**COMMONWEALTH OF MASSACHUSETTS**

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**

**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF THE***

# SAFETY INDEMNITY INSURANCE COMPANY

**Boston, Massachusetts**

**As of December 31, 2013**

**NAIC GROUP CODE 00188**

**NAIC COMPANY CODE 33618**

**EMPLOYER ID NUMBER 04-3051706**

## SAFETY INDEMNITY INSURANCE COMPANY

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# COMMONWEALTH OF MASSACHUSETTS
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**GARY D. ANDERSON**
ACTING COMMISSIONER OF INSURANCE

January 14, 2015

Honorable Gary D. Anderson
Acting Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

**SAFETY INDEMNITY INSURANCE COMPANY**

at its home office located at 20 Custom House Street, Boston, Massachusetts 02110. The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

Safety Indemnity Insurance Company ("Company" or "SIIC") was last examined as of December 31, 2008, by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the five-year period from January 1, 2009 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The current examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, employees' benefits plans, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by PricewaterhouseCoopers LLP ("PwC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2009 through 2013. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective. An independent actuarial consulting firm, INS Consultants, Inc. ("INS") was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2013. Additionally, the Division engaged INS Services, Inc. to review the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

## SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings identified during the examination.

## SUBSEQUENT EVENTS

Subsequent to December 31, 2013, the Company modified its catastrophic coverage from four layers to three layers. Safety Insurance Group ('SIG") purchased three layers of excess catastrophe reinsurance coverage for property losses in excess of $50,000,000 up to a maximum of $565,000,000. The first layer limit is $100,000,000, the second layer limit is $280,000,000 and the third layer is $135,000,000. The reinsurers' co-participation is a follows:

| Layers | Co-Participation Percentage | Amount |
|---|---|---|
| First layer | 65% | $100,000,000 |
| Second layer | 80% | $280,000,000 |
| Third layer | 80% | $135,000,000 |

On December 18, 2014, the Articles of Organization were amended to change the authorized capital stock from 200,000 shares of no par value common stock to 200,000 shares of common stock with a par value of $17.50 per share. This resulted in a change in Capital Stock from $1,150,000 to $3,500,000.

## COMPANY HISTORY

### General

The Company was organized and incorporated on May 10, 1989, under the laws of the Commonwealth of Massachusetts, as a stock company titled "Safety Indemnity Insurance Company." It commenced business on March 1, 1990. As a licensed property and casualty insurer, the Company is subject to the provisions of Massachusetts General Law ("M.G.L."), Chapter 175, Section 4 and other Massachusetts insurance laws.

The Company writes commercial automobile, homeowners, business owners, dwelling fire, and commercial umbrella insurance at preferred rates. It is authorized to write the following lines of insurance coverage: fire, ocean & inland marine, boiler (no inspection), accidents – all kinds, liability other than auto, auto liability, glass, water damage and sprinkler leakage, elevator property damage and collision, burglary, robbery, theft, repair – replacement, stock companies (extension of coverage), reinsurance except life, comprehensive motor vehicle & aircraft, and personal property floater.

### Capital Stock

Safety Insurance Company ("SIC") owns the Company. SIG, a Delaware corporation, owns all of the outstanding shares of SIC. SIG was established on October 16, 2001, and consists of the senior management team of the Company and certain private investors who purchased the former holding company, Thomas Black Corporation ("TBC"), from its prior owners. The Company and SIC became part of the holding company system.

In November of 2002, SIG completed an initial public offering of 7,233,334 shares of common stock and obtained a new $30.0 million revolving credit facility, the proceeds of which were applied to repay the principal and interest on the entire debt associated with the formation of SIG and its acquisition of TBC and TBC's subsidiaries. The percentage of common stock in SIG owned by the officers of the Company was thereby diluted. SIG is traded on the NASDAQ Global Select Market under the symbol "SAFT."

In order to streamline the organizational structure, on March 31, 2004, TBC merged with and into SIG, with SIG being the corporation surviving the merger. This change had no effect upon the group's financial condition or results of operations. Safety Property and Casualty Insurance Company ("SPC") became part of the holding company system on December 27, 2006.

From the Company's incorporation in early 1969 until late 1995, the authorized capital stock of the Company had been 200,000 shares of no par value common stock. On December 15, 1995, by vote of the Company's Board of Directors and subsequent filing duly made with the Secretary of State for the Commonwealth, the Articles of Organization were amended and the authorized capital stock was changed to 25,000 shares of no par value common stock. All of the outstanding stock is held by SIC. Ownership of the Company's stock and its authorized number of shares has not changed in the period under examination.

On December 18, 2014, the Articles of Organization were amended to change the no par value common stock to a common stock with a par value. Please see Subsequent Events on page three.

Dividends to Stockholders

The Company paid no stockholder dividends to its sole shareholder during the examination period.

## CORPORATE RECORDS

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its committees for the period under examination were read, and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at meetings of the Board of Directors. The previous Report of Examination was reviewed by the Board of Directors as required by Massachusetts statute. Affidavits were signed and submitted on May 11, 2010.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. On October 16, 2001, the Board of Directors voted that the Company's bylaws be amended and restated in their entirety. The Company complied with M.G.L. Chapter 175, Sections 50 & 50B by filing the bylaws with the Division. Throughout this Report of Examination, references are to such amended and restated bylaws as were in effect at December 31, 2013.

Conflict of Interest Procedures

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 14 of Part 1 Common Interrogatories of the Annual Statement, the Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties. Annually, each officer or director or responsible employee completes a questionnaire disclosing any material conflicts of interests. The completed questionnaires were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the Company's 2013 Annual Statement.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. Chapter 175, Sections 180M through 180Q.

## MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the Company shall be managed by a Board of Directors which may exercise all of the powers of the Company except those exclusively conferred upon or reserved solely to the stockholders. The Board of Directors shall consist of at least five and no more than seven members. Directors shall be elected by a plurality of the votes cast at annual meetings of the stockholders and each Director so elected shall hold office until the next annual meeting of stockholders and thereafter until a successor is duly elected and qualified, or until his sooner resignation or removal. Any Director may resign at any time upon notice to the Company. Directors need not be stockholders.

At December 31, 2013, the Company's Board of Directors consisted of the following Company officers:

| Name of Director | Title |
|---|---|
| David F. Brussard | President and Chief Executive Officer |
| William J. Begley, Jr. | Treasurer and Chief Financial Officer |
| David E. Krupa | Vice President |
| Daniel D. Loranger* | Vice President |
| Edward N. Patrick, Jr. | Secretary |

* Daniel D. Loranger retired on July 18, 2014, and in accordance with M.G.L. Chapter 156B and the bylaws of the Company, George M. Murphy was elected to fill the vacancy.

** In accordance with M.G.L. Chapter 156B, the number of Board of Directors was expanded to six (6) on July 18, 2014. James D. Berry was elected as a Director to fill the vacancy created by expansion of the Board of Directors.

## Committees of the Board of Directors

The Company's bylaws allow that the Board of Directors may, by the affirmative vote of a majority of the Directors then in office, appoint committees consisting of one or more Directors. In accord therewith, the Board of Directors appointed an Investment Committee to monitor the performance of the Company's investments and authorize the purchase and/or sale of securities. The Investment Committee is composed of Directors David F. Brussard and William J. Begley, Jr., and A. Richard Caputo, Jr., a member of the Board of Directors of SIG. Minutes of the Investment Committee documented regular meetings of these Investment Committee members with representatives of the Company's investment advisors/managers: Deutsche Asset Management ("Deutsche") and Wellington Management Company, LLP ("Wellington").

The Company does not have a formal Audit Committee. This function is addressed by the Audit Committee of its ultimate parent company, SIG. The SIG Audit Committee is composed of independent Directors Peter J. Manning, Chairman, David McKown, and Frederic H. Lindeberg.

## Officers

According to the Company's bylaws, the Board of Directors shall elect the officers of the Company. The officers of the Company shall be the President, the Treasurer, and the Secretary, and such other officers and agents, with duties and powers, as the Board of Directors may in its discretion determine. The President, the Treasurer, and the Secretary shall be elected annually by the Directors at their first meeting following the annual meeting of stockholders; other officers may be chosen by the Directors at such meeting or at any other meeting. The term of office for each officer shall be one year or until respective successors are elected and qualified or until earlier resignation or removal. An officer may but need not be a Director or stockholder and no officer shall be a Director solely by virtue of being an officer.

The bylaws state that the President shall be the Chief Executive Officer of the Company. Except as otherwise voted by the Board of Directors, the President shall preside at all meetings of the stockholders and of the Board of Directors at which he is present. The President shall have such duties and powers as are commonly incident to the office and such duties and powers as the Board of Directors shall from time to time designate. In addition to what is defined explicitly in the bylaws, the Company's officers shall have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be conferred by the Board of Directors. Except as otherwise required or prohibited by law, any two or more offices may be held by the same person.

The officers of the Company at December 31, 2013, as follows:

| Name of Officer | Title |
|---|---|
| David F. Brussard | President and Chief Executive Officer |
| William J. Begley, Jr. | Treasurer and Chief Financial Officer |
| Edward N. Patrick, Jr. | Secretary |
| James D. Berry | Vice President |
| David E. Krupa | Vice President |
| Daniel D. Loranger* | Vice President |
| George M. Murphy | Vice President |
| Paul J. Narciso | Vice President |

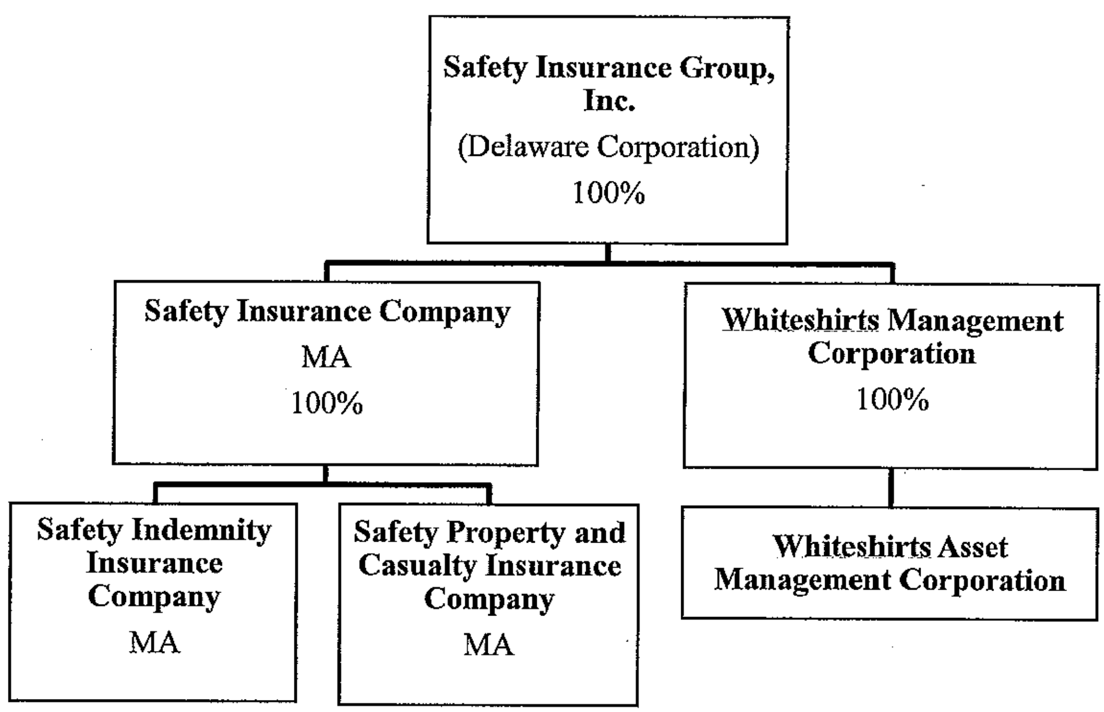
* Daniel D. Loranger retired on July 18, 2014, and in accordance with M.G.L. Chapter 156B and the bylaws of the Company, George M. Murphy was elected to fill the vacancy and Stephen A. Varga was elected to the office of Vice President of Management Information Systems.

Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L. Chapter 175, Section 206C and Regulation 211 CMR 7.00. Ultimate control of the holding Company system is held by the owners of SIG, a Delaware corporation, the sole business of which is ownership of the group. The Company became part of the holding company system on October 16, 2001.

Organization Chart

At December 31, 2013, the following Companies were part of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

*Administrative Services Agreements*
The three cost sharing agreements involving SIC, SIIC and SPC are two administrative services agreements, and an intercompany pooling agreement. The insurance company subsidiaries participate in a consolidated tax sharing agreement. The agreements are described briefly in the following summaries:

Effective January 1, 2004, SIC and SIIC entered into an Administrative Service Agreement, pursuant to which SIIC receives certain administrative and managerial services from SIC, as compensation for which SIIC pays the actual costs and expenses incurred by SIC for providing such services.

SIC and SPC entered into an Administrative Service Agreement effective on January 1, 2007, pursuant to which SPC receives certain administrative and managerial services from SIC, as compensation for which SPC pays the actual costs and expenses incurred by SIC for providing such services.

SIC, SIIC, and SPC entered into an Intercompany Pooling Agreement effective on January 1, 2007 covering all lines of business underwritten by the companies. A new Intercompany Pooling Agreement was executed on March 10, 2011, in order to comply with criteria for pooled affiliations of A.M. Best Companies. The new Intercompany Pooling Agreement was on file with the Division in accordance with M.G.L. Chapter 175 Section 206C.

An Amended and Restated Tax Sharing Agreement dated February 28, 2002 was executed by and among SIG, SIC, SIIC, Whiteshirts Management Corporation (f/k/a RBS, Inc.), and Whiteshirts Asset Management Corporation (f/k/a Thomas Black Insurance Agency, Inc.). SPC automatically became subject to this agreement, pursuant to the terms of the agreement, upon its incorporation. SIG files its consolidated federal income tax return, consolidated foreign, state and local tax returns with all of SIG's subsidiaries. SIG shall pay all taxes due for the group and each subsidiary shall pay to SIG an amount determined as if such subsidiary had filed its own separate tax return.

## FIDELITY BONDS AND OTHER INSURANCE

SIG maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L., Chapter 175, and Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interest and property by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts, and the policies were in force as of December 31, 2013.

## PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no retirement, deferred compensation, or other post-retirement benefit plans. The Company itself did not have employees as all personnel were provided to the Company by SIC under a management services agreement. Health, life, retirement, and stock ownership benefits were provided to those employees through SIC.

## TERRITORY AND PLAN OF OPERATION

The Company currently is licensed to write business in Massachusetts and New Hampshire.

Treatment of Policyholders

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company as of December 31, 2013. The market conduct examination was called pursuant to authority in M.G.L. Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose and Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under this comprehensive market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

## GROWTH OF COMPANY

The growth of the Company for the years 2009 through 2013 is shown in the following schedule, which was prepared from the Company's annual statements.

| Year | Admitted Assets | Liabilities | Surplus | Net Premiums Written |
|---|---|---|---|---|
| 2009 | $ 91,224,295 | $48,281,785 | $42,942,510 | $37,284,025 |
| 2010 | 92,980,343 | 47,994,736 | 44,985,607 | 40,376,490 |
| 2011 | 97,276,150 | 49,725,702 | 47,550,448 | 43,422,126 |
| 2012 | 103,945,776 | 53,142,841 | 50,802,935 | 46,475,915 |
| 2013 | 110,082,116 | 55,949,654 | 54,132,462 | 48,827,804 |

## LOSS EXPERIENCE

The Company experienced an increase in incurred losses and loss adjustment expenses ("LAE") in recent years, resulting in an increasing loss ratio, which peaked in 2011 at 78% in 2011 due to several weather related events. The Company's loss ratio for the years 2013 and 2012 remained constant at 65.7%.

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Premiums earned | $37,237,800 | $38,636,488 | $41,885,793 | $44,972,814 | $47,730,869 |
| Losses and LAE incurred | $24,241,065 | $25,259,369 | $32,664,803 | $29,555,183 | $31,342,443 |
| Loss ratio | 65.1% | 65.4% | 78.0% | 65.7% | 65.7% |

Losses and LAE incurred for the year ended December 31, 2013 increased by $1,787,260, or 6.0 % to $31,342,443 from $29,555,183 for the comparable 2012 period. Losses and LAE incurred as a percentage of premiums increased slightly from 65 % in 2009 to 66% in 2013.

See commentary on the reasonableness of the loss and LAE reserves under Note 1 of the Comments on Financial Statement Items section of this Report of Examination.

## REINSURANCE

Ceded Reinsurance

Effective January 1, 2013, the Company purchased four layers of excess catastrophe reinsurance providing coverage for property losses in excess of $50,000,000 up to a maximum of $565,000,000. The lines of business covered are commercial multiple peril (Section I), allied lines, fire, homeowners (Section I), inland marine and auto - private passenger and commercial. The reinsurers' co-participation was as follows:

| Layers | Co-Participation Percentage | Amount |
|---|---|---|
| First layer | 50% | $ 50,000,000 |
| Second layer | 80% | $ 80,000,000 |
| Third layer | 80% | $250,000,000 |
| Fourth layer | 80% | $135,000,000 |

Effective since January 1, 2009, the Company purchased from Swiss Re a casualty excess of loss reinsurance coverage for large casualty losses in automobile, homeowners, dwelling fire, business owners, and commercial package lines of business in excess of $2,000,000 up to $10,000,000.

Effective January 1, 2013, the Company purchased from Swiss Re an excess of loss reinsurance coverage for large umbrella losses in excess of $1,000,000 up to a maximum of $10,000,000, with retention of 5% in excess of $1,000,000 for personal and commercial lines of business.

Through a reinsurance intermediary, Aon Benfield, the Company purchased property excess of loss reinsurance coverage via Lloyds of London Underwriters & Bermuda Companies for large property losses, with coverage in excess of $2,000,000 up to a maximum of $18,000,000.

The Company has a quota share agreement with the Hartford Steamboiler Inspection and Insurance Company effective August 1, 2010, under which it cedes 100% of the premiums and losses for equipment breakdown coverage up to $50,000 for business owner policies and commercial package policies and a Service line failure with coverage up to $10,000.

Assumed Reinsurance

Other than mandatory pools and associations, the Company does not assume reinsurance from non-affiliated companies; its reinsurance is limited to an Intercompany Pooling Agreement.

*Intercompany Pooling Agreement*
SIC and its wholly-owned subsidiaries SIIC and SPC entered into an Intercompany Pooling Agreement effective January 1, 2007, that covers all lines of business underwritten by the companies. A new Intercompany Pooling Agreement was executed on March 10, 2011, and it became effective January 1, 2011. SIIC and SPC cede 100% of their direct net liability under all direct insurance business written to SIC, and SIC retrocedes the pooled results to the participants based on their percentage share of the pool. SIC retains 90% of the pooled business, SIIC assumes 7% of the pool, and SPC assumes 3% of the pool. SIC, SIIC and SPC reinsure certain risks with other insurance organizations for the purpose of limiting their exposure to catastrophic occurrences that could produce large losses, primarily in their homeowner line of business.

## ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's independent certified public accounting firm. Testing of the following key activities was performed: investments; premiums and underwriting; reserves and claims; reinsurance ceded; and other assets and liabilities and equity. No material deficiencies were noted. The Company's claims inventory was tested on a sample basis for completeness and accuracy. No material errors or exceptions were detected.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network ("LAN"), Wide Area Network ("WAN") and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input into this data processing system, which then generates general ledger and supporting reports as well as other reports common to the insurance industry. No material exceptions were noted. The books and records of the Company are audited annually by PwC, independent certified public accountants, in accordance with 211 CMR 23.00 and 211 CMR 26.00.

## STATUTORY DEPOSITS

The Company's statutory deposits as of December 31, 2013, are as follows:

| Jurisdiction | Description of Deposit | Par Value | Statement Value | Market Value |
|---|---|---|---|---|
| New Hampshire | U.S Treasury N/B Maturity 12/31/16 | $500,000 | $503,533 | $501,175 |
| | | $500,000 | $503,533 | $501,175 |

## FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance and by the NAIC as of December 31, 2013:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Statement of Capital and Surplus for the Year Ended December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2013

Safety Indemnity Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2013

| **Assets** | As Reported by the Company | Examination Changes | Per Statutory Examination |
|---|---|---|---|
| Bonds | $83,346,757 | $ 0 | $83,346,757 |
| Cash | 7,735,768 | | 7,735,768 |
| Subtotals, cash and invested assets | 91,082,525 | 0 | 91,082,525 |
| | | | |
| Investment income due and accrued | 480,745 | | 480,745 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in course of collection | 618,751 | | 618,751 |
| Deferred premium, agents' balances booked but deferred and not yet due | 15,505,422 | | 15,505,422 |
| Net deferred tax asset | 2,179,303 | | 2,179,303 |
| Equities and deposits in pools and associations | 215,370 | | 215,370 |
| Total Assets | $110,082,116 | $ 0 | $110,082,116 |

Safety Indemnity Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (continued)
As of December 31, 2013

| **Liabilities** | As Reported by the Company | Examination Changes | Per Statutory Examination | Notes |
|---|---|---|---|---|
| Losses | $23,633,951 | $ 0 | $23,633,951 | (1) |
| Loss adjustment expenses | 3,992,822 | | 3,992,822 | (1) |
| Commissions payable, contingent commissions and other similar charges | 2,298,303 | | 2,298,303 | |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 32,101 | | 32,101 | |
| Unearned premiums (after deducting unearned premiums for ceded reinsurance of $64,400,559) | 24,687,856 | | 24,687,856 | |
| Advance premium | 1,304,621 | | 1,304,621 | |
| Total Liabilities | 55,949,654 | 0 | 55,949,654 | |
| | | | | |
| Common capital stock | 1,150,000 | | 1,150,000 | |
| Gross paid in and contributed surplus | 4,902,195 | | 4,902,195 | |
| Unassigned funds (surplus) | 48,080,267 | | 48,080,267 | |
| Surplus as regards policyholders | 54,132,462 | 0 | 54,132,462 | |
| Total Liabilities, Surplus and Other Funds | $110,082,116 | $ 0 | $110,082,116 | |

Safety Indemnity Insurance Company
Statement of Income
For the Year Ended December 31, 2013

| | As Reported by the Company | Examination Changes | Per Statutory Examination |
|---|---|---|---|
| Premiums earned | $47,730,869 | $ 0 | $47,730,869 |
| Deductions: | | | |
| Losses incurred | 26,969,306 | | 26,969,306 |
| Loss adjustment expenses incurred | 4,373,137 | | 4,373,137 |
| Other underwriting expenses incurred | 14,807,924 | | 14,807,924 |
| Total underwriting deductions | 46,150,367 | 0 | 46,150,367 |
| Net underwriting gain (loss) | 1,580,502 | 0 | 1,580,502 |
| Net investment income earned | 2,339,560 | | 2,339,560 |
| Net realized capital gains (losses) less capital gains tax of $17,725 | 32,918 | | 32,918 |
| Net investment gain (loss) | 2,372,478 | 0 | 2,372,478 |
| Finance and service charges not included in premium | 1,057,313 | 0 | 1,057,313 |
| Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 5,010,294 | 0 | 5,010,294 |
| Federal and foreign income taxes incurred | 1,753,674 | 0 | 1,753,674 |
| Net income (loss) | $3,256,620 | $ 0 | $3,256,620 |

Safety Indemnity Insurance Company
Statement of Capital and Surplus
For the Year Ended December 31, 2013

| | As Reported by the Company | Examination Changes | Per Statutory Examination |
|---|---|---|---|
| Surplus as regards policyholders, December 31 prior year | $50,802,935 | $ 0 | $50,802,935 |
| Net income (loss) | 3,256,620 | | 3,256,620 |
| Change in net deferred income tax | 72,907 | | 72,907 |
| Change in surplus as regards policyholders for the year | 3,329,527 | 0 | 3,329,527 |
| Surplus as regards policyholders, December 31 current year | $54,132,462 | $ 0 | $54,132,462 |

Safety Indemnity Insurance Company

Reconciliation of Capital and Surplus

For Each Year in the Five-Year Period Ended December 31, 2013

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Capital and surplus, December 31 prior year | $50,802,935 | $47,550,448 | $44,985,607 | $42,942,510 | $39,279,518 |
| Net income (loss) | 3,256,620 | 3,293,996 | 879,506 | 3,508,022 | 3,441,256 |
| Change in net unrealized capital gains or (losses) less capital gains tax | | | | | |
| Change in net deferred income tax | 72,907 | 56,121 | (525,530) | 826,601 | (179.997) |
| Change in nonadmitted assets | | | 2,252,827 | (2,213,495) | 184,110 |
| Paid-in surplus | | | | | |
| Dividends to stockholders | | | | | |
| Change in net deferred income tax admitted pursuant to SSAP No. 101 | | (97,630) | (41,962) | (78,031) | 217,623 |
| Net change in capital and surplus for the year | 3,329,527 | 3,252,487 | 2,564,841 | 2,043,097 | 3,662,992 |
| Capital and surplus, December 31 current year | $54,132,462 | $50,802,935 | $47,550,448 | $44,985,607 | $42,942,510 |

## COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1 – Summary of Loss and Loss Adjustment Expense Reserves ("Loss and LAE Reserves")

The Division engaged INS to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2013. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standard of Practice adopted by the Actuarial Standards Board.

INS performed an analysis of the loss and LAE reserves evaluated as of December 31, 2013. With regard to comparisons to the estimates derived by the Company's Appointed Actuary, PwC, INS notes that as of December 31, 2013, the Company held net loss and LAE reserves within the Appointed Actuary's range of reasonable reserve estimates. The Company held net loss and LAE reserves of approximately $27.6 million as of December 31, 2013, slightly less than the high end of the PwC range.

The consulting actuary, INS, noted the central estimate of the net loss and LAE reserves of $23.4 million is lower than the SIIC booked reserves of $27.6 million by $4.2 million, or 15.3% of reserves. The net booked reserves are higher than the INS range of reasonable estimates from $21.3 million to $26.6 million by $1.0 million.

The table below summarizes a comparison of INS's range of reasonable estimates for loss and LAE reserves to the Company's net carried loss and LAE reserves as of December 31, 2013.

| | Low Point of Range | Select Estimate | High Point of Range |
|---|---|---|---|
| INS Estimate | $21.3 million | $23.4 million | $26.6 million |
| Company Carried | 27.6 million | 27.6 million | 27.6 million |
| Company Carried over/(Under)INS | 6.3 million | 4.2 million | 1.0 million |

## ACKNOWLEDGEMENT

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