SAFETY INSURANCE GROUP INC
Form 10-Q
August 03, 2018

the

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 July 31, 2018 there were 15,286,765 shares of common stock with a par value of $0.01 per share outstanding.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (amortized cost: $1,153,613 and $1,156,697)	$ 1,145,335	$ 1,172,026
Equity securities, at fair value (cost: $119,571 and $90,481)	134,764	111,867
Other invested assets	23,074	23,162
Total investments	1,303,173	1,307,055
Cash and cash equivalents	18,722	41,708
Accounts receivable, net of allowance for doubtful accounts	209,468	190,649
Receivable for securities sold	2,673	1,380
Accrued investment income	8,847	8,876
Taxes recoverable	2,735	908
Receivable from reinsurers related to paid loss and loss adjustment expenses	24,073	24,776
Receivable from reinsurers related to unpaid loss and loss adjustment expenses	96,577	83,085
Ceded unearned premiums	36,950	32,175
Deferred policy acquisition costs	75,223	72,202
Deferred income taxes	2,307	—
Equity and deposits in pools	29,699	28,246
Other assets	19,879	16,219
Total assets	$ 1,830,326	$ 1,807,279
Liabilities		
Loss and loss adjustment expense reserves	$ 579,791	$ 574,054
Unearned premium reserves	452,402	428,257
Accounts payable and accrued liabilities	53,269	60,701
Payable for securities purchased	7,226	4,188
Payable to reinsurers	22,361	13,801
Deferred income taxes	—	2,917
Other liabilities	18,809	22,345
Total liabilities	1,133,858	1,106,263
Commitments and contingencies (Note 7)		
Shareholders' equity		
	176	175

Common stock: $0.01 par value; 30,000,000 shares authorized; 17,566,461 and 17,499,544 shares issued		
Additional paid-in capital	192,495	189,714
Accumulated other comprehensive (loss) income, net of taxes	(6,540)	24,269
Retained earnings	594,172	570,693
Treasury stock, at cost: 2,279,570 shares	(83,835)	(83,835)
Total shareholders' equity	696,468	701,016
Total liabilities and shareholders' equity	$ 1,830,326	$ 1,807,279

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

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net earned premiums	$ 194,125	$ 192,824	$ 386,158	$ 382,535
Net investment income	10,188	9,715	20,719	18,810
Earnings from partnership investments	487	769	5,351	882
Net realized gains on investments	1,589	567	2,895	2,109
Change in net unrealized gains on equity investments	(2,711)	—	(6,193)	—
Finance and other service income	4,292	4,374	8,759	8,683
Total revenue	207,970	208,249	417,689	413,019
Losses and loss adjustment expenses	113,227	117,049	250,871	245,479
Underwriting, operating and related expenses	61,573	60,979	122,429	120,649
Interest expense	23	23	45	45
Total expenses	174,823	178,051	373,345	366,173
Income before income taxes	33,147	30,198	44,344	46,846
Income tax expense	6,331	9,093	8,403	13,722
Net income	$ 26,816	$ 21,105	$ 35,941	$ 33,124
Earnings per weighted average common share:				
Basic	$ 1.77	$ 1.40	$ 2.37	$ 2.19
Diluted	$ 1.75	$ 1.39	$ 2.35	$ 2.18
Cash dividends paid per common share	$ 0.80	$ 0.70	$ 1.60	$ 1.40
Number of shares used in computing earnings per share:				
Basic	15,090,435	15,020,028	15,068,321	15,000,127
Diluted	15,213,414	15,114,284	15,202,338	15,105,554

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

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 26,816	$ 21,105	$ 35,941	$ 33,124
Other comprehensive (loss) income, net of tax:				
Unrealized holding (losses) gains during the period, net of income tax (benefit) expense of ($960), $2,542 , ($4,350) and $5,373 .	(3,610)	4,721	(16,363)	9,978
Reclassification adjustment for net realized gains on investments included in net income, net of income tax expense of ($334), ($199), ($608) and ($738).	(1,255)	(369)	(2,287)	(1,371)
Other comprehensive (loss) income, net of tax:	(4,865)	4,352	(18,650)	8,607
Comprehensive income	$ 21,951	$ 25,457	$ 17,291	$ 41,731

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

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income, Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2016	$ 174	$ 184,549	$ 15,843	$ 553,995	$ (83,835)	$ 670,726
Net income, January 1 to June 30, 2017				33,124		33,124
Unrealized gains on securities available for sale, net of deferred federal income taxes			8,607			8,607
Restricted share awards issued	1	294				295
Recognition of employee share-based compensation, net of deferred federal income taxes		2,419				2,419
Dividends paid and accrued				(21,337)		(21,337)
Balance at June 30, 2017	$ 175	$ 187,262	$ 24,450	$ 565,782	$ (83,835)	$ 693,834

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders' Equity
	$ 175	$ 189,714	$ 24,269	$ 570,693	$ (83,835)	$ 701,016

Balance at December 31, 2017						
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018			(16,895)	16,895		—
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018			4,736	(4,736)		—
Net income, January 1 to June 30, 2018				35,941		35,941
Unrealized losses on securities available for sale, net of deferred federal income taxes			(18,650)			(18,650)
Restricted share awards issued	1	375				376
Recognition of employee share-based compensation, net of deferred federal income taxes		2,406				2,406
Dividends paid and accrued				(24,621)		(24,621)
Balance at June 30, 2018	$ 176	$ 192,495	$ (6,540)	$ 594,172	$ (83,835)	$ 696,468

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

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$ 35,941	$ 33,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment amortization, net	2,858	3,453
Fixed Asset depreciation, net	2,367	2,226
Stock based compensation	2,782	2,714
Provision for deferred income taxes	(266)	2,951
Net realized (gains) on investments	(2,895)	(2,109)
Earnings from partnership investments	(2,492)	(882)
Change in net unrealized gains on equity investments	6,193	—
Changes in assets and liabilities:		
Accounts receivable	(18,819)	(14,185)
Accrued investment income	29	387
Receivable from reinsurers	(12,789)	(17,746)
Ceded unearned premiums	(4,775)	(1,847)
Deferred policy acquisition costs	(3,021)	(3,414)
Taxes recoverable	(1,827)	(4,082)
Other assets	(6,425)	(3,340)
Loss and loss adjustment expense reserves	5,737	2,388
Unearned premium reserves	24,145	23,998
Taxes payable	—	(1,110)
Accounts payable and accrued liabilities	(7,535)	(12,789)
Payable to reinsurers	8,560	3,899
Other liabilities	(3,536)	3,545
Net cash provided by operating activities	24,232	17,181
Cash flows from investing activities:		
Fixed maturities purchased	(141,063)	(83,014)
Equity securities purchased	(38,490)	(12,031)
Other invested assets purchased	(994)	(5,681)
Proceeds from sales and paydowns of fixed maturities	96,132	91,089
Proceeds from maturities, redemptions, and calls of fixed maturities	46,498	18,966
Proceed from sales of equity securities	12,663	11,652
Proceeds from other invested assets redeemed	3,609	203
Fixed assets purchased	(1,055)	(2,845)
Net cash (used for) provided by investing activities	(22,700)	18,339

Cash flows from financing activities:		
Dividends paid to shareholders	(24,518)	(21,275)
Net cash used for financing activities	(24,518)	(21,275)
Net (decrease) increase in cash and cash equivalents	(22,986)	14,245
Cash and cash equivalents at beginning of year	41,708	20,052
Cash and cash equivalents at end of period	$ 18,722	$ 34,297

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

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Safety Insurance Group, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands except per share and 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.

During the period ended June 30, 2018, we revised our March 31, 2018 Consolidated Statements of Comprehensive Income related to the adoption of two new accounting standards referenced in footnote 2 – Recent Accounting Pronouncements. The impact of the adoptions, which continue to appear on the Statement of Changes in Shareholders’ Equity, were originally included within Comprehensive Income and have since been removed. The previously reported Other Comprehensive Loss as of March 31, 2018 of $25,944 has been revised to $13,785 and the Comprehensive Loss of $16,819 has been revised to $4,660 to correct for the presentation. The correction had no impact on the financial position, net income or cash flow. These updated balances are reflected in this 10-Q Report for all periods presented and will be reflected in our future fillings. Management evaluated the materiality of the revision from qualitative and quantitative perspectives, and concluded it was not material to its previously issued interim financial statements.

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 Asset Management Corporation (“SAMC”), and Safety Management Corporation, which is SAMC’s holding company. All intercompany transactions have been eliminated.

The financial information for the three and six months ended June 30, 2018 and 2017 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, 2017 is derived from the audited financial statements included in the Company's 2017 annual report on Form 10-K filed with the U.S. Securities and Exchange Commissions (“SEC”) on February 28, 2018.

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 financial statements included in the Company's annual report on Form 10-K filed with the SEC on February 28, 2018.

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 operates through its insurance company subsidiaries, Safety Insurance Company, Safety Indemnity Insurance Company, and Safety Property and Casualty Insurance Company (together referred to as the "Insurance Subsidiaries").

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

2. Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of

Safety Insurance Group, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands except per share and share data)

Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate as a result of the 2017 Tax Cuts and Jobs Act ("TCJA"). The amount of the reclassification is the difference between the historical corporate income tax rate of thirty-five percent and the newly enacted twenty-one percent corporate income tax rate. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company adopted the updated guidance effective January 1, 2018 and elected to reclassify the income tax effects of the TCJA from accumulated other comprehensive income ("AOCI") to retained earnings at the beginning of the period of adoption. This reclassification resulted in a decrease of $4,736 in retained earnings as of January 1, 2018 and an increase in AOCI by the same amount.

In March 2017, the FASB issued ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, which requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount will not be impacted. For public business entities with calendar year ends, the amendments in ASU No. 2017-08 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If early adopted in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The Company is evaluating the impact of ASU 2017-08 on its financial position and results of operations. The extent of the impact will depend upon the nature and characteristics of the Company's portfolio at the adoption date.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in ASU 2016-15 provide guidance on specific cash flow issues including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017. The impact of the adoption of ASU 2016-15 was not material to the Company's Consolidated Statements of Cash Flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements, which amends the guidance for the impairment of financial instruments and is expected to result in more timely recognition of impairment losses. The update introduces an impairment model referred to as the current expected credit loss ("CECL") model. The impairment model is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The ASU is also intended to reduce the complexity of the current guidance by decreasing the number of credit impairment models that entities use to account for debt instruments. For public business entities that are SEC filers, the amendments in ASU No. 2016-13 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the impact of ASU 2016-13 on its financial position and results of operations with regards to potential credit losses on its Available For Sale investment portfolio. The extent of the increase of credit losses is under evaluation, but will depend upon the nature and characteristics of the Company’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at the date.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASC update requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement, and be treated as discrete items in the reporting period in which they occur. Additionally, excess tax benefits will be classified with other income tax cash flows as an operating activity and cash paid by an employer when directly withholding shares for tax withholding purposes will be classified as a financing activity. Awards that are used to settle employee tax liabilities will be allowed to qualify for equity classification for withholdings up to the maximum statutory tax rates in applicable jurisdictions. Regarding forfeitures, a company can make an entity-wide accounting policy election to either continue estimating the number of awards that are expected to vest or account for forfeitures when they occur. The updated guidance was effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The impact of the adoption of ASU 2016-09 was not material to the Company's financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of ASU 2016-02 by reviewing its existing lease contracts. The Company expects a gross-up of its Consolidated Balance Sheets as a result of recognizing lease liabilities and right of use assets. The extent of such gross-up is under evaluation. The Company does not expect material changes to the Consolidated Statements of Operations.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASC update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01: (1) requires equity investments (except those accounted for under the equity method or those that result in the consolidation of the investee) to be measured at fair value with changes in the fair value recognized in net income; (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and (4) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the notes to the financial statements. These amendments were effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the updated guidance effective January 1, 2018 which resulted in the recognition of $16,895 of net after-tax unrealized gains on equity investments as a cumulative effect adjustment that increased retained earnings as of January 1, 2018 and decreased AOCI by the same amount. At December 31, 2017, equity investments were classified as available-for-sale on the Company's Consolidated Balance Sheets; however, upon adoption, the updated guidance eliminated the available-for-sale balance sheet classification for equity investments

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability as a Going Concern. ASU 2014-15 provides guidance on determining when and how to disclose going concern uncertainties in the financial statements, and requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. ASU 2014-15 was effective for annual periods ending after December 15, 2016 and interim periods thereafter. Management has assessed and concluded that there were no conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements were issued.

In May 2014, the FASB issued as final, ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes virtually all existing revenue recognition guidance under GAAP. The update's core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017 and allows early adoption. ASU 2014-09 allows for the use of either the retrospective or modified retrospective approach of

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(Dollars in thousands except per share and share data)

adoption. The Company adopted the updated guidance effective January 1, 2018 using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on the Company's financial position, results of operations, cash flows, or disclosures.

3. Earnings per Weighted Average Common Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Earnings attributable to common shareholders - basic and diluted:				
Net income from continuing operations	$ 26,816	$ 21,105	$ 35,941	$ 33,124
Allocation of income for participating shares	(160)	(130)	(217)	(212)
Net income from continuing operations attributed to common shareholders	$ 26,656	$ 20,975	$ 35,724	$ 32,912
Earnings per share denominator - basic and diluted				
Total weighted average common shares outstanding, including participating shares	15,180,768	15,113,414	15,160,017	15,096,642
Less: weighted average participating shares	(90,333)	(93,386)	(91,696)	(96,515)
Basic earnings per share denominator	15,090,435	15,020,028	15,068,321	15,000,127
Common equivalent shares- non-vested performance stock grants	122,979	94,256	134,017	105,427
Diluted earnings per share denominator	15,213,414	15,114,284	15,202,338	15,105,554

Basic earnings per share	$ 1.77	$ 1.40	$ 2.37	$ 2.19
Diluted earnings per share	$ 1.75	$ 1.39	$ 2.35	$ 2.18
Undistributed earnings attributable to common shareholders - basic and diluted:				
Net income from continuing operations attributable to common shareholders -Basic	$ 1.77	$ 1.40	$ 2.37	$ 2.19
Dividends declared	(0.80)	(0.70)	(1.60)	(1.40)
Undistributed earnings	$ 0.97	$ 0.70	$ 0.77	$ 0.79
Net income from continuing operations attributable to common shareholders -Diluted	$ 1.75	$ 1.39	$ 2.35	$ 2.18
Dividends declared	(0.80)	(0.70)	(1.60)	(1.40)
Undistributed earnings	$ 0.95	$ 0.69	$ 0.75	$ 0.78

There were no anti-dilutive shares related to non vested performance stock grants for the three and six months ended June 30, 2018. There were 38 anti-dilutive shares related to non vested performance stock grants for the six months ended June 30, 2017.

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Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands except per share and share data)

4. Share-Based Compensation

2018 Long Term Incentive Plan

On April 2, 2018, the Company's Board of Directors adopted the Safety Insurance Group, Inc. 2018 Long-Term Incentive Plan ("the 2018 Plan"), which was subsequently approved by our shareholders at the 2018 Annual Meeting of Shareholders. The 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 2018 Plan supersedes the Company's 2002 Management Omnibus Incentive Plan ("the 2002 Incentive Plan").

The 2018 Plan establishes an initial pool of 350,000 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 2018 Plan in the future.

The maximum number of shares of common stock between both the 2018 Plan and 2002 Incentive Plan with respect to which awards may be granted is 2,850,000. No further grants will be allowed under the 2002 Incentive Plan and there have been no grants issued under the 2018 Plan during the current year. At June 30, 2018, there were 350,000 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.

(Dollars in thousands except per share and share data)

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 previously existing Incentive Plan during the six months ended June 30, 2018 assuming a target payout for the 2018 performance-based shares.

	Shares Under Restriction	Weighted Average Fair Value	Performance-based Shares Under Restriction	Weighted Average Fair Value
Outstanding at beginning of year	93,086	$ 63.13	105,660	$ 62.75
Granted	39,451	75.05	31,668	72.21
Vested and unrestricted	(42,204)	62.36	(27,003)	61.48
Forfeited	—	—	(4,202)	61.48
Outstanding at end of period	90,333	$ 68.67	106,123	$ 66.79

As of June 30, 2018, there was $8,438 of unrecognized compensation expense related to non-vested restricted stock awards that is expected to be recognized over a weighted average period of 1.7 years. The total fair value of the shares that were vested and unrestricted during the six months ended June 30, 2018 and 2017 was $4,292 and $3,308, respectively. For the six months ended June 30, 2018 and 2017, the Company recorded compensation expense related to restricted stock of $2,198 and $1,764, net of income tax benefits of $584 and $950, respectively.

5. Investments

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

	As of June 30, 2018				
			Gross Unrealized Losses (3)		
	Cost or Amortized Cost	Gross Unrealized Gains	Non-OTTI Unrealized Losses	OTTI Unrealized Losses (4)	Estimated Fair Value
U.S. Treasury securities	$ 1,808	$ —	$ (45)	$ —	$ 1,763
Obligations of states and political subdivisions	344,298	7,077	(2,407)	—	348,968
Residential mortgage-backed securities (1)	253,277	1,333	(6,583)	—	248,027
Commercial mortgage-backed securities	40,750	5	(1,164)	—	39,591
Other asset-backed securities	57,598	127	(381)	—	57,344
Corporate and other securities	455,882	2,592	(8,832)	—	449,642
Subtotal, fixed maturity securities	1,153,613	11,134	(19,412)	—	1,145,335
Equity securities (2)	119,571	17,827	(2,634)	—	134,764
Other invested assets (5)	23,074	—	—	—	23,074
Totals	$ 1,296,258	$ 28,961	$ (22,046)	$ —	$ 1,303,173

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Safety Insurance Group, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands except per share and share data)

	As of December 31, 2017				
			Gross Unrealized Losses (3)		
	Cost or Amortized Cost	Gross Unrealized Gains	Non-OTTI Unrealized Losses	OTTI Unrealized Losses (4)	Estimated Fair Value
U.S. Treasury securities	$ 1,809	$ —	$ (18)	$ —	$ 1,791
Obligations of states and political subdivisions	391,806	12,244	(966)	—	403,084
Residential mortgage-backed securities (1)	223,257	2,352	(2,843)	—	222,766
Commercial mortgage-backed securities	39,268	415	(314)	—	39,369
Other asset-backed securities	72,665	173	(225)	—	72,613
Corporate and other securities	427,892	6,962	(2,451)	—	432,403
Subtotal, fixed maturity securities	1,156,697	22,146	(6,817)	—	1,172,026
Equity securities (2)	90,481	21,995	(609)	—	111,867
Other invested assets (5)	23,162	—	—	—	23,162
Totals	$ 1,270,340	$ 44,141	$ (7,426)	$ —	$ 1,307,055

(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 included interests in mutual funds held to fund the Company's executive deferred compensation plan.

(3) Our investment portfolio included 724 and 367 securities in an unrealized loss position at June 30, 2018 and December 31, 2017, respectively.

(4) Amounts in this column represent other-than-temporary impairment ("OTTI") recognized in accumulated other comprehensive income.

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

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

	As of June 30, 2018	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 23,692	$ 23,642
Due after one year through five years	292,016	293,214
Due after five years through ten years	281,678	278,465
Due after ten years through twenty years	200,523	201,107
Due after twenty years	4,080	3,943
Asset-backed securities	351,624	344,964
Totals	$ 1,153,613	$ 1,145,335

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross realized gains				
Fixed maturity securities	$ 383	$ 384	$ 518	$ 957
Equity securities	1,851	264	3,495	1,379
Gross realized losses				\
Fixed maturity securities	(595)	(71)	(679)	(179)
Equity securities	(50)	(10)	(439)	(48)
Net realized gains on investments	$ 1,589	$ 567	$ 2,895	$