior to the Closing Date, as amended, restated or otherwise modified from time to time in accordance with §8.12 hereof.

**Safety Management.** Safety Management Corporation (f/k/a Whiteshirts Management Corporation), a Massachusetts corporation.

**Safety Property.** Safety Property and Casualty Insurance Company, a Massachusetts corporation.

**SAP Financial Statements.** The Statutory Annual Financial Statements and the Statutory Quarterly Financial Statements.

**SARA.** See §6.18(a).

**Security Agreements.** Collectively, (a) the Security Agreement, dated as of November 27, 2002, between the Borrower and the Administrative Agent and (b) the Security Agreement, dated as of November 27, 2002 between the Subsidiary Guarantors and the Administrative Agent, in each case as previously amended and as amended by the Omnibus Amendment and Reaffirmation Agreement.

**Security Documents.** The Omnibus Amendment and Reaffirmation Agreement, the Subsidiary Guaranty, the Security Agreements, the Stock Pledge Agreements, the Confirmation Agreement and all other instruments and documents, including without limitation Uniform Commercial Code financing statements, required to be executed or delivered pursuant to any Security Document.

**S&P.** Standard & Poor's Ratings Group.

**SOFR.** means a rate equal to the secured overnight financing rate as published by the SOFR Administrator on the website of the SOFR Administrator.

**SOFR Administrator.** means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

**SOFR Borrowing.** means, as to any Borrowing, the SOFR Loans comprising such Borrowing.

**SOFR Loan.** means a Loan that bears interest at a rate based on Term SOFR, other than pursuant to clause (c) of the definition of "Base Rate".

**Statutory Annual Financial Statements.** With respect to any Insurance Subsidiary, the annual fiscal year-end financial statements required by the SAP to be filed with the Insurance Regulatory Authorities of the state in which such Insurance Subsidiary is organized and licensed to sell insurance.

**Statutory Accounting Practices or SAP.** Statutory accounting practices consistently applied throughout the periods specified and the immediately prior period in accordance with NAIC's Annual Statement Instructions and Accounting Practices and Procedures Manual, except to the extent that applicable state law may differ or that state rules or regulations require differences in reporting not relating to accounting practices and procedures in which case such state requirements shall apply.

**Statutory Net Income.** In relation to any Insurance Subsidiary for any particular period, the net income of such Insurance Subsidiary for such period that appears on the SAP Financial Statements, as determined in accordance with SAP.

**Statutory Quarterly Financial Statements.** With respect to any Insurance Subsidiary, the quarterly financial statements required by SAP to be filed with the Insurance Regulatory Authorities of the state in which such Insurance Subsidiary is organized and licensed to sell insurance.

**Statutory Surplus.** In relation to any Insurance Subsidiary at any time, the total surplus of such Insurance Subsidiary that appears or should appear, on the SAP Financial Statements of such Insurance Subsidiary determined in accordance with SAP.

**Stock Pledge Agreements.** The several Stock Pledge Agreements, each dated as of November 27, 2002, between (a) the Borrower and the Administrative Agent, and (b) Safety Management and the Administrative Agent, in each case as previously amended and as amended by the Omnibus Amendment and Reaffirmation Agreement.

**Subsidiary.** Any corporation, association, trust, or other business entity of which the designated parent shall at any time own directly or indirectly through a Subsidiary or Subsidiaries at least a majority (by number of votes) of the outstanding Voting Stock.

**Subsidiary Guarantors.** Each Subsidiary of the Borrower which is not an Insurance Subsidiary.

**Subsidiary Guaranty.** The Guaranty, dated as of November 27, 2002, by each Subsidiary Guarantor in favor of the Lenders and the Administrative Agent, as previously amended and as amended by the Omnibus Amendment and Reaffirmation Agreement, pursuant to which each Subsidiary Guarantor has guaranteed to the Lenders and the Administrative Agent the payment and performance of the Obligations.

**Swap Obligations.** With respect to any Subsidiary Guarantor, any obligation to pay or perform under any agreement, contract or transaction that constitutes a "swap" within the meaning of section 1a(47) of the Commodity Exchange Act.

**Synthetic Lease.** Any lease of goods or other property, whether real or personal, which is treated as an operating lease under GAAP and as a loan or financing for U.S. income tax purposes.

**Tax Sharing Agreement.** The Amended and Restated Tax Sharing Agreement, dated as of February 28, 2002 by and among the Borrower and the Subsidiaries (as defined therein), previously delivered to the Administrative Agent.

**Taxes.** See §4.2.2.

**Term SOFR.** means a rate per annum equal to the greater of (a) the sum of (i) Term SOFR Reference Rate for a tenor comparable to the applicable Interest Period on the day (such day, the "Term SOFR Determination Day") that is two (2) Government Securities Business Days prior to the first day of such Interest Period; provided, however, that if as of 5:00 p.m. (New York City time) on any Term SOFR Determination Day the Term SOFR Reference Rate for the applicable tenor has not been published by the Term SOFR Administrator and a Benchmark Replacement Date with respect to the Term SOFR Reference Rate has not occurred, then Term SOFR will be the Term SOFR Reference Rate for such tenor as published by the Term SOFR Administrator on the first preceding Government Securities Business Day for which such Term SOFR Reference Rate for such tenor was published by the Term SOFR Administrator so long as such first preceding Government Securities Business Day is not more than three (3) Government Securities Business Days prior to such Term SOFR Determination Day plus (ii) the Term SOFR Adjustment, and (b) the Floor.

**Term SOFR Adjustment.** means 0.100% per annum.

**"Term SOFR Administrator"** means CME Group Benchmark Administration Limited (CBA) (or a successor administrator of the Term SOFR Reference Rate selected by the Administrative Agent in its reasonable discretion).

**"Term SOFR Determination Day"** has the meaning specified in the definition of "Term SOFR".

**"Term SOFR Reference Rate"** means the forward-looking term rate based on SOFR published by the Term SOFR Administrator and displayed on CME's Market Data Platform (or other commercially available source providing such quotations as may be selected by the Administrative Agent from time to time).

**Total Commitment.** The sum of the Commitments of the Lenders, as in effect from time to time. On the Closing Date, the Total Commitment shall be equal to \$30,000,000.

**Type.** As to any Loan, its nature as a Base Rate Loan or a SOFR Loan.

**Unadjusted Benchmark Replacement.** means the applicable Benchmark Replacement excluding the related Benchmark Replacement Adjustment.

**Unpaid Reimbursement Obligation.** Any Reimbursement Obligation for which the Borrower does not reimburse the Administrative Agent and the Lenders on the date specified in, and in accordance with, §2.9.6.

**Voting Stock.** Stock or similar interests, of any class or classes (however designated), the holders of which are at the time entitled, as such holders, to vote for the election of a majority of

the directors (or persons performing similar functions) of the corporation, association, trust or other business entity involved, whether or not the right so to vote exists by reason of the happening of a contingency.

#### **1.2. Rules of Interpretation.**

(a) A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Credit Agreement.

(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) Accounting terms not otherwise defined herein have the meanings assigned to them by GAAP applied on a consistent basis by the accounting entity to which they refer.

(f) The words "include", "includes" and "including" are not limiting.

(g) All terms not specifically defined herein or by GAAP, which terms are defined in the Uniform Commercial Code as in effect in the Commonwealth of Massachusetts, have the meanings assigned to them therein, with the term "instrument" being that defined under Article 9 of the Uniform Commercial Code.

(h) Reference to a particular "§" refers to that section of this Credit Agreement unless otherwise indicated.

(i) The words "herein", "hereof", "hereunder" and words of like import shall refer to this Credit Agreement as a whole and not to any particular section or subdivision of this Credit Agreement.

(j) Unless otherwise expressly indicated, in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including," the words "to" and "until" each mean "to but excluding," and the word "through" means "to and including."

(k) This Credit Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are, however, cumulative and are to be performed in accordance with the terms thereof.

(l) This Credit Agreement and the other Loan Documents are the result of negotiation among, and have been reviewed by counsel to, among others, the

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Administrative Agent and the Borrower and are the product of discussions and negotiations among all parties. Accordingly, this Credit Agreement and the other Loan Documents are not intended to be construed against the Administrative Agent or any of the Lenders merely on account of the Administrative Agent's or any Lender's involvement in the preparation of such documents.

**1.3. Rates Generally.** The Administrative Agent does not warrant or accept responsibility for, and shall not have any liability with respect to (a) administration, construction, calculation, publication, continuation, discontinuation, movement, or regulation of, or any other matter related to, the Base Rate, the Benchmark, or any alternative, successor or replacement rate thereto (including any Benchmark Replacement), any component definition thereof or rates referred to in the definition thereof, including whether any Benchmark is similar to, or will produce the same value or economic equivalence of, any other rate or whether financial instruments referencing or underlying the Benchmark will have the same volume or liquidity as those referencing or underlying any other rate, (b) the impact of any regulatory statements about, or actions taken with respect to any Benchmark (or component thereof), (c) changes made by any administrator to the methodology used to calculate any Benchmark (or component thereof) or (d) the effect, implementation or composition of any Conforming Changes. The Administrative Agent and its affiliates or other related entities may engage in transactions that affect the calculation of the Base Rate, the Benchmark, any alternative, successor or replacement rate (including any Benchmark Replacement) or any relevant adjustments thereto, in each case, in a manner adverse to the Borrower. The Administrative Agent does not warrant or accept responsibility for, and shall not have any liability with respect to, such transactions. The Administrative Agent may select information sources or services in its reasonable discretion to ascertain the Base Rate, the Benchmark, or any alternative, successor or replacement rate (including any Benchmark Replacement), in each case pursuant to the terms of this Credit Agreement, and shall have no liability to the Borrower, any Lender or any other person or entity for damages of any kind, including direct or indirect, special, punitive, incidental or consequential damages, costs, losses or expenses (whether in tort, contract or otherwise and whether at law or in equity), for any error or calculation of any such rate (or component thereof) provided by any such information source or service.

**2. THE REVOLVING CREDIT FACILITY.**

**2.1. Commitment to Lend.** Subject to the terms and conditions set forth in this Credit Agreement, each of the Lenders severally agrees to lend to the Borrower and the Borrower may borrow, repay, and reborrow from time to time from the Closing Date up to but not including the Maturity Date upon notice by the Borrower to the Administrative Agent given in accordance with §2.6, such sums as are requested by the Borrower up to a maximum aggregate amount outstanding (after giving effect to all amounts requested) at any one time equal to such Lender's Commitment, provided that the sum of the outstanding amount of the Loans (after giving effect to all amounts requested) shall not at any time exceed the Total Commitment at such time. The Loans shall be made pro rata in accordance with each Lender's Commitment Percentage. Each request for a Loan hereunder shall constitute a representation and warranty by the

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Borrower that the conditions set forth in §10 and §11, in the case of the initial Loans to be made on the Closing Date, and §11, in the case of all other Loans, have been satisfied on the date of such request.

**2.2. Commitment Fee.** The Borrower agrees to pay to the Administrative Agent for the accounts of the Lenders in accordance with their respective Commitment Percentages a commitment fee (the "Commitment Fee") calculated at the rate of one fifth of one percent (0.20%) per annum on the daily amount during each calendar quarter or portion thereof from the date hereof to the Maturity Date by which the Total Commitment exceeds the outstanding amount of Loans during such calendar quarter. The Commitment Fee shall be payable quarterly in arrears on the first day of each calendar quarter for the immediately preceding calendar quarter commencing on the first such date following the date hereof, with a final payment on the Maturity Date or any earlier date on which the Commitments shall terminate.

**2.3. Reduction of Total Commitment.** The Borrower shall have the right at any time and from time to time upon five (5) Business Days prior written notice to the Administrative Agent to reduce by \$500,000 or an integral multiple of \$100,000 in excess thereof or to terminate entirely the Total Commitment, whereupon the Commitments of the Lenders shall be reduced pro rata in accordance with their respective Commitment Percentages of the amount specified in such notice or, as the case may be, terminated. Promptly after receiving any notice of the Borrower delivered pursuant to this §2.3, the Administrative Agent will notify the Lenders of the substance thereof. Upon the effective date of any such reduction or

termination, the Borrower shall pay to the Administrative Agent for the respective accounts of the Lenders the full amount of any Commitment Fee then accrued on the amount of the reduction. No reduction or termination of the Commitments may be reinstated.

**2.4. The Notes.** The Loans shall be evidenced by separate promissory notes of the Borrower in substantially the form of Exhibit A hereto (each a "Note"), dated as of the Closing Date (or such other date on which a Lender may become a party hereto in accordance with §14 hereof) and completed with appropriate insertions. One Note shall be payable to the order of each Lender in a principal amount equal to such Lender's Commitment or, if less, the outstanding amount of all Loans made by such Lender, plus interest accrued thereon, as set forth below. The Borrower irrevocably authorizes each Lender to make or cause to be made, at or about the time of the Drawdown Date of any Loan or at the time of receipt of any payment of principal on such Lender's Note, an appropriate notation on such Lender's Note Record reflecting the making of such Loan or (as the case may be) the receipt of such payment. The outstanding amount of the Loans set forth on such Lender's Note Record shall be prima facie evidence of the principal amount thereof owing and unpaid to such Lender, but the failure to record, or any error in so recording, any such amount on such Lender's Note Record shall not limit or otherwise affect the obligations of the Borrower hereunder or under any Note to make payments of principal or interest on any Note when due.

**2.5. Interest on Loans.** Except as otherwise provided in §4.10,

(a) Each Loan which is a Base Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the rate per annum equal to the Base Rate as in effect from time to time.

(b) Each Loan which is a SOFR Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the rate per annum equal to Term SOFR determined for such Interest Period plus one and one-quarter of one percent (1.25%).

(c) The Borrower promises to pay interest on each Loan in arrears on each Interest Payment Date with respect thereto.

(d) Term SOFR Conforming Changes. In connection with the use or administration of Term SOFR, the Administrative Agent will have the right to make Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Conforming Changes will become effective without any further action or consent of any other party to this Credit Agreement or any other Loan Document. The Administrative Agent will promptly notify the Borrower and the Lenders of the effectiveness of any Conforming Changes in connection with the use or administration of Term SOFR.

**2.6. Requests for Loans.** The Borrower shall give to the Administrative Agent written notice in the form of Exhibit B hereto (or telephonic notice confirmed in a writing in the form of Exhibit B hereto) of each Loan requested hereunder (a "Loan Request") (a) no later than 11:00 a.m. (Boston time) on the proposed Drawdown Date of any Base Rate Loan and (b) no later than 11:00 a.m. (Boston time) on not less than three (3) Government Securities Business Days prior to the proposed Drawdown Date of any SOFR Loan. Each such notice shall specify (i) the principal amount of the Loan requested, (ii) the proposed Drawdown Date of such Loan, (iii) the Interest Period for such Loan and (iv) the Type of such Loan. If a Loan Request does not specify the Type of Loan requested, it will be treated as a request for a Base Rate Loan. Promptly upon receipt of any such notice, the Administrative Agent shall notify each of the Lenders thereof. Each Loan Request shall be irrevocable and binding on the Borrower and shall obligate the Borrower to accept the Loan requested from the Lenders on the proposed Drawdown Date. Each Loan Request for a Base Rate Loan shall be in a minimum aggregate amount of \$100,000 or an integral multiple of \$100,000 in excess thereof and each Loan Request for a SOFR Loan shall be in a minimum aggregate amount of \$500,000 or an integral multiple of \$100,000 in excess thereof.

**2.7. Conversion Options.**

**2.7.1. Conversion to Different Type of Loan.** The Borrower may elect from time to time to convert any outstanding Loan to a Loan of another Type, provided that (a) with respect to any such conversion of a SOFR Loan to a Base Rate Loan, the Borrower shall give the Administrative Agent written notice (or telephone notice promptly confirmed in writing) no later than 11:00 a.m. (Boston time) on the date of such

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election; (b) with respect to any such conversion of a Base Rate Loan to a SOFR Loan, the Borrower shall give the Administrative Agent at least three (3) Government Securities Business Days prior written notice of such election; (c) with respect to any such conversion of a SOFR Loan into a Base Rate Loan, if such conversion is not made on the last day of the Interest Period with respect thereto, such conversion shall require the payment of any amounts due under §4.9 hereof, and (d) no Loan may be converted into a SOFR Loan when any Default or Event of Default has occurred and is continuing. On the date on which such conversion is being made each Lender shall take such action as is necessary to transfer its Commitment Percentage of such Loans to its Applicable Lending Office. All or any part of outstanding Loans of any Type may be converted into a Loan of another Type as provided herein, provided that any partial conversion into a Base Rate Loan shall be in an aggregate principal amount of \$100,000 or a whole multiple of \$100,000 in excess thereof and a partial conversion into a SOFR Loan shall be in an aggregate principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof. Each Conversion Request relating to the conversion of a Loan to a SOFR Loan shall be irrevocable by the Borrower.

**2.7.2. Continuation of Type of Loan.** Any Loan of any Type may be continued as a Loan of the same Type upon the expiration of an Interest Period with respect thereto by compliance by the Borrower with the notice provisions contained in §2.7.1; provided that no SOFR Loan may be continued as such when any Default or Event of Default has occurred and is continuing, but shall be automatically converted to a Base Rate Loan on the last day of the first Interest Period relating thereto ending during the continuance of any Default or Event of Default of which officers of the Administrative Agent active upon the Borrower's account have actual knowledge. In the event that the Borrower fails to provide any such notice with respect to the continuation of any SOFR Loan as such, then such SOFR Loan shall be automatically converted to a Base Rate Loan on the last day of the first Interest Period relating thereto. The Administrative Agent shall notify the Lenders promptly when any such automatic conversion contemplated by this §2.7.2 is scheduled to occur.

**2.7.3. SOFR Loans.** Any conversion to or from SOFR Loans shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of all SOFR Loans having the same Interest Period shall not be less than \$500,000 or a whole multiple of \$100,000 in excess thereof. No more than seven (7) SOFR Loans having different Interest Periods may be outstanding at any time.

## **2.8. Funds for Loan.**

**2.8.1. Funding Procedures.** Not later than 1:00 p.m. (Boston time) on the proposed Drawdown Date of any Loans, each of the Lenders will make available to the Administrative Agent, at the Administrative Agent's Office, in immediately available funds, the amount of such Lender's Commitment Percentage of the amount of the requested Loans. Upon receipt from each Lender of such amount, and upon receipt of the documents required by §§10 and 11 and the satisfaction of the other conditions set forth therein, to the extent applicable, the Administrative Agent will make available to the

Borrower the aggregate amount of such Loans made available to the Administrative Agent by the Lenders. The failure or refusal of any Lender to make available to the Administrative Agent at the aforesaid time and place on any Drawdown Date the amount of its Commitment Percentage of the requested Loans shall not relieve any other Lender from its several obligation hereunder to make available to the Administrative Agent the amount of such other Lender's Commitment Percentage of any requested Loans.

**2.8.2. Advances by Administrative Agent.** The Administrative Agent may, unless notified to the contrary by any Lender prior to a Drawdown Date, assume that such Lender has made available to the Administrative Agent on such Drawdown Date the amount of such Lender's Commitment Percentage of the Loans to be made on such Drawdown Date, and the Administrative Agent may (but it shall not be required to), in reliance upon such assumption, make available to the Borrower a corresponding amount. If any Lender makes available to the Administrative Agent such amount on a date after such Drawdown Date, such Lender shall pay to the Administrative Agent on demand an amount equal to the product of (a) the average computed for the period referred to in clause (c) below, of the weighted average interest rate paid by the Administrative Agent for federal funds acquired by the Administrative Agent during each day included in such period, times (b) the amount of such Lender's Commitment Percentage of such Loans, times (c) a fraction, the numerator of which is the number of days that elapse from and including such Drawdown Date to the date on which the amount of such Lender's Commitment Percentage of such Loans shall become immediately available to the Administrative Agent, and the denominator of which is 360. A statement of the Administrative Agent submitted to such Lender with respect to any amounts owing under this paragraph shall be *prima facie* evidence of the amount due and owing to the Administrative Agent by such Lender. If the amount of such Lender's Commitment Percentage of such Loans is not made available to the Administrative Agent by such Lender within three (3) Business Days

following such Drawdown Date, the Administrative Agent shall be entitled to recover such amount from the Borrower on demand, with interest thereon at the rate per annum applicable to the Loans made on such Drawdown Date.

**2.9. Letters of Credit.**

**2.9.1. Commitment to Issue Letters of Credit.** Subject to the terms and conditions hereof and the execution and delivery by the Borrower of a letter of credit application on the Administrative Agent's customary form (a "Letter of Credit Application"), the Administrative Agent, on behalf of the Lenders and in reliance upon the agreement of the Lenders set forth in §2.9.4 and upon the representations and warranties of the Borrower contained herein, agrees, in its individual capacity, to issue, extend and renew for the account of the Borrower one or more standby letters of credit (each, a "Letter of Credit"), in such form as may be requested from time to time by the Borrower and agreed to by the Administrative Agent; provided, however, that, after giving effect to such request, (i) the sum of the aggregate amount available to be drawn on all Letters of Credit outstanding shall not exceed \$5,000,000 at any one time and (ii) the sum of (1) the Maximum Drawing Amount and (2) the amount of all Revolving Credit Loans outstanding shall not exceed the Total Commitment at such time.

**2.9.2. Letter of Credit Applications.** Each Letter of Credit Application shall be completed to the satisfaction of the Administrative Agent. In the event that any provision of any Letter of Credit Application shall be inconsistent with any provision of this Credit Agreement, then the provisions of this Credit Agreement shall, to the extent of any such inconsistency, govern.

**2.9.3. Terms of Letters of Credit.** Each Letter of Credit issued, extended or renewed hereunder shall, among other things, (a) provide for the payment of sight drafts for honor thereunder when presented in accordance with the terms thereof and when accompanied by the documents described therein, and (b) provide for a term of no more than one (1) year subject to automatic renewals, but in no event have an expiry date later than the date which is fourteen (14) days (or, if the Letter of Credit is confirmed by a confirmor or otherwise provides for one or more nominated persons, forty-five (45) days) prior to the Revolving Credit Loan Maturity Date. Each Letter of Credit so issued, extended or renewed shall be subject to either the Uniform Customs or the International Standby Practices (ISP98), International Chamber of Commerce Publication No. 590, or any successor code of standby letter of credit practices among banks adopted by the Administrative Agent in the ordinary course of its business as a standby letter of credit issuer and in effect at the time of issuance of such Letter of Credit.

**2.9.4. Reimbursement Obligations of Lenders.** Each Lender severally agrees that it shall be absolutely liable, without regard to the occurrence of any Default or Event of Default or any other condition precedent whatsoever, to the extent of such Lender's Commitment Percentage of the Total Commitment, to reimburse the Administrative Agent on demand for the amount of each draft paid by the Administrative Agent under each Letter of Credit to the extent that such amount is not reimbursed by the Borrower pursuant to §2.9.6 (such agreement for a Lender being called herein the "Letter of Credit Participation" of such Lender).

**2.9.5. Participations of Lenders.** Each such payment made by a Lender shall be treated as the purchase by such Lender of a participating interest in the Borrower's Reimbursement Obligation under §2.9.6 in an amount equal to such payment. Each Lender shall share in accordance with its funded participating interest in any interest which accrues pursuant to §2.9.6.

**2.9.6. Reimbursement Obligation of the Borrower.** In order to induce the Administrative Agent to issue, extend and renew each Letter of Credit and the Lenders to participate therein, the Borrower hereby agrees to reimburse or pay to the Administrative Agent, for the account of the Administrative Agent or (as the case may be) the Lenders, with respect to each Letter of Credit issued, extended or renewed by the Administrative Agent hereunder,

(a) except as otherwise expressly provided in subsections (b) and (c) below, on each date that any draft presented under such Letter of Credit is honored by the Administrative Agent, or the Administrative Agent otherwise makes a payment with respect thereto, (i) the amount paid by the Administrative Agent under or with respect to such Letter of Credit, and (ii) the amount of any taxes, fees, charges or other costs and

expenses whatsoever incurred by the Administrative Agent or any Lender in connection with any payment made by the Administrative Agent or any Lender under, or with respect to, such Letter of Credit;

(b) upon the reduction (but not termination) of the Total Commitment to an amount less than the Maximum Drawing Amount, an amount equal to such difference, which amount shall be held by the Administrative Agent for the benefit of the Lenders and the Administrative Agent as cash collateral for all Reimbursement Obligations, and

(c) upon the termination of the Total Commitment, or the acceleration of the Reimbursement Obligations with respect to all Letters of Credit in accordance with §14, an amount equal to the then Maximum Drawing Amount on all Letters of Credit, which amount shall be held by the Administrative Agent for the benefit of the Lenders and the Administrative Agent as cash collateral for all Reimbursement Obligations.

Each such payment shall be made to the Administrative Agent at the Administrative Agent's Office in immediately available funds. Interest on any and all amounts remaining unpaid by the Borrower under this §2.9.6 at any time from the date such amounts become due and payable (whether as stated in this §2.9.6, by acceleration or otherwise) until payment in full (whether before or after judgment) shall be payable to the Administrative Agent on demand at the rate calculated in accordance with §4.10 for Revolving Credit Loans.

**2.9.7. Letter of Credit Payments.** If any draft shall be presented or other demand for payment shall be made under any Letter of Credit, the Administrative Agent shall notify the Borrower of the date and amount of the draft presented or demand for payment and of the date and time when it expects to pay such draft or honor such demand for payment. If the Borrower fails to reimburse the Administrative Agent as provided in §2.9.6 on or before the date that such draft is paid or other payment is made by the Administrative Agent, the Administrative Agent may at any time thereafter notify the Lenders of the amount of any such Unpaid Reimbursement Obligation. No later than 1:00 p.m. (Boston time) on the Business Day next following the receipt of such notice, each Lender shall make available to the Administrative Agent, at the Administrative Agent's Office, in immediately available funds, such Lender's Commitment Percentage (in respect of the Total Commitment) of such Unpaid Reimbursement Obligation, together with an amount equal to the product of (a) the average, computed for the period referred to in clause (c) below, of the weighted average interest rate paid by the Administrative Agent for federal funds acquired by the Administrative Agent during each day included in such period, times (b) the amount equal to such Lender's Commitment Percentage (in respect of the Total Commitment) of such Unpaid Reimbursement Obligation, times (c) a fraction, the numerator of which is the number of days that elapse from and including the date the Administrative Agent paid the draft presented for honor or otherwise made payment to the date on which such Lender's Commitment Percentage (in respect of the Total Commitment) of such Unpaid Reimbursement Obligation shall become immediately available to the Administrative Agent, and the denominator of which is 360. The responsibility of the Administrative Agent to the Borrower and the Lenders shall be only to determine that the documents (including each draft) delivered

under each Letter of Credit in connection with such presentment shall be in conformity in all material respects with such Letter of Credit.

**2.9.8. Obligations Absolute.** The Borrower's obligations under this §2.9 shall be absolute and unconditional under any and all circumstances and irrespective of the occurrence of any Default or Event of Default or any condition precedent whatsoever or any setoff, counterclaim or defense to payment which the Borrower may have or have had against the Administrative Agent, any Lender or any beneficiary of a Letter of Credit. The Borrower further agrees with the Administrative Agent and the Lenders that the Administrative Agent and the Lenders shall not be responsible for, and the Borrower's Reimbursement Obligations under §2.9.6 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged, or any dispute between or among the Borrower, the beneficiary of any Letter of Credit or any financing institution or other party to which any Letter of Credit may be transferred or any claims or defenses whatsoever of the Borrower against the beneficiary of any Letter of Credit or any such transferee. The Administrative Agent and the Lenders shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit. The Borrower agrees that any action taken or omitted by the Administrative Agent or any Lender under or in connection with each Letter of Credit and the related drafts and documents, if done in good faith, shall be binding upon the Borrower and shall not result in any liability on the part of the Administrative Agent or any Lender to the Borrower.

**2.9.9. Reliance by Issuer.** To the extent not inconsistent with §2.9.8, the Administrative Agent shall be entitled to rely, and shall be fully protected in relying upon, any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telex or teletype message, statement, order or other document believed by it to be genuine and correct and to have been signed, sent or

made by the proper Person or Persons and upon advice and statements of legal counsel, independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Credit Agreement unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Credit Agreement in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon the Lenders and all future holders of the Notes or of a Letter of Credit Participation.

**2.9.10. Letter of Credit Fee.** The Borrower shall pay a fee (in each case, a "Letter of Credit Fee") to the Administrative Agent in respect of each Letter of Credit in an amount equal to the product of (a) Term SOFR multiplied by (b) the face amount of such standby Letter of Credit, with such Letter of Credit Fee being payable in advance at

the time each such Letter of Credit is issued. In respect of each Letter of Credit, the Borrower shall also pay to the Administrative Agent for the Administrative Agent's own account, at such other time or times as such charges are customarily made by the Administrative Agent, the Administrative Agent's customary issuance, amendment, negotiation or document examination and other administrative fees as in effect from time to time.

**2.10. Increase in Commitment.**

**2.10.1. Request for Increase.** Provided there exists no Default, upon notice to the Administrative Agent (which shall promptly notify the Lenders), the Borrower may on a one-time basis, request an increase in the Total Commitment by an amount not exceeding \$20,000,000 (the "Increase Option"); provided that any such request for an increase shall be in a minimum amount of \$5,000,000. At the time of sending such notice, the Borrower (in consultation with the Administrative Agent) shall specify the time period within which each Lender is requested to respond (which shall in no event be less than fourteen (14) Business Days from the date of delivery of such notice to the Lenders).

**2.10.2. Lender Elections to Increase.** Each Lender shall notify the Administrative Agent within such time period whether or not it agrees to increase its Commitment and, if so, whether by an amount equal to, greater than, or less than its applicable percentage of such requested increase. Any Lender not responding within such time period shall be deemed to have declined to increase its Commitment Percentage.

**2.10.3. Notification by Administrative Agent; Additional Lenders.** The Administrative Agent shall notify the Borrower and each Lender of the Lenders' responses to each request made hereunder. To achieve the full amount of a requested increase, and subject to the approval of the Administrative Agent, the Borrower may also invite additional Eligible Assignees to become Lenders pursuant to a joinder agreement in form and substance satisfactory to the Administrative Agent and its counsel.

**2.10.4. Effective Date and Allocations.** If the Commitment is increased in accordance with this Section, the Administrative Agent and the Borrower shall determine the effective date (the "Increase Effective Date") and the final allocation of such increase. The Administrative Agent shall promptly notify the Borrower and the Lenders of the final allocation of such increase and the Increase Effective Date.

**2.10.5. Conditions to Effectiveness of Increase.** As a condition precedent to such increase, the Borrower shall deliver to the Administrative Agent (a) a certificate dated as of the Increase Effective Date (in sufficient copies for each Lender) signed by a Responsible Officer of the Borrower (i) certifying and attaching the resolutions adopted by the Borrower approving or consenting to such increase, and (ii) certifying that, before and after giving effect to such increase, (A) the representations and warranties contained in Article VI and the other Loan Documents are true and correct on and as of the Increase Effective Date, except to the extent that such representations and

warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this §2.10, the representations and warranties contained in §6.4.2 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of §7.4, and (B) no Default exists, (b) a legal opinion from Borrower's counsel in form and substance satisfactory to the Administrative Agent and (c) such other documentation as the Lenders or the Administrative Agent may reasonably request. The Borrower shall prepay any Loans outstanding on the Increase Effective Date (and pay any additional amounts required pursuant to §2.7) to the extent necessary to keep the outstanding Loans ratable with any revised Commitment percentages arising from any nonratable increase in the Commitments under this Section.

**2.10.6. Conflicting Provisions.** This Section shall supersede any provisions in §15.2 to the contrary.

**3. REPAYMENT OF THE LOANS.**

**3.1. Maturity.** The Borrower promises to pay on the Maturity Date, and there shall become absolutely due and payable on the Maturity Date, all of the Loans outstanding on such date, together with any and all accrued and unpaid interest, Commitment Fees thereon and any other fees relating to the Loans.

**3.2. Mandatory Repayments of Loans.** If at any time the sum of the outstanding amount of the Loans exceeds the Total Commitment at such time, then the Borrower shall immediately pay the amount of such excess to the Administrative Agent for the respective accounts of the Lenders. Each prepayment of Loans shall be allocated among the Lenders, in proportion, as nearly as practicable, to the respective unpaid principal amount of each Lender's Note, with adjustments to the extent practicable to equalize any prior payments or repayments not exactly in proportion.

**3.3. Optional Repayments of Loans.** The Borrower shall have the right, at its election, to repay the outstanding amount of the Loans, as a whole or in part, at any time without penalty or premium, provided that any full or partial prepayment of the outstanding amount of any SOFR Loans pursuant to this §3.3 that is not made on the last day of the Interest Period relating thereto shall be accompanied by any amounts due under §4.9 hereof. The Borrower shall give the Administrative Agent notice, no later than 11:00 a.m., Boston time, on the date of any proposed prepayment pursuant to this §3.3 of Base Rate Loans, and at least three (3) Government Securities Business Days notice of any proposed prepayment pursuant to this §3.3 of SOFR Loans, in each case specifying the proposed date of prepayment of Loans and the principal amount to be prepaid. Each such partial prepayment of the Loans shall be in an integral multiple of \$100,000, shall be accompanied by the payment of accrued interest on the principal prepaid to the date of prepayment and shall be applied, in the absence of instruction by the Borrower, first to the principal of Base Rate Loans and then to the principal of SOFR Loans. Each partial prepayment shall be allocated among the Lenders, in proportion, as nearly as practicable, to the respective unpaid principal amount of each Lender's Note,

with adjustments to the extent practicable to equalize any prior repayments not exactly in proportion.

**4. CERTAIN GENERAL PROVISIONS.**

**4.1. Closing Fees.** The Borrower shall pay to the Administrative Agent the closing fees and such other fees as set forth in the Fee Letter (collectively, the "Closing Fee").

**4.2. Funds for Payments.**

**4.2.1. Payments to Administrative Agent.** All payments of principal, interest, Fees and any other amounts due hereunder or under any of the other Loan Documents shall be made on the due date thereof to the Administrative Agent in Dollars, for the respective accounts of the Lenders and the Administrative Agent, at the Administrative Agent's Office or at such other place that the Administrative Agent may from time to time designate, in each case at or about 11:00 a.m. (Boston, Massachusetts, time or other local time at the place of payment) and in immediately available funds.

**4.2.2. No Offset, etc.** All payments by the Borrower hereunder and under any of the other Loan Documents shall be made without recoupment, setoff or counterclaim and free and clear of and without deduction or withholding for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein but excluding franchise taxes and other taxes imposed on or measured by any Lender's net income, profits or receipts, in the case of each such exclusion as a result of a connection between such Lender and the relevant taxing jurisdiction other than solely by reason of such Lender having executed, delivered or performed its obligations under, or received payment under, or

enforced this Credit Agreement or any other Loan Document (not including by having a lending or similar office in the relevant taxing jurisdiction such non-excluded item being called "Taxes"), unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder or under any of the other Loan Documents, the Borrower will pay to the Administrative Agent, for the account of the Lenders or (as the case may be) the Administrative Agent, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in Dollars as shall be necessary to enable the Lenders or the Administrative Agent to receive the same net amount which the Lenders or the Administrative Agent would have received on such due date had no such obligation been imposed upon the Borrower. The Borrower will deliver promptly to the Administrative Agent certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Borrower hereunder or under such other Loan Document.

**4.2.3. Non-U.S. Lenders.** Each Lender and the Administrative Agent that is not a U.S. Person as defined in Section 7701(a)(30) of the Code for federal income

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tax purposes (a "Non-U.S. Lender") hereby agrees that, if and to the extent it is legally able to do so, it shall, prior to the date of the first payment by the Borrower hereunder to be made to such Lender or the Administrative Agent or for such Lender's or the Administrative Agent's account, deliver to the Borrower and the Administrative Agent, as applicable, such certificates, documents or other evidence, as and when required by the Code or Treasury Regulations issued pursuant thereto, including (a) in the case of a Non-U.S. Lender that is a "bank" for purposes of Section 881(c)(3)(A) of the Code, two (2) duly completed copies of Internal Revenue Service Form W-8BEN, Form W-8ECI, Form W-8IMY and all required supporting documentation and any other certificate or statement of exemption required by Treasury Regulations, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Lender or the Administrative Agent establishing that with respect to payments of principal, interest or fees hereunder it is (i) not subject to United States federal withholding tax under the Code because such payment is effectively connected with the conduct by such Lender or Administrative Agent of a trade or business in the United States or (ii) totally exempt or partially exempt from United States federal withholding tax under a provision of an applicable tax treaty and (b) in the case of a Non-U.S. Lender that is not a "bank" for purposes of Section 881(c)(3)(A) of the Code, a certificate in form and substance reasonably satisfactory to the Administrative Agent and the Borrower and to the effect that (i) such Non-U.S. Lender is not a "bank" for purposes of Section 881(c)(3)(A) of the Code, is not subject to regulatory or other legal requirements as a bank in any jurisdiction, and has not been treated as a bank for purposes of any tax, securities law or other filing or submission made to any governmental authority, any application made to a rating agency or qualification for any exemption from any tax, securities law or other legal requirements, (ii) is not a ten (10) percent shareholder of the Borrower for purposes of Section 881(c)(3)(B) of the Code and (iii) is not a controlled foreign corporation receiving interest from a related person for purposes of Section 881(c)(3)(C) of the Code, together with a properly completed Internal Revenue Service Form W-8BEN, as applicable (or successor forms). Each Lender or the Administrative Agent agrees that it shall, promptly upon a change of its Applicable Lending Office, to the extent the forms previously delivered by it pursuant to this section are no longer effective, and promptly upon the Borrower's or the Administrative Agent's reasonable request after the occurrence of any other event (including the passage of time) requiring the delivery of a Form W-8BEN, Form W-8ECI or Form W-8IMY in addition to or in replacement of the forms previously delivered, deliver to the Borrower and the Administrative Agent, as applicable, if and to the extent it is properly entitled to do so, a properly completed and executed Form W-8BEN, Form W-8ECI or Form W-8IMY, as applicable (or any successor forms thereto).

**4.2.4. Liabilities.** The Borrower shall not be obliged to pay any additional amounts to any Lender or the Administrative Agent pursuant to §4.2.1, or to indemnify any Lender or the Administrative Agent pursuant to §15.3, in respect of Taxes to the extent imposed as a result of (i) the failure of such Lender or the Administrative Agent to deliver to the Borrower the form or forms and/or other certificates, documents or other evidence, as applicable to such Lender or the Administrative Agent, pursuant to §4.2.3, (ii) the information or certifications made in such form or forms by the Lender or the Administrative Agent being untrue or inaccurate on the date delivered in any material

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respect, (iii) the Lender or the Administrative Agent designating a successor Applicable Lending Office which has the effect of causing such Lender or the Administrative Agent to become obligated for tax payments in excess of those in effect immediately prior to such designation or (iv) such Lender

or the Administrative Agent being treated as a "conduit entity" within the meaning of U.S. Treasury Regulations Section 1.881-3 or any successor provision; provided, however, that the Borrower shall be obliged to pay an additional amount to any such Lender or the Administrative Agent pursuant to §4.2.1, and to indemnify any such Lender or the Administrative Agent pursuant to §15.3, in respect of United States federal income or withholding taxes if (i) any such failure to deliver a form or forms or other certificates, documents or other evidence, or any inaccuracy or untruth contained therein resulted from a change in any applicable statute, treaty or regulation occurring after the date hereof, which change rendered such Lender no longer legally entitled to deliver such form or forms or other certificates, documents or other evidence, or rendered the information or certifications made in such form or forms or other certificates, documents or other evidence, untrue or inaccurate in any material respect and the Lender or the Administrative Agent so advises the Borrower and the Administrative Agent (in the case of a Lender) promptly in writing, (ii) the redesignation of the Lender's or the Administrative Agent's Applicable Lending Office was made at the request of the Borrower or (iii) the obligation to pay any additional amounts to any such Lender pursuant to §4.2.1 or to indemnify any such Lender or the Administrative Agent pursuant to §15.3 is with respect to an assignee lender that becomes an assignee lender as a result of an assignment made at the request of the Borrower.

**4.3. Computations.** All computations of interest on Base Rate Loans and Fees shall be based on a 365/366 day year for the actual number of days elapsed. All computations of interest on SOFR Loans shall be based on a 360-day year and paid for the actual number of days elapsed. Except as otherwise provided in the definition of the term "Interest Period" with respect to SOFR Loans, whenever a payment hereunder or under any of the other Loan Documents becomes due on a day that is not a Business Day, the due date for such payment shall be extended to the next succeeding Business Day, and interest shall accrue during such extension. The outstanding amount of the Loans as reflected on the Note Records from time to time shall be considered correct and binding on the Borrower, absent manifest error, unless within sixty (60) days after receipt of any notice by the Administrative Agent or any of the Lenders of such outstanding amount, the Borrower shall notify the Administrative Agent or such Lender to the contrary.

**4.4. Inability to Determine Rates.** Subject to Section 4.12, if, on or prior to the first day of any Interest Period for any SOFR Loan:

- (a) the Administrative Agent determines (which determination shall be conclusive and binding absent manifest error) that "Term SOFR" cannot be determined pursuant to the definition thereof, or
- (b) the Required Lenders determine that for any reason in connection with any request for a SOFR Loan or a conversion thereto or a continuation thereof that Term SOFR for any requested Interest Period with respect to a proposed SOFR Loan does not adequately and fairly reflect the cost to such Lenders of funding

such Loan, and the Required Lenders have provided notice of such determination to the Administrative Agent,

the Administrative Agent will promptly so notify the Borrower and each Lender.

Upon notice thereof by the Administrative Agent to the Borrower, any obligation of the Lenders to make or maintain SOFR Loans, and any right of the Borrower to continue SOFR Loans or to convert Base Rate Loans to SOFR Loans shall be suspended (to the extent of the affected Interest Periods) until the Administrative Agent (with respect to clause (b) above, at the instruction of the Required Lenders) revokes such notice. Upon the Borrower's receipt of such notice, (i) the Borrower may revoke any pending request for a borrowing of, conversion to or continuation of SOFR Loans (to the extent of the affected Interest Periods) or, failing that, the Borrower will be deemed to have converted any such request into a request for a Borrowing of or conversion to Base Rate Loans in the amount specified therein and (ii) any outstanding affected SOFR Loans will be deemed to have been converted into Base Rate Loans at the end of the applicable Interest Period. Upon any such conversion, the Borrower shall also pay accrued interest on the amount so converted, together with any additional amounts required pursuant to Section 4.6. Subject to Section 4.12, if the Administrative Agent determines (which determination shall be conclusive and binding absent manifest error) that "Term SOFR" cannot be determined pursuant to the definition thereof on any given day, the interest rate on Base Rate Loans shall be determined by the Administrative Agent without reference to clause (c) of the definition of "Base Rate" until the Administrative Agent revokes such determination.

**4.5. Illegality.** If any Lender determines that any law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its Applicable Lending Office to make, maintain or fund Loans whose interest is determined by reference to SOFR or Term SOFR, or to determine or charge interest rates based upon SOFR or Term SOFR, then, upon notice thereof by such Lender to the Borrower (through the Administrative Agent), (a) any obligation of the Lenders to make or maintain SOFR Loans, and any right of the Borrower to continue SOFR Loans or to convert Base Rate Loans to SOFR Loans, shall be suspended, and (b) the interest rate on which Base Rate Loans shall, if necessary to avoid such

illegality, be determined by the Administrative Agent without reference to clause (c) of the definition of "Base Rate", in each case until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, (i) the Borrower shall, if necessary to avoid such illegality, upon demand from any Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all SOFR Loans to Base Rate Loans (the interest rate on which Base Rate Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to clause (c) of the definition of "Base Rate"), on the last day of the Interest Period therefor, if all affected Lenders may lawfully continue to maintain such Loans to such day, or immediately, if any Lender may not lawfully continue to maintain such Loans to such day, and (ii) if necessary to avoid such illegality, the Administrative Agent shall during the period of such suspension compute the Base Rate without reference to clause (c) of the definition of "Base Rate" in each case until the Administrative Agent is

advised in writing by each affected Lender that it is no longer illegal for such Lender to determine or charge interest rates based upon SOFR or Term SOFR. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted, together with any additional amounts required pursuant to Section 4.6.

**4.6. Additional Costs, etc.** If any change after the Closing Date in applicable law, which expression, as used herein, includes statutes, rules and regulations thereunder and interpretations thereof by any Governmental Authority charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time hereafter made upon or otherwise issued to any Lender or the Administrative Agent by any central bank or other fiscal, monetary or other authority (whether or not having the force of law), shall:

(a) subject any Lender or the Administrative Agent to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Credit Agreement, the other Loan Documents, such Lender's Commitment or the Loans (other than taxes based upon or measured by the income or profits of such Lender or the Administrative Agent), or

(b) materially change the basis of taxation (except for changes in Taxes) of payments to any Lender of the principal of or the interest on any Loans or any other amounts payable to any Lender or the Administrative Agent under this Credit Agreement or any of the other Loan Documents, or

(c) impose or increase or render applicable (other than to the extent specifically provided for elsewhere in this Credit Agreement) any special deposit, reserve, assessment, liquidity, capital adequacy or other similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by, or letters of credit issued by, or commitments of an office of any Lender, or

(d) impose on any Lender or the Administrative Agent any other conditions or requirements with respect to this Credit Agreement, the other Loan Documents, the Loans, such Lender's Commitment, or any class of loans, letters of credit or commitments of which any of the Loans or such Lender's Commitment forms a part, and the result of any of the foregoing is

(i)to increase the cost to any Lender of making, funding, issuing, renewing, extending or maintaining any of the Loans or such Lender's Commitment, or

(ii)to reduce the amount of principal, interest or other amount payable to such Lender or the Administrative Agent hereunder on account of such Lender's Commitment or any of the Loans, or

(iii)to require such Lender or the Administrative Agent to make any payment or to forego any interest or other sum payable hereunder, the amount of which payment or foregone interest or other sum is calculated by reference to the

gross amount of any sum receivable or deemed received by such Lender or the Administrative Agent from the Borrower hereunder,

then, and in each such case, the Borrower will, upon demand made by such Lender or (as the case may be) the Administrative Agent at any time and from time to time and as often as the occasion therefor may arise, pay to such Lender or the Administrative Agent such additional amounts as will be sufficient to compensate such Lender or the Administrative Agent for such additional cost, reduction, payment or foregone interest or other sum.

**4.7. Capital Adequacy.** If after the date hereof any Lender or the Administrative Agent determines that (a) the adoption of or change after the Closing Date in any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) regarding capital requirements for banks or bank holding companies or any change in the interpretation or application thereof by a Governmental Authority with appropriate jurisdiction, or (b) compliance by such Lender or the Administrative Agent or any corporation controlling such Lender or the Administrative Agent with any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) of any such entity regarding capital adequacy, has the effect of reducing the return on such Lender's or the Administrative Agent's commitment with respect to any Loans to a level below that which such Lender or the Administrative Agent could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or the Administrative Agent's then existing policies with respect to capital adequacy and assuming full utilization of such entity's capital) by any amount deemed by such Lender or (as the case may be) the Administrative Agent to be material, then such Lender or the Administrative Agent may notify the Borrower of such fact. To the extent that the amount of such reduction in the return on capital is not reflected in the Base Rate, the Borrower and such Lender shall thereafter attempt to negotiate in good faith, within thirty (30) days of the day on which the Borrower receives such notice, an adjustment payable hereunder that will adequately compensate such Lender in light of these circumstances. If the Borrower and such Lender are unable to agree to such adjustment within thirty (30) days of the date on which the Borrower receives such notice, then commencing on the date of such notice (but not earlier than the effective date of any such increased capital requirement), the fees payable hereunder shall increase by an amount that will, in such Lender's reasonable determination, provide adequate compensation. Each Lender shall allocate such cost increases among its customers in good faith and on an equitable basis.

**4.8. Certificate.** A certificate setting forth any additional amounts payable pursuant to §§4.6 or 4.7 and a brief explanation of such amounts which are due, submitted by any Lender or the Administrative Agent to the Borrower, shall be conclusive, absent manifest error, that such amounts are due and owing.

**4.9. Indemnity.** The Borrower agrees to indemnify each Lender and to hold each Lender harmless from and against any loss, cost or expense (including loss of anticipated profits) that such Lender may sustain or incur as a consequence of (a) default by the Borrower in payment of the principal amount of or any interest on any SOFR Loans as and when due and payable, including any such loss or expense arising from

interest or fees payable by such Lender to banks of funds obtained by it in order to maintain its SOFR Loans, (b) default by the Borrower in making a borrowing or conversion after the Borrower has given (or is deemed to have given) a Loan Request or a Conversion Request relating thereto in accordance with §2.6 or §2.7 or (c) the making of any payment of a SOFR Loan or the making of any conversion of any such Loan to a Base Rate Loan on a day that is not the last day of the applicable Interest Period with respect thereto, including interest or fees payable by such Lender to lenders of funds obtained by it in order to maintain any such Loans.

**4.10. Interest After Default.**

**4.10.1. Overdue Amounts.** Overdue principal and (to the extent permitted by applicable law) interest on the Loans and all other overdue amounts payable hereunder or under any of the other Loan Documents shall bear interest compounded monthly and payable on demand at a rate per annum equal to two percent (2%) above the rate of interest then applicable thereto (or, if no rate of interest is then applicable thereto, the Base Rate) until such amount shall be paid in full (after as well as before judgment).

**4.10.2. Amounts Not Overdue.** During the continuance of an Event of Default the principal of the Loans not overdue shall, until such Event of Default has been cured or remedied or such Event of Default has been waived by the Required Lenders pursuant to §15.12, bear interest at a rate per annum equal to the greater of (a) two percent (2%) above the rate of interest otherwise applicable to such Loans pursuant to §2.5 and (b) the rate of interest applicable to overdue principal pursuant to §4.10.1.

**4.11. Replacement of Lenders.** If any Lender (an "Affected Lender") (a) makes demand upon the Borrower for (or if the Borrower is otherwise required to pay) amounts pursuant to §§4.6 or 4.7 or other increases in the costs of the Loans, (b) is unable to make or maintain SOFR Loans as a result of a condition described in §4.5, (c) defaults in its obligation to make Loans in accordance with the terms of this Credit Agreement, or (d) shall refuse to consent to certain proposed changes, waivers, discharges or terminations as provided in the last sentence of §15.12, the Borrower

may, so long as no Default or Event of Default has occurred and is then continuing, within thirty (30) days of receipt of such demand, notice (or the occurrence of such other event causing the Borrower to be required to pay such compensation or causing §4.5 to be applicable), or default, as the case may be, by notice (a "Replacement Notice") in writing to the Administrative Agent and such Affected Lender (i) request the Affected Lender to reasonably cooperate with the Borrower in obtaining a replacement Lender reasonably satisfactory to the Administrative Agent or its successor and the Borrower (the "Replacement Lender"); (ii) request the non-Affected Lenders to acquire and assume all of the Affected Lender's Loans and Commitment as provided herein, but none of such Lenders shall be under an obligation to do so; or (iii) designate a Replacement Lender approved by the Administrative Agent, such approval not to be unreasonably withheld or delayed. If any satisfactory Replacement Lender shall be obtained, and/or if any one or more of the non-Affected Lenders shall agree to acquire and assume all of the Affected Lender's Loans and Commitment, then such Affected Lender shall assign, in accordance with §14, all of its Commitment, Loans, Notes and other rights and obligations under this

Credit Agreement and all other Loan Documents to such Replacement Lender or non-Affected Lenders, as the case may be, in exchange for payment of the principal amount so assigned and all interest and fees accrued on the amount so assigned, plus all other Obligations then due and payable to the Affected Lender; provided, however, that (A) such assignment shall be without recourse, representation or warranty and shall be on terms and conditions reasonably satisfactory to such Affected Lender and such Replacement Lender and/or non-Affected Lenders, as the case may be, and (B) prior to any such assignment, the Borrower shall have paid to such Affected Lender all amounts properly demanded and unreimbursed under §§4.6 and 4.7. Upon the effective date of such assignment, the Borrower shall issue replacement Notes to such Replacement Lender and/or non-Affected Lenders, as the case may be, and such institution shall become a "Lender" for all purposes under this Credit Agreement and the other Loan Documents.

**4.12. Benchmark Replacement Setting.**

(a) **Benchmark Replacement.** Notwithstanding anything to the contrary herein or in any other Loan Document, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to any setting of the then-current Benchmark, then (x) if a Benchmark Replacement is determined in accordance with clause (a) of the definition of "Benchmark Replacement" for such Benchmark Replacement Date, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Loan Document in respect of such Benchmark setting and subsequent Benchmark settings without any amendment to, or further action or consent (subject to clause (y) below) of any other party to, this Credit Agreement or any other Loan Document and (y) if a Benchmark Replacement is determined in accordance with clause (b) of the definition of "Benchmark Replacement" for such Benchmark Replacement Date, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Loan Document in respect of any Benchmark setting at or after 5:00 p.m. (New York City time) on the fifth (5th) Business Day after the date notice of such Benchmark Replacement is provided to the Lenders without any amendment to, or further action or consent of any other party to, this Credit Agreement or any other Loan Document so long as the Administrative Agent has not received, by such time, written notice of objection to such Benchmark Replacement from Lenders comprising the Required Lenders. If the Benchmark Replacement is Daily Simple SOFR, all interest payments will be payable on a monthly basis.

(b) **Benchmark Replacement Conforming Changes.** In connection with the use, administration, adoption or implementation of a Benchmark Replacement, the Administrative Agent will have the right to make Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Conforming Changes will become effective without any further action or consent of any other party to this Credit Agreement or any other Loan Document.

(c) **Notices; Standards for Decisions and Determinations.** The Administrative Agent will promptly notify the Borrower and the Lenders of (i) the implementation of

any Benchmark Replacement and (ii) the effectiveness of any Conforming Changes in connection with the use, administration, adoption or implementation of a Benchmark Replacement. The Administrative Agent will notify the Borrower of (x) the removal or reinstatement of any tenor of a Benchmark pursuant to Section 4.12(d), and (y) the commencement of any Benchmark Unavailability Period. Any determination, decision or election

that may be made by the Administrative Agent or, if applicable, any Lender (or group of Lenders) pursuant to this Section 4.12, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or selection, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party to this Credit Agreement or any other Loan Document, except, in each case, as expressly required pursuant to this Section 4.12.

(d) Unavailability of Tenor of Benchmark. Notwithstanding anything to the contrary herein or in any other Loan Document, at any time (including in connection with the implementation of a Benchmark Replacement), (i) if the then-current Benchmark is a term rate (including the Term SOFR Reference Rate) and either (A) any tenor for such Benchmark is not displayed on a screen or other information service that publishes such rate from time to time as selected by the Administrative Agent in its reasonable discretion or (B) the administrator of such Benchmark or the regulatory supervisor for the administrator of such Benchmark has provided a public statement or publication of information announcing that any tenor for such Benchmark is not or will not be representative, then the Administrative Agent may modify the definition of "Interest Period" (or any similar or analogous definition) for any Benchmark settings at or after such time to remove such unavailable or non-representative tenor and (ii) if a tenor that was removed pursuant to clause (i) above either (A) is subsequently displayed on a screen or information service for a Benchmark (including a Benchmark Replacement) or (B) is not, or is no longer, subject to an announcement that it is not or will not be representative for a Benchmark (including a Benchmark Replacement), then the Administrative Agent may modify the definition of "Interest Period" (or any similar or analogous definition) for all Benchmark settings at or after such time to reinstate such previously removed tenor.

(e) Benchmark Unavailability Period. Upon the Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of SOFR Loans to be made, converted or continued during any Benchmark Unavailability Period and, failing that, (i) the Borrower will be deemed to have converted any such request into a request for a Borrowing of or conversion to Base Rate Loans and (ii) any outstanding affected SOFR Loans will be deemed to have been converted into Base Rate Loans immediately. During a Benchmark Unavailability Period or at any time that a tenor for the then-current Benchmark is not an Available Tenor, the component of the Base Rate based upon the then-current Benchmark or such tenor for such Benchmark, as applicable, will not be used in any determination of the Base Rate.

## 5. COLLATERAL SECURITY AND GUARANTIES.

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5.1. Security of Borrower. The Obligations shall be secured by (a) a perfected first priority security interest (subject only to Permitted Liens entitled to priority under applicable law) in all of the assets of the Borrower, whether now owned or hereafter acquired, pursuant to the terms of the Security Documents to which the Borrower is a party, and (b) subject to applicable law, a pledge by the Borrower of all of the Capital Stock of each of its directly-owned Subsidiaries, pursuant to the terms of its Stock Pledge Agreement. Neither this Section 5.1 nor any other provision contained in this Credit Agreement or any Loan Document shall be construed to require the assets of any Insurance Subsidiary to be pledged as security for the Obligations.

5.2. Guarantees and Security of Subsidiaries. The Obligations (other than, with respect to any Subsidiary Guarantor, the Excluded Swap Obligations) shall also be guaranteed by the Subsidiary Guarantors pursuant to the terms of the Subsidiary Guaranty. The obligations of the Subsidiary Guarantors under the Subsidiary Guaranty shall be in turn secured by (a) a perfected first priority security interest (subject only to Permitted Liens entitled to priority under applicable law) in all of the assets of each such Subsidiary Guarantor, whether now owned or hereafter acquired, pursuant to the terms of the Security Documents to which such Subsidiary Guarantor is a party, and (b) a pledge by such Subsidiary Guarantor of all of the Capital Stock of each of its Subsidiaries owned by the Subsidiary Guarantor pursuant to the terms of its Stock Pledge Agreement.

## 6. REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants to the Lenders and the Administrative Agent as follows:

### 6.1. Corporate Authority.

6.1.1. Incorporation; Good Standing. Each of the Borrower and its Subsidiaries (a) is a corporation (or similar business entity) duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation, (b) has all requisite corporate (or the equivalent company) power to own its property and conduct its business as now conducted and as presently contemplated, (c) has all licenses,

certificates, permits, franchises and other governmental authorizations necessary to own and operate its property and to conduct its business as now conducted and as presently contemplated, including, without limitation, any licenses required by the Massachusetts Division of Insurance (the "Division") and all licenses and authorizations in all jurisdictions which require any Person controlling one or more insurance companies to be so licensed or authorized, except where the failure to have such licenses or authorizations would not have a Material Adverse Effect, (d) is in good standing as a foreign corporation (or similar business entity) and is duly authorized to do business in each jurisdiction where such qualification is necessary except where a failure to be so qualified would not have a Material Adverse Effect, and (e) in the case of each Insurance Subsidiary, (i) is duly licensed or authorized as an insurance company in its jurisdiction of incorporation (ii) duly licensed or authorized as an insurance company, and, where applicable, to engage in the business of reinsurance in each other jurisdiction where it is required to be so licensed or authorized, and (iii) duly licensed or authorized in its

jurisdiction of incorporation to write or conduct each line of its business, in each case, where the failure to be so duly licensed or authorized would reasonably be expected to have a Material Adverse Effect. Each Insurance Subsidiary is, where required, duly licensed or authorized and appointed as a third party administrator, insurance agency, managing general agency or similar service provider, in its jurisdiction of incorporation and in each other jurisdiction where it is required to be so licensed or authorized.

**6.1.2. Authorization.** The execution, delivery and performance of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Subsidiaries is or is to become a party and the transactions contemplated hereby and thereby (a) are within the corporate (or the equivalent company) authority of such Person, (b) have been duly authorized by all necessary corporate (or the equivalent company) proceedings, (c) do not conflict with or result in any breach or contravention of any provision of law, statute, rule or regulation to which such Person is subject or any judgment, order, writ, injunction, license or permit applicable to such Person and (d) do not conflict with any provision of the Governing Documents of, or any agreement or other instrument binding upon, such Person.

**6.1.3. Enforceability.** The execution and delivery of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Subsidiaries is or is to become a party will result in valid and legally binding obligations of such Person enforceable against it in accordance with the respective terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

**6.2. Governmental Approvals.** The execution, delivery and performance by the Borrower and any of its Subsidiaries of this Credit Agreement and the other Loan Documents to which such Person is or is to become a party and the transactions contemplated hereby and thereby do not require the approval or consent of, or filing with, any Governmental Authority other than the filing of UCC financing statements or other than the filing by the Borrower's Insurance Subsidiaries to be made pursuant to Massachusetts General Laws, Chapter 175, Section 206C(a)(1) or those already obtained.

**6.3. Title to Properties; Leases.** Except as indicated on Schedule 6.3 hereto, and after giving effect to the transactions contemplated hereby, the Borrower and its Subsidiaries own all of the assets reflected in the pro forma consolidated balance sheet of the Borrower and its Subsidiaries as at the Closing Date or acquired since that date (except property and assets sold or otherwise disposed of in the ordinary course of business since that date), subject to no Liens or other rights of others, except Permitted Liens.

**6.4. Financial Statements and Projections.**

**6.4.1. Fiscal Year.** The Borrower and each of its Subsidiaries has a fiscal year which is the twelve months ending on December 31 of each calendar year.

**6.4.2. Financial Statements.** The Borrower has delivered to the Administrative Agent copies of the financial statements of the Borrower and its Subsidiaries for the fiscal year ended December 31, 2007 and the fiscal quarter ended March 31, 2008. Such financial statements present fairly the financial position of the Borrower and its Subsidiaries as of the respective dates of such financial statements and the results of the Borrower and its Subsidiaries for the periods covered by such financial statements. The Annual Statutory Financial Statements of the Insurance Subsidiaries for the fiscal year ended December 31, 2007 comply in all material respects with applicable accounting requirements of the rules and regulations of the Division with respect thereto and have been prepared in accordance with the rules and regulations of the Division as such rules and regulations were in effect at the time of preparation and submission thereof.

**6.4.3. Projections.** The projections of the annual operating budgets of the Borrower and its Subsidiaries on a consolidated basis, balance sheets and cash flow statements for the 2008 to 2009 fiscal years, copies of which have been delivered to the Administrative Agent, have been made in good faith on the basis of information available to the Borrower at the time such projections were furnished to the Administrative Agent. The projections were based upon good faith estimates and assumptions believed to be reasonable when made, it being acknowledged by the Lenders that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered thereby may differ significantly from the projected results.

**6.5. No Material Adverse Changes, etc.** Except as set forth on Schedule 6.5 hereto, since the Balance Sheet Date there has been no event or occurrence which has had a Material Adverse Effect on the Borrower and its Subsidiaries.

**6.6. Franchises, Patents, Copyrights, etc.** The Borrower and each of its Subsidiaries possesses all material franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, adequate for the conduct of its business substantially as now conducted without known conflict with any rights of others.

**6.7. Litigation.** Except for the defense of claims asserted by insureds in the ordinary course of business against any Insurance Subsidiary's business and as set forth in Schedule 6.7 hereto, there are no actions, suits, proceedings or investigations of any kind pending or threatened against the Borrower or any of its Subsidiaries before any Governmental Authority, that, (a) if adversely determined, might, either in any case or in the aggregate, (i) have a Material Adverse Effect or (ii) materially impair the right of the Borrower and its Subsidiaries, considered as a whole, to carry on business substantially as now conducted by them, or (iii) result in any substantial liability not adequately covered by insurance for which adequate reserves are not maintained on the consolidated balance sheet of the Borrower and its Subsidiaries in accordance with GAAP, or for which adequate reserves are not maintained on the consolidated

balance sheet of the Borrower and its Subsidiaries, or (b) which question the validity of this Credit Agreement or any of the other Loan Documents, or any action taken or to be taken pursuant hereto or thereto.

**6.8. No Materially Adverse Contracts, etc.** Neither the Borrower nor any of its Subsidiaries is subject to any Governing Document or other legal restriction, or any judgment, decree, order, law, statute, rule or regulation that has or is reasonably expected in the future to have a Material Adverse Effect. Neither the Borrower nor any of its Subsidiaries is a party to any contract or agreement that has or is reasonably expected, in the judgment of the Borrower's officers, to have any Material Adverse Effect.

**6.9. Compliance with Other Instruments, Laws, etc.** Neither the Borrower nor any of its Subsidiaries is in violation of any provision of its Governing Documents, or any agreement or instrument to which it may be subject or by which it or any of its properties may be bound or any decree, order, judgment, statute, license, rule or regulation, in any of the foregoing cases in a manner that could result in the imposition of substantial penalties or have a Material Adverse Effect.

**6.10. Tax Status.** Each of the Borrower and its Subsidiaries (a) has made or filed all material federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which any of them is subject, (b) has paid all taxes and other governmental assessments and charges shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and by appropriate proceedings or which are immaterial in amount and (c) has set aside on their books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and none of the officers of the Borrower know of any basis for any such claim.

**6.11. No Event of Default.** No Default or Event of Default has occurred and is continuing.

**6.12. Investment Company Act.** Neither the Borrower nor any of its Subsidiaries is an "investment company", or an "affiliated company" or a "principal underwriter" of an "investment company", as such terms are defined in the Investment Company Act of 1940.

**6.13. Absence of Financing Statements, etc.** Except with respect to Permitted Liens, there is no financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry or other public office, that purports to cover, affect or give notice of any present or possible future Lien on any assets or property of the Borrower or any of its Subsidiaries or any rights relating thereto.

**6.14. Perfection of Security Interest.** All filings, assignments, pledges and deposits of documents or instruments have been made and all other actions have been

taken that are necessary or advisable, under applicable law, to establish and perfect the Administrative Agent's security interest in the Collateral. Except for the approval of Insurance Regulatory Authorities, if applicable, prior to the Administrative Agent's exercise of its rights with respect to the shares of the Insurance Subsidiaries' Capital Stock owned by the Borrower and pledged pursuant to the Security Documents, the Collateral and the Administrative Agent's rights with respect to the Collateral are not subject to any setoff, claims, withholdings or other defenses. The Borrower or one of its Subsidiaries, as specified in the Security Documents, is the owner of the Collateral free from any Lien, except for Permitted Liens.

**6.15. Certain Transactions.** Except as set forth on Schedule 6.15 hereto, and for arm's length transactions pursuant to which the Borrower or any of its Subsidiaries makes payments in the ordinary course of business upon terms no less favorable than the Borrower or such Subsidiary could obtain from third parties, none of the officers, directors, or employees of the Borrower or any of its Subsidiaries is presently a party to any transaction with the Borrower or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Borrower, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial ownership interest or is an officer, director, trustee or partner.

**6.16. Employee Benefit Plans.**

**6.16.1. In General.** Each Employee Benefit Plan and each Guaranteed Pension Plan has been maintained and operated in compliance in all material respects with the provisions of ERISA and the Code. The Borrower has heretofore delivered to the Administrative Agent the most recently completed annual report, Form 5500, with all required attachments, and actuarial statement required to be submitted under §103(d) of ERISA, with respect to each Guaranteed Pension Plan.

**6.16.2. Terminability of Welfare Plans.** No Employee Benefit Plan, which is an employee welfare benefit plan within the meaning of §3(1) or §3(2)(B) of ERISA, provides benefit coverage subsequent to termination of employment, except as required by Title I, Part 6 of ERISA or the applicable state insurance laws. The Borrower may terminate each such Plan at any time (or at any time subsequent to the expiration of any applicable bargaining agreement) in the discretion of the Borrower without liability to any Person other than for claims arising prior to termination.

**6.16.3. Guaranteed Pension Plans.** Each contribution required to be made to a Guaranteed Pension Plan, whether required to be made to avoid the incurrence of an accumulated funding deficiency or the notice or lien provisions of §302(f) of ERISA, has been timely made. No waiver of an accumulated funding deficiency or extension of amortization periods has been received with respect to any Guaranteed Pension Plan, and neither the Borrower nor any ERISA Affiliate is obligated to or has posted security in connection with an amendment to a Guaranteed Pension Plan pursuant

to §307 of ERISA or §401(a)(29) of the Code. No liability to the PBGC (other than required insurance premiums, all of which that are due have been paid) has been incurred by the Borrower or any ERISA Affiliate with respect to any Guaranteed Pension Plan and there has not been any ERISA Reportable Event (other than an ERISA Reportable Event as to which the requirement of thirty (30) days notice has been waived), or any other event or condition which presents a material risk of termination of any Guaranteed Pension Plan by the PBGC. Based on the latest valuation of each Guaranteed Pension Plan (which in each case occurred within twelve months of the date of this representation), and on the actuarial methods and assumptions employed for that valuation, the aggregate benefit liabilities of all such Guaranteed Pension Plans within the meaning of §4001 of ERISA did not exceed the aggregate value of the assets of all such Guaranteed Pension Plans, disregarding for this purpose the benefit liabilities and assets of any Guaranteed Pension Plan with assets in excess of benefit liabilities.

**6.16.4. Multiemployer Plans.** Neither the Borrower nor any ERISA Affiliate has incurred any material liability (including secondary liability) to any Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan under §4201 of ERISA or as a result of a sale of assets described in §4204 of ERISA. Neither the Borrower nor any ERISA Affiliate has been notified that any Multiemployer Plan is in reorganization or insolvent under and within the meaning of §4241 or §4245 of ERISA or is at risk of entering reorganization or becoming insolvent, or that any Multiemployer Plan intends to terminate or has been terminated under §4041A of ERISA.

**6.17. Use of Proceeds.**

**6.17.1. General.** The proceeds of the Loans shall be used for working capital and general corporate purposes by the Borrower and its Subsidiaries.

**6.17.2. Regulations U and X.** No portion of any Loan is to be used for the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

**6.18. Environmental Compliance.** To the Borrower's knowledge, except as disclosed on Schedule 6.18 hereto:

(a) none of the Borrower or its Subsidiaries is in violation, or alleged violation, of any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any state, local or foreign law, statute, regulation, ordinance, order or decree relating to health, safety or the environment (hereinafter "Environmental Laws"), which violation would have a Material Adverse Effect;

(b) neither the Borrower nor any of its Subsidiaries has received written notice from any third party including, without limitation, any Governmental Authority, (i) that any one of them has been identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B; (ii) that any hazardous waste, as defined by 42 U.S.C. §6903(5), any hazardous substances as defined by 42 U.S.C. §9601(14), any pollutant or contaminant as defined by 42 U.S.C. §9601(33) and any toxic substances, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws ("Hazardous Substances") which any one of them has generated, transported or disposed of has been found at any site at which a Governmental Authority has conducted or has ordered that any Borrower or any of its Subsidiaries conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) that it is or shall be a named party to any material claim, action, cause of action, complaint, or legal or administrative proceeding (in each case, contingent or otherwise) arising out of any third party's incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the release of Hazardous Substances;

(c) (i) no portion of the Real Estate has been used by the Borrower or its Subsidiaries for the handling, processing, storage or disposal of Hazardous Substances except in accordance with applicable Environmental Laws; and no underground tank or other underground storage receptacle for Hazardous Substances is located on any portion of the Real Estate; (ii) in the course of any activities conducted by the Borrower or its Subsidiaries, no Hazardous Substances have been generated or are being used on the Real Estate except in accordance with applicable Environmental Laws; (iii) there have been no releases (i.e. any past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping) or threatened releases of Hazardous Substances on, upon, into or from the properties of the Borrower or its Subsidiaries, which releases would have a Material Adverse Effect; (iv) there have been no releases on, upon, from or into any real property in the vicinity of any of the Real Estate which, through soil or groundwater contamination, may have come to be located on, and which would have a Material Adverse Effect;

and (v) in addition, any Hazardous Substances that have been generated on any of the Real Estate have been transported offsite only by carriers having an identification number issued by the EPA (or the equivalent thereof in any foreign jurisdiction), treated or disposed of only by treatment or disposal facilities maintaining valid permits as required under applicable Environmental Laws, which transporters and facilities have been and are operating in compliance with such permits and applicable Environmental Laws; and

(d) none of the Borrower and its Subsidiaries is subject to any applicable Environmental Law requiring the performance of Hazardous Substances site assessments, or the removal or remediation of Hazardous Substances, or the giving of notice to any Governmental Authority or the recording or delivery to other Persons of an environmental disclosure document or statement by virtue of the transactions set forth herein and contemplated hereby, or as a condition to the effectiveness of any other transactions contemplated hereby.

**6.19. Subsidiaries, etc.** As of the Closing Date, the only Subsidiaries of the Borrower are as set forth on Schedule 6.19. Neither the Borrower nor any Subsidiary of the Borrower is engaged in any joint venture or partnership with any other Person. The jurisdiction of incorporation/formation and principal place of business of each Subsidiary of the Borrower is listed on Schedule 6.19 hereto.

**6.20. Distribution Restrictions.** Except as set forth in Massachusetts General Laws, Chapter 175, Section 206C(r) (or any successor statute) and for any other restrictions under applicable law, there are no restrictions on the payment of Distributions (without prior regulatory approval) by any of the Insurance Subsidiaries to the Borrower.

**6.21. Insurance Regulatory Matters.** No license of any Insurance Subsidiary, the loss of which would reasonably be expected to have a Material Adverse Effect, is the subject of a proceeding for suspension or revocation. To the knowledge of the Borrower, there is no sustainable basis for such suspension or revocation, and no such suspension or revocation has been threatened by any Governmental Authority.

**6.22. Reinsurance.** There have been no material changes to the reinsurance and coinsurance arrangements of any Insurance Subsidiary since October 16, 2001.

**6.23. Disclosure.** No representation or warranty made by the Borrower or any Subsidiary in this Credit Agreement or any of the other Loan Documents contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements herein or therein not misleading in light of the circumstances in which they are made. There is no fact known to the Borrower or any of its Subsidiaries which has a Material Adverse Effect, or which is reasonably likely in the future to have a Material Adverse Effect, exclusive of effects resulting from changes in general economic conditions, legal standards or regulatory conditions.

## **7. AFFIRMATIVE COVENANTS.**

The Borrower covenants and agrees that, so long as any Loan or Note is outstanding or any Lender has any obligation to make any Loans:

**7.1. Punctual Payment.** The Borrower will duly and punctually pay or cause to be paid the principal and interest on the Loans, the Fees and all other amounts provided for in this Credit Agreement and the other Loan Documents to which the Borrower or any of its Subsidiaries is a party, all in accordance with the terms of this Credit Agreement and such other Loan Documents.

**7.2. Maintenance of Office.** The Borrower will maintain its chief executive office at 20 Custom House Street, Boston, Massachusetts 02110 or at such other place in the United States of America as such Person shall designate upon written notice to the Administrative Agent, where notices, presentations and demands to or upon such Person in respect of the Loan Documents to which such Person is a party may be given or made.

**7.3. Records and Accounts.** The Borrower will, and the Borrower will cause its Subsidiaries to, (a) keep, and cause each of its Subsidiaries to keep, true and accurate

records and books of account in which full, true and correct entries will be made in accordance with GAAP and SAP, as applicable, (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation, depletion, obsolescence and amortization of its properties and the properties of its Subsidiaries, contingencies, and other reserves, and (c) at all times engage PricewaterhouseCoopers LLP or other independent certified public accountants reasonably satisfactory to the Administrative Agent as the independent certified public accountants of the Borrower and its Subsidiaries and will not permit more than sixty (60) days to elapse between the cessation of such firm's (or any successor firm's) engagement as the independent certified public accountants of the Borrower and its Subsidiaries and the appointment in such capacity of a successor firm as shall be reasonably satisfactory to the Administrative Agent.

**7.4. Financial Statements, Certificates and Information.** The Borrower will deliver to the Administrative Agent:

- (a) (i) as soon as practicable, but in any event not later than one hundred twenty (120) days after the end of each fiscal year of the Borrower, (A) the consolidated balance sheet of the Borrower and its Subsidiaries and the consolidating balance sheet of the Borrower, each as at the end of such year, and the related consolidated statement of income and consolidated statement of cash flow and consolidating statement of income and consolidating statement of cash flow for such year, each setting forth in comparative form the figures for the previous fiscal year and all such consolidated and consolidating statements to be in reasonable detail, prepared in accordance with GAAP, and solely in respect of the consolidated statements, certified, without qualification and without an expression of uncertainty as to the ability of the Borrower or any of its Subsidiaries to continue as going concerns, and in respect of the consolidating financial statements, certified consistent with past practices, by PricewaterhouseCoopers LLP or by other independent certified public accountants reasonably satisfactory to the Administrative Agent, and (B) the Statutory Annual Financial Statements of each Insurance Subsidiary for such fiscal year, in each case to be delivered to the Administrative Agent simultaneously with the delivery of such financial statements to the Insurance Regulatory Authorities, and (ii) simultaneously with delivery to the Insurance Regulatory Authorities and in any event not later than one hundred eighty (180) days after the end of each fiscal year of the Borrower, the audited Statutory Annual Financial Statements of each Insurance Subsidiary for such fiscal year, together with an actuarial opinion and management discussion and analysis for each such Insurance Subsidiary;
- (b) as soon as practicable, but in any event not later than sixty (60) days after the end of the first three fiscal quarters of each fiscal year of the Borrower (i) copies of (A) the unaudited consolidated balance sheet of the Borrower and its Subsidiaries and the unaudited consolidating balance sheet of the Borrower, each as at the end of such quarter, and the related consolidated statement of income and consolidated statement of cash flow and consolidating statement of income and consolidating statement of cash flow for the portion of the Borrower's fiscal year then elapsed, all in reasonable detail and prepared in accordance with GAAP (except for provisions for footnotes, reserves and accruals and subject to year-end adjustments), and (B) the Statutory Quarterly Financial Statements of each Insurance Subsidiary for such fiscal quarter, together with a certification by the

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principal financial or accounting officer of the Borrower that the information contained in such financial statements fairly presents the financial position of the Borrower and its Subsidiaries on the date thereof (except for provisions for footnotes, reserves and accruals and subject to year-end adjustments), in each case to be delivered to the Administrative Agent simultaneously with the delivery of such financial statements to the Insurance Regulatory Authorities, and (ii) a summary of all Portfolio Investments, together with valuations for such Portfolio Investments as of the end of such fiscal quarter;

- (c) simultaneously with the delivery of the financial statements referred to in subsections (a) and (b) above, (i) a statement certified by the principal financial or accounting officer of the Borrower in substantially the form of Exhibit C hereto (a "Compliance Certificate") and setting forth in reasonable detail computations evidencing compliance with the covenants contained in §9 as of the end of the period then ended and (if applicable) reconciliations to reflect changes in GAAP since the Balance Sheet Date, and (ii) a summary of all material changes to reinsurance coverage during the period covered by such financial statements;
- (d) within ten (10) days of the filing or mailing thereof, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrower, and copies of all annual, regular, periodic and special reports and registration statements which the Borrower may file or be required to file with Securities and Exchange Commission or sent to the stockholders of Borrower;
- (e) not later than sixty (60) days after the beginning of each fiscal year of the Borrower, the annual budget of the Borrower and its Subsidiaries;

(f) not later than one hundred twenty (120) days after the beginning of each fiscal year of the Borrower, an actuarial opinion (accompanied by reasonably sufficient detail) as to the adequacy of the Reserves of Safety Insurance, and, if any other Insurance Subsidiary represents twenty percent (20%) or more of the Aggregate Statutory Surplus, of such Insurance Subsidiary, as at the last day of such fiscal year. Each such opinion shall be prepared and delivered by PricewaterhouseCoopers LLP or such other actuary of recognized national standing chosen by the Borrower and reasonably acceptable to the Administrative Agent. Each such opinion shall be in scope and detail reasonably satisfactory to the Administrative Agent;

(g) within ten (10) days of the receipt thereof, copies of all accountants' management letters; and

(h) from time to time such other financial data and information as the Administrative Agent or any Lender, through the Administrative Agent, may reasonably request.

## 7.5. Notices

**7.5.1. Default.** Promptly, and in any event within five (5) Business Days after becoming aware of the occurrence of any Default or Event of Default, the Borrower

will notify the Administrative Agent in writing, together with a reasonably detailed description thereof. If any Person shall give any notice or take any other action in respect of a claimed default (whether or not constituting an Event of Default) under this Credit Agreement or any other note, evidence of indebtedness, indenture or other obligation to which or with respect to which the Borrower or any of its Subsidiaries is a party or obligor, whether as principal, guarantor, surety or otherwise, the Borrower shall forthwith give written notice thereof to the Administrative Agent, describing the notice or action and the nature of the claimed default.

**7.5.2. Environmental Events.** The Borrower will promptly give notice to the Administrative Agent (a) of any material violation of any Environmental Law that the Borrower or any of its Subsidiaries reports in writing or is reportable by such Person in writing (or for which any written report supplemental to any oral report is made) to any Governmental Authority and (b) upon becoming aware thereof, of any inquiry, proceeding, investigation, or other action, including a notice from any agency of potential environmental liability, of any Governmental Authority that could have a Material Adverse Effect.

**7.5.3. Notification of Claim against Collateral.** The Borrower will, promptly upon becoming aware thereof, notify the Administrative Agent in writing of any setoff, claims (including, with respect to the Real Estate, material environmental claims), withholdings or other defenses to which any of the Collateral, or the Administrative Agent's rights with respect to the Collateral, are subject.

**7.5.4. Notice of Litigation and Judgments.** Except for litigation and proceedings asserted by insureds in the ordinary course of business against any Insurance Subsidiary's business, the Borrower will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent in writing within ten (10) Business Days of becoming aware of any litigation or proceedings threatened in writing or any pending litigation and proceedings affecting the Borrower or any of its Subsidiaries or to which the Borrower or any of its Subsidiaries is or becomes a party involving an uninsured claim against the Borrower or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect and stating the nature and status of such litigation or proceedings. The Borrower will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent, in writing, in form and detail reasonably satisfactory to the Administrative Agent, within ten (10) Business Days of any judgment not covered by insurance, final or otherwise, against the Borrower or any of its Subsidiaries in an amount in excess of \$5,000,000.

**7.5.5. Notice of Change in Rating.** The Borrower will, promptly upon becoming aware thereof, notify the Administrative Agent in writing of any change in the rating (as rated by A.M. Best Company) of any Insurance Subsidiary.

**7.5.6. Notice of Material Adverse Effect.** Promptly, and in any event within five (5) Business Days after becoming aware of anything which would reasonably be expected to have a Material Adverse Effect, the Borrower will notify the Administrative Agent in writing, together with a reasonably detailed description thereof.

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**7.6. Legal Existence; Maintenance of Properties.** The Borrower will do or cause to be done all things necessary to preserve and keep in full force and effect its legal existence, rights and franchises and those of its Subsidiaries except as permitted by §8.5.1 hereof or the dissolution of any Subsidiary of the Borrower whose operation has been discontinued if such dissolution is, in the judgment of the Borrower, desirable in the conduct of its business and would not reasonably be expected to have a Material Adverse Effect. The Borrower will not, and will not cause or permit any of its Subsidiaries to, convert to a limited liability company or a limited liability partnership. The Borrower (a) will cause all of its properties and those of its Subsidiaries used or useful in the conduct of its business or the business of its Subsidiaries to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment, (b) will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Borrower may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times, and (c) will, and will cause each of its Subsidiaries to, continue to engage primarily in the businesses now conducted by them and in related businesses; provided that nothing in this §7.6 shall prevent the Borrower from discontinuing the operation and maintenance of any of its properties or any of those of its Subsidiaries if such discontinuance is, in the judgment of the Borrower, desirable in the conduct of its or their business and that do not in the aggregate have a Material Adverse Effect.

**7.7. Insurance; Reinsurance.** (a) The Borrower will, and will cause each of its Subsidiaries to, maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with the general practices of businesses engaged in similar activities in similar geographic areas and in amounts, containing such terms, in such forms and for such periods as may be reasonable and prudent and in accordance with the terms of the Security Agreements. The Borrower and each of its Subsidiaries shall maintain at all times reinsurance coverage reasonably satisfactory to the Administrative Agent and will provide evidence of such reinsurance coverage at the request of the Administrative Agent.

(b) Any Insurance Subsidiary may enter into any reinsurance agreement or retrocession agreement in the ordinary course of business in accordance with its normal underwriting, indemnity and retention policies, provided, however, that no Insurance Subsidiary shall enter into any loss portfolio transfer or any surplus relief transaction (within the meanings prescribed by SAP) through assumption, reinsurance, cancellation and rewriting of insurance business or otherwise, if after giving effect thereto, the aggregate segregated surplus or enhancement to surplus of all Insurance Subsidiaries under SAP resulting from all such transfers entered into by all Insurance Subsidiaries after the date hereof would exceed \$2,500,000.

**7.8. Taxes.** The Borrower will, and will cause each of its Subsidiaries to, duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and its Real Estate, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies that if unpaid might by

law become a Lien or charge upon any of its property; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Borrower or such Subsidiary shall have set aside on its books adequate reserves with respect thereto; and provided further that the Borrower and each Subsidiary of the Borrower will pay all such taxes, assessments, charges, levies or claims forthwith upon the commencement of proceedings to foreclose any Lien that may have attached as security therefor.

**7.9. Inspection of Properties and Books, etc.**

**7.9.1. General.** The Borrower shall permit the Lenders, through the Administrative Agent or any designated representative of the Administrative Agent, to visit and inspect any of the properties of the Borrower and of its Subsidiaries, to examine the books of account of the Borrower and its Subsidiaries (and to make copies thereof and extracts therefrom), and to discuss the affairs, finances and accounts of the Borrower and its Subsidiaries with, and to be advised as to the same by, its and their officers, and to conduct examinations and verifications (whether by internal commercial finance examiners or independent auditors) of assets, all at such reasonable times and intervals as the Administrative Agent or any Lender may reasonably request, provided, however, that so long as no Event of Default shall have occurred or be continuing, no more than \$30,000 in the aggregate per annum of the expenses relating to such examinations and verifications shall be at the expense of the Borrower.

**7.9.2. Appraisals.** If an Event of Default shall have occurred and be continuing, upon the request of the Administrative Agent, the Borrower will obtain and deliver to the Administrative Agent appraisal reports in form and substance and from appraisers reasonably satisfactory to

the Administrative Agent, stating the then current business value of each of the Borrower and its Subsidiaries. All such appraisals shall be conducted and made at the expense of the Borrower.

**7.9.3. Communications with Accountants.** The Borrower authorizes the Administrative Agent and, if accompanied by the Administrative Agent, the Lenders to communicate directly with the Borrower's independent certified public accountants and authorizes such accountants to disclose to the Administrative Agent and the Lenders any and all financial statements and other supporting financial documents and schedules including copies of any management letter with respect to the business, financial condition and other affairs of the Borrower or any of its Subsidiaries. At the request of the Administrative Agent, the Borrower shall deliver a letter addressed to such accountants instructing them to comply with the provisions of this §7.9.3.

**7.10. Compliance with Laws, Contracts, Licenses, and Permits.** The Borrower will, and will cause each of its Subsidiaries to, comply with (a) the applicable laws and regulations wherever its business is conducted, including all Environmental Laws, (b) the provisions of its Governing Documents, (c) all agreements and instruments by which it or any of its properties may be bound and (d) all applicable decrees, orders, and judgments, in each case, to the extent that the failure to so comply would not reasonably be expected to have a Material Adverse Effect. If any authorization, consent,

approval, permit or license from any officer, agency or instrumentality of any government (including, without limitation, any Insurance Regulatory Authority) shall become necessary or required in order that the Borrower or any of its Subsidiaries may fulfill any of its obligations hereunder or any of the other Loan Documents to which the Borrower or such Subsidiary is a party, the Borrower will, or (as the case may be) will cause such Subsidiary to, immediately take or cause to be taken all reasonable steps within the power of such Person to obtain such authorization, consent, approval, permit or license and furnish the Administrative Agent and the Lenders with evidence thereof.

**7.11. Employee Benefit Plans.** The Borrower will (a) promptly upon filing the same with the Department of Labor or Internal Revenue Service upon request of the Administrative Agent, furnish to the Administrative Agent a copy of the most recent actuarial statement required to be submitted under §103(d) of ERISA and Annual Report, Form 5500, with all required attachments, in respect of each Guaranteed Pension Plan, and (b) promptly upon receipt or dispatch, furnish to the Administrative Agent any notice, report or demand sent or received in respect of a Guaranteed Pension Plan under §§302, 4041, 4042, 4043, 4063, 4066 and 4068 of ERISA, or in respect of a Multiemployer Plan, under §§4041A, 4202, 4219, 4242, or 4245 of ERISA.

**7.12. Use of Proceeds.** The Borrower will use the proceeds of the Loans solely for the purposes set forth in §6.17.1.

**7.13. Insurance Regulatory Filings; Examination Reports.**

(a) The Borrower will cause each of its Insurance Subsidiaries to furnish to the Administrative Agent promptly (i) each material registration, filing or submission made by or on behalf of any such Insurance Subsidiary with any Insurance Regulatory Authority, (ii) each material examination report or other similar material report submitted to any such Insurance Subsidiary by any Insurance Regulatory Authority, (iii) each notice of any material violation by the Borrower or any of its Subsidiaries of, or any material deficiency of the Borrower or any of its Subsidiaries under, any applicable laws relating to insurance companies or to persons controlling insurance companies, and (iv) any other material notice received by the Borrower or any of its Subsidiaries from any Insurance Regulatory Authority.

(b) The Borrower will cause each of its Insurance Subsidiaries to furnish to the Administrative Agent all material information which the Administrative Agent may from time to time request with respect to the nature or status of any material deficiencies or violations reflected on any such examination report or other similar report or notice furnished to the Administrative Agent pursuant to §7.13(a) hereof.

(c) The Borrower will cause each Insurance Subsidiary of the Borrower to establish and maintain on its books Reserves which shall at all times be adequate, under Statutory Accounting Practices, to cover the total amount of all of its reasonably anticipated liabilities under all issued and outstanding policies under which it has or may have any liability. The Borrower will also cause each Insurance Subsidiary of the

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Borrower at all times to own assets qualifying as reserve assets under applicable laws in an aggregate amount at least equal to all of its Reserves.

**7.14. Further Assurances.** The Borrower will, and will cause each of its Subsidiaries to, cooperate with the Lenders and the Administrative Agent and execute such further instruments and documents as the Lenders or the Administrative Agent shall reasonably request to carry out to their satisfaction the transactions contemplated by this Credit Agreement and the other Loan Documents.

**8. CERTAIN NEGATIVE COVENANTS.**

The Borrower covenants and agrees that, so long as any Loan or Note is outstanding or any Lender has any obligation to make any Loans:

**8.1. Restrictions on Indebtedness.** The Borrower will not, nor will the Borrower permit any of its Subsidiaries to, create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any Indebtedness other than:

- (a) Indebtedness to the Lenders and the Administrative Agent arising under any of the Loan Documents;
- (b) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;
- (c) Indebtedness incurred in connection with the acquisition after the Closing Date of any real or personal property by the Borrower or such Subsidiary or under any Capitalized Lease, provided that the aggregate principal amount of such Indebtedness of the Borrower and its Subsidiaries shall not exceed the aggregate amount of \$20,000,000 at any one time;
- (d) Indebtedness in respect of Interest Rate Agreements;
- (e) Indebtedness existing on the date hereof and listed and described on Schedule 8.1 hereto;
- (f) Indebtedness of the Borrower under the Tax Sharing Agreement;
- (g) Indebtedness in respect of the Distributions permitted by §8.4;
- (h) Indebtedness of the Borrower or any of its Subsidiaries in respect of Incentive Arrangements;
- (i) in the case of any Insurance Subsidiary, reserves for losses and loss adjustment expenses, reserves for unearned premiums, reinsurance balances, funds withheld, agents' balances payable, liabilities for retrospective rate adjustments, liabilities for final premium adjustments and contingent commissions payable, incurred or assumed by such Insurance Subsidiary in the ordinary course of business;

(j) Indebtedness in respect of taxes, assessments, governmental charges or levies and claims for labor, worker's compensation, materials and supplies to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of §7.8;

(k) Indebtedness in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the Borrower or such Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;

(l) Indebtedness in respect of performance, surety, statutory, insurance, appeal or similar bonds obtained in the ordinary course of business;

(m) Indebtedness of the Borrower or any of its Subsidiaries incurred to refinance or replace Indebtedness of such Person otherwise permitted under this §8.1, provided that (i) the principal amount (or committed principal amount) of such refinancing Indebtedness shall not exceed the outstanding principal amount (or committed principal amount) of the Indebtedness being refinanced, (ii) the terms of such refinancing Indebtedness, taken as a whole, are not more onerous to the Borrower or such Subsidiary, as applicable, than the terms of the Indebtedness being refinanced, and (iii) the Administrative Agent shall have consented to the incurrence of such refinancing Indebtedness, such consent not to be unreasonably withheld;

(n) (i) other unsecured Indebtedness, and (ii) other Indebtedness (including, without limitation, the assumption or issuance of unsecured seller paper) existing at the time a Person is merged into or consolidated with the Borrower or any Subsidiary of the Borrower or becomes a wholly-owned Subsidiary of the Borrower in compliance with 88.5.1; provided that such Indebtedness (other than the assumption or issuance of unsecured seller paper) was not created in contemplation of such merger or consolidation or acquisition; and provided further that Indebtedness permitted under this paragraph (n)(i) and (ii) shall not exceed \$20,000,000 in the aggregate in principal amount outstanding;

(o) Indebtedness of the Borrower or any Subsidiary Guarantor in respect of intercompany loans, advances, obligations or similar transfers evidenced by an intercompany note among the Borrower and the Subsidiary Guarantors, provided that such intercompany notes are pledged and delivered by the Borrower or such Subsidiary Guarantor to the Administrative Agent for the benefit of the Administrative Agent and the Lenders as collateral security for the Obligations;

(p) Indebtedness of any Insurance Subsidiary in connection with Investments in the ordinary course of business made in accordance with the Safety Insurance Investment Policy; and

(q) Indebtedness of any Insurance Subsidiary incurred under any collateralized loan program administered by the Federal Home Loan Bank of Boston that

is available to insurance company members of the Federal Home Loan Bank of Boston not to exceed \$150,000,000 in the aggregate for all Insurance Subsidiaries.

**8.2. Restrictions on Liens.**

**8.2.1. Permitted Liens.** The Borrower will not, nor will the Borrower permit any of its Subsidiaries to, (a) create or incur or suffer to be created or incurred or to exist any Lien upon any of its property or assets of any character whether now owned or hereafter acquired, or upon the income or profits therefrom; (b) transfer any of such property or assets or the income or profits therefrom for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors; (c) acquire, or agree or have an option to acquire, any property or assets upon conditional sale or other title retention or purchase money security agreement, device or arrangement; (d) suffer to exist for a period of more than thirty (30) days after the same shall have been incurred any Indebtedness or claim or demand against it that if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be given any priority whatsoever over its general creditors; or (e) sell, assign, pledge or otherwise transfer any "receivables" as defined in clause (g) of the definition of the term "Indebtedness" with or without recourse; provided that the Borrower or any of its Subsidiaries may create or incur or suffer to be created or incurred or to exist:

- (i)Liens in favor of the Borrower on all or part of the assets of Subsidiaries of the Borrower securing Indebtedness owing by Subsidiaries of the Borrower to the Borrower;
- (ii)Liens to secure taxes, assessments and other government charges in respect of obligations not overdue or being contested in good faith or Liens on properties to secure claims for labor, materials or supplies in respect of obligations not overdue or being contested in good faith;
- (iii)deposits or pledges made in connection with, or to secure payment of, workmen's compensation, unemployment insurance, old age pensions or other social security obligations;
- (iv)Liens on properties in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the Borrower or such Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;
- (v)Liens of carriers, warehousemen, mechanics and materialmen, and other like Liens on properties, in existence less than 120 days from the date of creation thereof in respect of obligations not overdue or being contested in good faith;
- (vi)encumbrances on Real Estate consisting of easements, rights of way, zoning restrictions, restrictions on the use of real property and defects and

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irregularities in the title thereto, landlord's or lessor's liens and other minor Liens, provided that none of such Liens (A) interferes materially with the use of the property affected in the ordinary conduct of the business of the Borrower and its Subsidiaries, and (B) individually or in the aggregate have a Material Adverse Effect;

(vii)Liens existing on the date hereof and listed on Schedule 8.2 hereto;

(viii)(i) Liens to secure Capitalized Lease obligations of the type and amount permitted by §8.1(c), so long as such Liens cover only the property subject to such Capitalized Leases, and (ii) purchase money security interests in or purchase money mortgages on real or personal property acquired after the date hereof to secure purchase money Indebtedness of the type and amount permitted by §8.1(c), incurred in connection with the acquisition of such property, which security interests or mortgages cover only the real or personal property so acquired to the extent of the amount borrowed;

(ix)Liens in favor of the Administrative Agent for the benefit of the Lenders and the Administrative Agent under the Loan Documents;

(x)Liens in favor of the counterparties under any Interest Rate Agreements not to exceed \$10,000,000 in the aggregate;

(xi)purchase money liens on personal property or mortgage liens on real property of a Person existing at the time such Person is merged into or consolidated with the Borrower or any Subsidiary of the Borrower or becomes a wholly-owned Subsidiary of the Borrower in compliance with §8.5.1; provided that such Liens were not created in contemplation of such merger, consolidation or acquisition and do not extend to any assets other than those subject to such Liens and to the extent of the amount borrowed prior to such merger, consolidation or acquisition, and secure Indebtedness permitted by §8.1(n)(ii) (other than the assumption of seller paper);

(xii)the replacement, extension or renewal (without increase in amount) of any Lien permitted by clauses (vii) or (viii) of this §8.2.1 upon or in the same property theretofore subject thereto, so long as such Liens do not extend to cover any assets other than those being refinanced; and

(xiii)Liens on mortgage backed securities and other real estate related securities of Insurance Subsidiaries having an aggregate book value not in excess of \$150,000,000 to secure Indebtedness permitted under Section 8.1(q).

**8.2.2. Restrictions on Negative Pledges and Upstream Limitations.** The Borrower will not, nor will the Borrower permit any of its Subsidiaries to (a) enter into or permit to exist any arrangement or agreement (excluding this Credit Agreement and the other Loan Documents) which directly or indirectly prohibits the Borrower or any of its Subsidiaries from creating, assuming or incurring any Lien upon its properties, revenues or assets or those of any of its Subsidiaries whether now owned or hereafter

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acquired (except for purchase money security interests or liens on assets securing such purchase money security interests and Indebtedness assumed pursuant to Permitted Acquisitions to the extent permitted under §8.1 hereunder), or (b) enter into any agreement, contract or arrangement (excluding this Credit Agreement and the other Loan Documents) restricting the ability of any Subsidiary of the Borrower to pay or make Distributions in cash or kind to the Borrower, to make loans, advances or other payments of whatsoever nature to the Borrower, or to make transfers or distributions of all or any part of its assets to the Borrower; in each case other than (i) restrictions on specific assets which assets are the subject of purchase money security interests to the extent permitted under §8.2.1, (ii) customary anti-assignment provisions contained in leases and licensing agreements entered into by the Borrower or such Subsidiary in the ordinary course of its business, and (iii) restrictions in connection with Permitted Acquisitions.

**8.3. Restrictions on Investments.** The Borrower will not, nor will the Borrower permit any of its Subsidiaries to, make or permit to exist or to remain outstanding any Investment except:

- (a) marketable direct or guaranteed obligations of the United States of America that mature within one (1) year from the date of purchase;
- (b) demand deposits, certificates of deposit, bank acceptances and time deposits of United States banks having total assets in excess of \$500,000,000;
- (c) securities commonly known as "commercial paper" issued by a corporation organized and existing under the laws of the United States of America or any state thereof that at the time of purchase have been rated and the ratings for which are not less than "P-1" if rated by Moody's, and not less than "A-1" if rated by S&P;
- (d) repurchase agreements secured by one or more of the foregoing;
- (e) Investments existing on the date hereof and listed on Schedule 8.3 hereto;
- (f) Investments consisting of the Subsidiary Guaranty or Investments by the Borrower in Subsidiaries of the Borrower existing on the Closing Date;
- (g) Investments by the Borrower or any of its Subsidiaries made in connection with any Indebtedness permitted under §8.1(c) hereof;
- (h) Investments by the Borrower or any Subsidiary in connection with Permitted Acquisitions;
- (i) Investments consisting of promissory notes or other instruments received as proceeds of asset dispositions permitted by §8.5.2;
- (j) Investments by the Borrower or any of its Subsidiaries in Cash Equivalents;

- (k) Investments by any Insurance Subsidiary pursuant to and in accordance with the Safety Insurance Investment Policy, as in effect on the Closing Date, or as amended, modified or supplemented in compliance with the provisions of §8.12 hereof; and
- (l) any other Investment not otherwise permitted by this §8.3, so long as the aggregate amount of such other Investments made by the Borrower and its Subsidiaries while any Commitment or Obligations are outstanding does not exceed \$20,000,000;

provided, however, that, with the exception of demand deposits referred to in §8.3(b) and Investments permitted by §8.3(g) and (k), all such Investments by the Borrower or any Subsidiary Guarantor will be considered Investments permitted by this §9.3 only if all actions have been taken to the reasonable satisfaction of the Administrative Agent to provide to the Administrative Agent, for the benefit of the Lenders and the Administrative Agent, a first priority perfected security interest in all of such Investments free of all Liens other than Permitted Liens.

**8.4. Restricted Payments.** The Borrower will not, nor will the Borrower permit any of its Subsidiaries to, make any Restricted Payments other than dividends or payments:

- (a) reserved;
- (b) by any Subsidiary of the Borrower to the Borrower, provided that the Borrower shall cause each Insurance Subsidiary, to the extent not otherwise prohibited by any applicable laws or regulations or otherwise paid, to pay dividends to the Borrower in an amount sufficient to satisfy the payment requirements hereunder;
- (c) by the Borrower, so long as no Default or Event of Default under §§12.1(a), (b) or (c) (only with regard to a failure to comply with §9) has occurred and is continuing (i) to repurchase shares of its common stock for cash from employees or former employees; provided, however, that the aggregate amount of all payments made in cash during the term of this Credit Agreement pursuant to this §8.4(c)(i) shall not exceed \$2,000,000, and (ii) to permit the payment of Incentive Arrangements; and
- (d) to the extent not otherwise permitted by the foregoing §§8.4(a) through (c), any Restricted Payment by the Borrower in any fiscal year so long as (i) no Default or Event of Default shall have occurred and be continuing at the time such Restricted Payment is made or shall arise from such Restricted Payment and (ii) such Restricted Payment, together with all other Restricted Payments made during such fiscal year, shall not, in the aggregate, exceed the greater of (x) ten percent (10%) of the Statutory Surplus of the Insurance Subsidiaries as at the end of the most recently

completed fiscal year and (y) one hundred percent (100%) of the Statutory Net Income of the Insurance Subsidiaries for the immediately preceding fiscal year as reported on the Statutory Annual Financial Statements delivered pursuant to §7.4(a).

#### **8.5. Merger, Consolidation and Disposition of Assets.**

**8.5.1. Mergers and Acquisitions.** The Borrower will not, nor will the Borrower permit any of its Subsidiaries to, become a party to any merger, amalgamation or consolidation, or agree to or effect any asset acquisition or stock acquisition (other than the acquisition of assets in the ordinary course of business consistent with past practices) except so long as no Default or Event of Default has occurred or is continuing, or would exist after giving effect thereto,

(a)the merger or consolidation of one or more of the Subsidiaries of the Borrower with and into the Borrower, or the merger or consolidation of two or more Subsidiaries of the Borrower; and

(b)other asset or stock acquisitions of Persons predominantly in the business of property and casualty insurance or other businesses already conducted by the Borrower on the Closing Date (a "Permitted Acquisition") where (i) the Borrower has provided the Administrative Agent with five (5) Business Days prior written notice of such Permitted Acquisition, which notice shall include a reasonably detailed description of such Permitted Acquisition; (ii) such Permitted Acquisition is non-hostile in nature; (iii) the Borrower or a Subsidiary of the Borrower would be the surviving entity in such Permitted Acquisition (iv) the business to be acquired operates within the United States; (v) the business and assets to be acquired in such Permitted Acquisition shall be acquired by the Borrower or such Subsidiary free and clear of all liens (other than Permitted Liens) and all Indebtedness (other than Permitted Indebtedness); (vi) no contingent obligations or liabilities will be incurred or assumed in connection with such Permitted Acquisition which would reasonably be expected to have a Material Adverse Effect; (vii) the Borrower has provided the Administrative Agent with such other information as has been reasonably requested by the Administrative Agent; (viii) the Borrower has taken or caused to be taken all necessary actions to grant to the Administrative Agent a first priority perfected lien in all assets and stock to be acquired in connection with such Permitted Acquisition subject to applicable law and provided that any acquired Person which would be an Insurance Subsidiary shall not be required to grant a Lien on any assets other than Non-Admitted Assets; (ix) the Borrower has demonstrated to the reasonable satisfaction of the Administrative Agent, based on a pro forma Compliance Certificate, compliance with §9 on a pro forma basis immediately prior to and after giving effect to such Permitted Acquisition; (x) the aggregate purchase price (including assumed debt and seller paper) for Permitted Acquisitions does not exceed \$20,000,000 for any particular Permitted Acquisition individually, or \$60,000,000 in the aggregate during the term of this Credit Agreement and (xi) the Borrower has delivered to the Administrative Agent a certificate of the chief financial officer of the Borrower to the effect that (1) the Borrower will be solvent upon the consummation of the Permitted Acquisition; (2) the pro forma Compliance

Certificate fairly presents the financial condition of the Borrower and its Subsidiaries as of the date thereof and after giving effect to such Permitted Acquisition and (3) no Default or Event of Default then exists or would result after giving effect to the Permitted Acquisition.

In the event any new Subsidiary is formed as a result of or in connection with any Permitted Acquisition, simultaneously therewith, the Loan Documents shall be amended and/or supplemented as necessary to make the terms and conditions of the Loan Documents applicable to such Subsidiary. In the case of the Borrower forming or purchasing such Subsidiary, such Subsidiary (other than any Insurance Subsidiary) shall become a Subsidiary Guarantor hereunder, and shall grant to the Administrative Agent for the benefit of the Lenders a perfected, first priority security interest in its assets, in accordance with the terms of the Security Agreement and the other Security Documents. Notwithstanding anything herein to the contrary, no Subsidiary of the Borrower shall be required to become a Subsidiary Guarantor hereunder unless and until the Borrower's aggregate Investment (including, without limitation any consideration in respect of the purchase price by the Borrower) in such Subsidiary shall exceed

\$35,000,000 at any time (provided, that for purposes of this Section 8.5.1, the outstanding amount of an Investment shall be calculated net of all amounts received by the Borrower from such Subsidiary (including by way of dividend, interest or otherwise)).

**8.5.2. Disposition of Assets**. The Borrower will not, nor will the Borrower permit any of its Subsidiaries to, become a party to or agree to or effect any disposition of assets, other than (a) the sale, lease, license or other disposition of assets in the ordinary course of business consistent with past practices, (b) the disposition of Portfolio Investments in the ordinary course of business, (c) the disposition of any and all of its assets (upon voluntary liquidation or otherwise) to the Borrower or any Subsidiary Guarantor, (d) the sale of property, plants and equipment in an amount not to exceed \$1,000,000 in the aggregate, and (e) the sale or disposition of assets used in the operation of the business (other than any sale of stock or the sale of all or substantially all of the assets of any Subsidiary), the proceeds of which are reinvested in the Borrower or any Subsidiary Guarantor within one hundred eighty (180) days of the receipt of such proceeds).

**8.6. Sale and Leaseback**. The Borrower will not, nor will the Borrower permit any of its Subsidiaries to, enter into any arrangement, directly or indirectly, whereby the Borrower or such Subsidiary shall sell or transfer any property owned by it in order then or thereafter to lease such property or lease other property that the Borrower or any Subsidiary intends to use for substantially the same purpose as the property being sold or transferred.

**8.7. Compliance with Environmental Laws**. The Borrower will not, nor will the Borrower permit any of its Subsidiaries to, (a) use any of the Real Estate or any portion thereof for the handling, processing, storage or disposal of Hazardous Substances, (b) cause or permit to be located on any of the Real Estate any underground tank or other underground storage receptacle for Hazardous Substances, (c) generate any Hazardous Substances on any of the Real Estate, (d) conduct any activity at any Real Estate or use

any Real Estate in any manner so as to cause a release (i.e. releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, disposing or dumping) or threatened release of Hazardous Substances on, upon or into the Real Estate or (e) otherwise conduct any activity at any Real Estate or use any Real Estate in any manner that would violate any Environmental Law or bring such Real Estate in violation of any Environmental Law, in each case, to the extent that such violation could reasonably be expected to have a Material Adverse Effect.

**8.8. Employee Benefit Plans**. Neither the Borrower nor any ERISA Affiliate will:

- (a) engage in any "prohibited transaction" within the meaning of §406 of ERISA or §4975 of the Code which would reasonably be expected to result in a material liability for the Borrower or any of its Subsidiaries; or
- (b) permit any Guaranteed Pension Plan to incur an "accumulated funding deficiency", as such term is defined in §302 of ERISA, whether or not such deficiency is or may be waived; or
- (c) fail to contribute to any Guaranteed Pension Plan to an extent which, or terminate any Guaranteed Pension Plan in a manner which, would reasonably be expected to result in the imposition of a lien or encumbrance on the assets of the Borrower or any of its Subsidiaries pursuant to §302(f) or §4068 of ERISA; or
- (d) amend any Guaranteed Pension Plan in circumstances requiring the posting of security pursuant to §307 of ERISA or §401(a)(29) of the Code; or
- (e) permit or take any action which would result in the aggregate benefit liabilities (with the meaning of §4001 of ERISA) of all Guaranteed Pension Plans exceeding the value of the aggregate assets of such Plans by more than \$2,500,000, disregarding for this purpose the benefit liabilities and assets of any such Plan with assets in excess of benefit liabilities.

**8.9. Business Activities; Non-Admitted Assets**. The Borrower will not, and will not permit any of its Subsidiaries to, engage directly or indirectly (whether through Subsidiaries or otherwise) in any type of business other than the businesses conducted or proposed to be conducted by them on the Closing Date and in related businesses. The Borrower will not permit any Insurance Subsidiary to own any material amount of Non-Admitted Assets.

**8.10. Fiscal Year**. The Borrower will not, nor will the Borrower permit any of its Subsidiaries to, change the date of the end of its fiscal year from that set forth in §6.4.1.

**8.11. Change in Terms of Capital Stock.** The Borrower will not, nor will the Borrower permit any of its Subsidiaries to effect or permit any change in or amendment to any document or instrument pertaining to the terms of such Person's capital stock unless such change or amendment is of an immaterial or ministerial nature that would not

have any material adverse effect on the Administrative Agent's or the Lenders' rights or interests under the Loan Documents or the Borrower's Obligations under the Loan Documents.

**8.12. Modification of Documents.** The Borrower will not consent to or agree to any amendment, supplement or other modification to the Tax Sharing Agreement which affects, in a manner materially adverse to the Borrower, the amount or timing of payments required to be made by the Borrower thereunder, or if such amendment, supplement or modification could reasonably be expected to materially adversely affect the Administrative Agent's or the Lenders' rights or interests or materially impact the Borrower's abilities to fulfill its obligations under the Loan Documents. The Borrower will not, nor will the Borrower permit any Insurance Subsidiary to, modify, amend or supplement the Safety Insurance Investment Policy in any material respect, except as may be required by Insurance Regulatory Authorities from time to time, without the prior written consent of the Administrative Agent, which consent will not be unreasonably withheld or delayed.

**8.13. Transactions with Affiliates.** Except as set forth on Schedule 6.15 hereto, the Borrower will not, nor will the Borrower permit any of its Subsidiaries to, engage in any transaction with any Affiliate (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any such Affiliate or, to the knowledge of the Borrower, any corporation, partnership, trust or other entity in which any such Affiliate has a substantial interest or is an officer, director, trustee or partner, on terms more favorable to such Person than would have been obtainable on an arm's-length basis in the ordinary course of business, provided, however, that nothing contained in this §8.13 shall prohibit the Borrower from making payments otherwise permitted by §8.4 hereof.

## **9. FINANCIAL COVENANTS.**

The Borrower covenants and agrees that, so long as any Loan or Note is outstanding or any Lender has any obligation to make any Loans:

**9.1. Risk Based Capital.** The Borrower will not permit (a) the Risk Based Capital Ratio of Safety Insurance to be less than 325% at any time, (b) the Risk Based Capital Ratio of Safety Indemnity to be less than 325% at any time, (c) the Risk Based Capital Ratio of Safety Property to be less than 325% at any time, and (d) the Risk Based Capital Ratio of any other Insurance Subsidiary to be less than 325% at any time.

**9.2. Minimum Rating.** The Borrower will not permit any Insurance Subsidiary to have a corporate rating (as rated by A.M. Best Company) of less than B+.

**9.3. Minimum Consolidated Net Worth.** The Borrower will not cause or permit Consolidated Net Worth at any time to be less than \$550,000,000.

## **10. CLOSING CONDITIONS.**

The obligations of the Lenders to make the initial Loans shall be subject to the satisfaction of the following conditions precedent on or prior to the Closing Date:

**10.1. Loan Documents.** Each of the this Agreement, the Omnibus Amendment and Reaffirmation Agreement and any other Loan Documents shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and shall be in form and substance reasonably satisfactory to each of the Lenders. Each Lender shall have received a fully executed copy of each such document.

**10.2. Certified Copies of Governing Documents.** The Administrative Agent shall have received from the Borrower copies, certified by a duly authorized officer of the Borrower to be true and complete on the Closing Date, of the Governing Documents for each of the Borrower and each of its Subsidiaries as in effect on such date of certification.

**10.3. Corporate or Other Action.** All corporate (or other) action necessary for the valid execution, delivery and performance by the Borrower and each of its Subsidiaries of this Credit Agreement, the other Loan Documents to which it is or is to become a party shall have been duly and effectively taken, and evidence thereof reasonably satisfactory to the Lenders shall have been provided to each of the Lenders.

**10.4. Incumbency Certificate.** The Administrative Agent shall have received from the Borrower and each of its Subsidiaries an incumbency certificate, dated as of the Closing Date, signed by a duly authorized officer of such Person, and giving the name and bearing a specimen signature of each individual who shall be authorized: (a) to sign, in the name and on behalf of the Borrower and each such Subsidiary, each of the Loan Documents to which the Borrower or such Subsidiary is or is to become a party; (b) in the case of the Borrower, to make Loan Requests and Conversion Requests; and (c) to give notices and to take other action on its behalf under the Loan Documents.

**10.5. Validity of Liens.** The Security Documents shall be effective to create in favor of the Administrative Agent a legal, valid and enforceable first (except for Permitted Liens entitled to priority under applicable law) security interest in and Lien upon the Collateral. All filings, recordings, deliveries of instruments and other actions necessary or desirable in the opinion of the Administrative Agent to protect and preserve such security interests shall have been duly effected. The Administrative Agent shall have received evidence thereof in form and substance reasonably satisfactory to the Administrative Agent.

**10.6. Perfection Certificates and UCC Search Results.** The Administrative Agent shall have received from the Borrower and each of the Subsidiaries a completed and fully executed Perfection Certificate and the results of UCC, tax and judgment lien searches (and the equivalent thereof in all applicable foreign jurisdictions) with respect to the Collateral owned by the Borrower and the Subsidiary Guarantors, indicating no Liens other than Permitted Liens and otherwise in form and substance reasonably satisfactory to the Administrative Agent.

**10.7. Certificates of Insurance.** The Administrative Agent shall have received a certificate of insurance from an independent insurance broker dated as of the Closing Date, identifying insurers, types of insurance, insurance limits, and policy terms, and otherwise describing the insurance obtained in accordance with the provisions of the Security Agreements.

**10.8. Solvency Certificate.** The Administrative Agent shall have received an officer's certificate of the Borrower dated as of the Closing Date as to the solvency of the Borrower and its Subsidiaries following the consummation of the transactions contemplated herein and in form and substance reasonably satisfactory to the Lenders.

**10.9. Opinion of Counsel.** The Administrative Agent shall have received favorable legal opinions addressed to the Lenders and the Administrative Agent, dated as of the Closing Date, in form and substance reasonably satisfactory to the Lenders and the Administrative Agent, from Dewey & LeBoeuf LLP, counsel to the Borrower and its Subsidiaries.

**10.10. Payment of Fees.** The Borrower shall have paid to the Administrative Agent the Closing Fee plus any other fees and expenses required to be paid to the Administrative Agent or the Lenders.

**10.11. No Material Adverse Change.** The Administrative Agent shall be satisfied that there shall have occurred no material adverse change in the business, operations, assets, properties, financial condition or income of the Borrower and its Subsidiaries taken as a whole since the Balance Sheet Date.

**10.12. No Litigation.** No litigation, inquiry, injunction or restraining order shall be pending, entered or threatened that, in the reasonable opinion of the Administrative Agent, could reasonably be expected to have a material adverse effect on (i) the transactions contemplated hereby, (ii) the business, assets, liabilities (actual or contingent) operations, condition (financial or otherwise) of the Borrower and its Subsidiaries, taken as a whole, (iii) the ability of the Borrower or any of its Subsidiaries to perform their obligations under the Loan Documents, (iv) the rights and remedies of the Administrative Agent and the Lenders under the Loan Documents, or (v) the perfection or priority of any security interests granted to the Administrative Agent under the Loan Documents.

**10.13. Consents and Approvals.** The Administrative Agent shall have received evidence that all material governmental and third-party approvals necessary or advisable in connection with the credit facilities contemplated hereby and the continuing operations of the Borrower shall have been obtained and shall be in full force and effect, and all applicable waiting periods shall have expired without any action being taken or threatened by any competent authority that would restrain, prevent or otherwise impose materially adverse conditions on the Borrower and its Subsidiaries taken as a whole, or the credit facilities contemplated hereby.

**10.14. Rating.** The Administrative Agent shall have received evidence that each Insurance Subsidiary of the Borrower shall have received a rating of at least A- (as rated by A.M. Best Company).

**10.15. Financial Tests.** On the Closing Date, the Aggregate Statutory Surplus of the Insurance Subsidiaries shall not be less than \$500,000,000.

**10.16. Reinsurance.** The Administrative Agent and the Lenders shall have received evidence that the Borrower and its Subsidiaries maintain reinsurance coverage consistent with its past practices.

**10.17. Proceedings and Documents.** All proceedings in connection with the transactions contemplated by this Credit Agreement, the other Loan Documents and all other documents incident thereto shall be reasonably satisfactory in substance and in form to the Lenders and to the Administrative Agent and the Administrative Agent's Special Counsel, and the Lenders, the Administrative Agent and such counsel shall have received all information and such counterpart originals or certified or other copies of such documents as the Administrative Agent may reasonably request.

## **11. CONDITIONS TO ALL BORROWINGS.**

The obligations of the Lenders to make any Loan, in each case whether on or after the Closing Date, shall also be subject to the satisfaction of the following conditions precedent:

**11.1. Representations True; No Event of Default.** Each of the representations and warranties of any of the Borrower and its Subsidiaries contained in this Credit Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Credit Agreement shall be true in all material respects as of the date as of which they were made and shall also be true in all material respects at and as of the time of the making of such Loan, with the same effect as if made at and as of that time (except to the extent of changes resulting from transactions contemplated or permitted by this Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default shall have occurred and be continuing.

**11.2. No Legal Impediment.** No change shall have occurred in any law or regulations thereunder or interpretations thereof that in the reasonable opinion of any Lender would make it illegal for such Lender to make such Loan.

## **12. EVENTS OF DEFAULT; ACCELERATION; ETC.**

**12.1. Events of Default and Acceleration.** If any of the following events ("Events of Default" or, if the giving of notice or the lapse of time or both is required, then, prior to such notice or lapse of time, "Defaults") shall occur:

(a) the Borrower shall fail to pay any principal of the Loans when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(b) the Borrower or any of its Subsidiaries shall fail to pay any interest on the Loans, any Fees, or other sums due hereunder or under any of the other Loan Documents, within five (5) Business Days of when the same shall become due and payable, whether at the stated date of maturity

or any accelerated date of maturity or at any other date fixed for payment;

(c) the Borrower shall fail to comply with any of its covenants contained in §7.5.1, the first sentence of §7.6, or §§7.12, 8 or 9;

(d) (i) the Borrower shall fail to comply with any of its covenants contained in §§7.4, 7.5.2-7.5.6, 7.9.1, 7.9.2 or 7.9.3 for fifteen (15) days after written notice of such failure has been given to the Borrower by the Administrative Agent, or (ii) the Borrower or any of its Subsidiaries shall fail to perform any term, covenant or agreement contained herein or in any of the other Loan Documents (other than those specified elsewhere in this §12.1) for thirty (30) days after written notice of such failure has been given to the Borrower by the Administrative Agent;

(e) any representation or warranty of the Borrower or any of its Subsidiaries in this Credit Agreement or any of the other Loan Documents or in any other document or instrument delivered pursuant to or in connection with this Credit Agreement shall prove to have been false in any material respect upon the date when made or deemed to have been made or repeated;

(f) the Borrower or any of its Subsidiaries shall (i) fail to pay at maturity, or within any applicable period of grace, any obligation for borrowed money or credit received or in respect of any Capitalized Leases in an aggregate amount in excess of \$10,000,000, or (ii) fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing borrowed money or credit received or in respect of any Capitalized Leases in an aggregate amount in excess of \$10,000,000 for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof, or any such holder or holders shall rescind or shall have a right to rescind the purchase of any such obligations;

(g) the Borrower or any of its Subsidiaries shall make an assignment for the benefit of creditors, or admit in writing its inability to pay or generally fail to pay its debts as they mature or become due, or shall petition or apply for the appointment of a trustee or other custodian, liquidator or receiver of such Person or of any substantial part of the assets of such Person or shall commence any case or other proceeding relating to such Person under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, or shall take any action to authorize any of the foregoing, or if any such petition or application shall be filed or any such case or other proceeding shall be

commenced against such Person and such Person shall indicate its approval thereof, consent thereto or acquiescence therein or such petition or application shall not have been dismissed within sixty (60) days following the filing thereof;

(h) a decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating the Borrower or any of its Subsidiaries bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order for relief is entered in respect of such Person in an involuntary case under federal bankruptcy laws as now or hereafter constituted;

(i) other than claims asserted by insureds in the ordinary course of business against any Insurance Subsidiary, there shall remain in force, undischarged, unsatisfied and unstayed, for more than thirty (30) days, whether or not consecutive, any final judgment (not bonded or covered by insurance) against the Borrower or any of its Subsidiaries that exceeds \$10,000,000, or together with other outstanding final judgments, undischarged, against such Person exceeds in the aggregate, \$20,000,000;

(j) reserved;

(k) the Borrower engages in any material business activity, except its ownership of the Subsidiaries and its performance from time to time of its obligations under the Material Documents and each other agreement, instrument, or document contemplated hereby, whether or not executed on or before the Closing Date;

(l) if any of the Loan Documents shall be cancelled, terminated, revoked or rescinded or the Administrative Agent's security interests, mortgages or liens in a substantial portion of the Collateral shall cease to be perfected, or shall cease to have the priority contemplated by the Security Documents, in each case otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Lenders, or any action at law, suit or in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of the Borrower or any of its Subsidiaries party thereto or any of their respective stockholders, or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof;

(m) the Borrower or any ERISA Affiliate incurs any liability to the PBGC or a Guaranteed Pension Plan pursuant to Title IV of ERISA in an aggregate amount exceeding \$10,000,000, the Borrower or any ERISA Affiliate is assessed withdrawal liability pursuant to Title IV of ERISA by a Multiemployer Plan requiring aggregate annual payments exceeding \$10,000,000, or any of the following occurs with respect to a Guaranteed Pension Plan: (i) an ERISA Reportable Event, or a failure to make a required installment or other payment (within the meaning of §302(f)(1) of ERISA), provided that the Administrative Agent determines in its reasonable discretion that such event (A) would reasonably be expected to result in liability of the Borrower or any of its Subsidiaries to the PBGC or such Guaranteed Pension Plan in an aggregate amount

exceeding \$10,000,000 and (B) could constitute grounds for the termination of such Guaranteed Pension Plan by the PBGC, for the appointment by the appropriate United States District Court of a trustee to administer such Guaranteed Pension Plan or for the imposition of a lien in favor of such Guaranteed Pension Plan; or (ii) the appointment by a United States District Court of a trustee to administer such Guaranteed Pension Plan; or (iii) the institution by the PBGC of proceedings to terminate such Guaranteed Pension Plan;

(n) the Borrower or any of its Subsidiaries shall be enjoined, restrained or in any way prevented by the order of any Governmental Authority from conducting any material part of its business and such order shall continue in effect for more than thirty (30) days and would have a Material Adverse Effect;

(o) there shall occur any material damage to, or loss, theft or destruction of, any Collateral, whether or not insured, or any strike, lockout, labor dispute, embargo, condemnation, act of God or public enemy, or other casualty, which in any such case causes, for more than thirty (30) consecutive days, the cessation or substantial curtailment of revenue producing activities at any facility of the Borrower or any of its Subsidiaries if such event or circumstance is not covered by business interruption insurance and would have a Material Adverse Effect;

(p) there shall occur (i) the loss, suspension or revocation of any Material Insurance License or any license to sell homeowners insurance or personal passenger automobile insurance or the failure to renew or reissue any Material Insurance License or such license to sell homeowners insurance or personal passenger automobile insurance within ninety (90) days of the expiration thereof, or (ii) the loss, suspension or revocation of, or failure to renew, any other license or permit now held or hereafter acquired by the Borrower or any of its Subsidiaries if such loss, suspension, revocation or failure to renew would have a Material Adverse Effect;

(q) reserved;

(r) during any period of twenty-four (24) consecutive calendar months, Continuing Directors shall cease to constitute a majority of the Board of Directors of the Borrower; or

(s) any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act), directly or indirectly, of thirty percent (30%) or more of the Voting Stock of the Borrower;

then, and in any such event, so long as the same may be continuing, the Administrative Agent may, and upon the request of the Required Lenders shall, by notice in writing to the Borrower declare all amounts owing with respect to this Credit Agreement, the Notes and the other Loan Documents to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby

expressly waived by the Borrower; provided that in the event of any Event of Default specified in §§12.1(g) or 12.1(h), all such amounts shall become immediately due and payable automatically and without any requirement of notice from the Administrative Agent or any Lender.

**12.2. Termination of Commitments.** If any one or more of the Events of Default specified in §12.1(g) or §12.1(h) shall occur, any unused portion of the credit hereunder shall forthwith terminate and each of the Lenders shall be relieved of all further obligations to make Loans to the

Borrower. If any other Event of Default shall have occurred and be continuing, the Administrative Agent may and, upon the request of the Required Lenders, shall, by notice to the Borrower, terminate the unused portion of the credit hereunder, and upon such notice being given such unused portion of the credit hereunder shall terminate immediately and each of the Lenders shall be relieved of all further obligations to make Loans. No termination of the credit hereunder shall relieve the Borrower or any of its Subsidiaries of any of the Obligations.

**12.3. Remedies.** In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the Lenders shall have accelerated the maturity of the Loans pursuant to §12.1, each Lender, if owed any amount with respect to the Loans, may, with the consent of the Required Lenders but not otherwise, proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Credit Agreement and the other Loan Documents or any instrument pursuant to which the Obligations to such Lender are evidenced, including as permitted by applicable law the obtaining of the *ex parte* appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of such Lender. No remedy herein conferred upon any Lender or the Administrative Agent or the holder of any Note is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law.

**12.4. Distribution of Collateral Proceeds.** In the event that, following the occurrence or during the continuance of any Default or Event of Default, the Administrative Agent or any Lender, as the case may be, receives any monies in connection with the enforcement of any of the Security Documents, or otherwise with respect to the realization upon any of the Collateral, such monies shall be distributed for application as follows:

(a) First, to the payment of, or (as the case may be) the reimbursement of the Administrative Agent for or in respect of all reasonable costs, expenses, disbursements and losses which shall have been incurred or sustained by the Administrative Agent in connection with the collection of such monies by the Administrative Agent, for the exercise, protection or enforcement by the Administrative Agent of all or any of the rights, remedies, powers and privileges of the Administrative Agent under this Credit Agreement or any of the other Loan Documents or in respect of the Collateral or in support of any provision of adequate indemnity to the Administrative Agent against any

taxes or liens which by law shall have, or may have, priority over the rights of the Administrative Agent to such monies;

(b) Second, to all other Obligations in such order or preference as the Required Lenders may determine; *provided, however,* that (i) distributions shall be made with respect to each type of Obligation owing to the Lenders, such as interest, principal, fees and expenses, among the Lenders pro rata, (ii) the Administrative Agent may in its discretion make proper allowance to take into account any Obligations not then due and payable, and (iii) no payments by a Subsidiary Guarantor and no proceeds of Collateral of a Subsidiary Guarantor shall be applied to the Excluded Swap Obligations of such Subsidiary Guarantor;

(c) Third, upon payment and satisfaction in full or other provisions for payment in full satisfactory to the Lenders and the Administrative Agent of all of the Obligations, to the payment of any obligations required to be paid pursuant to §9-608(a)(1)(C) or 9 615(a)(3) of the Uniform Commercial Code of the Commonwealth of Massachusetts; and

(d) Fourth, the excess, if any, shall be returned to the Borrower or to such other Persons as are entitled thereto.

### **13. THE ADMINISTRATIVE AGENT.**

#### **13.1. Authorization.**

(a) The Administrative Agent is authorized to take such action on behalf of each of the Lenders and to exercise all such powers as are hereunder and under any of the other Loan Documents and any related documents delegated to the Administrative Agent, together with such powers as are reasonably incident thereto, including the authority, without the necessity of any notice to or further consent of the Lenders, from time to time to take any action with respect to any Collateral or the Security Documents which may be necessary to perfect, maintain perfected or insure the priority of the security interest in and liens upon the Collateral granted pursuant to the Security Documents, *provided* that no duties or responsibilities not expressly assumed herein or therein shall be implied to have been assumed by the Administrative Agent.

(b) The relationship between the Administrative Agent and each of the Lenders is that of an independent contractor. The use of the term "Administrative Agent" is for convenience only and is used to describe, as a form of convention, the independent contractual relationship between the

Administrative Agent and each of the Lenders. Nothing contained in this Credit Agreement nor the other Loan Documents shall be construed to create an agency, trust or other fiduciary relationship between the Administrative Agent and any of the Lenders.

(c) As an independent contractor empowered by the Lenders to exercise certain rights and perform certain duties and responsibilities hereunder and under the other Loan Documents, the Administrative Agent is nevertheless a "representative" of the Lenders, as that term is defined in Article 1 of the Uniform Commercial Code, for

purposes of actions for the benefit of the Lenders and the Administrative Agent with respect to all collateral security and guaranties contemplated by the Loan Documents. Such actions include the designation of the Administrative Agent as "secured party", "mortgagor" or the like on all financing statements and other documents and instruments, whether recorded or otherwise, relating to the attachment, perfection, priority or enforcement of any security interests, mortgages or deeds of trust in collateral security intended to secure the payment or performance of any of the Obligations, all for the benefit of the Lenders and the Administrative Agent.

**13.2. Employees and Administrative Agents.** The Administrative Agent may exercise its powers and execute its duties by or through employees or agents and shall be entitled to take, and to rely on, advice of counsel concerning all matters pertaining to its rights and duties under this Credit Agreement and the other Loan Documents. The Administrative Agent may utilize the services of such Persons as the Administrative Agent in its sole discretion may reasonably determine, and all reasonable fees and expenses of any such Persons shall be paid by the Borrower.

**13.3. No Liability.** Neither the Administrative Agent nor any of its shareholders, directors, officers or employees nor any other Person assisting them in their duties nor any agent or employee thereof, shall be liable for any waiver, consent or approval given or any action taken, or omitted to be taken, in good faith by it or them hereunder or under any of the other Loan Documents, or in connection herewith or therewith, or be responsible for the consequences of any oversight or error of judgment whatsoever, except that the Administrative Agent or such other Person, as the case may be, may be liable for losses due to its willful misconduct or gross negligence.

**13.4. No Representations.**

**13.4.1. General.** The Administrative Agent shall not be responsible for the execution or validity or enforceability of this Credit Agreement, the Notes, any of the other Loan Documents or any instrument at any time constituting, or intended to constitute, collateral security for the Notes, or for the value of any such collateral security or for the validity, enforceability or collectability of any such amounts owing with respect to the Notes, or for any recitals or statements, warranties or representations made herein or in any of the other Loan Documents or in any certificate or instrument hereafter furnished to it by or on behalf of the Borrower or any of its Subsidiaries, or be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any instrument at any time constituting, or intended to constitute, collateral security for the Notes or to inspect any of the properties, books or records of the Borrower or any of its Subsidiaries. The Administrative Agent shall not be bound to ascertain whether any notice, consent, waiver or request delivered to it by the Borrower or any holder of any of the Notes shall have been duly authorized or is true, accurate and complete. The Administrative Agent has not made nor does it now make any representations or warranties, express or implied, nor does it assume any liability to the Lenders, with respect to the credit worthiness or financial conditions of the Borrower or any of its Subsidiaries. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based upon

such information and documents as it has deemed appropriate, made its own credit analysis and decision to enter into this Credit Agreement.

**13.4.2. Closing Documentation, etc.** For purposes of determining compliance with the conditions set forth in §10, each Lender that has executed this Credit Agreement shall be deemed to have consented to, approved or accepted, or to be satisfied with, each document and matter either sent, or made available, by the Administrative Agent to such Lender for consent, approval, acceptance or satisfaction, or required

thereunder to be to be consent to or approved by or acceptable or satisfactory to such Lender, unless an officer of the Administrative Agent active upon the Borrower's account shall have received notice from such Lender prior to the Closing Date specifying such Lender's objection thereto and such objection shall not have been withdrawn by notice to the Administrative Agent to such effect on or prior to the Closing Date.

**13.5. Payments.**

**13.5.1. Payments to Administrative Agent.** A payment by the Borrower to the Administrative Agent hereunder or any of the other Loan Documents for the account of any Lender shall constitute a payment to such Lender. The Administrative Agent agrees promptly to distribute to each Lender such Lender's pro rata share of payments received by the Administrative Agent for the account of the Lenders except as otherwise expressly provided herein or in any of the other Loan Documents.

**13.5.2. Distribution by Administrative Agent.** If in the opinion of the Administrative Agent the distribution of any amount received by it in such capacity hereunder, under the Notes or under any of the other Loan Documents might involve it in liability, it may refrain from making distribution until its right to make distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Administrative Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to the Administrative Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

**13.5.3. Delinquent Lenders.** Notwithstanding anything to the contrary contained in this Credit Agreement or any of the other Loan Documents, any Lender that fails (a) to make available to the Administrative Agent its pro rata share of any Loan or (b) to comply with the provisions of §15.1 with respect to making dispositions and arrangements with the other Lenders, where such Lender's share of any payment received, whether by setoff or otherwise, is in excess of its pro rata share of such payments due and payable to all of the Lenders, in each case as, when and to the full extent required by the provisions of this Credit Agreement, shall be deemed delinquent (a "Delinquent Lender") and shall be deemed a Delinquent Lender until such time as such delinquency is satisfied. A Delinquent Lender shall be deemed to have assigned any and all payments due to it from the Borrower, whether on account of outstanding Loans, interest, fees or otherwise, to the remaining nondelinquent Lenders for application to, and reduction of, their respective pro rata shares of all outstanding Loans. The Delinquent

Lender hereby authorizes the Administrative Agent to distribute such payments to the nondelinquent Lenders in proportion to their respective pro rata shares of all outstanding Loans. A Delinquent Lender shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payments to all outstanding Loans of the nondelinquent Lenders, the Lenders' respective pro rata shares of all outstanding Loans have returned to those in effect immediately prior to such delinquency and without giving effect to the nonpayment causing such delinquency.

**13.6. Holders of Notes.** The Administrative Agent may deem and treat the payee of any Note as the absolute owner or purchaser thereof for all purposes hereof until it shall have been furnished in writing with a different name by such payee or by a subsequent holder, assignee or transferee.

**13.7. Indemnity.** The Lenders ratably agree hereby to indemnify and hold harmless the Administrative Agent and its affiliates from and against any and all claims, actions and suits (whether groundless or otherwise), losses, damages, costs, expenses (including any expenses for which the Administrative Agent or such affiliate has not been reimbursed by the Borrower as required by §15.2), and liabilities of every nature and character arising out of or related to this Credit Agreement, the Notes, or any of the other Loan Documents or the transactions contemplated or evidenced hereby or thereby, or the Administrative Agent's actions taken hereunder or thereunder, except to the extent that any of the same shall be directly caused by the Administrative Agent's willful misconduct or gross negligence.

**13.8. Administrative Agent as Lender.** In its individual capacity, Citizens shall have the same obligations and the same rights, powers and privileges in respect to its Commitment and the Loans made by it, and as the holder of any of the Notes, as it would have were it not also the Administrative Agent.

**13.9. Resignation.** The Administrative Agent may resign at any time by giving sixty (60) days prior written notice thereof to the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent. Unless a Default or Event of Default shall have occurred and be continuing, such successor Administrative Agent shall be reasonably acceptable to the Borrower. If no successor Administrative Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of

the Lenders, appoint a successor Administrative Agent, which shall be a financial institution having a rating of not less than A or its equivalent by S&P. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation, the provisions of this Credit Agreement and the other Loan Documents shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

**13.10. Notification of Defaults and Events of Default.** Each Lender hereby agrees that, upon learning of the existence of a Default or an Event of Default, it shall promptly notify the Administrative Agent thereof. The Administrative Agent hereby agrees that upon receipt of any notice under this §13.10 it shall promptly notify the other Lenders of the existence of such Default or Event of Default.

**13.11. Duties in the Case of Enforcement.** In case one or more Events of Default have occurred and shall be continuing, and whether or not acceleration of the Obligations shall have occurred, the Administrative Agent shall, if (a) so requested by the Required Lenders and (b) the Lenders have provided to the Administrative Agent such additional indemnities and assurances against expenses and liabilities as the Administrative Agent may reasonably request, proceed to enforce the provisions of the Security Documents authorizing the sale or other disposition of all or any part of the Collateral and exercise all or any such other legal and equitable and other rights or remedies as it may have in respect of such Collateral. The Required Lenders may direct the Administrative Agent in writing as to the method and the extent of any such sale or other disposition, the Lenders hereby agreeing to indemnify and hold the Administrative Agent, harmless from all liabilities incurred in respect of all actions taken or omitted in accordance with such directions, provided that the Administrative Agent need not comply with any such direction to the extent that the Administrative Agent reasonably believes the Administrative Agent's compliance with such direction to be unlawful or commercially unreasonable in any applicable jurisdiction.

**14. ASSIGNMENT AND PARTICIPATION.**

**14.1. Conditions to Assignment by Lenders.** Except as provided herein, each Lender may assign to one or more Eligible Assignees, all or a portion of its interests, rights and obligations under this Credit Agreement (including all or a portion of its Commitment Percentage and Commitment and the same portion of the Loans at the time owing to it, the Notes held by it); provided that (a) each of the Administrative Agent and, unless an Event of Default shall have occurred and be continuing, the Borrower shall have given its prior written consent to such assignment, which consent, in the case of the Borrower, will not be unreasonably withheld; except that the consent of the Borrower or the Administrative Agent shall not be required in connection with any assignment by a Lender to (i) an existing Lender or (ii) a Lender Affiliate of such Lender, (b) each assignment (or, in the case of assignments by a Lender to its Lender Affiliates, the aggregate holdings of such Lender and its Lender Affiliates after giving effect to such assignments), shall be in an amount of not less than \$2,500,000 (or such lesser amount as shall constitute the aggregate holdings of such Lender) and (c) the parties to such assignment shall execute and deliver to the Administrative Agent, for recording in the Register (as hereinafter defined), an Assignment and Acceptance, substantially in the form of Exhibit D hereto (an "Assignment and Acceptance"), together with any Notes subject to such assignment. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the execution thereof, (y) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereunder, and

(z) the assigning Lender shall, to the extent provided in such assignment and upon payment to the Administrative Agent of the registration fee referred to in §14.3, be released from its obligations under this Credit Agreement. The Administrative Agent shall provide the Borrower with five (5) Business Days prior written notice of any assignment not requiring the consent of the Borrower.

**14.2. Certain Representations and Warranties; Limitations; Covenants.** By executing and delivering an Assignment and Acceptance, the parties to the assignment thereunder confirm to and agree with each other and the other parties hereto as follows:

(a) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, the assigning Lender makes no representation or warranty, express or implied, and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Credit Agreement, the other Loan Documents or any other instrument or document furnished pursuant hereto or the attachment, perfection or priority of any security interest or mortgage;

(b) the assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower and its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations, or the performance or observance by the Borrower and its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations of any of their obligations under this Credit Agreement or any of the other Loan Documents or any other instrument or document furnished pursuant hereto or thereto;

(c) such assignee confirms that it has received a copy of this Credit Agreement, together with copies of the most recent financial statements referred to in §6.4 and §7.4 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance;

(d) such assignee will, independently and without reliance upon the assigning Lender, the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Credit Agreement;

(e) such assignee represents and warrants that it is an Eligible Assignee and that, on the effective date of such Assignment and Acceptance, the circumstances described in §§4.5, 4.6 and 4.7 hereto are not applicable to such assignee;

(f) such assignee appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Credit Agreement and the other Loan Documents as are delegated to the Administrative Agent by the terms hereof or thereof, together with such powers as are reasonably incidental thereto;

(g) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Credit Agreement are required to be performed by it as a Lender;

(h) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; and

(i) such assignee acknowledges that it has complied with the provisions of §4.2.3 to the extent applicable.

**14.3. Register.** The Administrative Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register or similar list (the "Register") for the recordation of the names and addresses of the Lenders and the Commitment Percentage of, and principal amount of the Loans owing to the Lenders from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Credit Agreement. The Register shall be available for inspection by the Borrower and the Lenders at any reasonable time and from time to time upon reasonable prior notice. Upon each such recordation, the assigning Lender (unless such assignment is to an Affiliate of such Lender) agrees to pay to the Administrative Agent a registration fee in the sum of \$3,500.

**14.4. New Notes.** Upon its receipt of an Assignment and Acceptance executed by the parties to such assignment, together with each Note subject to such assignment, the Administrative Agent shall (a) record the information contained therein in the Register, and (b) give prompt notice thereof to the Borrower and the Lenders (other than the assigning Lender). Within five (5) Business Days after receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent, in exchange for each surrendered Note, a new Note to the order of such Eligible Assignee in an amount equal to the amount assumed by such Eligible Assignee pursuant to such Assignment and Acceptance and, if the assigning Lender has retained some portion of its obligations hereunder, a new Note to the order of the assigning Lender in an amount equal to the amount retained by it hereunder. Such new Notes shall provide that they are replacements for the surrendered Notes, shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of the assigned Notes. Within five (5) days of issuance of any new Notes pursuant to this §14.4, the Borrower shall deliver upon the request of the assignee Lender an opinion of counsel, addressed to the Lenders and the Administrative

Agent, relating to the due authorization, execution and delivery of such new Notes and the legality, validity and binding effect thereof, in form and substance reasonably satisfactory to the Lenders. The surrendered Notes shall be cancelled and returned to the Borrower.

**14.5. Participations** Each Lender may sell participations to one or more Lenders or other entities in all or a portion of such Lender's rights and obligations under this Credit Agreement and the other Loan Documents; provided that (a) each such

participation shall be in an amount of not less than \$2,500,000, (b) any such sale or participation shall not affect the rights and duties of the selling Lender hereunder to the Borrower and (c) the only rights granted to the participant pursuant to such participation arrangements with respect to waivers, amendments or modifications of the Loan Documents shall be the rights to approve waivers, amendments or modifications that would reduce the principal of or the interest rate on any Loans, extend the term or increase the amount of the Commitment of such Lender as it relates to such participant, reduce the amount of any Commitment Fee to which such participant is entitled or extend any regularly scheduled payment date for principal or interest.

**14.6. Assignee or Participant Affiliated with the Borrower** If any assignee Lender is an Affiliate of the Borrower, then any such assignee Lender shall have no right to vote as a Lender hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or other modifications to any of the Loan Documents or for purposes of making requests to the Administrative Agent pursuant to §12.1 or §12.2, and the determination of the Required Lenders shall for all purposes of this Credit Agreement and the other Loan Documents be made without regard to such assignee Lender's interest in any of the Loans. If any Lender sells a participating interest in any of the Loans to a participant, and such participant is the Borrower or an Affiliate of the Borrower, then such transferor Lender shall promptly notify the Administrative Agent of the sale of such participation. A transferor Lender shall have no right to vote as a Lender hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or modifications to any of the Loan Documents or for purposes of making requests to the Administrative Agent pursuant to §12.1 or §12.2 to the extent that such participation is beneficially owned by the Borrower or any Affiliate of the Borrower, and the determination of the Required Lenders shall for all purposes of this Credit Agreement and the other Loan Documents be made without regard to the interest of such transferor Lender in the Loans to the extent of such participation.

**14.7. Miscellaneous Assignment Provisions** Any assigning Lender shall retain its rights to be indemnified pursuant to §15.3 with respect to any claims or actions arising prior to the date of such assignment. If any assignee Lender is not incorporated under the laws of the United States of America or any state thereof, it shall, prior to the date on which any interest or fees are payable hereunder or under any of the Loan Documents for its account deliver to the Borrower and the Administrative Agent certification as to its exemption from deduction of withholding of any United States federal income taxes. Anything contained in this §14 to the contrary notwithstanding, any Lender may at any time pledge or assign a security interest in all or any portion of its interest and rights under this Credit Agreement (including all or any portion of its Notes) to secure obligations of such Lender, including any pledge or assignment to secure obligations to (a) any of the twelve Federal Reserve Banks organized under §4 of the Federal Reserve Act, 12 U.S.C. §341 and (b) with respect to any Lender that is a fund that invests in bank loans, to any lender or any trustee for, or any other representative of, holders of obligations owed or securities issued by such fund as security for such obligations or securities or any institutional custodian for such fund or for such lender. Any foreclosure or similar action by any Person in respect of such pledge or assignment

shall be subject to the other provisions of this §14. No such pledge or the enforcement thereof shall release the pledgor Lender from its obligations hereunder or under any of the other Loan Documents, provide any voting rights hereunder to the pledgee thereof, or affect any rights or obligations of the Borrower or Administrative Agent hereunder.

**14.8. Assignment by Borrower** The Borrower shall not assign or transfer any of its rights or obligations under any of the Loan Documents without the prior written consent of each of the Lenders.

**15. PROVISIONS OF GENERAL APPLICATIONS.**

**15.1. Setoff.** The Borrower hereby grants to the Administrative Agent and each of the Lenders a continuing lien, security interest and right of setoff as security for all liabilities and obligations to the Administrative Agent and each Lender, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of the Administrative Agent or such Lender or any Lender Affiliate and their successors and assigns or in transit to any of them. Regardless of the adequacy of any collateral, if any of the Obligations are due and payable and have not been paid or any Event of Default shall have occurred and be continuing, any deposits or other sums credited by or due from any of the Lenders to the Borrower and any securities or other property of the Borrower in the possession of such Lender may be applied to or set off by such Lender against the payment of Obligations and any and all other liabilities, direct, or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of the Borrower to such Lender. **ANY AND ALL RIGHTS TO REQUIRE ANY LENDER TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF THE BORROWER ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.** Each of the Lenders agree with each other Lender that (a) if an amount to be set off is to be applied to Indebtedness of the Borrower to such Lender, other than Indebtedness evidenced by the Notes held by such Lender owed to such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by all such Notes held by such Lender owed to such Lender, and (b) if such Lender shall receive from the Borrower, whether by voluntary payment, exercise of the right of setoff, counterclaim, cross action, enforcement of the claim evidenced by the Notes held by such Lender by proceedings against the Borrower at law or in equity or by proof thereof in bankruptcy, reorganization, liquidation, receivership or similar proceedings, or otherwise, and shall retain and apply to the payment of the Note or Notes held by such Lender any amount in excess of its ratable portion of the payments received by all of the Lenders with respect to the Notes held by all of the Lenders, such Lender will make such disposition and arrangements with the other Lenders with respect to such excess, either by way of distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Lender receiving in respect of the Notes held by it, its proportionate payment as contemplated by this Credit Agreement; provided that if all or any part of such excess payment is thereafter recovered from such Lender, such disposition and arrangements

shall be rescinded and the amount restored to the extent of such recovery, but without interest.

**15.2. Expenses.** The Borrower agrees to pay (a) the reasonable and documented costs of producing and reproducing this Credit Agreement, the other Loan Documents and the other agreements and instruments mentioned herein, (b) any taxes (including any interest and penalties in respect thereto) payable by the Administrative Agent or any of the Lenders (other than taxes based upon the Administrative Agent's or any Lender's net income) on or with respect to the transactions contemplated by this Credit Agreement (the Borrower hereby agreeing to indemnify the Administrative Agent and each Lender with respect thereto), (c) the reasonable and documented fees, expenses and disbursements of the Administrative Agent's Special Counsel or any local counsel to the Administrative Agent incurred in connection with the preparation, syndication, administration or interpretation of the Loan Documents and other instruments mentioned herein, each closing hereunder, any amendments, modifications, approvals, consents or waivers hereto or hereunder, or the cancellation of any Loan Document upon payment in full in cash of all of the Obligations or pursuant to any terms of such Loan Document for providing for such cancellation, (d) the reasonable and documented fees, expenses and disbursements of the Administrative Agent or any of its affiliates incurred by the Administrative Agent or such affiliate in connection with the preparation, syndication, administration or interpretation of the Loan Documents and other instruments mentioned herein, including all appraisal and examination charges, (e) all reasonable and documented out-of-pocket expenses (including without limitation reasonable attorneys' fees and costs, which attorneys may be employees of any Lender or the Administrative Agent, and reasonable consulting, accounting, appraisal, investment banking and similar professional fees and charges) incurred by any Lender or the Administrative Agent in connection with (i) the enforcement of or preservation of rights under any of the Loan Documents against the Borrower or any of its Subsidiaries or the administration thereof after the occurrence of a Default or Event of Default and (ii) any litigation, proceeding or dispute whether arising hereunder or otherwise, in any way related to any Lender's or the Administrative Agent's relationship with the Borrower or any of its Subsidiaries and (f) all reasonable and documented fees, expenses and disbursements of any Lender or the Administrative Agent incurred in connection with UCC searches, UCC filings, intellectual property searches, intellectual property filings or mortgage recordings; provided, that the aggregate of the expenses for which the Borrower shall be responsible under clauses (a) and (d) of this Section 15.2 shall not exceed \$5,000. The covenants contained in this §15.2 shall survive payment or satisfaction in full of all other obligations.

**15.3. Indemnification.** The Borrower agrees to indemnify and hold harmless the Administrative Agent, its affiliates and the Lenders from and against any and all claims, actions and suits whether groundless or otherwise, and from and against any and all liabilities, losses, damages and

expenses of every nature and character arising out of this Credit Agreement or any of the other Loan Documents or the transactions contemplated hereby, including, without limitation, (a) any actual or proposed use by the Borrower or any of its Subsidiaries of the proceeds of any of the Loans, (b) the reversal or withdrawal of any provisional credits granted by the Administrative Agent upon the

transfer of funds from lock box, bank agency, concentration accounts or otherwise under any cash management arrangements with the Borrower or any Subsidiary or in connection with the provisional honoring of funds transfers, checks or other items, (c) any actual or alleged infringement of any patent, copyright, trademark, service mark or similar right of the Borrower or any of its Subsidiaries comprised in the Collateral, (d) the Borrower or any of its Subsidiaries entering into or performing this Credit Agreement or any of the other Loan Documents or (e) with respect to the Borrower and its Subsidiaries and their respective properties and assets, the violation of any Environmental Law, the presence, disposal, escape, seepage, leakage, spillage, discharge, emission, release or threatened release of any Hazardous Substances or any action, suit, proceeding or investigation brought or threatened with respect to any Hazardous Substances (including, but not limited to, claims with respect to wrongful death, personal injury or damage to property), in each case including, without limitation, the reasonable and invoiced fees and disbursements of counsel and allocated costs of internal counsel incurred in connection with any such investigation, litigation or other proceeding but excluding any of the foregoing which result from the gross negligence or willful misconduct of the indemnified party. In litigation, or the preparation therefor, the Lenders and the Administrative Agent and its affiliates shall be entitled to select their own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable and invoiced fees and expenses of such counsel. If, and to the extent that the obligations of the Borrower under this §15.3 are unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment in satisfaction of such obligations which is permissible under applicable law. The covenants contained in this §15.3 shall survive payment or satisfaction in full of all other Obligations.

**15.4. Treatment of Certain Confidential Information.**

**15.4.1. Confidentiality.** Each of the Lenders and the Administrative Agent agrees, on behalf of itself and each of its affiliates, directors, officers, employees and representatives, to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of the same nature and in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower or any of its Subsidiaries pursuant to this Credit Agreement or the other Loan Documents, provided that nothing herein shall limit the disclosure of any such information (a) after such information shall have become public other than through a violation of this §15.4, or becomes available to any of the Lenders or the Administrative Agent on a nonconfidential basis from a source other than the Borrower, (b) to the extent required by statute, rule, regulation or judicial process, (c) to counsel for any of the Lenders or the Administrative Agent, (d) to bank examiners or any other regulatory authority having jurisdiction over any Lender or the Administrative Agent, or to auditors or accountants, (e) to the Administrative Agent, any Lender or any Financial Affiliate, (f) in connection with any litigation to which any one or more of the Lenders, the Administrative Agent or any Financial Affiliate is a party, or in connection with the enforcement of rights or remedies hereunder or under any other Loan Document, (g) to a Lender Affiliate or a Subsidiary or affiliate of the Administrative Agent, (h) to any actual or prospective assignee or participant or any actual or prospective counterparty (or its advisors) to any swap or derivative transactions referenced to credit or other risks

or events arising under this Credit Agreement or any other Loan Document so long as such assignee, participant or counterparty, as the case may be, agrees to be bound by the provisions of this §15.4 or (i) with the consent of the Borrower. Neither the Administrative Agent nor any Lender shall disclose such non-public information to any competitor of the Borrower or any of its Subsidiaries, nor will the Administrative Agent or any Lender utilize, or permit any Lender Affiliate or Financial Affiliate to utilize, such non-public information in connection with line of business which competes with the Borrower or any of its Subsidiaries. Moreover, subject to the prior written consent of the Borrower each of the Administrative Agent, the Lenders and any Financial Affiliate is hereby expressly permitted by the Borrower to refer to any of the Borrower and its Subsidiaries in connection with any advertising, promotion or marketing undertaken by the Administrative Agent, such Lender or such Financial Affiliate and, for such purpose and after obtaining any such consent, the Administrative Agent, such Lender or such Financial Affiliate may utilize any trade name, trademark, logo or other distinctive symbol associated with the Borrower or any of its Subsidiaries or any of their businesses.

**15.4.2. Prior Notification.** Unless specifically prohibited by applicable law or court order, each of the Lenders and the Administrative Agent shall, prior to disclosure thereof, notify the Borrower of any request for disclosure of any non-public information referred to in §15.4.1 by any governmental agency or representative thereof (other than any such request in connection with an examination of the financial condition of such Lender by such governmental agency) or pursuant to legal process.

**15.4.3. Other.** In no event shall any Lender or the Administrative Agent be obligated or required to return any materials furnished to it or any Financial Affiliate by the Borrower or any of its Subsidiaries. The obligations of each Lender under this §15.4 shall supersede and replace the obligations of such Lender under any confidentiality letter in respect of this financing signed and delivered by such Lender to the Borrower prior to the date hereof and shall be binding upon any assignee of, or purchaser of any participation in, any interest in any of the Loans from any Lender.

**15.5. Survival of Covenants, Etc.** All covenants, agreements, representations and warranties made herein, in the Notes, in any of the other Loan Documents or in any documents or other papers delivered by or on behalf of the Borrower or any of its Subsidiaries pursuant hereto shall be deemed to have been relied upon by the Lenders and the Administrative Agent, notwithstanding any investigation heretofore or hereafter made by any of them, and shall survive the making by the Lenders of any of the Loans as herein contemplated, and shall continue in full force and effect so long as any amount due under this Credit Agreement or the Notes or any of the other Loan Documents remains outstanding or any Lender has any obligation to make any Loans and for such further time as may be otherwise expressly specified in this Credit Agreement. All statements contained in any certificate or other paper delivered to any Lender or the Administrative Agent at any time by or on behalf of the Borrower or any of its Subsidiaries pursuant hereto or in connection with the transactions contemplated hereby shall constitute representations and warranties by the Borrower or such Subsidiary hereunder.

**15.6. Notices.** Except as otherwise expressly provided in this Credit Agreement, all notices and other communications made or required to be given pursuant to this Credit Agreement or the Notes shall be in writing and shall be delivered in hand, mailed by United States registered or certified first class mail, postage prepaid, sent by overnight courier, or sent by facsimile and confirmed by delivery via courier or postal service, addressed as follows:

- (a) if to the Borrower, at 20 Custom House Street, Boston, Massachusetts 02110, Attention: William J. Begley, Jr., or at such other address for notice as the Borrower shall last have furnished in writing to the Person giving the notice;
- (b) if to the Administrative Agent, at 28 State Street, 15th Floor, Boston, MA 02109, Attention: Dan Bernard, or such other address for the notice as the Administrative Agent shall have furnished in writing to the Person giving the notice; and
- (c) if to any Lender, at such Lender's address set forth on Schedule 1 hereto, or such other address for notice as such Lender shall have last furnished in writing to the Person giving the notice.

Any such notice or demand shall be deemed to have been duly given or made and to have become effective (i) if delivered by hand, overnight courier or facsimile to a responsible officer of the party to which it is directed, at the time of the receipt thereof by such officer or the confirmed sending of such facsimile and (ii) if sent by registered or certified first-class mail, postage prepaid, on the third Business Day following the mailing thereof.

**15.7. Governing Law.** THIS CREDIT AGREEMENT AND, EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED THEREIN, EACH OF THE OTHER LOAN DOCUMENTS ARE CONTRACTS UNDER THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF SAID COMMONWEALTH OF MASSACHUSETTS (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). THE BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER BY MAIL AT THE ADDRESS SPECIFIED IN §15.6. THE BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

**15.8. Headings.** The captions in this Credit Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

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**15.9. Counterparts.** This Credit Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when executed and delivered shall be an original, and all of which together shall constitute one instrument. In proving this Credit Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought. Delivery by facsimile by any of the parties hereto of an executed counterpart hereof or of any amendment or waiver hereto shall be as effective as an original executed counterpart hereof or of such amendment or waiver and shall be considered a representation that an original executed counterpart hereof or such amendment or waiver, as the case may be, will be delivered.

**15.10. Entire Agreement, Etc.** The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated hereby. Neither this Credit Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in §15.12.

**15.11. Waiver of Jury Trial.** THE BORROWER HEREBY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS CREDIT AGREEMENT, THE NOTES OR ANY OF THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF THE ADMINISTRATIVE AGENT OR ANY LENDER RELATING TO THE ADMINISTRATION OF THE LOANS OR ENFORCEMENT OF THE LOAN DOCUMENTS AND AGREES THAT IT WILL NOT SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. Except as prohibited by law, the Borrower hereby waives any right it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Borrower (a) certifies that no representative, agent or attorney of any Lender or the Administrative Agent has represented, expressly or otherwise, that such Lender or the Administrative Agent would not, in the event of litigation, seek to enforce the foregoing waivers and (b) acknowledges that the Administrative Agent and the Lenders have been induced to enter into this Credit Agreement, the other Loan Documents to which it is a party by, among other things, the waivers and certifications contained herein.

**15.12. Consents, Amendments, Waivers, Etc.** Any consent or approval required or permitted by this Credit Agreement to be given by the Lenders may be given, and any term of this Credit Agreement, the other Loan Documents or any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrower or any of its Subsidiaries of any terms of this Credit Agreement, the other Loan Documents or such other instrument or the continuance of any

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Default or Event of Default may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Borrower and the written consent of the Required Lenders. Notwithstanding the foregoing, no amendment, modification or waiver shall:

- (a) without the written consent of the Borrower and each Lender affected thereby:
  - (i) reduce or forgive the principal amount of any Loans, or reduce the rate of interest on the Notes or the amount of the Commitment Fee (other than interest accruing pursuant to §4.10.2 following the effective date of any waiver by the Required Lenders of the Default or Event of Default relating thereto);
  - (ii) increase the amount of such Lender's Commitment or extend the expiration date of such Lender's Commitment;
  - (iii) postpone or extend the Maturity Date or any other regularly scheduled dates for payments of principal of, or interest on, the Loans or any Fees or other amounts payable to such Lender (it being understood that (A) a waiver of the application of the default rate of interest pursuant to §4.10.2, (B) any vote to rescind (i) any acceleration made pursuant to §12.1 of amounts owing with respect to the Loans and other Obligations or (ii) for the avoidance of doubt, any related termination of Commitments pursuant to §12.2 and (C) any modifications

of the provisions relating to amounts, timing or application of prepayments of Loans and other Obligations, shall require only the approval of the Required Lenders); and

(iv) other than pursuant to a transaction permitted by the terms of this Credit Agreement or any other Loan Document, release all or substantially all of the Collateral or release any of the Subsidiary Guarantors from their guaranty obligations under the Subsidiary Guaranty (excluding, if the Borrower or any Subsidiary of a Borrower becomes a debtor under the federal Bankruptcy Code, the release of "cash collateral", as defined in Section 363(a) of the federal Bankruptcy Code pursuant to a cash collateral stipulation with the debtor approved by the Required Lenders);

- (b) without the written consent of all of the Lenders, amend or waive this §15.12 or the definition of Required Lenders; or
- (c) without the written consent of the Administrative Agent, amend or waive §13 or any other provision applicable to the Administrative Agent.

No waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon. No course of dealing or delay or omission on the part of the Administrative Agent or any Lender in exercising any right shall operate as a waiver thereof or otherwise be prejudicial thereto. No notice to or demand upon the Borrower shall entitle the Borrower to other or further notice or demand in similar or other circumstances.

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If in connection with any proposed change, waiver, discharge or termination to any of the provisions of this Credit Agreement as contemplated by this §15.12 (other than with respect to increasing the amount of the applicable Commitments of any of the Lenders), the consent of the Required Lenders is obtained, but the consent of one or more other Lenders whose consent is required for such action is not obtained, then the Borrower shall have the right to replace each such non-consenting Lender or Lenders with one or more Replacement Lenders pursuant to and in accordance with the provisions of §4.11 so long as at the time of such replacement, each such Replacement Lender consents to the proposed change, waiver, discharge or termination and the other applicable provisions of §4.11 with respect thereto are complied with in connection with such replacement.

**15.13. Severability.** The provisions of this Credit Agreement are severable and if any one clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Credit Agreement in any jurisdiction.

*[Remainder of page intentionally left blank]*

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IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement as a sealed instrument as of the date first set forth above.

**SAFETY INSURANCE GROUP, INC.,**  
a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CITIZENS BANK, N.A., as a**  
Lender and as Administrative Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_

**SCHEDULE 1**

<u>Lender</u>	<u>Commitment</u>	<u>Commitment Percentage</u>
Citizens BANK, N.A. 28 State Street, 15th Floor Boston, MA 02109 Attn: Don Wright Phone: (917) 374-7430	\$30,000,000.00	100%

**Exhibit 31.1****CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, George M. Murphy, Chief Executive Officer of Safety Insurance Group, Inc. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Safety Insurance Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GEORGE M. MURPHY

George M. Murphy

*President, Chief Executive Officer and Director*

*(Principal Executive Officer)*

August 4, November 3, 2023

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**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Christopher T. Whitford, Chief Financial Officer of Safety Insurance Group, Inc. certify that:

- I have reviewed this quarterly report on Form 10-Q of Safety Insurance Group, Inc.;
- Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
- The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHRISTOPHER T. WHITFORD  
Christopher T. Whitford  
*Vice President, Chief Financial Officer and Secretary  
(Principal Financial Officer)*

August 4, November 3, 2023

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**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report of Safety Insurance Group, Inc. (the "Company") on Form 10-Q for the period ending **June 30, 2023** **September 30, 2023** as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), I, George M. Murphy, President, Chief Executive Officer and Director of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

/s/ GEORGE M. MURPHY  
George M. Murphy  
*President, Chief Executive Officer and Director  
(Principal Executive Officer)*

August 4, November 3, 2023

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**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report of Safety Insurance Group, Inc. (the "Company") on Form 10-Q for the period ending **June 30, 2023** **September 30, 2023** as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher T. Whitford, Vice President, Chief Financial Officer and Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

/s/ CHRISTOPHER T. WHITFORD  
Christopher T. Whitford  
*Vice President, Chief Financial Officer and Secretary*  
*(Principal Financial Officer)*

August 4, November 3, 2023

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#### DISCLAIMER

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