COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

SAFETY INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 00188

NAIC COMPANY CODE 39454

EMPLOYER ID NUMBER 04-2689624

SAFETY INSURANCE COMPANY

TABLE OF CONTENTS

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 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 Insurance Company ("Company" or "SIC") 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 as 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 10, 2014, the Articles of Organization were amended to change the authorized capital stock from 24,000 shares of no par value common stock to 24,000 shares of common stock with a par value of $146.00 per share. This resulted in a change in Capital Stock from $1,150,000 to $3,504,000.

COMPANY HISTORY

General

The Company was organized and incorporated on December 12, 1979, under the laws of the Commonwealth of Massachusetts, as a stock company titled "Safety Insurance Company." Founded to write motor vehicle insurance in Massachusetts through independent agents and brokers, it commenced business on January 1, 1980. 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 private passenger automobile, commercial automobile, homeowners, business owners, personal umbrella, dwelling fire, and commercial umbrella insurance at standard rates. It is authorized to write the following lines of insurance coverage: fire, ocean & inland marine, boiler (no inspection), accident – 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.

The Company writes business assigned to it by Commonwealth Automobile Reinsurers, Inc. ("CAR"), the residual market mechanism for motor vehicle insurance in Massachusetts. Effective April 1, 2008, the Massachusetts private passenger automobile industry began the transition to a new system of managed competition. The CAR mechanism was replaced with the Massachusetts Automobile Insurance Plan ("MAIP"), an assigned risk plan.

Capital Stock

SIG, a Delaware corporation, owns the Company. 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 Safety Indemnity Insurance Company ("SIIC") became part of the holding company system on the same date.

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. On December 27, 2006, Safety Property and Casualty Insurance Company ("SPC") became part of the holding company system and subsidiary to the Company.

From the Company's incorporation in late 1979 until early 1980, the authorized capital stock of the Company had been 400,000 shares of common stock at a par value of one dollar per share. On April 7, 1980, 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 24,000 shares of no par value common stock. All of the outstanding shares are held by SIG. Ownership of the Company's stock and its authorized number of shares has not changed in the period under examination.

On December 10, 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 Board of Directors authorized dividends to be paid to the Company's stockholders during the period of examination amounting to $183,604,025. Pursuant to M.G.L. Chapter 175, Sections 72C & 206C of dividends were calculated, approved and reported in accordance to the Massachusetts General Laws. The Company paid the following dividends during the five-year period of the examination:

- The Company paid shareholder dividends of $64,411,565 to SIG in 2009.
- The Company paid shareholder dividends of $28,198,379 to SIG in 2010.
- The Company paid shareholder dividends of $25,743,778 to SIG in 2011.
- The Company paid shareholder dividends of $29,136,633 to SIG in 2012.
- The Company paid shareholder dividends of $36,113,670 to SIG in 2013.

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 was composed of five persons, which is in compliance with the Company's bylaws and the General Laws of Massachusetts. The members of the Board are as follows:

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, 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, are 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

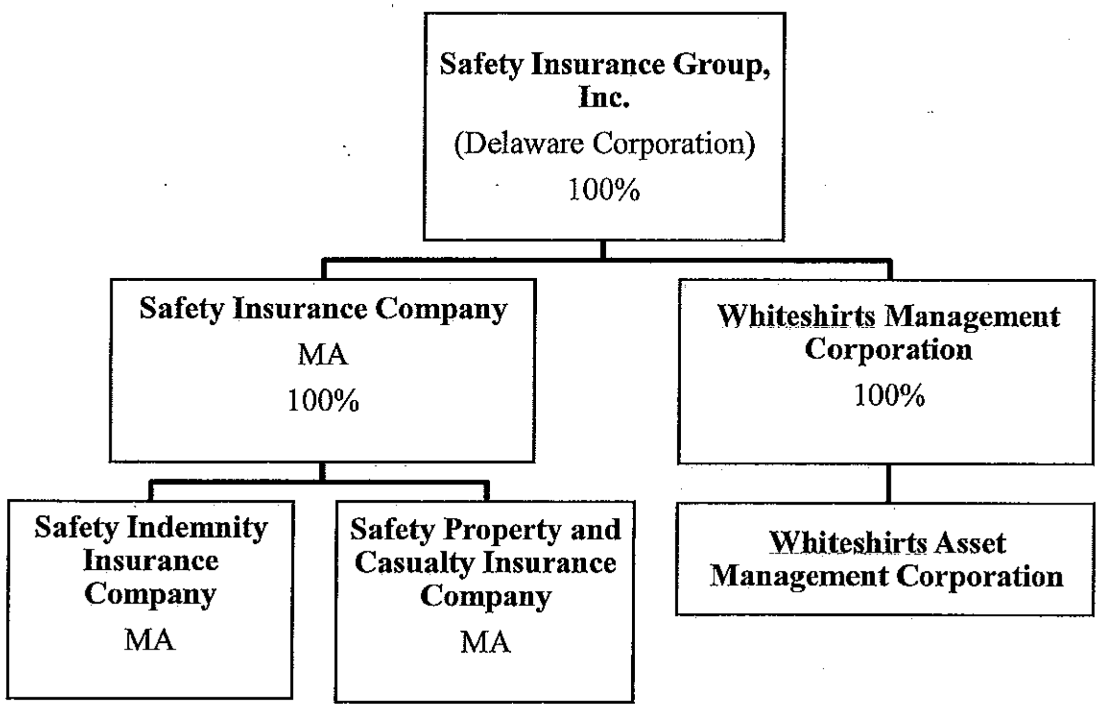
* Daniel D. Loranger retired on July 18, 2014, and in accordance with M.G.L. Chapter 156B and the bylaws of the Company, George M. Murphy was elected to fill the vacancy on the SIC Board of Directors, and Stephen A. Varga was elected to the office of Vice President of Management Information Systems.

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, 2011in 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, 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

Effective January 1, 2004, the Company became the employer of all persons employed by Whiteshirts Asset Management Corporation ("WAMC"). Concurrently, the Company became the sponsor of the Safety Insurance 401(k) Retirement Plan ("Plan"), previously sponsored by WAMC.

Defined Contribution Plan

The Plan is a defined contribution plan which is available to all eligible employees of the Company. Each employee may contribute on a pre-tax basis up to the maximum allowed subject to Internal Revenue Service limits. The Company contributes equal to 100% of the amount each participant contributed during the plan year from their total pay, up to a maximum of 8% of the participant's base salary. The compensation expense related to the Plan was $2,649,266 for the year ended December 31, 2013.

Share Based Compensation

Long-term incentive compensation is provided under the Company's 2002 Management Omnibus Incentive Plan which provides for a variety of stock-based compensation awards, including nonqualified stock options, incentive stock options, stock appreciation rights and restricted stock awards. The maximum number of shares of common stock with respect to which awards may be granted is 2,500,000. At December 31, 2013, there were 531,862 shares available for future grant. The Company's expense related to restricted stock awards and stock options was $4,356,748 for the year ended December 31, 2013.

Other Benefits

In addition, the Company offers various employee insurance plans, including group and dependent life, group dental and health, and long-term disability.

TERRITORY AND PLAN OF OPERATION

The Company currently is licensed to write business in Massachusetts and in 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 with data from the Company's annual statements.

Year	Admitted Assets	Liabilities	Surplus	Net Premiums Written
2009	$1,208,305,564	$651,730,389	$556,575,175	$479,366,040
2010	1,230,697,787	648,266,260	582,431,527	519,126,298
2011	1,235,388,552	664,896,664	570,491,888	558,284,482
2012	1,319,702,615	720,678,444	599,024,172	597,547,480
2013	1,396,810,322	768,817,640	627,992,682	627,786,053

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% 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	$478,771,720	$496,754,840	$538,531,625	$578,221,896	$613,682,607
Losses and LAE incurred	$311,670,818	$324,763,318	$419,976,037	$379,995,209	$402,974,280
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 $22,979,071, or 6.0 % to $402,974,280 from $379,995,209 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 various Lloyds of London Underwriters & Bermuda Companies for large property losses 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, but it does act as a servicing carrier for CAR risks, and it does participate in an intercompany pooling arrangement.

Commonwealth Automobile Reinsurer
Under the Massachusetts Property and Casualty Insurance Market, the Company is a participant of the CAR, a mandated residual market for commercial automobile where ceded business gets shared by all insurers writing commercial automobile insurance in Massachusetts. In addition, SIG also participates in the Massachusetts Property Insurance Underwriting Association, where all of homeowners business that cannot be placed in the voluntary market is shared by insurers writing homeowners insurance in Massachusetts. SIC, SIIC and SPC cede business to and assume business from these state established bodies.

Intercompany Pooling Agreement
The Company and its wholly-owned subsidiaries SIIC and SPC entered into an Intercompany Pooling Agreement effective January 1, 2007 covering 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 the Company; and the Company retrocedes the pooled results to the participants based on their percentage share of the pool. The Company 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 to 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 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	$ 964,743,537	$ 0	$ 964,743,537
Preferred stocks	215,360		215,360
Common stocks	163,544,891		163,544,891
Cash	26,552,761		26,552,761
Other invested assets	8,434,849		8,434,849
Receivables for securities	1,319,780		1,319,780
Subtotals, cash and invested assets	1,164,811,178	0	1,164,811,178
Investment income due and accrued	9,637,970		9,637,970
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	4,627,025		4,627,025
Deferred premium, agents' balances booked but deferred and not yet due	147,318,193		147,318,193
Reinsurance: Amounts recoverable from reinsurers	17,532,660		17,532,660
Current federal and foreign income tax recoverable and interest thereon	578,005		578,005
Net deferred tax asset	31,436,825		31,436,825
Electronic data processing equipment	1,742,910		1,742,910
Other invested assets	19,125,556		19,125,556
Total Assets	$1,396,810,322	$ 0	$1,396,810,322

Safety 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	$ 303,865,070	$ 0	$ 303,865,070	(1)
Loss adjustment expenses	51,336,274		51,336,274	(1)
Commissions payable, contingent commissions and other similar charges	15,976,610		15,976,610	
Other expenses	31,767,705		31,767,705	
Unearned premiums (after deducting unearned Premiums for ceded reinsurance of $53,168,202)	317,415,262		317,415,262	
Advance premium	14,038,842		14,038,842	
Ceded reinsurance premiums payable	19,756,441		19,756,441	
Payable to parent, subsidiaries and affiliates	956,995		956,995	
Payable for securities	13,327,099		13,327,099	
Aggregate write-ins for liabilities	377,342		377,342	
Total Liabilities	768,817,640	0	768,817,640	
Common capital stock	1,150,000		1,150,000	
Gross paid in and contributed surplus	9,055,032		9,055,032	
Unassigned funds (surplus)	617,787,650		617,787,650	
Surplus as regards policyholders	627,992,682		627,992,682	
Total Liabilities, Surplus and Other Funds	$1,396,810,322	$ 0	$1,396,810,322	

Safety Insurance Company

Statement of Income

For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	$613,682,607	$ 0	$613,682,607
Deductions:			
Losses incurred	346,748,227		346,748,227
Loss adjustment expenses incurred	56,226,053		56,226,053
Other underwriting expenses incurred	190,387,578		190,387,578
Total underwriting deductions	593,361,858	0	593,361,858
Net underwriting gain (loss)	20,320,749	0	20,320,749
Net investment income earned	35,619,553		35,619,553
Net realized capital gains (losses) less capital gains tax of $569,798	1,058,196		1,058,196
Net investment gain (loss)	36,677,749	0	36,677,749
Finance and service charges not included in premium	17,553,918	0	17,553,918
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	74,552,416	0	74,552,416
Federal and foreign income taxes incurred	21,474,433	0	21,474,433
Net income (loss)	$ 53,077,983	$ 0	$ 53,077,983

Safety 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	$599,024,172	$ 0	$599,024,172
Net income (loss)	53,077,983		53,077,983
Change in net unrealized capital gains or (losses) less capital gains tax of $2,499,839	9,177,139		9,177,139
Change in net deferred income tax	1,070,710		1,070,710
Change in nonadmitted assets	1,495,328		1,495,328
Surplus adjustments:			
Paid in	261,020		261,020
Dividends to stockholders	(36,113,670)		(36,113,670)
Change in surplus as regards policyholders for the year	28,968,510	0	28,968,510
Surplus as regards policyholders, December 31 current year	$627,992,682	$ 0	$627,992,682

Safety 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	$599,024,172	$570,491,888	$582,431,527	$556,575,175	$560,462,276
Net income (loss)	53,077,983	52,435,540	8,958,095	51,559,847	46,956,065
Change in net unrealized capital gains or (losses) less capital gains tax	9,177,139	5,115,724	2,049,719	3,757,752	5,382,231
Change in net deferred income tax	1,070,710	3,431,727	2,937,615	(849,931)	(1,851,087)
Change in nonadmitted assets	1,495,328	(173,694)	(371,602)	(186,570)	6,430,116
Paid-in surplus	261,020	225,620	466,212	61,963	(283,092)
Dividends to stockholders	(36,113,670)	(29,136,633)	(25,743,778)	(28,198,379)	(64,411,565)
Change in net deferred Income tax admitted pursuant to SSAP No. 101		(3,366,000)	(235,900)	(288,330)	3,890,231
Net change in capital and surplus for the year	28,968,510	28,532,284	(11,939,639)	25,856,352	(3,887,101)
Capital and surplus, December 31 current year	$627,992,682	$599,024,172	$570,491,888	$582,431,527	$556,575,175

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 $355.2 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 $300.9 million is lower than the Company booked reserves of $355.2 million by $54.3 million, or 15.3% of reserves. The net booked reserves are higher than the INS range of reasonable estimates from $273.6 million to $342.1 million by $13.1million.

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	$273.6 million	$300.9 million	$342.1 million
Company Carried	355.2 million	355.2 million	355.2 million
Company Carried over/(Under)INS	81.6 million	54.3 million	13.1 million

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by INS Regulatory Services, Inc. and by the following Division examiner who participated in this examination hereby is acknowledged.

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