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 March 31, 2024
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	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.01 per share	SAFT	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 May 2, 2024 there were 14,836,565 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)

	March 31, 2024 (Unaudited)	December 31, 2023
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (amortized cost: $1,119,116 and $1,120,682, allowance for expected credit losses of $1,349 and $1,208)	$ 1,043,556	$ 1,052,145
Equity securities, at fair value (cost: $192,721 and $221,809)	216,598	238,022
Other invested assets	138,270	133,946
Total investments	1,398,424	1,424,113
Cash and cash equivalents	30,801	38,152
Accounts receivable, net of allowance for expected credit losses of $824 and $1,053	269,491	256,687
Receivable for securities sold	322	124
Accrued investment income	8,012	7,261
Taxes recoverable	—	623
Receivable from reinsurers related to paid loss and loss adjustment expenses	15,359	13,129
Receivable from reinsurers related to unpaid loss and loss adjustment expenses	121,504	112,623
Ceded unearned premiums	34,029	32,346
Deferred policy acquisition costs	93,711	91,917
Deferred income taxes	14,667	12,150
Equity and deposits in pools	36,410	35,247
Operating lease right-of-use-assets	19,078	19,756
Goodwill	17,093	17,093
Intangible assets	7,340	7,551
Other assets	27,198	25,232
Total assets	$ 2,093,439	$ 2,094,004
Liabilities		
Loss and loss adjustment expense reserves	$ 603,796	$ 603,081
Unearned premium reserves	544,075	528,150
Accounts payable and accrued liabilities	60,615	64,235
Payable for securities purchased	6,434	1,863
Payable to reinsurers	12,496	15,941
Taxes payable	780	—
Short-term debt	30,000	—
Long-term debt	—	30,000
Operating lease liabilities	19,078	19,756
Other liabilities	9,094	26,711
Total liabilities	1,286,368	1,289,737
Commitments and contingencies (Note 8)		
Shareholders' equity		
Common stock: $0.01 par value; 30,000,000 shares authorized; 17,994,242 and 17,949,484 shares issued	180	179
Additional paid-in capital	227,820	226,380
Accumulated other comprehensive loss, net of taxes	(58,626)	(53,191)
Retained earnings	787,990	781,192
Treasury stock, at cost: 3,157,577 and 3,157,577 shares	(150,293)	(150,293)
Total shareholders' equity	807,071	804,267
Total liabilities and shareholders' equity	$ 2,093,439	$ 2,094,004

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

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Net earned premiums	**$ 236,053**	$ 191,735
Net investment income	**15,231**	13,654
Earnings from partnership investments	**1,772**	2,166
Net realized gains on investments	**492**	733
Change in net unrealized gains on equity securities	**7,665**	770
Credit loss expense	**(142)**	(922)
Commission income	**1,808**	1,483
Finance and other service income	**5,354**	4,140
Total revenue	**268,233**	213,759
Losses and loss adjustment expenses	**168,399**	167,153
Underwriting, operating and related expenses	**72,267**	60,033
Other expense	**1,837**	1,670
Interest expense	**123**	210
Total expenses	**242,626**	229,066
Income (loss) before income taxes	**25,607**	(15,307)
Income tax expense (benefit)	**5,529**	(2,970)
Net income (loss)	**$ 20,078**	$ (12,337)
Earnings (loss) per weighted average common share:		
Basic	**$ 1.36**	$ (0.84)
Diluted	**$ 1.36**	$ (0.84)
Cash dividends paid per common share	**$ 0.90**	$ 0.90
Number of shares used in computing earnings per share:		
Basic	**14,667,107**	14,682,507
Diluted	**14,696,590**	14,761,861

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

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

	Three Months Ended March 31,	
	2024	**2023**
Net income (loss)	**$ 20,078**	$ (12,337)
Other comprehensive loss, net of tax:		
Unrealized holding (losses) gains during the period, net of income tax benefit of ($1,341) and $4,209.	**(5,046)**	15,834
Reclassification adjustment for net realized gains on investments included in net income, net of income tax benefit of ($103) and ($154).	**(389)**	(579)
Other comprehensive income (loss), net of tax:	**(5,435)**	15,255
Comprehensive income	**$ 14,643**	$ 2,918

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

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Retained Earnings	Treasury Stock	Total 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)
Balance at March 31, 2023	$ 179	$ 223,304	$ (65,283)	$ 789,725	$ (145,000)	$ 802,925

	Common	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Income (Loss), Net of Taxes**	**Retained Earnings**	**Treasury Stock**	**Total Shareholders' Equity**
Balance at December 31, 2023	**$ 179**	**$ 226,380**	**$ (53,191)**	**$ 781,192**	**$ (150,293)**	**$ 804,267**
Net income, January 1 to March 31, 2024	**—**	**—**	**—**	**20,078**	**—**	**20,078**
Unrealized gains on securities available for sale, net of deferred federal income taxes	**—**	**—**	**(5,435)**	**—**	**—**	**(5,435)**
Restricted share awards issued	**—**	**599**	**—**	**—**	**—**	**599**
Recognition of employee share-based compensation, net of deferred federal income taxes	**1**	**841**	**—**	**—**	**—**	**842**
Dividends paid and accrued	**—**	**—**	**—**	**(13,280)**	**—**	**(13,280)**
Balance at March 31, 2024	**$ 180**	**$ 227,820**	**$ (58,626)**	**$ 787,990**	**$ (150,293)**	**$ 807,071**

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

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

	Three Months Ended March 31,	
	2024	**2023**
Cash flows from operating activities:		
Net income (loss)	**$ 20,078**	$ (12,337)
Adjustments to reconcile net income to net cash used for operating activities:		
Investment amortization, net	**(41)**	(69)
Fixed asset depreciation, net	**2,260**	1,686
Stock based compensation	**1,440**	1,255
Credit for deferred income taxes	**(1,072)**	(697)
Net realized gains on investments	**(492)**	(733)
Credit loss expense	**142**	922
Earnings from partnership investments	**(226)**	(2,166)
Change in net unrealized gains on equity securities	**(7,665)**	(770)
Changes in assets and liabilities:		
Accounts receivable, net	**(12,804)**	(13,018)
Accrued investment income	**(751)**	496
Receivable from reinsurers	**(11,111)**	(542)
Ceded unearned premiums	**(1,683)**	(465)
Deferred policy acquisition costs	**(1,794)**	(1,337)
Taxes recoverable/payable	**1,403**	(6,564)
Other assets	**(2,112)**	434
Loss and loss adjustment expense reserves	**715**	20,541
Unearned premium reserves	**15,925**	11,615
Accounts payable and accrued liabilities	**(3,285)**	(20,123)
Payable to reinsurers	**(3,445)**	(1,549)
Other liabilities	**(16,617)**	10,529
Net cash used for operating activities	**(21,135)**	(12,892)
Cash flows from investing activities:		
Fixed maturities purchased	**(30,825)**	(22,528)
Short term investments purchased	**—**	(79)
Equity securities purchased	**(13,720)**	(12,282)
Other invested assets purchased	**(5,654)**	(8,482)
Proceeds from sales and paydowns of fixed maturities	**25,500**	36,818
Proceeds from maturities, redemptions, and calls of fixed maturities	**11,147**	3,132
Proceed from sales of equity securities	**43,435**	8,310
Proceeds from other invested assets redeemed	**1,583**	2,301
Acquisition, net of cash received	**(1,000)**	—
Fixed assets purchased	**(3,067)**	(535)
Net cash provided by investing activities	**27,399**	6,655
Cash flows from financing activities:		
Proceeds from FHLB loan	**—**	10,000
Dividends paid to shareholders	**(13,615)**	(13,747)
Net cash used for financing activities	**(13,615)**	(3,747)
Net increase (decrease) in cash and cash equivalents	**(7,351)**	(9,984)
Cash and cash equivalents at beginning of year	**38,152**	25,300
Cash and cash equivalents at end of period	**$ 30,801**	$ 15,316

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

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. ("SNIA"), and Safety Management Corporation ("SMC"), which is SNIA's holding company. All intercompany transactions, including commission income and other expense, have been eliminated. Eliminated commission income totaled $239 and $180 for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, fiduciary assets held by SNIA were immaterial and less than $200.

The financial information for the three months ended March 31, 2024 and 2023 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, 2023 is derived from the audited consolidated financial statements included in the Company's 2023 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 28, 2024.

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 2023 Annual Report on Form 10-K filed with the SEC on February 28, 2024.

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").

2. Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.* This ASU updated reportable segment disclosures primarily through enhanced disclosures about significant segment expenses. This ASU does not change how a Company identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments. This ASU is effective for fiscal years starting January 1, 2024, and for interim periods starting January 1, 2025, and will be applied on a retrospective basis. The ASU will not have a material impact on the Company's consolidated financial position, results of operations or cash flows, but the ASU will require additional disclosures to our 2024 annual and 2025 interim consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* This ASU updated the required income tax disclosures to include disclosure of income taxes paid disaggregated by jurisdiction and greater disaggregation of information in the required rate reconciliation. This ASU is effective for fiscal years starting January 1, 2025, and will be applied on a prospective basis. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

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 March 31,	
	2024	**2023**
Earnings attributable to common shareholders - basic and diluted:		
Net income (loss) from continuing operations	**$ 20,078**	$ (12,337)
Allocation of income for participating shares	**(88)**	—
Net income (loss) from continuing operations attributed to common shareholders	**$ 19,990**	$ (12,337)
Earnings per share denominator - basic and diluted		
Total weighted average common shares outstanding, including participating shares	**14,731,713**	14,748,357
Less: weighted average participating shares	**(64,606)**	(65,850)
Basic earnings per share denominator	**14,667,107**	14,682,507
Common equivalent shares- non-vested performance stock grants	**29,483**	79,354
Diluted earnings per share denominator	**14,696,590**	14,761,861
Basic earnings per share	**$ 1.36**	$ (0.84)
Diluted earnings per share	**$ 1.36**	$ (0.84)
Undistributed earnings attributable to common shareholders - basic and diluted:		
Net income (loss) from continuing operations attributable to common shareholders -Basic	**$ 1.36**	**$** (0.84)
Dividends declared	**(0.90)**	(0.90)
Undistributed earnings	**$ 0.46**	**$** (1.74)
Net income from continuing operations attributable to common shareholders -Diluted	**$ 1.36**	**$** (0.84)
Dividends declared	**(0.90)**	(0.90)
Undistributed earnings	**$ 0.46**	**$** (1.74)

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. As a result of the net loss for the three months ended March 31, 2023, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share, since the inclusion of weighted average participating shares and common equivalent shares-non-vested performance stock grants would have been antidilutive to the (loss) earnings per share calculation. There were no anti-dilutive shares related to non-vested performance stock grants for the three months ended March 31, 2024 and 2023, respectively.

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 increased 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 March 31, 2024, there were 366,422 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.

The following table summarizes restricted stock activity under the Amended 2018 Plan during the three months ended March 31, 2024 assuming a target payout for the 2024 performance-based shares.

	Shares Under Restriction	Weighted Average Fair Value	Performance-based Shares Under Restriction	Weighted Average Fair Value
Outstanding at beginning of year	66,929	$ 81.58	78,991	$ 81.40
Granted	38,221	85.61	25,390 (1)	85.61
Vested and unrestricted	(38,686)	82.03	(13,912)	79.27
Forfeited	(1,784)	80.11	(17,169)	79.91
Outstanding at end of period	64,680	$ 83.68	73,300	$ 83.62

(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 March 31, 2024, there was $ 7,776 of unrecognized compensation expense related to non-vested restricted stock awards that is expected to be recognized over a weighted average period of 1.9 years. The total fair value of the shares that were vested and unrestricted during the three months ended March 31, 2024 and 2023 was $4,276 and $5,359, respectively. For the three months ended March 31, 2024 and 2023, the Company recorded compensation expense related to restricted stock of $1,138 and $991, net of income tax benefits of $ 302 and $264, 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 March 31, 2024				
	Cost or Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses (3)	Estimated Fair Value
U.S. Treasury securities	$ 2,420	$ —	$ 4	$ (122)	$ 2,302
Obligations of states and political subdivisions	38,576	—	202	(2,393)	36,385
Residential mortgage-backed securities (1)	266,625	—	982	(25,445)	242,162
Commercial mortgage-backed securities	150,621	—	180	(14,240)	136,561
Other asset-backed securities	59,192	—	145	(2,488)	56,849
Corporate and other securities	601,682	(1,349)	2,783	(33,819)	569,297
Subtotal, fixed maturity securities	1,119,116	(1,349)	4,296	(78,507)	1,043,556
Equity securities (2)	192,721	—	30,729	(6,852)	216,598
Other invested assets (4)	138,270	—	—	—	138,270
Totals	$ 1,450,107	$ (1,349)	$ 35,025	$ (85,359)	$ 1,398,424

	As of December 31, 2023									
	Cost or Amortized Cost		Allowance for Expected Credit Losses		Gross Unrealized Gains		Gross Unrealized Losses (3)		Estimated Fair Value	
U.S. Treasury securities	$	2,420	$	—	$	15	$	(115)	$	2,320
Obligations of states and political subdivisions		38,682		—		262		(2,421)		36,523
Residential mortgage-backed securities (1)		267,271		—		1,945		(21,979)		247,237
Commercial mortgage-backed securities		153,923		—		200		(14,273)		139,850
Other asset-backed securities		64,043		—		217		(2,927)		61,333
Corporate and other securities		594,343		(1,208)		3,785		(32,038)		564,882
Subtotal, fixed maturity securities		1,120,682		(1,208)		6,424		(73,753)		1,052,145
Equity securities (2)		221,809		—		25,707		(9,494)		238,022
Other invested assets (4)		133,946		—		—		—		133,946
Totals	$	1,476,437	$	(1,208)	$	32,131	$	(83,247)	$	1,424,113

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

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

(3) The Company's investment portfolio included 855 and 861 securities in an unrealized loss position at March 31, 2024 and December 31, 2023, 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 March 31, 2024			
	Amortized Cost		Estimated Fair Value	
Due in one year or less	**$**	**34,690**	**$**	**34,363**
Due after one year through five years		**339,423**		**323,113**
Due after five years through ten years		**244,223**		**227,648**
Due after ten years through twenty years		**24,092**		**22,573**
Due after twenty years		**250**		**288**
Asset-backed securities		**476,438**		**435,571**
Totals	**$**	**1,119,116**	**$**	**1,043,556**

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

	Three Months Ended March 31,			
	2024		2023	
Gross realized gains				
Fixed maturity securities	**$**	**230**	$	539
Equity securities		**3,137**		1,523
Gross realized losses				
Fixed maturity securities		**(363)**		(622)
Equity securities		**(2,512)**		(707)
Net realized gains on investments	**$**	**492**	$	733

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

The following tables as of March 31, 2024 and December 31, 2023 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 March 31, 2024					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities	$ —	$ —	$ 1,700	$ 122	$ 1,700	$ 122
Obligations of states and political subdivisions	3,443	10	29,243	2,383	32,686	2,393
Residential mortgage-backed securities	25,451	299	179,261	25,146	204,712	25,445
Commercial mortgage-backed securities	3,693	122	127,598	14,118	131,291	14,240
Other asset-backed securities	23,328	209	24,231	2,279	47,559	2,488
Corporate and other securities	60,976	1,712	361,771	32,107	422,747	33,819
Subtotal, fixed maturity securities	116,891	2,352	723,804	76,155	840,695	78,507
Equity securities	24,912	2,095	27,805	4,757	52,717	6,852
Total temporarily impaired securities	$ 141,803	$ 4,447	$ 751,609	$ 80,912	$ 893,412	$ 85,359

	As of December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities	$ —	$ —	$ 1,708	$ 115	$ 1,708	$ 115
Obligations of states and political subdivisions	403	17	28,893	2,404	29,296	2,421
Residential mortgage-backed securities	11,248	167	182,794	21,812	194,042	21,979
Commercial mortgage-backed securities	4,067	108	130,493	14,165	134,560	14,273
Other asset-backed securities	5,973	224	46,600	2,703	52,573	2,927
Corporate and other securities	39,453	1,338	369,163	30,700	408,616	32,038
Subtotal, fixed maturity securities	61,144	1,854	759,651	71,899	820,795	73,753
Equity securities	34,272	3,079	45,797	6,415	80,069	9,494
Total temporarily impaired securities	$ 95,416	$ 4,933	$ 805,448	$ 78,314	$ 900,864	$ 83,247

At March 31, 2024, U.S. Government residential mortgage backed securities with a fair value of $ 51,180 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 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 March 31, 2024 and December 31, 2023, the Company concluded that $ 1,349 and $1,208, 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 March 31, 2024 and December 31, 2023 resulted from fluctuations in market interest rates and other temporary market conditions as opposed to fundamental changes in the credit quality of the issuers of such securities. Based upon the analysis performed, the Company's decision to hold these securities, the Company's current level of liquidity and our history of positive operating cash flows, management believes it is more likely than not that it will not be required to sell any of its securities before the anticipated recovery in the fair value to its amortized cost basis.

The following 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 March 31,	
	2024	**2023**
Beginning of period	**$ 1,208**	**$ 678**
Credit losses on securities with no previously recorded credit losses	**—**	**354**
Net increases (decreases) in allowance on previously impaired securities	**141**	**568**
Reduction due to sales	**—**	**—**
Writeoffs charged against allowance	**—**	—
Recoveries of amounts previously written off	**—**	—
Ending balance of period	**$ 1,349**	$ 1,600

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 March 31,	
	2024	**2023**
Interest on fixed maturity securities	**$ 12,948**	$ 11,744
Dividends on equity securities	**1,667**	1,610
Equity in earnings of other invested assets	**1,407**	1,086
Interest on other assets	**82**	31
Total investment income	**16,104**	14,471
Investment expenses	**873**	817
Net investment income	**$ 15,231**	$ 13,654

Fair Value of Financial Instruments

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

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

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

Level 3 — Valuations based on unobservable inputs.

Fair values for the Company's fixed maturity securities are based on prices provided by its custodian bank and its investment managers. Both the Company's custodian bank and investment managers use a variety of independent, nationally recognized pricing services to determine market valuations. If the pricing service cannot provide fair value determinations, the Company obtains non-binding price quotes from broker-dealers. A minimum of two quoted prices is obtained for the majority of the Company's available-for-sale fixed maturity securities in its investment portfolio. The Company uses a third-party pricing service as its primary provider of quoted prices from third-party pricing services and broker-dealers. To provide reasonable assurance of the validity of each price or quote, a secondary third-party pricing service or broker-dealer quote is obtained from the Company's custodian or investment managers. An examination of the pricing data is then performed for each security. If the variance between the primary and secondary price quotes for a security is within an accepted tolerance level, the quoted price obtained from the Company's primary source is used for the security. If the variance between the primary and secondary price quotes exceeds an accepted tolerance level, the Company obtains a quote from an alternative source, if possible, and documents and resolves any differences between the pricing sources. In addition, the Company may request that its investment managers and its traders provide input as to which vendor is providing prices that its traders believe are reflective of fair value for the security. Following this process, the Company may decide to value the security in its financial statements using the secondary or alternative source if it believes that pricing is more reflective of the security's value than the primary pricing provided by its custodian bank. The Company analyzes market valuations received to verify reasonableness, to understand the key assumptions used and their sources, and to determine an appropriate ASC 820 fair value hierarchy level based upon trading activity and the observability of market inputs. Based on this evaluation and investment class analysis, each price is classified into Level 1, 2 or 3.

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

The Company's Level 1 securities consist of equity securities whose values are based on quoted prices in active markets for identical assets. The Company's Level 2 securities are comprised of available-for-sale fixed maturity securities whose fair value was determined using observable market inputs. The Company's Level 3 security consists of an investment in the 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.

- *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 March 31, 2024. There were no significant changes to the valuation process during the three months ended March 31, 2024. As of March 31, 2024 and December 31, 2023, no quotes or prices obtained were adjusted by management. All broker quotes obtained were non-binding.

At March 31, 2024 and December 31, 2023, investments in fixed maturities classified as available-for-sale had a fair value which equaled carrying value of $1,043,556 and $1,052,145, 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 March 31, 2024			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasury securities	$ 2,302	$ —	$ 2,302	$ —
Obligations of states and political subdivisions	36,385	—	36,385	—
Residential mortgage-backed securities	242,160	—	242,160	—
Commercial mortgage-backed securities	136,561	—	136,561	—
Other asset-backed securities	56,850	—	56,850	—
Corporate and other securities	569,298	—	569,298	—
Equity securities	183,882	181,796	—	2,086
Total investment securities	$ 1,227,438	$ 181,796	$ 1,043,556	$ 2,086

	As of December 31, 2023			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasury securities	$ 2,320	$ —	$ 2,320	$ —
Obligations of states and political subdivisions	36,523	—	36,523	—
Residential mortgage-backed securities	247,237	—	247,237	—
Commercial mortgage-backed securities	139,850	—	139,850	—
Other asset-backed securities	61,333	—	61,333	—
Corporate and other securities	564,882	—	564,882	—
Equity securities	204,849	202,763	—	2,086
Total investment securities	$ 1,256,994	$ 202,763	$ 1,052,145	$ 2,086

As of March 31, 2024 and December 31, 2023, there were approximately $ 32,716 and $33,173, 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 months ended March 31, 2024 and 2023.

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

	Three Months Ended March 31,	
	2024	2023
	Level 3 Fair Value Securities	Level 3 Fair Value Securities
Balance at beginning of period	$ 2,086	$ 2,255
Net gains and losses included in earnings	—	—
Net gains included in other comprehensive income	—	—
Purchases	—	680
Sales	—	—
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Balance at end of period	$ 2,086	$ 2,935
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 months ended March 31, 2024 and 2023. The Company held one Level 3 security at March 31, 2024 and 2023.

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.

The following table presents 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 months ended March 31, 2024 and 2023.

	At and For the Three Months Ended March 31, 2024		At and For the Three Months Ended March 31, 2023	
	Accounts Receivable Net of Allowance for Expected Credit Losses	**Allowance for Expected Credit Losses**	Accounts Receivable Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses
Balance, beginning of period	**$ 256,687**	**$ 1,053**	$ 192,542	$ 1,446
Current period change for expected credit losses		**637**		484
Writeoffs of uncollectable accounts receivable		**(866)**		(686)
Balance, end of period	**$ 269,491**	**$ 824**	$ 205,560	$ 1,244

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 uncollectible reinsurance. Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance. Changes in the allowance, as well as any subsequent collections of amounts previously written off, are reported as part of 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 March 31, 2024 and December 31, 2023. 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 March 31, 2024 and December 31, 2023, most 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 March 31, 2024 or December 31, 2023.

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.

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Reserves for losses and LAE at beginning of year	**$ 603,081**	$ 549,598
Less receivable from reinsurers related to unpaid losses and LAE	**(112,623)**	(93,394)
Net reserves for losses and LAE at beginning of year	**490,458**	456,204
Incurred losses and LAE, related to:		
Current year	**179,357**	178,686
Prior years	**(10,958)**	(11,533)
Total incurred losses and LAE	**168,399**	167,153
Paid losses and LAE related to:		
Current year	**69,717**	60,093
Prior years	**106,848**	89,025
Total paid losses and LAE	**176,565**	149,118
Net reserves for losses and LAE at end of period	**482,292**	474,239
Plus receivable from reinsurers related to unpaid losses and LAE	**121,504**	95,900
Reserves for losses and LAE at end of period	**$ 603,796**	$ 570,139

At the end of each period, the reserves were re-estimated for all prior accident years. The Company's prior year reserves decreased by $10,958 and $11,533 for the three months ended March 31, 2024 and 2023, respectively, and resulted from re-estimations of prior years ultimate loss and LAE liabilities. The decreases in prior years reserves during the three months ended March 31, 2024 and 2023 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 three months ended March 31, 2024 and 2023, 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 $ 170,000 to investments in limited partnerships. The Company has contributed $138,984 to these commitments as of March 31, 2024. As of March 31, 2024, the remaining committed capital that could be called is $37,684, 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.

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 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 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, 2023, the Company extended its Revolving Credit Agreement (the "Credit Agreement") with Citizens Bank, N.A. ("Citizens Bank") to a maturity date of 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 Citizens Bank prime rate, the SOFR rate plus 1.25% per annum, or 0.5% above the federal funds 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 March 31, 2024, 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 March 31, 2024 and December 31, 2023. The credit facility commitment fee included in interest expense was computed at a rate of 0.20% and 0.25% per annum on the $30,000 commitment at March 31, 2024 and 2023, respectively.

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 March 31, 2024, the Company has the ability to borrow $195,273 using eligible invested assets that would be used as collateral.

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

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

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 5.2%. 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 $30,381 and $30,468 at March 31, 2024 and December 31, 2023, respectively. The loans are fully collateralized by specific U.S. Government residential mortgage-backed securities with a fair value of $51,180 and $53,503 at March 31, 2024 and December 31, 2023, respectively. The borrowing is outstanding from the FHLB-Boston at March 31, 2024 and December 31, 2023.

Interest expense on the FHLB-Boston borrowing was $108 and $155 for the three months ended March 31, 2024 and 2023, respectively.

10. Income Taxes

Federal income tax expense for the three months ended March 31, 2024 and 2023 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 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 three months ended March 31, 2024, 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 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.

No share purchases were made by the Company under the program during the three months ended March 31, 2024 and 2023. As of December 31, 2023, the Company had purchased 3,215,690 shares at a cost of $155,240.

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 March 31,	
	2024	**2023**
Operating lease cost	**$ 1,013**	$ 1,004

Other information related to leases was as follows:

	Three Months Ended March 31,	
	2024	**2023**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 1,165**	$ 1,111
Weighted average remaining lease term		
Operating leases	**4.58 Years**	5.53 Years
Weighted average discount rate		
Operating leases	**2.48%**	2.39%

Maturities of lease liabilities were as follows:

	Operating Leases
2024	**$ 3,452**
2025	**4,211**
2026	**3,980**
2027	**3,973**
2028	**3,906**
Thereafter	**—**
Total lease payments	**19,522**
Less imputed interest	**(444)**
Total	**$ 19,078**

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.

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," "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 59.3% of our direct written premiums in 2023), we offer a portfolio of other insurance products, including commercial automobile (16.0% of 2023 direct written premiums), homeowners (19.8% of 2023 direct written premiums) and dwelling fire, umbrella and business owner policies (totaling 4.9% of 2023 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 834 in 1,090 locations throughout these three states at December 31, 2023. 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 8.7% and 12.7% share, respectively, of the Massachusetts private passenger and commercial automobile markets in 2023 according to statistics compiled by the Commonwealth Automobile Reinsurers ("CAR") based on automobile exposures. We are also the fourth largest homeowners insurance carrier in Massachusetts with a 6.2% 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.

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 products in Massachusetts. The table below shows the amount of direct written premiums written in each state during the three months ended March 31, 2024 and 2023.

	Three Months Ended March 31,	
Direct Written Premiums	**2024**	**2023**
Massachusetts	$ **254,351**	$ 207,952
New Hampshire	**10,759**	8,612
Maine	**2,229**	1,288
Total	$ **267,339**	$ 217,852

Recent Trends and Events

Direct and Net Written Premiums. For the three months ended March 31, 2024, the Company achieved its sixth consecutive quarter of double-digit growth in direct and net written premiums. For the three months ended March 31, 2024, direct written premium growth and net written premium growth were 22.7% and 23.4%, respectively. The increase in premium is driven by new business production and rate increases. For the three months ended March 31, 2024, the Company achieved policy count growth across all lines of business, including 12.4%, 2.3% and 10.9% in Private Passenger Automobile, Commercial Automobile and Homeowners lines, respectively, compared to the same period in 2023. Additionally, for the three months ended March 31, 2024, average written premium per policy increased 13.5%, 6.4% and 7.4% in Private Passenger Automobile, Commercial Automobile and Homeowners lines, respectively, compared to the same period in 2023.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses incurred for the three months ended March 31, 2024 increased by $1,246 or 0.7%, to $168,399 from $167,153 for the comparable period. The slight increase is driven by larger policy counts offset by improved results in our homeowners lines. Our losses and loss adjustment expenses ratio for the three months ended March 31, 2024 improved to 71.3% from 87.2% from the comparable 2023 period. The prior year losses and loss adjustment expenses ratio was impacted by a severe weather event, totaling $32,100 of losses and loss adjustment expenses for the three months ended March 31, 2023.

Non-generally accepted accounting principles ("non-GAAP") operating income, as defined below, was $13,746 for the three months ended March 31, 2024, compared to non-GAAP operating loss of $12,796 for the comparable 2023 period. The increase in Non-GAAP operating income was primarily the result of an increase in net earned premiums compared to the prior period. Non-GAAP operating income for the quarter ended March 31, 2024 was $0.93 per diluted share, compared to non-GAAP operating loss of $0.87 per diluted share for the comparable 2023 period.

The following rate changes have been filed and approved by the insurance regulators of Massachusetts, New Hampshire and Maine in 2024 and 2023. Our Massachusetts private passenger automobile rates include a 13% commission rate for agents.

Line of Business	Effective Date	Rate Change
Massachusetts Commercial Automobile	**May 1, 2024**	**6.3%**
New Hampshire Private Passenger Automobile	**April 1, 2024**	**3.4%**
Massachusetts Private Passenger Automobile	**January 1, 2024**	**3.5%**
New Hampshire Commercial Automobile	**November 1, 2023**	**7.9%**
New Hampshire Homeowners	**October 1, 2023**	**6.0%**
Maine Private Passenger Automobile	**October 1, 2023**	**7.3%**
New Hampshire Private Passenger Automobile	**September 1, 2023**	**6.5%**
Massachusetts Homeowners	**August 1, 2023**	**3.9%**
Massachusetts Private Passenger Automobile	**July 1, 2023**	**4.3%**
Massachusetts Commercial Automobile	**May 1, 2023**	**4.0%**

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.

	Three Months Ended March 31,	
	2024	**2023**
GAAP ratios:		
Loss ratio	**71.3 %**	87.2 %
Expense ratio	**30.6**	31.3
Combined ratio	**101.9 %**	118.5 %

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 March 31, 2024, there were 366,422 shares available for future grant.

A summary of share based awards granted under the Incentive Plan during the three months ended March 31, 2024 is as follows:

Type of Equity Awarded	Effective Date	Number of Awards Granted	Fair Value per Share (1)	Vesting Terms
RS - Service	**February 27, 2024**	**31,221**	**$ 85.61**	**3 years, 30%-30%-40%**
RS - Performance	**February 27, 2024**	**25,390**	**$ 85.61**	**3 years, cliff vesting (3)**
RS	**February 27, 2024**	**7,000**	**$ 85.61**	**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.

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 other 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 2024 that protects us in the event of a "124-year storm" (that is, a storm of a severity expected to occur once in a 124-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 2024, we have purchased three layers of excess catastrophe reinsurance providing $615,000 of coverage for property losses in excess of $75,000 up to a maximum of $690,000. Our reinsurers’ co-participation is 80.0% of $75,000 for the 1st layer, 80.0% of $250,000 for the 2nd layer and 80.0% of $290,000 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 $25,000, 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. As a response to the exposure to catastrophe losses, on July 1, 2023, the FAIR Plan purchased $1,600,000 of catastrophe reinsurance for property losses with retention of $100,000.

At March 31, 2024, we had $144,560 recoverable from CAR comprised of 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 (loss) and earnings (loss) per diluted share are the GAAP financial measures that are most directly comparable to non-GAAP operating income and non-GAAP operating income per diluted share, respectively. A reconciliation of the GAAP financial measures to these non-GAAP measures is included in the financial highlights below.

Results of Operations

Three Months Ended March 31, 2024 compared to Three Months Ended March 31, 2023

The following table shows certain of our selected financial results

	Three Months Ended March 31,	
	2024	2023
Direct written premiums	$ 267,339	$ 217,852
Net written premiums	$ 250,295	$ 202,884
Net earned premiums	$ 236,053	$ 191,735
Net investment income	15,231	13,654
Earnings from partnership investments	1,772	2,166
Net realized gains on investments	492	733
Change in net unrealized gains on equity securities	7,665	770
Credit loss expense	(142)	(922)
Commission income	1,808	1,483
Finance and other service income	5,354	4,140
Total revenue	268,233	213,759
Losses and loss adjustment expenses	168,399	167,153
Underwriting, operating and related expenses	72,267	60,033
Other expense	1,837	1,670
Interest expense	123	210
Total expenses	242,626	229,066
Income (loss) before income taxes	25,607	(15,307)
Income tax expense (benefit)	5,529	(2,970)
Net income (loss)	$ 20,078	$ (12,337)
Earnings (loss) per weighted average common share:		
Basic	$ 1.36	$ (0.84)
Diluted	$ 1.36	$ (0.84)
Cash dividends paid per common share	$ 0.90	$ 0.90
Reconciliation of Net Income (Loss) to Non-GAAP Operating Income (Loss)		
Net income (loss)	$ 20,078	$ (12,337)
Exclusions from net income:		
Net realized gains on investments	(492)	(733)
Change in net unrealized gains on equity securities	(7,665)	(770)
Credit loss expense	142	922
Income tax expense on exclusions from net income	1,683	122
Non-GAAP Operating income (loss)	$ 13,746	$ (12,796)
Net income per diluted share	$ 1.36	$ (0.84)
Exclusions from net income (loss):		
Net realized gains on investments	(0.03)	(0.05)
Change in net unrealized gains on equity securities	(0.52)	(0.05)
Credit loss expense	0.01	0.06
Income tax benefit expense on exclusions from net income	0.11	0.01
Non-GAAP Operating income (loss) per diluted share	$ 0.93	$ (0.87)

Direct Written Premiums. Direct written premiums for the three months ended March 31, 2024 increased by $49,487, or 22.7%, to $267,339 from $217,852 for the comparable 2023 period. The increase in direct written premium is the result of new business production and rate increases.

Net Written Premiums. Net written premiums for the three months ended March 31, 2024 increased by $47,411, or 23.4%, to $250,295 from $202,884 for the comparable 2023 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 March 31, 2024 increased by $44,318, or 23.1%, to $236,053 from $191,735 for the comparable 2023 period.

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

	Three Months Ended March 31,	
	2024	2023
Written Premiums		
Direct	$ 267,339	$ 217,852
Assumed	9,438	7,230
Ceded	(26,482)	(22,198)
Net written premiums	$ 250,295	$ 202,884
Earned Premiums		
Direct	$ 251,884	$ 205,555
Assumed	8,968	7,913
Ceded	(24,799)	(21,733)
Net earned premiums	$ 236,053	$ 191,735

Net Investment Income. Net investment income for the three months ended March 31, 2024 increased by $1,577, or 11.5%, to $15,231 from $13,654 for the comparable 2023 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 4.3% for the three months ended March 31, 2024 compared to 3.8% for the three months ended March 31, 2023. The investment portfolio's duration was 3.5 years at March 31, 2024 and 3.6 years at December 31, 2023, respectively.

Earnings from Partnership Investments. Earnings from partnership investments was $1,772 for the three months ended March 31, 2024 compared to $2,166 for the comparable 2023 period. The three month 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 $492 for the three months ended March 31, 2024 compared to $733 for the comparable 2023 period. The decrease in net realized gains is driven by an increase in realized losses.

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 March 31, 2024				
	Cost or Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized		Estimated Fair Value
			Gains	Losses (3)	
U.S. Treasury securities	$ 2,420	$ —	$ 4	$ (122)	$ 2,302
Obligations of states and political subdivisions	38,576	—	202	(2,393)	36,385
Residential mortgage-backed securities (1)	266,625	—	982	(25,445)	242,162
Commercial mortgage-backed securities	150,621	—	180	(14,240)	136,561
Other asset-backed securities	59,192	—	145	(2,488)	56,849
Corporate and other securities	601,682	(1,349)	2,783	(33,819)	569,297
Subtotal, fixed maturity securities	1,119,116	(1,349)	4,296	(78,507)	1,043,556
Equity securities (2)	192,721	—	30,729	(6,852)	216,598
Other invested assets (4)	138,270	—	—	—	138,270
Totals	$ 1,450,107	$ (1,349)	$ 35,025	$ (85,359)	$ 1,398,424

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

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

(3) Our investment portfolio included 855 securities in an unrealized loss position at March 31, 2024.
(4) Other invested asset 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 March 31, 2024	
	Estimated Fair Value	Percent
U.S. Treasury securities and obligations of U.S. Government agencies	$ 242,161	23.2 %
Aaa/Aa	207,025	19.8
A	220,569	21.1
Baa	196,700	18.8
Ba	44,315	4.2
B	82,063	7.9
Caa/Ca	5,046	0.5
Not rated	45,677	4.5
Total	$ 1,043,556	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 March 31, 2024, 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.

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 March 31, 2024.

	As of March 31, 2024					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities	$ —	$ —	$ 1,700	$ 122	$ 1,700	$ 122
Obligations of states and political subdivisions	3,443	10	29,243	2,383	32,686	2,393
Residential mortgage-backed securities	25,451	299	179,261	25,146	204,712	25,445
Commercial mortgage-backed securities	3,693	122	127,598	14,118	131,291	14,240
Other asset-backed securities	23,328	209	24,231	2,279	47,559	2,488
Corporate and other securities	60,976	1,712	361,771	32,107	422,747	33,819
Subtotal, fixed maturity securities	116,891	2,352	723,804	76,155	840,695	78,507
Equity securities	24,912	2,095	27,805	4,757	52,717	6,852
Total temporarily impaired securities	$ 141,803	$ 4,447	$ 751,609	$ 80,912	$ 893,412	$ 85,359

As of March 31, 2024 and December 31, 2023, the Company concluded that $1,349 and $1,208, 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 March 31, 2024 and December 31, 2023 resulted from fluctuations in market interest rates and other temporary market conditions as opposed to fundamental changes in the credit quality of the issuers of such securities. Based upon the analysis performed, the Company's decision to hold these securities, the Company's current level of liquidity and our history of positive operating cash flows, management believes it is more likely than not that it will not be required to sell any of its securities before the anticipated recovery in the fair value to its amortized cost basis.

Specific qualitative analysis was also performed for securities appearing on our "Watch List," if any. Qualitative analysis considered such factors as the financial condition and the near term prospects of the issuer, whether the debtor is current on its contractually obligated interest and principal payments, changes to the rating of the security by a rating agency and the historical volatility of the fair value of the security.

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 was $1,808 and $1,483 for the three months ended March 31, 2024 and 2023, 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 March 31, 2024 increased by $1,214, or 29.3%, to $5,354 from $4,140 for the comparable 2023 period. The increase is primarily driven by the increase in policy counts and changes to our fee assessment policies.

Losses and Loss Adjustment Expenses. Loss and loss adjustment expenses incurred for the three months ended March 31, 2024 increased by $1,246, or 0.7%, to $168,399 from $167,153 for the comparable 2023 period. The slight increase is driven by larger policy counts offset by improved results in our homeowners lines.

Our GAAP loss ratio for the three months ended March 31, 2024 decreased to 71.3% from 87.2% for the comparable 2023 period. Our GAAP loss ratio excluding loss adjustment expenses for the three months ended March 31, 2024 was 62.2% compared to 76.2% for the comparable 2023 period. Total prior year favorable development included in the pre-tax results for the three months ended March 31, 2024 was $10,958 compared to $11,533 for the comparable 2023 period.

Underwriting, Operating and Related Expenses. Underwriting, operating and related expenses for the three months ended March 31, 2024 increased by $12,234, or 20.4%, to $72,267 from $60,033 for the comparable 2023 period. Our GAAP expense ratio for the three months ended March 31, 2024 decreased to 30.6% from 31.3% for the comparable 2023 period. The increase is driven by an increase in contingent commission expenses.

Interest Expense. Interest expense was $123 and $210 for the three months ended March 31, 2024 and 2023. The credit facility commitment fee included in interest expense was $15 and $19 for the three months ended March 31, 2024 and 2023, respectively.

Income Tax Expense. Our effective tax rate was 21.6% and 19.4% for the quarters ended March 31, 2024 and 2023, respectively. The effective tax rate for the quarter ended March 31, 2024 was higher than the statutory rate primarily due to the effects of the change in unrealized gains on equity securities. The effective tax rate for the quarter ended March 31, 2023 was lower 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 (Loss). Net income for the three months ended March 31, 2024 was $20,078 compared to net loss of $12,337 for the comparable 2023 period.

Non-GAAP Operating Income. Non-GAAP operating income as defined above was $13,746 for the three months ended March 31, 2024 compared to non-GAAP operating loss of $12,796 for the comparable 2023 period. The increase in Non-GAAP operating income was primarily the result of an increase in net earned premiums compared to the prior year.

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 operating activities was $21,135 and $12,892 during the three months ended March 31, 2024 and 2023, 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.

Net cash provided by investing activities was $27,399 and $6,655 during the three months ended March 31, 2024 and 2023, respectively. Fixed maturities, equity securities, and other invested assets purchased were $50,199 for the three months ended March 31, 2024 compared to $43,292 for the comparable prior year period. Proceeds from maturities, redemptions, calls and sales, of securities were $81,665 during the three months ended March 31, 2024 compared to $50,561 for the comparable prior year period.

Net cash used for financing activities was $13,615 and $3,747 during the three months ended March 31, 2024 and 2023, respectively. The net cash used for financing activities during the three months ended March 31, 2024 consisted of dividend payments to shareholders.

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, 2023, the statutory surplus of Safety Insurance was $744,904, and its statutory net income for 2023 was $4,022. As a result, a maximum of $74,490 is available in 2024 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 $670,414 at December 31, 2023. During the three months ended March 31, 2024, Safety Insurance paid dividends to Safety of $12,610.

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

Since the initial public offering of its common stock in November 2002, the Company has paid regular quarterly dividends to shareholders of its common stock. Quarterly dividends paid during 2024 were as follows:

Declaration Date	Record Date	Payment Date	Dividend per Common Share	Total Dividends Paid and Accrued
February 15, 2024	**March 1, 2024**	**March 15, 2024**	**$ 0.90**	**$ 13,280**

On May 8, 2024, our Board approved and declared a quarterly cash dividend of $0.90 per share which will be paid on June 14, 2024 to shareholders of record on June 3, 2024. We plan to continue to declare and pay quarterly cash dividends in 2024, 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 March 31, 2024, 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 share repurchases were made by the Company under the program during the three months ended March 31, 2024. As of March 31, 2024 and December 31, 2023, the Company had purchased 3,215,690 shares of common stock at a cost of $155,240.

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, 2023, the Insurance Subsidiaries had total capital of $744,904, 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 $231,882 at December 31, 2023.

Off-Balance Sheet Arrangements

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

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 market, as of the date of the applicable balance sheet. For each accident year and each coverage within a line of business our actuaries calculate the ultimate losses incurred. Our total reserves are the difference between the ultimate losses incurred and the cumulative loss and loss adjustment payments made to date. Our IBNR reserves are calculated as the difference between our total reserves and the outstanding case reserves at the end of the accounting period. To determine ultimate losses, our actuaries calculate a range of indications and select a point estimation using such actuarial techniques as:

- *Paid Loss Indications:* This method projects ultimate loss estimates based upon extrapolations of historic paid loss trends. This method tends to be used on short tail lines such as automobile physical damage.
- *Incurred Loss Indications:* This method projects ultimate loss estimates based upon extrapolations of historic incurred loss trends. This method tends to be used on long tail lines of business such as automobile liability and homeowner’s liability.
- *Bornhuetter-Ferguson Indications:* This method projects ultimate loss estimates based upon extrapolations of an expected amount of IBNR, which is added to current incurred losses or paid losses. This method tends to be used on small, immature, or volatile lines of business, such as our BOP and umbrella lines of business.
- *Bodily Injury Code Indications:* This method projects ultimate loss estimates for our private passenger and commercial automobile bodily injury coverage based upon extrapolations of the historic number of accidents and the historic number of bodily injury claims per accident. Projected ultimate bodily injury claims are then segregated into expected claims by type of injury (e.g. soft tissue injury vs. hard tissue injury) based on past experience. An ultimate severity, or average paid loss amounts, is estimated based upon extrapolating historic trends. Projected ultimate loss estimates using this method are the aggregate of estimated losses by injury type.

Such techniques assume that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting our ultimate losses, total reserves, and resulting IBNR reserves. It is possible that the final outcome may fall above or below these amounts as a result of a number of factors, including immature data, sparse data, or significant growth in a line of business. Using these methodologies our actuaries established a range of reasonably possible estimations for net reserves of approximately $443,575 to $502,699 as of March 31, 2024. 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 $482,292 as of March 31, 2024.

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 March 31, 2024.

	As of March 31, 2024		
Line of Business	**Low**	**Recorded**	**High**
Private passenger automobile	$ 187,291	$ 206,306	$ 213,573
Commercial automobile	100,992	106,611	115,094
Homeowners	93,589	99,564	101,319
All other	61,703	69,811	72,713
Total	$ 443,575	$ 482,292	$ 502,699

The following table presents our total net reserves and the corresponding case reserves and IBNR reserves for each line of business as of March 31, 2024.

	As of March 31, 2024		
Line of Business	**Case**	**IBNR**	**Total**
Private passenger automobile	$ 273,194	$ (66,897)	$ 206,297
CAR assumed private passenger auto	1	8	9
Commercial automobile	71,826	2,708	74,534
CAR assumed commercial automobile	18,819	13,258	32,077
Homeowners	95,756	(7,649)	88,107
FAIR Plan assumed homeowners	4,436	7,021	11,457
All other	42,224	27,587	69,811
Total net reserves for losses and LAE	$ 506,256	$ (23,964)	$ 482,292

At March 31, 2024, our total IBNR reserves for our private passenger automobile line of business was comprised of ($101,892) related to estimated ultimate decreases in the case reserves, including anticipated recoveries (i.e. salvage and subrogation), and $34,995 related to our estimation for not yet reported losses.

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 41.3% of our total reserves for CAR assumed commercial automobile business as of March 31, 2024, 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 61.3% of our total reserves for FAIR Plan assumed homeowners at March 31, 2024, 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 March 31, 2024.

	As of March 31, 2024		
Line of Business	**Retained**	**Assumed**	**Net**
Private passenger automobile	$ 206,297		
CAR assumed private passenger automobile		$ 9	
Net private passenger automobile			$ 206,306
Commercial automobile	74,534		
CAR assumed commercial automobile		32,077	
Net commercial automobile			106,611
Homeowners	88,107		
FAIR Plan assumed homeowners		11,457	
Net homeowners			99,564
All other	69,811	—	69,811
Total net reserves for losses and LAE	$ 438,749	$ 43,543	$ 482,292

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.

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 three months ended March 31, 2024, a 1 percentage-point change in the loss and LAE ratio would result in a change in reserves of $2,362. Each 1 percentage-point change in the loss and loss expense ratio would have had a $1,866 effect on net income, or $0.13 per diluted share.

Our assumptions consider that past experience, adjusted for the effects of current developments and anticipated trends, are an appropriate basis for establishing our reserves. Our individual key assumptions could each have a reasonable possible range of plus or minus 5 percentage-points for each estimation, although there is no guarantee that our assumptions will not have more than a 5 percentage point variation. The following sensitivity tables present information for each of our primary lines of business on the effect each 1 percentage-point change in each of our key assumptions on unpaid frequency and severity could have on our retained (i.e., direct minus ceded) loss and LAE reserves and net income for the three months ended March 31, 2024. In evaluating the information in the table, it should be noted that a 1 percentage-point change in a single assumption would change estimated reserves by 1 percentage-point.

A 1 percentage-point change in both our key assumptions would change estimated reserves within a range of plus or minus 2 percentage-points.

	-1 Percent Change in Frequency	No Change in Frequency	+1 Percent Change in Frequency
Private passenger automobile retained loss and LAE reserves			
-1 Percent Change in Severity			
Estimated decrease in reserves	$ (4,126)	$ (2,063)	$ —
Estimated increase in net income	3,260	1,630	—
No Change in Severity			
Estimated (decrease) increase in reserves	(2,063)	—	2,063
Estimated increase (decrease) in net income	1,630	—	(1,630)
+1 Percent Change in Severity			
Estimated increase in reserves	—	2,063	4,126
Estimated decrease in net income	—	(1,630)	(3,260)
Commercial automobile retained loss and LAE reserves			
-1 Percent Change in Severity			
Estimated decrease in reserves	(1,491)	(745)	—
Estimated increase in net income	1,178	589	—
No Change in Severity			
Estimated (decrease) increase in reserves	(745)	—	745
Estimated increase (decrease) in net income	589	—	(589)
+1 Percent Change in Severity			
Estimated increase in reserves	—	745	1,491
Estimated decrease in net income	—	(589)	(1,178)
Homeowners retained loss and LAE reserves			
-1 Percent Change in Severity			
Estimated decrease in reserves	(1,762)	(881)	—
Estimated increase in net income	1,392	696	—
No Change in Severity			
Estimated (decrease) increase in reserves	(881)	—	881
Estimated increase (decrease) in net income	696	—	(696)
+1 Percent Change in Severity			
Estimated increase in reserves	—	881	1,762
Estimated decrease in net income	—	(696)	(1,392)
All other retained loss and LAE reserves			
-1 Percent Change in Severity			
Estimated decrease in reserves	(1,396)	(698)	—
Estimated increase in net income	1,103	551	—
No Change in Severity			
Estimated (decrease) increase in reserves	(698)	—	698
Estimated increase (decrease) in net income	551	—	(551)
+1 Percent Change in Severity			
Estimated increase in reserves	—	698	1,396
Estimated decrease in net income	—	(551)	(1,103)

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

The following sensitivity table presents information of the effect each 1 percentage-point change in our assumptions on our share of reserves for CAR and other residual markets could have on our assumed loss and LAE reserves and net income for the three months ended March 31, 2024. In evaluating the information in the table, it should be noted that a 1 percentage-point change in our assumptions would change estimated reserves by 1 percentage-point.

	-1 Percent Change in Estimation	+1 Percent Change in Estimation
CAR assumed commercial automobile		
Estimated (decrease) increase in reserves	**$ (321)**	**$ 321**
Estimated increase (decrease) in net income	**254**	**(254)**
FAIR Plan assumed homeowners		
Estimated (decrease) increase in reserves	**(115)**	**115**
Estimated increase (decrease) in net income	**91**	**(91)**

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 $10,958 and $11,533 during the three months ended March 31, 2024 and 2023, respectively.

The following table presents a comparison of prior year development of our net reserves for losses and LAE for the three months ended March 31, 2024 and 2023. 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.

	Three Months Ended March 31,	
Accident Year	**2024**	**2023**
2014 & prior	**$ (207)**	$ (344)
2015	**(531)**	(662)
2016	**(313)**	(302)
2017	**(169)**	(1,117)
2018	**(1,402)**	(766)
2019	**(529)**	(2,143)
2020	**(944)**	(3,575)
2021	**(1,007)**	(1,198)
2022	**(2,440)**	(1,426)
2023	**(3,416)**	—
All prior years	**$ (10,958)**	$ (11,533)

The decreases in prior years' reserves during the three months ended March 31, 2024 and 2023 resulted from re-estimations of prior year ultimate loss and LAE liabilities. The 2024 decrease is composed of reductions of $1,908 in our private passenger automobile reserves, $1,352 in our commercial automobile reserves, $1,627 in our homeowners reserves and $6,071 in all other lines reserves. The 2023 decrease is primarily composed of reductions of $3,207 in our retained private passenger automobile reserves, $2,286 in our retained commercial automobile reserves, $2,570 in our retained homeowners reserves and $3,470 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 March 31, 2024.

Accident Year	Private Passenger Automobile	Commercial Automobile	Homeowners	All Other	Total
2014 & prior	$ (14)	$ —	$ —	$ (193)	$ (207)
2015	(2)	(332)	—	(197)	(531)
2016	83	(50)	—	(346)	(313)
2017	(13)	(44)	3	(115)	(169)
2018	203	(199)	(155)	(1,251)	(1,402)
2019	(99)	(323)	(41)	(66)	(529)
2020	(30)	(215)	(428)	(271)	(944)
2021	44	(109)	(11)	(931)	(1,007)
2022	(79)	(157)	(611)	(1,593)	(2,440)
2023	(2,001)	77	(384)	(1,108)	(3,416)
All prior years	$ (1,908)	$ (1,352)	$ (1,627)	$ (6,071)	$ (10,958)

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

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

Forward-Looking Statements

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

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

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

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

- The competitive nature of our industry and the possible adverse effects of such competition;
- Conditions for business operations and restrictive regulations in Massachusetts;
- The possibility of losses due to claims resulting from severe weather;
- The impact of inflation and supply chain delays on loss severity;
- The possibility that the Commissioner may approve future rule changes that change the operation of the residual market;

- The possibility that existing insurance-related laws and regulations will become further restrictive in the future;
- Our possible need for and availability of additional financing, and our dependence on strategic relationships, among others;
- Other risks and factors identified from time to time in our reports filed with the SEC. Refer to Part I, Item 1A — Risk Factors of our 2023 Annual Report on Form 10-K for the year ended December 31, 2023.

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 and consultation with third-party financial advisors. As a general matter, we do not attempt to match the durations of our assets with the durations of our liabilities, and the majority of our liabilities are “short tail.” Our goal is to maximize the total after-tax return on all of our investments. An important strategy that we employ to achieve this goal is to try to hold enough in cash and short-term investments in order to avoid liquidating longer-term investments to pay claims.

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

	-100 Basis Point Change	No Change	+100 Basis Point Change
As of March 31, 2024			
Estimated fair value	**$ 1,077,360**	**$ 1,043,556**	**$ 1,004,670**
Estimated increase (decrease) in fair value	**$ 33,804**	**$ —**	**$ (38,886)**

With respect to floating rate debt, we are exposed to the effects of changes in prevailing interest rates. At March 31, 2024, 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 2024, 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.

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 2023 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. No share repurchases were made by the Company during the three months ended March 31, 2024.

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
January 1-31, 2024	—	—	—	703,971
February 1-29, 2024	—	—	—	703,971
March 1-31, 2024	—	—	—	703,971
Total	—	—	—	

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

During the three months ended March 31, 2024, 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.

On May 8, 2024, the Compensation Committee of the Board of Directors of the Company (the “Committee”) amended and restated the Company’s Annual Performance Incentive Plan (the “A&R Incentive Plan”). Our executive officers are eligible to participate in the A&R Incentive Plan. The amended terms in the A&R Incentive Plan include (i) removal of the maximum limit on the amount payable to a participant in a plan year, which had not been adjusted since 2007, (ii) removal of provisions relating to Section 162(m) of the Internal Revenue Code of 1986, as amended, which are no longer applicable, (iii) permit the Committee to select other performance objectives applicable to awards in its discretion and (iv) other non-substantive changes. The terms of the A&R Incentive Plan are effective for 2024 performance awards and future awards.

The foregoing description of the A&R Incentive Plan is qualified in its entirety by reference to the Amended & Restated Annual Performance Incentive Plan, a copy of which is filed as Exhibit [10.31] hereto and is incorporated by reference.

Item 6. Exhibits

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

SAFETY INSURANCE GROUP, INC.

EXHIBIT INDEX

Exhibit Number	Description
10.30	Employment Agreement between Safety Insurance Group, Inc. and Brian S. Lam as of March 1, 2024(3)
10.31	Amended and Restated Annual Performance Incentive Plan Safety Insurance, Group, Inc.(3)
31.1	CEO Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	CFO Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	CEO Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	CFO Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002(2)
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)

(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.
(3) Denotes management contract or compensation plan or arrangement.

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.

May 9, 2024	**SAFETY INSURANCE GROUP, INC.** (Registrant)	
	By:	/s/ CHRISTOPHER T. WHITFORD Christopher T. Whitford *Vice President, Chief Financial Officer, Secretary and Principal Accounting Officer*

EMPLOYMENT AGREEMENT

This Employment Agreement, dated as of March 1, 2024 (this "Agreement"), is by and between Brian S. Lam (the "Executive") and Safety Insurance Group, Inc., a Delaware corporation (the "Company");

W I T N E S S E T H:

WHEREAS, the Company wishes to obtain the future services of the Executive for and on behalf of the Companies (as defined in Section 11);

WHEREAS, the Executive is willing upon the terms and conditions herein set forth, to provide services to the Companies hereunder; and

WHEREAS, the Company wishes to secure the Executive's non-interference with the Companies' business, upon the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Nature of Employment

Subject to Section 3, the Company employ Executive, and Executive shall serve the Company, in accordance with the terms of this Agreement, during the Term of Employment (as defined in Section 3(a)), as Vice President of the Company with such duties and responsibilities as are customarily assigned to an executive in such position and such other duties and responsibilities not inconsistent therewith as may from time to time reasonably be assigned to the Executive by the Board of Directors and/or Chairman of the Board, President and Chief Executive Officer of the Company. The Executive also agrees to serve without additional compensation in such capacities (including, without limitation, as an officer or director) with Company affiliates as the Board of Directors and/or Chairman of the Board, President and Chief Executive Officer of the Company may prescribe. Upon termination of the Executive's employment with the Company, the Executive's employment, board membership or other service relationship with any Company affiliate shall automatically terminate unless otherwise agreed to by the parties.

2. Extent of Employment

(a) During the Term of Employment, the Executive shall perform his or her obligations hereunder faithfully and to the best of his or her ability at the principal executive offices of the Company, under the direction of the Board of Directors and/or Chairman of the Board, President and Chief Executive Officer of the Company, and shall abide by the rules, customs and usages from time to time established by the Companies.

(b) During the Term of Employment, the Executive shall devote all of his or her business time, energy and skill as may be reasonably necessary for the performance of his or her duties, responsibilities and obligations hereunder (except for vacation periods and reasonable periods of illness or other incapacity), consistent with past practices and norms in similar positions.

(c) Nothing contained herein shall require Executive to follow any directive or to perform any act which would violate any laws, ordinances, regulations or rules of any governmental, regulatory or administrative body, agent or authority, any court or judicial authority, or any public, private or industry regulatory authority (collectively, the "Regulations"). Executive shall act in good faith in accordance with all Regulations.

3. Term of Employment; Termination

(a) The "Term of Employment" shall commence on the date hereof and shall continue until December 31, 2024; provided, that, should the Executive's employment by the Company be earlier terminated pursuant to Section 3(b) or by the Executive pursuant to Section 3(c), the Term of Employment shall end on the date of such earlier termination. The Company may extend the Term of Employment by an additional twelve months ("Additional Term") pursuant to formal action by the Compensation Committee of the Board of Directors at least 90 days prior to the scheduled expiration date of the Term of Employment, unless the Executive notifies the Company of his or her decision to decline any additional term before at least 120 days prior to the scheduled expiration date of the Term of Employment.

(b) Subject to the payments contemplated by Sections 3(f) through 3(i), the Term of Employment may be terminated at any time by the Company:

(i) upon the death of Executive;

(ii) in the event that because of physical or mental disability Executive is unable to perform, and does not perform, in the view of the Company and as certified in writing by a competent medical physician, his or her duties hereunder for a continuous period of three consecutive months or any sixty working days out of any consecutive six month period;

(iii) for Cause (as defined in Section 3(d)) or Material Breach (as defined in Section 3(e));

(iv) upon the continuous poor or unacceptable performance of the Executive's duties to the Companies (other than due to a physical or mental disability), which has remained uncured for a period of 90 days after delivery of notice by the Company to the Executive of such dissatisfaction with Executive's performance, which notice shall describe in reasonable detail the areas of dissatisfaction; or

(v) for any other reason or no reason, it being understood that no reason is required.

Executive acknowledges that no representations or promises have been made concerning the grounds for termination or the future operation of the Companies' business, and that nothing contained herein or otherwise stated by or on behalf of any of the Companies modifies or amends the right of the Company to terminate Executive at any time, with or without Material Breach or Cause. Termination shall become effective upon the delivery by the Company to the Executive of notice specifying such termination and the reasons therefor (i.e., Section 3 (b)(i)-(v)), subject to the requirements for advance notice and an opportunity to cure provided in this Agreement, if and to the extent applicable. Notwithstanding anything to the contrary in this Agreement, for purposes of this Agreement, any reference to "termination," as it relates to a termination of the Executive's employment, shall refer to a termination of employment which constitutes a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended and the regulations promulgated thereunder ("Section 409A").

(c) Subject to the payments contemplated by Section 3(f) and 3(i), the Term of Employment may be terminated at any time by the Executive:

(i) upon the death of Executive;

(ii) as a result of a material reduction in Executive's authority, perquisites, position or responsibilities (other than such a reduction in perquisites which affects all of the Company's senior executives on a substantially equal or proportionate basis), the relocation of the Company's primary place of business or the relocation of Executive by any of the Companies to another office more than 75 miles from Boston, Massachusetts, or the Company's willful, material violation of its obligations under this Agreement, in each case, after 60 days' prior written notice to the Company and its Board of Directors and the Company's failure thereafter to cure such reduction or violation; or

(iii) as a result of the Company's willful and material violation of this Agreement, the Amended and Restated 2018 Long-Term Incentive Plan (the "Incentive Plan"), or any agreement between Executive and any of the Companies pertaining to awards made pursuant to the Incentive Plan or the Executive Incentive Compensation Plan, in each case as such agreements or plans may be amended from time to time.

(d) For the purposes of this Section 3, "Cause" shall mean any of the following:

(i) Executive's commission or conviction of any crime or criminal offense involving monies or other property or any felony;

(ii) Executive's commission or conviction of fraud or embezzlement;

(iii) Executive's material and knowing violation of any obligations imposed upon Executive, personally, as opposed to upon the Company, whether as a stockholder or otherwise, under this Agreement, the Incentive Plan or any other agreement between the Executive, on the one hand, and any of the Companies, on the other hand, the Amended and Restated Certificate of Incorporation, or the By-Laws of the Company, in each case as may be amended from time to time; provided, that the Executive has been given written notice describing any such violation in reasonable detail and fails to cure the violation within 90 days from such notice; or

(iv) Executive engages in egregious misconduct involving serious moral turpitude to the extent that Executive's credibility and reputation no longer conform to the standard of the Company's executives.

(e) For the purposes of this Section 3, "Material Breach" shall mean any of the following:

(i) Executive's breach of any of his or her fiduciary duties to the Companies or their stockholders or making of a willful misrepresentation or omission which breach, misrepresentation or omission would reasonably be expected to materially adversely affect the business, properties, assets, condition (financial or other) or prospects of the Companies;

(ii) Executive's willful, continual and material neglect or failure to discharge his or her duties, responsibilities or obligations prescribed by this Agreement or any other agreement between the Executive and any of the Companies (other than arising solely due to physical or mental disability);

(iii) Executive's habitual drunkenness or substance abuse which materially interferes with Executive's ability to discharge his or her duties, responsibilities or obligations prescribed by this Agreement or any other agreement between the Executive and any of the Companies; and

(iv) Executive's willful and material violation of any non-competition, non-disparagement, or confidentiality agreement with any of the Companies, including without limitation, those set forth in Sections 7, 8 and 9 of this Agreement, or any other agreements with any of the Companies;

in each case, for purposes of clauses (i) through (iv), after the Company or the Board of Directors of the Company has provided Executive with 60 days' written notice describing such circumstances and the possibility of a Material Breach in reasonable detail, and Executive fails to cure such circumstances and Material Breach within those 60 days. No act or omission shall be deemed willful if done, or omitted to be done, in good faith by the Executive based upon a resolution duly adopted by the Company's Board of Directors.

(f) In the event Executive's employment is terminated by the Company under any circumstances described in Section 3(b)(v) or by Executive under the circumstances described in Section 3(c)(ii) or (iii),

(i) the Company shall pay or cause to be paid to the Executive, (A) within five business days after the date of termination, any earned but unpaid base salary and, subject to the provisions of Section 5, any expense reimbursement payments owed to the Executive, and (B) any earned but unpaid annual bonus payments relating to the prior year to be paid in accordance with the terms and conditions of the Safety Insurance Group, Inc. Annual Performance Incentive Plan, or any successor plan thereto (collectively, the "Accrued Obligations");

(ii) the Company shall pay or cause to be paid to the Executive, within thirty business days after the date of termination, a lump-sum payment equal to the annual base salary (in effect immediately prior to the date of termination) the Executive would have received (a) over the remaining Term of Employment or (b) in the event that Executive receives notification that the Term of Employment is extended by an Additional Term, the annual base salary Executive would have received through the end of the Additional Term. "Severance Period" shall mean the period from the date of termination through the remaining current Term of Employment, or, in the event that Executive receives notification of an Additional Term, the period from the date of termination to the end of the Additional Term; and

(iii) subject to the provisions of Section 5, during the Severance Period, the Company will provide or cause to be provided to the Executive (and any covered dependents), with life and health insurance benefits (but not disability insurance benefits) substantially similar to those the Executive and any covered dependents were receiving immediately prior to the date of termination and at the same dollar cost to the Executive as in effect immediately prior to the termination of employment. Nothing in this Section 3(f)(iii) will extend the COBRA continuation coverage period.

(g) In the event the Executive's employment is terminated within three years after a Change of Control (provided the Term of Employment has not already expired) under any circumstances described in Section 3(b)(v) or by Executive under the circumstances described in Section 3(c)(ii) or (iii),

(i) the Company shall pay or cause to be paid to the Executive any Accrued Obligations in accordance with Section 3(f)(i);

(ii) the Company shall pay or cause to be paid to the Executive, within thirty business days after the date of termination, a lump-sum payment equal to two (2) times the sum of (A) the Executive's annual base salary in effect immediately prior to the date of termination and (B) the most recent annual bonus paid to the Executive prior to the Change in Control; and

(iii) subject to the provisions of Section 5, for a two (2) year period after the date of termination, the Company will provide or cause to be provided to the Executive (and any covered dependents), with life and health insurance benefits (but not disability insurance benefits) substantially similar to those the Executive and any covered dependents were receiving immediately prior to the date of termination and at the same dollar cost to the Executive as in effect immediately prior to the termination of employment. Nothing in this Section 3(g)(iii) will extend the COBRA continuation coverage period.

(h) In the event Executive's employment is terminated by the Company under the circumstances described in Section 3(b)(iv),

(i) the Company shall pay or cause to be paid to the Executive any Accrued Obligations in accordance with Section 3(f)(i);

(ii) the Company shall pay or cause to be paid to the Executive, within thirty business days after the date of termination, a lump-sum payment equal to three (3) months base salary, based on the Executive's base salary in effect immediately prior to the date of termination; and

(iii) subject to the provisions of Section 5, for a three (3) month period after the date of termination, the Company will provide or cause to be provided to the Executive (and any covered dependents), with life and health insurance benefits (but not disability insurance benefits) substantially similar to those the Executive and any covered dependents were receiving immediately prior to the date of termination and at the same dollar cost to the Executive as in effect immediately prior to the termination of employment. Nothing in this Section 3(h)(iii) will extend the COBRA continuation coverage period.

(i) In the event Executive's employment is terminated by the Company under the circumstances described in Section 3(b)(i) or (ii) or by the Executive under Section 3(c)(i),

(i) the Company will pay or cause to be paid to the Executive (or the Executive's estate or representative, as the case may be) any Accrued Obligations in accordance with Section 3(f)(i);

(ii) the Company will pay or cause to be paid to the Executive (or the Executive's estate or representative, as the case may be), within thirty business days after the date of termination, a lump-sum payment equal to 100% of the Executive's annual base salary in effect immediately prior to the date of termination; and

(iii) subject to the provisions of Section 5, for a one (1) year period after the date of termination, the Company will provide or cause to be provided to the Executive (and any covered dependents), with life and health insurance benefits (but not disability insurance benefits) substantially similar to those the Executive and any covered dependents were receiving immediately prior to the date of termination and at the same dollar cost to the Executive as in effect immediately prior to the termination of employment. Nothing in this Section 3(i)(iii) will extend the COBRA continuation coverage period.

(j) In the event Executive's employment is terminated by the Company under any circumstances described in Section 3(b)(iii) or by Executive as a result of resignation or voluntary termination due to any circumstance other than the material reductions, relocation or violations described in Section 3(c)(ii) above, there will be no amounts owed to the Executive under Section 4 or any other part of this Agreement, from and after the effectiveness of termination.

(k) The payments and benefits required by Section 3(f), 3(g), 3(h) or 3(i) as applicable, constitute severance and liquidated damages, and, except for payments that may be required pursuant to Section 10, the Company will be obligated to pay or cause to be paid any further amounts to Executive under this Agreement or otherwise be liable to Executive in connection with any termination.

(l) All determinations pursuant to this Section 3 shall be made by the Company's Board of Directors (not including Executive) in good faith.

(m) Termination of the Term of Employment will not terminate Sections 7 through 10 and 12 through 23, or any other provisions not associated specifically with the Term of Employment.

(n) In the event the Term of Employment is terminated and the Company is obligated to make or cause to be made payments pursuant to Section 3(f), the Executive will use his or her reasonable efforts to seek and obtain alternative employment; provided, however, that the Executive shall not be required to accept a position or positions of a substantially different character than the position(s) held by him or her under this Agreement; and provided further, if the Executive shall become physically or mentally disabled, he or she will not be under such duty. Moreover, in the event that after the Restricted Period pursuant to Section 8(a), Executive is employed by or engaged in a Competitive Business as contemplated by Section 8(a)(i), then the payments under Section 3(f) will thereupon cease.

(o) Notwithstanding any provision herein to the contrary, as a condition to payment of any amounts or provision of any benefits pursuant to Sections 3(f) through 3(i) or 10 of this Agreement (other than due to the Executive's death), the Executive shall be required to have executed a complete release of the Companies and related parties in such form as is reasonably required by the Company. Subject to Section 3(p), all payments and benefits under this Section 3 shall be paid or commenced on the sixtieth (60th) day following the date of termination of the Executive's employment, provided that the release described in the preceding sentence becomes irrevocable prior to such sixtieth (60th) day.

(p) Notwithstanding the foregoing, if the Executive is a "specified employee" within the meaning of Section 409A at the time of a termination, any portion of the payments under this Section 3 due hereunder during the first six months following the date of the Executive's termination, to extent that such payments constitute "deferred compensation" under Section 409A, shall not be paid during such six-month period and instead shall be paid on the first business day following the expiration of such six-month period. The remaining portion of the payments due hereunder shall be paid as provided in the applicable provisions of this Section 3.

4. Compensation

The Company shall pay or cause to be paid to Executive the following compensation:

(a) During the Term of Employment, the Company shall pay or cause to be paid to Executive as base compensation for his or her services hereunder, in monthly installments, a base salary at a rate of $235,000 per annum, as increased on an annual basis to reflect the increase in the United States Cost of Living Index for All Urban Consumer (CPI-U) for the Boston, Massachusetts area (the "CPI-U Index"). The CPI-U Index shall provide the basis for calculations of such increases. Notwithstanding the minimum increase set forth above, the Board of Directors of the Company or a committee thereof may establish a higher compensation level.

(b) During the Term of Employment, the Company shall pay or cause to be paid to Executive an annual bonus based on Executive's performance, as determined and approved by the Board of Directors of the Company or a committee thereof under the Safety Insurance Group, Inc. Annual Performance Incentive Plan, or any successor thereto. Such bonus will be at the full discretion of the Board of Directors of the Company or a committee thereof, and may not be paid at all. Executive acknowledges that no bonus has been agreed upon or promised.

5. Reimbursement of Expenses

During the Term of Employment, the Company shall reimburse or cause Executive to be reimbursed for documented travel, entertainment and other expenses reasonably incurred by Executive in connection with the performance of his or her duties hereunder and, in each case, in accordance with applicable rules, customs and usages promulgated by the Companies from time to time in effect. All reimbursements and in-kind benefits provided under this Agreement, shall be made or provided in accordance with the requirements of Section 409A, including, where applicable, the requirement that (a) any reimbursement shall be for expenses incurred during a specified period, (b) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year, (c) the reimbursement of an eligible expense shall be made on or before the last day of the calendar year following the year in which the expense is incurred (or such earlier date if specified in this Agreement), and (d) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

6. Benefits

During the Term of Employment, the Executive shall be entitled to perquisites, paid vacations and benefits (including health, short and long term disability, pension and life insurance benefits consistent with past practice, or as increased from time to time) established from time to time, by the Board of Directors of the Company for executives of the Companies, subject to the policies and procedures in effect regarding participation in such benefits.

7. Confidential Information

During and after the Term of Employment, Executive will not, directly or indirectly in one or a series of transactions, disclose to any person, or use or otherwise exploit for the Executive's own benefit or for the benefit of anyone other than the Companies, any Confidential Information, whether prepared by Executive or not; provided, however, that any Confidential Information may be disclosed to officers, representatives, employees and agents of the Companies who need to know such Confidential Information in order to perform the services or conduct the operations required or expected of them in the Business (as defined in Section 11). Executive shall use his or her best efforts to prevent the removal of any Confidential Information from the premises of the Companies, except as required in his or her normal course of employment by the Company. Executive shall use commercially reasonable efforts to cause all persons or entities to whom any Confidential Information shall be disclosed by him or her hereunder to observe the terms and conditions set forth herein as though each such person or entity was bound hereby. Executive shall have no obligation hereunder to keep confidential any Confidential Information if and to the extent disclosure of any thereof is specifically required by law; provided, however, that in the event disclosure is required by applicable law, the Executive shall provide the Companies with prompt notice of such requirement, prior to making any disclosure, so that the

Companies may seek an appropriate protective order. At the request of the Companies, Executive agrees to deliver to the Companies, at any time during the Term of Employment, or thereafter, all Confidential Information which he or she may possess or control. Executive agrees that all Confidential Information of the Companies (whether now or hereafter existing) conceived, discovered or made by him or her during the Term of Employment exclusively belongs to the Companies (and not to Executive). Executive will promptly disclose such Confidential Information to the Companies and perform all actions reasonably requested by the Companies to establish and confirm such exclusive ownership.

8. Non-Interference

(a) Executive acknowledges that the services to be provided give him or her the opportunity to have special knowledge of the Companies and their Confidential Information and the capabilities of individuals employed by or affiliated with the Companies and that interference in these relationships would cause irreparable injury to the Companies. In consideration of this Agreement, Executive covenants and agrees that:

(i) During the Restricted Period (which shall not be reduced by any period of violation of this Agreement by Executive or period which is required for litigation to enforce the rights hereunder), Executive will not, without the express written approval of the Board of Directors of the Company, anywhere in the Market, directly or indirectly, in one or a series of transactions, own, manage, operate, control, invest or acquire an interest in, or otherwise engage or participate in, whether as a proprietor, partner, stockholder, lender, director, officer, employee, joint venturer, investor, lessor, supplier, customer, agent, representative or other participant, in any business which competes, directly or indirectly, with the Business in the Market ("Competitive Business") without regard to (A) whether the Competitive Business has its office, manufacturing or other business facilities within or without the Market, (B) whether any of the activities of the Executive referred to above occur or are performed within or without the Market or (C) whether the Executive resides, or reports to an office, within or without the Market; provided, however, that (x) the Executive may, anywhere in the Market, directly or indirectly, in one or a series of transactions, own, invest or acquire an interest in up to five percent (5%) of the capital stock of a corporation whose capital stock is traded publicly, or that (y) Executive may accept employment with a successor company to the Company.

(ii) During the Restricted Period (which shall not be reduced by any period of violation of this Agreement by Executive or period which is required for litigation to enforce the rights hereunder), Executive will not without the express prior written approval of the Board of Directors of the Company (A) directly or indirectly, in one or a series of transactions, recruit, solicit or otherwise induce or influence any proprietor, partner, stockholder, lender, director, officer, employee, sales agent, joint venturer, investor, lessor, supplier, customer, agent, representative or any other person which has a business relationship with the Companies or had a business relationship with the Companies within the 24 month period preceding the date of the incident in question, to discontinue, reduce or modify such employment, agency or business relationship with the Companies, or (B) employ or seek to employ or cause any Competitive Business to employ or seek to employ any person or agent who is then (or was at any time within 24 months prior to the date the Executive or the Competitive Business employs or seeks to employ such person) employed or retained by the Companies. Notwithstanding the foregoing, nothing herein shall prevent the Executive from providing a letter of recommendation to an employee with respect to a future employment opportunity.

(iii) The scope and term of this Section 8 would not preclude Executive from earning a living with an entity that is not a Competitive Business.

(b) In the event that Executive breaches his or her obligations in any material respect under Section 7, this Section 8 or Section 9, the Company, in addition to pursuing all available remedies under this Agreement, at law or otherwise, and without limiting its right to pursue the same shall cease or cause to be ceased all payments to the Executive under this Agreement or any other agreement.

9. Non-Disparagement

During and after the Term of Employment, the Executive agrees that he or she shall not make any false, defamatory or disparaging statements about the Companies or the officers or directors of the Companies. During and after the Term of Employment, the Company agrees, on behalf of the Companies that neither the officers nor the directors of the Companies shall make any false, defamatory or disparaging statements about the Executive.

10. Code Section 280G Cutback

(a) If any payments or benefits paid or provided or to be paid or provided to the Executive or for his or her benefit pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his or her employment with the Company or the termination thereof (a “Payment”) would be subject to the excise tax (the “Excise Tax”) imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the “Code”), then the Payments shall be reduced to the extent necessary to prevent any portion of the Payments from becoming nondeductible by the Company under Section 280G of the Code or subject to the Excise Tax, but only if, by reason of that reduction, the net after-tax benefit received by the Executive exceeds the net after-tax benefit the Executive would receive if no reduction was made. For this purpose, “net after-tax benefit” means (i) the total of all Payments that would constitute “excess parachute payments” within the meaning of Section 280G of the Code, less (ii) the amount of all federal, state, and local income taxes payable with respect to the Payments calculated at the maximum marginal income tax rate for each year in which the Payments shall be paid to the Executive (based on the rate in effect for that year as set forth in the Code as in effect at the time of the first payment of the Payments), less (iii) the amount of the Excise Tax imposed on the Payments described in clause (i) above. If a reduction in Payments is necessary under this Section 10(a), the reduction shall be made in a manner set forth in (b).

(b) Any reduction of the Payments required under Section 10(a) shall be made in the following order: (i) first, any cash amounts payable to the Executive as a severance benefit as provided in Section 3(f)(ii), (g)(ii), (h)(ii), or (i)(ii) or otherwise; (ii) second, any amounts payable on behalf of the Executive for continued health insurance coverage under Section 3(f)(iii), g(iii), h(iii), or i(iii) or otherwise; (iii) third, any other cash amounts payable to or on behalf of the Executive under the terms of this Agreement or otherwise; (iv) fourth, any outstanding performance-based equity grants; and (v) finally, any time-vesting equity grants; in each case, the Payments shall be reduced beginning with Payments that would be made last in time.

(c) All determinations required to be made under this Section 10 shall be made by the public accounting firm that is retained by the Company (the “Accounting Firm”). The Accounting Firm shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from the Company or Executive that there has been a Payment, or such earlier time as is requested by the Company. All fees, costs and expenses (including, but not limited to, the costs of retaining experts) of the Accounting Firm shall be borne by the Company. The determination by the Accounting Firm shall be binding upon the Company and Executive.

11. Definitions

Capitalized terms used in this Agreement but not otherwise defined shall have the meanings set forth below:

"Business" means any business conducted, or engaged in, by the Companies prior to the date hereof or at any time during the Term of Employment.

"Cause" is defined in Section 3(c).

"Change of Control" means any of the following: (i) the closing of any merger, combination, consolidation or similar business transaction involving the Company in which the holders of Company Common Stock immediately prior to such closing are not the holders, directly or indirectly, of a majority of the ordinary voting securities of the surviving person in such transaction immediately after such closing, (ii) the closing of any sale or transfer by the Company of all or substantially all of its assets to an acquiring person in which the holders of Company Common Stock immediately prior to such closing are not the holders of a majority of the ordinary voting securities of the acquiring person immediately after such closings, or (iii) the closing of any sale by the holders of Company Common Stock of an amount of Company Common Stock that equals or exceeds a majority of the shares of Company Common Stock immediately prior to such closing to a person in which the holders of the Company Common Stock immediately prior to such closing are not the holders of a majority of the ordinary voting securities of such person immediately after such closing.

"Companies" means the Company and its successors or any of its direct or indirect parents or direct or indirect subsidiaries, now or hereafter existing.

"Company" is defined in the introduction.

"Competitive Business" is defined in Section 8(a)(i).

"Confidential Information" means any confidential information including, without limitation, any study, data, calculations, software storage media or other compilation of information, patent, patent application, copyright, trademark, trade name, service mark, service name, "know-how", trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans or any portion or phase of any scientific or technical information, ideas, discoveries, designs, computer programs (including source of object codes), processes, procedures, formulas, improvements or other proprietary or intellectual property of the Companies, whether or not in written or tangible form, and whether or not registered, and including all files, records, manuals, books, catalogues, memoranda, notes, summaries, plans, reports, records, documents and other evidence thereof. The term "Confidential Information" does not include, and there shall be no obligation hereunder with respect to, information that becomes generally available to the public other than as a result of a disclosure by the Executive not permissible hereunder.

"Executive" means Brian S. Lam or his estate, if deceased.

"Market" means any state in the United States of America and each similar jurisdiction in any other country in which the Business was conducted by or engaged in by the Companies prior to the date hereof or is conducted or engaged in, or in which the Companies are seeking authorization to conduct Business at any time during the Term of Employment.

"Regulations" is defined in Section 2(c).

"Restricted Period" means the date commencing on the date of this Agreement and ending on the later of (x) the date of termination of the Term of Employment or (y) the end of the applicable severance period provided under Section 3(f); provided, however, that the "Restricted Period" may be extended, in the sole discretion of the Company, for an additional period of up to twenty-four (24) months if the Company continues to pay or to cause to be paid to the Executive (i) the full amounts to which he or she would be entitled as base compensation under Section 4(a) and (ii) customary benefits, in each case during such extended period.

"Term of Employment" is defined in Section 3(a).

12. Notice

Any notice, request, demand or other communication required or permitted to be given under this Agreement shall be given in writing and if delivered personally, or sent by certified or registered mail, return receipt requested, as follows (or to such other addressee or address as shall be set forth in a notice given in the same manner):

If to Executive: Brian S. Lam
c/o Safety Insurance Group, Inc.
20 Custom House Street
Boston, Massachusetts 02110

If to Company: Safety Insurance Group, Inc.
20 Custom House Street
Boston, Massachusetts 02110
Attention: George M. Murphy

Any such notices shall be deemed to be given on the date personally delivered or such return receipt is issued.

13. Executive's Representation

Executive hereby warrants and represents to the Company that Executive has carefully reviewed this Agreement and has consulted with such advisors as Executive considers appropriate in connection with this Agreement, and is not subject to any covenants, agreements or restrictions, including without limitation any covenants, agreements or restrictions arising out of Executive's prior employment which would be breached or violated by Executive's execution of this Agreement or by Executive's performance of his or her duties hereunder.

14. Other Matters

(a) Executive agrees and acknowledges that the obligations owed to Executive under this Agreement are solely the obligations of the Company, and that none of the Companies' stockholders, directors, officers, affiliates, representatives, agents or lenders will have any obligations or liabilities in respect of this Agreement and the subject matter hereof.

(b) Notwithstanding anything contained herein to the contrary, the Companies may withhold from any amounts payable under, or benefits provided pursuant to, this Agreement all federal, state, local, and foreign taxes that are required to be withheld by applicable laws or regulations.

(c) In addition to any obligations imposed by law upon any successor to the Company, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

15. Validity

If, for any reason, any provision hereof shall be determined to be invalid or unenforceable, the validity and effect of the other provisions hereof shall not be affected thereby.

16. Severability

Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein. If any court determines that any provision of Section 8 or any other provision hereof is unenforceable and therefore acts to reduce the scope or duration of such provision, the provision in its reduced form shall then be enforceable.

17. Waiver of Breach; Specific Performance

The waiver by the Company or Executive of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other breach of such other party. Each of the parties (and third party beneficiaries) to this Agreement will be entitled to enforce its respective rights under this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of Sections 7, 8 and 9 of this Agreement and that any party (and third party beneficiaries) may in its sole discretion apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions in order to enforce or prevent any violations of the provisions of this Agreement. In the event either party takes legal action to enforce any of the terms or provisions of this Agreement, the nonprevailing party shall pay the successful party's costs and expenses, including but not limited to, attorneys' fees, incurred in such action. If the Executive prevails, the Company will reimburse the Executive's legal fees no later than 60 days after the end of the taxable year following the year in which the Executive incurs such the costs and expenses.

18. Assignment; Third Parties

Neither the Executive nor the Company may assign, transfer, pledge, hypothecate, encumber or otherwise dispose of this Agreement or any of his or her or its respective rights or obligations hereunder, without the prior written consent of the other. The parties agree and acknowledge that each of the Companies and the stockholders and investors therein are intended to be third party beneficiaries of, and have rights and interests in respect of, Executive's agreements set forth in Sections 7, 8 and 9.

19. Amendment; Entire Agreement

This Agreement may not be changed orally but only by an agreement in writing agreed to by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought. This

Agreement embodies the entire agreement and understanding of the parties hereto in respect of the subject matter of this Agreement, and supersedes and replaces all prior agreements, understandings and commitments with respect to such subject matter, including, without limitation, the Prior Employment Agreement and that certain Employment Agreement, between Executive and Safety Insurance Company.

20. Litigation

THIS AGREEMENT SHALL BE GOVERNED BY, CONSTRUED, APPLIED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS, EXCEPT THAT NO DOCTRINE OF CHOICE OF LAW SHALL BE USED TO APPLY ANY LAW OTHER THAN THAT OF MASSACHUSETTS, AND NO DEFENSE, COUNTERCLAIM OR RIGHT OF SET-OFF GIVEN OR ALLOWED BY THE LAWS OF ANY OTHER STATE OR JURISDICTION, OR ARISING OUT OF THE ENACTMENT, MODIFICATION OR REPEAL OF ANY LAW, REGULATION, ORDINANCE OR DECREE OF ANY FOREIGN JURISDICTION, BE INTERPOSED IN ANY ACTION HEREON. EXECUTIVE AND THE COMPANY AGREE THAT ANY ACTION OR PROCEEDING TO ENFORCE OR ARISING OUT OF THIS AGREEMENT SHALL BE COMMENCED IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS LOCATED IN BOSTON, MASSACHUSETTS OR THE UNITED STATES DISTRICT COURTS IN BOSTON, MASSACHUSETTS. EXECUTIVE AND THE COMPANY CONSENT TO SUCH JURISDICTION, AGREE THAT VENUE WILL BE PROPER IN SUCH COURTS AND WAIVE ANY OBJECTIONS BASED UPON FORUM NON CONVENIENS. THE CHOICE OF FORUM SET FORTH IN THISSECTION 20 SHALL NOT BE DEEMED TO PRECLUDE THE ENFORCEMENT OF ANY JUDGMENT OBTAINED IN SUCH FORUM OR THE TAKING OF ANY ACTION UNDER THIS AGREEMENT TO ENFORCE SAME IN ANY OTHER JURISDICTION.

21. Further Action

Executive and the Company agree to perform any further acts and to execute and deliver any documents which may be reasonable to carry out the provisions hereof.

22. Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

23. Section 409A

To the extent applicable, it is intended that this Plan comply with, and should be interpreted consistent with, the requirements of Section 409A.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first written above.

EXECUTIVE:

/s/ BRIAN S. LAM
Name: Brian S. Lam

SAFETY INSURANCE GROUP, INC.:

/s/ GEORGE M. MURPHY
Name: George M. Murphy
Title: President, CEO and Director

Safety Insurance Group, Inc.
AMENDED AND RESTATED
ANNUAL PERFORMANCE INCENTIVE PLAN

Section 1. Establishment and Purpose

Safety Insurance Group, Inc. (hereinafter referred to as the “Company”) hereby establishes a short-term incentive compensation plan to be known as the “Safety Insurance Group, Inc. Annual Performance Incentive Plan” (hereinafter referred to as the “Plan”).

The purpose of the Plan is to provide designated key employees of the Company with meaningful financial rewards for the accomplishment of financial and strategic objectives of the Company.

Section 2. Definitions

Unless the context requires otherwise, the following words, when capitalized, shall have the meanings ascribed below:

(a) “Board” means the Board of Directors of the Company.

(b) “Code” means the Internal Revenue Code of 1986, as amended.

(c) “Committee” means the Compensation Committee of the Board of Directors.

(d) “Company” means Safety Insurance Group, Inc.

(f) “Participant” means each employee selected by the Committee to participate in the Plan.

(g) “Performance Period” means the fiscal year of the Company or such other periods as may be designated by the Committee.

(h) “Plan” means the Safety Insurance Group, Inc. Annual Performance Incentive Plan, as may be amended from time to time.

(i) “Subsidiary” means any corporation in which the Company owns, directly or indirectly, at least fifty percent (50%) of the total combined voting power of all classes of stock, or any other entity (including, but not limited to, partnerships and joint ventures) in which the Company owns, directly or indirectly, at least fifty percent (50%) of the combined equity thereof.

Section 3. Administration

The Plan shall be administered by the Compensation Committee of the Board of Directors. The Committee shall have responsibility to construe and interpret the Plan. The Committee shall establish the performance objectives for any Performance Period in accordance with Section 5 and certify whether such performance objectives have been achieved. Any determination made or decision or action taken or to be taken by the Committee, arising out of or in connection with the construction, administration, interpretation and effect of the Plan and of its rules and regulations, shall, to the fullest extent permitted by law be within the Committee’s absolute discretion and shall be conclusive and binding on all persons, including the Company, its Subsidiaries, its stockholders, the Participants and their estates and beneficiaries.

The Committee may employ such legal counsel, consultants and agents (including counsel or agents who are employees of the Company) as it may deem desirable to assist with the administration of the Plan and may rely upon any opinion received from any such counsel, consultant or agent and any computation received from such consultant or agent. All expenses incurred in the administration of the Plan, including, without limitation, for the engagement of any counsel, consultant or agent, shall be paid by the Company. No member or former member of the Board or the Committee shall be liable for any act, omission, interpretation, construction or determination made in connection with the Plan other than as a result of such individual's willful misconduct.

Section 4. Eligibility

Eligibility under the Plan is limited to Participants designated by the Committee, in its sole and absolute discretion. The Committee may designate as a Participant in the Plan any "executive officer" of the Company, as such term is defined in Rule 3b-7 of the Securities Exchange Act of 1934. Members of the Board who are not employees of the Company shall not be eligible to participate in the Plan.

Section 5. Determination of Incentive Awards

(a) *Designation of Participants, Performance Period and Performance Criteria* . On or before the end of the first 90 days of each Performance Period, the Committee shall select the Participants to whom incentive awards shall be granted, designate the applicable Performance Period, establish the Target Incentive Bonus for each Participant, and establish the performance objective or objectives that must be satisfied in order for a Participant to receive an incentive award for such Performance Period. Any such performance objectives will be based upon the relative or comparative achievement of one or more of the following criteria, as determined by the Committee:

(i) net income,
(ii) earnings before income taxes,
(iii) earnings per share,
(iv) return on shareholders equity,
(v) expense management,
(vi) profitability of an identifiable business unit or product,
(vii) ratio of claims to revenues,
(viii) revenue growth,
(ix) earnings growth,
(x) total shareholder return,
(xi) cash flow,
(xii) return on assets,
(xiii) pretax operating income,
(xiv) net economic profit (operating earnings minus a charge for capital),
(xv) customer satisfaction,
(xvi) agency satisfaction,
(xvii) employee satisfaction,
(xviii) quality of services,
(xix) strategic innovation,
(xx) any other performance objective, criteria or measure selected by the Committee; or
(xxi) any combination of the foregoing.

(b) *Target Incentive Bonus.* Each Participant will have an incentive award opportunity (the "Target Incentive Bonus") that will be based on achieving the target performance objectives established by the Committee. The Target Incentive Bonus will be a percentage of the Participant's annual salary at the end of the Performance Period. If the performance objectives established by the Committee are met at the target level, the Participant will receive an incentive award equal to 100% of the Target Incentive Bonus.

(c) *Range of Incentive Payouts.* The incentive awards under this Plan can range between 50% and 150% of the Target Incentive Bonus. This range will be associated with the actual performance achieved by the Participant and the Company as reviewed and approved by the Committee.

(d) *Determination of Performance.* The Participant will have a portion of his or her award linked to the financial and business performance of the Company and a portion linked to his or her individual performance and/or the performance of his or her corresponding business unit. The weighting and goals will be established by the Committee pursuant to Section 5(a) above; provided, however, that except with respect to award opportunities for the Chief Executive Officer (the "CEO") of the Company, the Committee may receive input from the CEO with respect to the foregoing.

(e) *Committee Certification and Approval of Awards.* As soon as reasonably practicable after the end of each Performance Period, the Committee will (i) determine whether the performance objectives for the Performance Period have been satisfied, (ii) determine the amount of the incentive award to be paid to each Participant for such Performance Period and (iii) certify such determination in writing. If the individual or Company does not meet the minimum performance requirements, the Participant will receive no incentive award for the specified Performance Period.

(f) *Committee Discretion.* Notwithstanding the foregoing, the Committee retains the discretion to increase, reduce or eliminate the amount of the incentive award otherwise payable to such Participant under this Section 5.

(g) *Methodology for Determinations.* In making a determination under any part of this Section 5, the Committee shall give consideration to such factors as it deems appropriate, including, without limitation, the degree to which the established performance objectives have been obtained and whether the Participant has materially contributed to the overall results of the Company. To assist in making such determinations, the Committee may seek input from the CEO (except with respect to the CEO's own award) and may request such other advice and recommendations as it deems appropriate.

Section 6. Payment of Incentive Awards

(a) *General Rule.* Except as otherwise expressly provided hereunder, payment of any incentive amount determined under Section 5 shall be made to each Participant as soon as practicable after the Committee certifies that one or more of the applicable performance objectives have been attained. Any such payments shall be made in cash or, at the discretion of the Committee, in an equivalent value of shares of common stock of the Company. Notwithstanding the foregoing, any payment under the Plan shall be made no later than March 15 of the calendar year following the Performance Period.

(b) *Voluntary Deferral.* Notwithstanding Section 6(a), the Committee may permit a Participant to defer all or a portion of an incentive award otherwise payable pursuant to the Participant's timely and validly made election made in accordance with such terms as the Company, the Board or committee thereof may determine.

(c) *Change in Control*. Upon the occurrence of a Change in Control (as such term is defined in a Participant's employment agreement with the Company, or in the absence of such agreement, in the Amended & Restated Safety Insurance Group, Inc. 2018 Long-Term Incentive Plan, as amended from time to time), all performance objectives for the then current Performance Period shall be deemed to have been achieved at target levels of performance and the Committee shall cause each Participant to be paid an amount in cash based on such assumed performance prorated for the Performance Period as soon as practicable but in no event later than 30 business days following the occurrence of such Change in Control.

Section 7. Termination of Employment

Unless otherwise determined by the Committee, a Participant shall have no right to an incentive award under the Plan for any Performance Period in which the Participant is not actively employed by the Company or a Subsidiary on the last day of the Performance Period to which such award relates.

Section 8. Amendment or Termination of the Plan

The Board or the Committee may at any time amend, suspend, discontinue or terminate the Plan; provided, however, that no such action shall be effective without approval by the shareholders of the Company to the extent required by applicable law. Notwithstanding the foregoing, no amendment, suspension, discontinuance or termination of the Plan shall adversely affect the rights of any Participant or beneficiary in respect of any award that the Committee has determined to be payable to a Participant in accordance with the terms hereof or as to any amounts awarded.

Section 9. General Provisions

(a) *Effective Date and Duration of the Plan.* The Plan shall be effective with respect to calendar years beginning on or after January 1, 2024. The Plan will remain in effect until such time as it shall be terminated by the Board, pursuant to Section 8 above.

(b) *Designation of Beneficiary.* Each Participant may designate a beneficiary or beneficiaries (which beneficiary may be an entity other than a natural person) to receive any payments which may be made following the Participants death. Such designation may be changed or canceled at any time without the consent of any such beneficiary. Any such designation, change or cancellation must be made in a form approved by the Committee and shall not be effective until received by the Committee. If no beneficiary has been named, or the designated beneficiary or beneficiaries shall have predeceased the Participant, the beneficiary shall be the Participant's spouse or, if no spouse survives the Participant, the Participant's estate. If a Participant designates more than one beneficiary, the rights of such beneficiaries shall be payable in equal shares, unless the Participant has designated otherwise.

(c) *No Right of Continued Employment.* Nothing contained in the Plan shall create any rights of employment in any Participant or in any way affect the right and power of the Company to discharge any Participant or otherwise terminate the Participant's employment at any time with or without cause or to change the terms of employment in any way.

(d) *No Limitations on Corporate Actions.* Nothing contained in the Plan shall be construed to prevent the Company from taking any corporate action (including, without limitation, making provision for the payment of other incentive compensation, whether payable in cash or otherwise, or whether pursuant to a plan or otherwise) which is deemed by it to be appropriate or in its best interest, whether or not such action would have an adverse effect on any awards made under the Plan. No employee, beneficiary or other person shall have any claim against the Company as a result of any such action.

(e) *No Right to Specific Assets.* Nothing contained in the Plan (including, without limitation, the provisions of Section 6 hereof) shall be construed to create in any Participant or beneficiary any claim against, right to or lien on any particular assets of the Company or to require the Company to segregate or otherwise set aside any assets or create any fund to meet any of its obligations hereunder.

(f) *No Contractual Right to Incentive.* Nothing in this Plan shall be construed to give any Participant any right, whether contractual or otherwise, to receive any incentive with respect to any Performance Period unless and until the Committee shall have expressly determined that such a Participant is entitled to receive such an award pursuant to the terms of the Plan.

(g) *Non-alienation of Benefits.* Except as expressly provided herein, no Participant or beneficiary shall have the power or right to sell, transfer, assign, pledge or otherwise encumber the Participant's interest under the Plan.

(h) *Withholding.* Any amount payable to a Participant or a beneficiary under this Plan shall be subject to any applicable Federal, state and local income and employment taxes and any other amounts that the Company is required at law to deduct and withhold from such payment.

(i) *Severability.* If any provision of this Plan is held unenforceable, the remainder of the Plan shall continue in full force and effect without regard to such unenforceable provision and shall be applied as though the unenforceable provision were not contained in the Plan.

(j) *Governing Law.* To the extent not preempted by federal law, the Plan shall be construed in accordance with and governed by the laws of the state of New York, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction.

(k) *Code Section 409A Compliance*. To the extent applicable, it is intended that this Plan and any incentive awards granted hereunder comply with or be exempt from the requirements of Section 409A of the Code and any related regulations or other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service ("Section 409A"). Any provision that would cause the Plan or any incentive award granted hereunder to fail to comply with or be exempt from Section 409A shall have no force or effect until amended to comply with Section 409A, which amendment may be retroactive to the extent permitted by Section 409A.

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):

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

May 9, 2024

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Christopher T. Whitford, Chief Financial 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):

    a) 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)

May 9, 2024

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 March 31, 2024 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)

May 9, 2024

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 March 31, 2024 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)

May 9, 2024