AMERICAN SAFETY INSURANCE HOLDINGS LTD
Form 10-K
March 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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: 1-14795

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**30-0666089**
(State of incorporation	**(I.R.S. Employer**
or organization)	**Identification No.)**
31 Queen Street	
2nd Floor	
Hamilton, Bermuda	**HM 11**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number: (441) 296-8560

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 par value	**New York Stock Exchange, Inc.**

Securities to be registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 (§229.405 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of registrant s voting common stock held by non-affiliates based upon the closing sales price as reported by the New York Stock Exchange as of June 30, 2012, was $169,554,394.

The number of shares of registrant s common stock outstanding on March 1, 2013, was 9,894,885.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from Registrant s Proxy Statement for the 2013 Annual General Meeting of the Shareholders (the 2013 Proxy Statement).

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PART I

Item 1. Business

In this Report, the terms we, our, us, Company and American Safety Insurance refer to American Safety Insuran Holdings, Ltd. and, unless the context requires otherwise, includes our subsidiaries and non-subsidiary affiliates.

We maintain a web site at *www.amsafety.bm* that contains additional information regarding the Company. Under the caption Investor Relations SEC Filings on our website, we provide access, free of charge, to our filings with the Securities and Exchange Commission (SEC), including Forms 3, 4 and 5 filed by our officers and directors, as soon as reasonably practical after electronically filing such material with the SEC.

Cautionary Statement Regarding Forward-looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as may, should, could, anticipate, estimate, expect, plan, believe, potential and intend. Forward-looking statements contained in this report include information regarding our expectations with respect to pricing and other market conditions, our growth prospects, the amount of our acquisition costs, the amount of our net losses and loss reserves, the projected amount of our capital expenditures, managing interest rate risks, valuations of potential interest rate shifts and measurements of potential losses in fair market values of our investment portfolio. Forward-looking statements only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from our expectations. Important factors that could cause actual events or results to be materially different from our expectations include:

- actual claims exceeding our loss reserves;
- the failure of any of the loss limitation methods we employ;
- the effects of emerging claims and coverage issues;
- inability to collect reinsurance recoverables;
- the loss of one or more key executives;
- downgrade in our financial strength rating;
- loss of business provided to us by our major brokers;

changes in governmental regulations or tax laws;

increased competition;

general economic conditions;

changes in the political environment of certain countries in which we operate or underwrite business; and

the other matters set forth under Item 1A, Risk Factors included in this report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Overview

We are a Bermuda-based specialty insurance and reinsurance underwriter with U.S. insurance and international reinsurance operations offering solutions for specialty risks. Through our domestic operating subsidiaries and affiliates, we market and underwrite a variety of specialty insurance products to small and medium-sized businesses in the United States. Through our Bermuda operating subsidiaries, we offer reinsurance products primarily to U.S. and international insurance companies. We compete in three specialty divisions: Excess and Surplus lines (E&S) and Alternative Risk Transfer (ART) in the U.S. and Reinsurance in Bermuda. We believe that our market and specialty product focus has allowed us to develop underwriting expertise in the markets that we serve. We utilize a solution oriented approach to underwriting while focusing on underwriting profitability. We believe that our underwriting expertise, flexible platform and customer orientation set us apart from our competitors. Our goal is to offer a broad base of specialty insurance and reinsurance products for which we can build scale and consistently produce underwriting profits.

Specialty Insurance

In the standard insurance markets, rates and policy forms are regulated and products and coverages are for the most part uniform. Exposures tend to be more predictable than in the specialty markets and, due to the consistency of products offered in the market, insurers largely compete on the basis of price. In contrast, the specialty insurance markets generally deal with harder to place risks. These specialty risks, due to the nature of the particular risk or activities of the insured, often do not lend themselves to the strict, uniform underwriting criteria of standard insurers and require unique underwriting solutions.

Compared to the standard markets, competition in the specialty markets focuses more on expertise, flexibility and customer service, although standard markets expand or contract into and out of this business depending on market conditions. Because the specialty markets generally involve higher perceived insurance risks than those characteristic in the standard markets, we utilize our underwriting expertise in an attempt to manage these risks appropriately. The Company considers underwriting profitability to be more important than market share. Our customers insurance needs are often highly specialized and our underwriting expertise and flexibility allow for custom tailored terms and product solutions to meet their unique needs.

Markets

Excess and Surplus Lines

The E&S markets focus on hard to place risks and exposures that are not typically underwritten by the standard admitted markets. For our E&S lines of business, we are able to offer more flexible policy forms at unregulated premium rates, allowing us to underwrite business not served by the standard admitted markets. Our E&S business also includes certain products offered by the admitted market. Carriers writing in the admitted market underwrite complex risks similar to those written by E&S carriers but are licensed by the insurance regulators of the states in which they do business as admitted carriers and are subject to rate and form regulation. We currently write portions of our environmental, a portion of our professional liability products and all of our surety business on an admitted basis.

Our subsidiary, American Safety Indemnity Company (American Safety Indemnity) and affiliate American Safety Risk Retention Group, Inc. (American Safety RRG) provide coverages in the E&S markets. Our subsidiary, American Safety Casualty Insurance Company (American Safety Casualty), provides coverage in the admitted portion of the E&S market. In 2012, gross premiums written totaled $185.9 million in our E&S division.

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Alternative Risk Transfer

The ART market provides insurance, reinsurance and risk management products for insureds who want more control over the claims administration process, want to reduce the cost of insurance or are unable to find adequate insurance coverage. The ART market includes captive insurance companies and risk retention groups. Captive insurance companies are risk sharing vehicles, formed by one interest or a group of related interests to provide insurance coverage for their business operations. Risk retention groups are insurers owned by their policy holders that are licensed only in the state of their formation; however, through the Federal Liability Risk Retention Act, these groups may be able to write insurance in all states. These ART arrangements blend risk transfer and risk retention mechanisms and, along with self-insurance, form the ART market.

The ART market has traditionally been correlated to the standard market s underwriting cycle, expanding in hard market periods and contracting in soft market periods. We believe that this correlation has become less important as ART solutions have become more accessible, evidenced by an increase in the number of captive formations in both domestic and offshore domiciles, such as Vermont and Bermuda. This continued growth has contributed to the competitive environment in the ART market. Despite the current soft market, customers in certain industries continue to find that ART markets provide adequate, affordable coverages meeting their particular needs.

Our participation in the ART market takes two forms: as a fully funded carrier and by underwriting specialty programs. We serve as a fully funded carrier for risks that wish to essentially self-insure for which we receive fee income. We also underwrite specialty program business in which we outsource the underwriting and policy administration to program managers with established underwriting expertise in the particular homogenous risk covered by the program. We receive both premium and fee income from our specialty program business. In 2012, the Company decided to de-emphasize its specialty program line. The Company also non-renewed or terminated several existing programs and expects gross written premiums to decline significantly in 2013. In 2012, gross written premiums totaled $75.6 million in our ART division and recognized $3.1 million in fee income.

Reinsurance

Reinsurance is an agreement in which the reinsurer agrees to indemnify an insurance or reinsurance company, known as the ceding company, against a portion of the insurance risks underwritten by the ceding company under one or more reinsurance contracts. Reinsurance reduces the ceding company s net liability on individual risks or classes of risks, provides catastrophe protection from large or multiple losses, and can provide the ceding company with additional underwriting capacity. Reinsurance serves only to indemnify a ceding company for losses payable by the ceding company to its policyholders and, therefore does not discharge the ceding company from its liability to its policyholders.

During soft insurance markets, ceding companies tend to retain more of their risk, resulting in less premium ceded to reinsurers and, in response, reinsurers generally reduce rates to attract ceding companies. Although there has been increased competition and pricing pressure, we have been able to identify opportunities in attractively priced areas primarily with specialty insurers, captives, risk retention groups and program managers with a particular focus on general liability, professional liability and medical malpractice classes of business. We also participate in one property catastrophe retrocessional reinsurance treaty. In 2012, gross written premiums totaled $57.7 million in our Reinsurance division.

***Excess and Surplus Lines*:** We provide the following E&S lines products:

Environmental: General liability for various types of environmental risks including smaller market and middle market environmental contractors and consultants and environmental impairment liability. We do not provide coverage for manufacturers or installers of products containing asbestos, but instead may insure the contractors that remediate asbestos.

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The environmental risks we underwrite are as follows:

Environmental Contractor and Consultant Risks: general contractor pollution and/or professional liability coverage for environmental contractors and consultants, targeting two distinct markets:

Small market focused on environmental contractors and consultants with annual revenues below $3.0 million.

Middle market focused on environmental contractors and consultants with annual revenues above $3.0 million.

Environmental Impairment Liability: coverage for fixed site pollution liability businesses such as manufacturers, real estate, storage tank facilities and waste facilities.

Primary Casualty: primary general liability coverage for various types of residential and commercial risks, manufacturers, distributors, owners, landlords and tenants.

The risks we underwrite include:

Residential Construction: residential contractors, including primarily artisan contractors, subcontractors and general contractors;

Commercial Construction: commercial contractors, including artisan contractors, subcontractors and general contractors;

Products Liability: products liability coverage to small and middle market manufacturers and distributors of medium hazard products, excluding certain high severity classes of risks such as invasive medical products, pharmaceuticals and nutraceuticals;

Other: other coverages, including general liability for risks such as building owners, restaurants, shopping centers and equipment dealers;

Excess Liability: Excess and umbrella liability coverage primarily in the construction and products liability areas, both over other carriers and our own primary policies. We also provide coverage to habitational risks and public entities.

Property: Property and packaged property and liability focused on fire exposed premises for risks such as apartment buildings, condominiums, office buildings, shopping centers, vacant property, light manufacturing, bars, restaurants and hotels/motels. A portion of our property risks provide limited wind cover and we do not provide earthquake coverages.

Surety:

- *Contract:* Bid, payment, performance and maintenance bonds to general contractors, subcontractors, environmental contractors and specialty contractors. We offer both collateralized and uncollateralized bonds; and

- *Commercial:* Contractor license and permit bonds, motor vehicle dealer bonds and other Federal and miscellaneous bonds.

Healthcare: General and professional liability for the long-term care industry primarily for profit and not for profit skilled nursing facilities and assisted living facilities.

Professional Liability: Coverage for primary and following-form excess directors and officers liability for public, private and non-profit entities; stand-alone employment practices liability insurance (EPLI); and fiduciary liability. Primary and excess coverage for miscellaneous professional liability risks such as lawyers, real estate professionals and insurance agents.

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Alternative Risk Transfer: We provide the following ART products:

Specialty Programs. Working through third-party program managers, we target homogenous groups of specialty risks where the principal insurance coverages include either liability (general, professional or pollution liability) or property risks. Our specialty programs consist primarily of property and liability coverages for construction contractors, pest control operators, auto dealers, real estate brokers, restaurant and tavern owners and bail bondsmen. In 2012, the Company decided to de-emphasize its specialty program line. There were a total of 5 active program managers at December 31, 2012, compared to 15 in 2011.

Fully Funded. Fully funded policies allow us to meet the needs of insureds that, due to the nature of their businesses, pay high insurance premiums or are unable to find adequate insurance coverage. Typically, our insureds are required to maintain insurance coverage to operate their business and the fully funded product allows these insureds to provide evidence of insurance, yet at the same time maintain more control over insurance costs and claims handling. The fully funded product allows these businesses to self-insure their insurance risks while providing evidence of insurance through a self-insurance vehicle, such as our Bermuda segregated account captive, American Safety Assurance, or through another captive vehicle established by the insured. We generally do not assume underwriting risk on these policies, but instead earn a fee for providing the insurance. Policy limits are set based on the requirements of the insured, and the insured collateralizes up to the entire aggregate limit or estimated losses through cash, trust accounts or irrevocable letters of credit, or a combination thereof.

The aggregate policy limit caps the total damages payable under the policy, including defense costs. We write fully funded general and professional liability policies for businesses operating primarily in the healthcare industry.

***Reinsurance*.**

Our subsidiary, American Safety Reinsurance, Ltd., focuses on treaty reinsurance for captives, Risk Retention Groups and specialty insurance companies. Lines of business written include medical malpractice, general liability across multiple sectors, commercial automobile liability, professional liability, workers compensation and one property catastrophe treaty that provides a finite limit over the exposure period. Business is sourced from a combination of London, U.S. and Bermuda based reinsurance brokers. The portfolio is a spread of smaller treaties across multiple lines of business written on both an excess of loss and quota share basis.

Run-off Lines.

When we exit a line of business, we no longer renew or write any new policies in that line of business, although we do continue to service existing policies until they expire and administer any claims associated with those policies. The lines of business we have exited since 2002 are:

> *Workers Compensation.* In 1994, we began writing workers compensation insurance for environmental contractors. During 2003, we placed this business line into run-off due to unfavorable loss experience as well as the cost associated with servicing this line of business. The claims associated with this line of business are being administered by a third-party. At December 31, 2012, we were carrying net loss reserves of $5.8 million related to this business line.

Excess Liability Insurance for Municipalities. We began writing excess liability insurance for municipalities in 2000. During 2003, we placed this business line into run-off due to a lack of premium production and difficulty in obtaining affordable reinsurance coverage. At December 31, 2012, we were carrying net loss reserves of $0.8 million related to this business line.

Competition

We compete with a number of domestic and international insurance and reinsurance companies, Lloyd s syndicates, ART mechanisms, risk retention groups, insurance purchasing groups and captive insurers. Our markets are highly competitive with respect to a number of factors, including overall financial strength, pricing, breadth of coverage, product flexibility, ratings of companies by independent rating agencies, quality of service, reputation and commission rates. We believe competition in the sectors of the market we target is fragmented and not dominated by one or more competitors. We frequently encounter competition from other companies that insure or reinsure risks in business lines that encompass the specialty markets in which we operate, as well as from standard insurance carriers as they try to gain market share. The companies with which we compete vary by the industries we target and the types of coverage we offer. Our E&S business competes with companies such as RLI Corp., Navigators Group, Meadowbrook Insurance Group, W.R. Berkley Corporation and Markel Corporation. In our ART business, we compete against companies such as Houston International Insurance Group, RLI Corp. and Philadelphia Insurance Company. Our reinsurance competitors range from Bermuda reinsurers such as Alterra Capital Holdings, Ltd. to smaller reinsurers such as Wind River Reinsurance Company (a subsidiary of Global Indemnity PLC) as well as Lloyds of London.

There are no significant barriers to entry in the areas of the property and casualty industry in which we compete. The degree of competition at any given time is governed by a variety of factors, including market conditions and capital capacity. We believe that the industry is currently in a soft market period, characterized by broader coverage terms, lower premiums and excess capital. As a result, we are in a period of intensifying competition as companies attempt to utilize their capital by aggressively seeking market share, often writing policies at reduced pricing levels. In addition, standard insurers may write specialty coverages that they would not write in more favorable markets and carriers that normally are focused on larger risks may begin to market to the medium and small risks which are the focus of our business.

We are focused on market segments in which we believe we have significant underwriting expertise, seeking to earn consistent margins. Underwriting profit is a key component of our overall strategy and, in the current market conditions, underwriting expertise is critical. We believe that our underwriting expertise, our A (Excellent) rating from A.M. Best, the flexibility offered by our corporate structure, our focus on small to medium-sized risks in underserved markets and our producer relationships offer us competitive advantages in the E&S, ART and Reinsurance lines of business.

Additionally, we differentiate ourselves from our program competitors primarily in two ways. First, we typically require the program managers to share in the risk and profits of the business they produce by assuming a portion of the premiums and the losses on the coverage being offered, which are secured with collateral. Our Bermuda segregated account captive, American Safety Assurance, can be utilized to facilitate the risk sharing position of the program manager by providing a vehicle for the program manager to collateralize its portion of the risk. The requirement to share a portion of the risk encourages the program manager to focus on underwriting profitability rather than solely on the production of commission income through premium volume. Second, we choose to focus on smaller programs where there are fewer competitors, thereby allowing us to obtain terms and conditions more favorable to us. We earn fee income in addition to assuming underwriting risk on the specialty program business that we write. In 2012, the Company decided to de-emphasize its specialty program line.

Rating

On February 01, 2013, A.M. Best, the most widely recognized insurance and reinsurance company rating agency, affirmed its financial strength rating of A (Excellent) with a negative outlook on a group basis of our Bermuda reinsurance subsidiary, our two U.S. insurance subsidiaries, and our U.S. non-subsidiary risk retention group affiliate.

An A (Excellent) rating is the third highest of sixteen ratings assigned by A.M. Best and is granted to companies that have, in the opinion of A.M. Best, an excellent ability to meet their ongoing obligations to policyholders.

Some policyholders are required to obtain insurance coverage from insurance companies that have an A- (Excellent) or higher rating from A.M. Best. Additionally, many producers are prohibited from placing insurance or reinsurance with companies that are rated below A- (Excellent) by A.M. Best. A.M. Best s ratings represent an independent opinion of a company s ability to meet its obligations to policyholders and are of concern primarily to policyholders and producers. Its rating and outlook should not be considered an investment recommendation.

We have also been assigned a financial size category of Class IX by A.M. Best. A financial size category of Class IX is assigned by A.M. Best to companies with adjusted policyholder surplus of $250 million to $500 million.

Distribution

The Company has over 700 licensed brokers and conducts business in 49 states on an admitted and surplus lines basis. In the United States, ASI is dedicated to the wholesale distribution channel with the exception of Surety & ART Specialty Programs. Surety distributes its products through specialty agents and brokers and ART Specialty Programs distributes its products through a limited number of Program Administrators, reinsurance intermediaries or specialized brokers. Finally, our fully funded products are marketed through a limited number of retail brokers, particularly those with a sophisticated understanding of the ART market. The Company s Bermuda reinsurance subsidiary distributes our products through established reinsurance brokers in Bermuda, the United States and the United Kingdom (Lloyds of London). As of December 31, 2012, the Company has no individual producers that generate greater than 10% of gross written premiums.

Technology

ASI utilizes information processing systems to support all aspects of its operations. We leverage these systems and the enterprise-wide data integration they afford us to improve operational efficiency

We have continued to invest in upgrading the technology supporting our underwriting units. ASI recently extended the functionality of our underwriting and policy management platform to the Fully Funded business unit. Our continued efforts on ASI s front-end underwriting platforms are providing us with reliable, stable data for accurate business intelligence, reporting and analysis. The new reporting functionality currently under development will provide our business knowledge workers with self-service, customized views of actionable data. Ultimately these technology investments will continue to provide:

- reduced product development time;
- more efficient and effective rating, quoting and binding;
- the ability to leverage the infrastructure to process more business;
- flexibility to modify existing products for more efficiently;
- expedite new products to the market; and

improved data for business intelligence and analytics.

Underwriting

Excess and Surplus Lines

Our underwriting staff handles the insurance underwriting functions for all E&S lines products, with specific underwriting authority related to the experience and knowledge level. Risks that are perceived to be more difficult and complex are underwritten by experienced staff and reviewed by management. The principal factors we use for underwriting these risks include the class of business, experience of the insured, its operating history, its loss history and, in some cases, its demonstrated commitment to effective loss control and risk management practices.

Most of our product line managers have approximately ten to fifteen years of underwriting experience and in excess of ten years of underwriting experience in the specialty areas we target. We differentiate ourselves from other companies by individually underwriting and pricing each risk, as opposed to the general classification pricing practices which are often performed by larger insurance companies. We seek to instill a culture of underwriting profitability over premium volume and our underwriters incentive compensation is based on profitability rather than premium growth. We also enforce an internal quality control standard through periodic audits of underwriter files.

The use of customized policy forms and contract wording is an important part of our underwriting and risk control process. This helps us limit our exposure on many of the specialty risks we insure and adequately respond to evolving claims trends in our core product lines. Policy terms and conditions are crafted in cooperation with legal counsel to limit or restrict coverage for certain risks. Standard, or admitted, carriers do not have the same flexibility to control policy language because they are more heavily regulated by the individual states in which they operate, and are generally required to use standard, broader insurance forms previously approved by state regulators.

Alternative Risk Transfer

In our specialty programs, we outsource the underwriting and policy administration duties to third-party program managers with established underwriting expertise in the particular specialty program area. Prior to entering into a program, we perform detailed reviews of underwriting, pricing practices, claims handling, management expertise, information systems and distribution networks. Based on the results of these reviews, specific underwriting guidelines are developed for each program and must be adhered to by program managers. We also perform an actuarial analysis on each program in an effort to ensure that the business projections meet our profitability requirements, as well as to determine the appropriate level of risk participation by us and the program manager. Claims handling for these programs are either performed by our internal claims professionals or through third-party administrators. After a program is implemented, we utilize our internal underwriting, claims, and audit personnel to conduct audits of the program s underwriting, actuarial, claim handling and insurance processing functions to ensure adherence to established underwriting guidelines and to update our assessment of the long-term profit potential of the program. In 2012, the Company decided to de-emphasize its specialty program line.

Reinsurance

American Safety Reinsurance has a professional staff in Bermuda who selectively underwrite third-party reinsurance business. The Bermuda staff conducts a review of each reinsurance submission to determine if it meets the Company s underwriting and profitability standards. The review includes an assessment of the underwriting experience of the ceding company, risk management controls in place, the nature of the business and an actuarial analysis of potential loss experience. Terms are then proposed on opportunities that meet our underwriting standards. The Bermuda staff also utilizes third parties to perform underwriting and claims audits as deemed necessary to further assess the underwriting and claims practices of the ceding company.

Claims Management

Excess and Surplus Lines

The specialty risks that we underwrite are complex and the claims reported by our insureds often involve coverage issues, or may result in litigation that requires a claims professional with specialized knowledge and claims management expertise. Accordingly, we employ experienced claims professionals with broad backgrounds in resolving the types of claims that typically arise from the specialty risks we underwrite. We believe our claims management approach, which focuses on achieving a financial outcome through prompt case evaluation and proactive

litigation management practices, combined with our industry expertise, is integral to controlling our loss and loss adjustment expenses. We also utilize the knowledge and expertise that we gain through the claims management process to enhance our underwriting through frequent interaction among the claims, actuarial and underwriting staffs.

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We have established claims management best practices, which emphasize the thorough investigation of claims, prompt settlement of valid claims, aggressive defense against claims we believe to be without merit and the establishment of adequate reserves. We have a quality assurance unit that is responsible for establishing and maintaining claims handling best practices and monitoring the uniform and consistent application of these practices. This is accomplished primarily through audits of claims files as well as broader departmental audits, as necessary. The audit process includes an evaluation of all facets of the claims management process including investigation, litigation and reserving. These audits are used to measure departmental and individual performance and to identify areas for improvement.

We have a claims committee, composed of claims adjusting staff, claims management and legal, that meets regularly to discuss high exposure and complex claims, address litigation management strategies, coverage issues and the setting of reserves above established authority levels.

Alternative Risk Transfer

Claims management plays an important role in achieving our profitability goals in our ART division, specifically with respect to program business. We use our internal claims personnel as well as third-party administrators (TPAs) to handle the majority of the claims arising from policies written in our ART division, specifically program business. In some cases, the program manager responsible for the development and management of a particular program has established claims management expertise in the business line written under the program and will manage the claims for the program. By utilizing TPAs, we gain access to the required claims handling expertise in the unique business lines underwritten. Our selected TPAs undergo a pre-qualification process and are regularly audited. We select TPAs with claims personnel experienced in handling claims for the types of risks typical of the specific specialty program or fully funded account.

Our internal claims staff is responsible for both selecting the TPAs as well as ensuring the quality of claims adjudication by the TPAs. Our internal program claims staff pre-qualifies TPAs based on a process that considers, among other characteristics, expertise in a particular business line, reserving philosophy, litigation management philosophy and management controls. Once a TPA is qualified and selected, it is given limited reserve and settlement authority. We approve every claim in excess of a TPAs established settlement authority. Additionally, all coverage issues or disputes are required to be reported to our internal staff. To ensure that the TPAs we employ meet our performance standards, we conduct regular on-site claims audits. Recommendations arising from the claims audits are communicated to the TPA and an agreed upon action plan is implemented where required. Compliance with the action plan is monitored by our staff to ensure acceptable resolution of all recommendations.

Reinsurance

Reinsurers rely on the ceding company to manage claims and losses are ceded to the reinsurer in accordance with the coverage terms. We monitor ceded losses to ensure that they are ceded properly under the reinsurance agreement and, when appropriate, utilize outside services if there are coverage disputes or if losses are not consistent with the terms of the agreement. Claim audits are performed by third parties on an as-needed basis.

Reinsurance Coverage

Reinsurance is a contractual arrangement under which one insurer (the ceding company) transfers to another insurer (the reinsurer) all or a portion of the liabilities that the ceding company has assumed under an insurance policy it has issued. A ceding company may purchase reinsurance for any number of reasons, including obtaining greater underwriting capacity, protect against catastrophic loss, distribute insurance risk more broadly and to enter or

withdraw from a line of business. Reinsurance can be written on either a quota share basis (where premiums and losses are shared proportionally) or excess of loss basis (where losses are covered if they exceed a certain amount) or through a facultative (involving an individual specific risk) reinsurance agreement.

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Our reinsurance protection is summarized as follows:

Casualty Reinsurance

General Liability and Programs - $500,000 excess of a $500,000 net retention, with varying portions of the risk ceded to the reinsurers and covering construction and non-construction, programs, and the general liability portion of package business lines.

All Lines - $4.0 million excess of $1.0 million for the general liability contracts, with 80% of the risk ceded to the reinsurers and covering construction, non-construction, environmental, specialty programs and casualty portion of package business lines.

All Lines - $6.0 million excess of $5.0 million with 100% of the risk ceded to the reinsurers and covering the construction, non-construction, environmental, specialty programs, casualty portion of package business lines and limits in excess of $5.0 million written in the umbrella and excess lines.

Excess - $5.0 million quota share placed on a cessions basis for umbrella and excess business with 80% of the risk ceded to the reinsurers.

Property Reinsurance

For E&S and program property business lines, the agreement covers $1.5 million excess of $500,000 and $3.0 million excess of $2.0 million, both with 100% of the risk ceded to the reinsurers subject to certain recovery limitations associated with any one occurrence. For E&S property coverage above $5.0 million, our U.S. insurance subsidiaries have purchased a semi-automatic facultative facility.

We also purchased catastrophe reinsurance in 2012 covering ASI s net retention after cessions to ASI s property per risk agreements summarized above. The catastrophe protection covers $2.5 million excess of $2.5 million of which 32.5% is ceded to reinsurers, and $5 million excess of $5 million and $15 million excess of $10 million both of which are ceded 100 % to the reinsurers.

Surety Reinsurance

The agreement covers 95% for $1.0 million excess of $1.0 million, $2.0 million excess of $2.0 million, $3.5 million excess of $4.0 million and $5.0 million excess of $7.5 million, and is subject to certain limitations and reinstatements. The surety agreement provides coverage for contract surety business lines.

Professional Liability

The agreement covers $5.0 million quota share 75% placed on a cessions basis for directors and officers, and miscellaneous professional liability risks. The professional liability agreement provides coverage for both primary and excess business.

For the year ended December 31, 2012, ASI ceded $63.8 million of premium (20.0% of gross premiums written) to unaffiliated third-party reinsurers, as compared to $57.9 million of premium (19.4% of gross premiums written) in 2011.

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Our Reinsurers

While reinsurance obligates the reinsurer to reimburse us for a portion of our losses, it does not relieve us of our primary liability to our insured. If our reinsurers are either unwilling or unable to pay some or all of the claims made by us on a timely basis, we may bear the financial exposure. We have written reinsurance security procedures that establish financial guidelines for reinsurance companies prior to reinsuring business we write. Among these guidelines is a stipulation that reinsurance companies have an A.M. Best rating of at least A- (Excellent) and a financial size category of Class VIII or greater at the time of placing any reinsurance, unless sufficient collateral has been provided at the time we enter into our reinsurance agreement. The A.M. Best ratings of reinsurers are subject to change in the future, and may cause one or more of our reinsurers to fall below our stated requirements. A financial size category of Class VIII is assigned by A.M. Best to companies with adjusted policyholder surplus of $100 million to $250 million. We have also established an internal reinsurance security committee, including members of senior management, which meets to discuss and monitor our reinsurance coverage and the financial security of our reinsurers.

To protect against our reinsurers inability to satisfy their contractual obligations to us, our reinsurance contracts generally stipulate a collateral requirement for reinsurance companies that do not meet the financial strength and size requirements described above. These collateral requirements can be met through the issuance of irrevocable letters of credit, the establishment and funding of escrow accounts for our benefit or cash advances paid into a trust account. Collateral may also include our retention of amounts that we owe reinsurers for premium in the ordinary course of business. The following table is a listing of our largest reinsurers ranked by reinsurance recoverables and includes the collateral posted by these reinsurance companies as of December 31, 2012:

Reinsurers	A.M. Best Rating [1]	Total Recoverables[2] at December 31, 2012	Collateral at December 31, 2012	Net Exposure at December 31, 2012
CastlePoint National Insurance[3]	A-	$ 42,980	$ 42,980	$
Partner Reinsurance Co. of US	A+	19,771	27	19,744
QBE Reinsurance Corporation	A	10,338		10,338
Roundstone Insurance, Ltd.	NR	10,761	10,761	
Berkley Insurance Company	A+	10,625		10,625
Munich Reinsurance America, Inc.	A+	10,296		10,296
National America Insurance Company[4]	B++	7,626	7,626	
Swiss Reinsurance America Corporation	A+	6,422		6,422
Sirius America Insurance Company	A	4,641		4,641
Odyssey Reinsurance Company	A	3,691		3,691
Other, net		90,956	62,459	28,497
Total reinsurance recoverables		218,107	123,853	94,254
Less valuation allowance		(4,724)		(4,724)
Net reinsurance recoverables		$ 213,383	$ 123,853	$ 89,530

(1) The A.M. Best rating is as of January 20, 2013.

(2) Total recoverables includes ceded recoverable amounts for paid loss and expenses, case and expense reserves, incurred but not reported reserves and ceded unearned premium.

(3) The Company has additional collateral of $9.8 million relative to this program, which is 100% fronted, for illustrative purposes it has been presented as fully collateralized.

(4) The Company has additional collateral of $8.3 million relative to this program, which is 100% fronted, for illustrative purposes it has been presented as fully collateralized.

For more information on the financial exposure we bear with respect to our reinsurers, see Risk Factors.

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Selected Operating Information

Gross Written Premiums

The following table sets forth our gross written premiums and percentage of total gross written premiums by division for the years ended December 31, 2012, 2011 and 2010 (dollars in thousands):

	Years Ended December 31,					
	2012		2011		2010	
E & S	$ 185,948	58.2%	$ 155,534	52.1%	$ 138,166	49.8%
Alternative Risk Transfer	75,590	23.7%	83,820	28.1%	88,784	32.0%
Assumed Reinsurance	57,706	18.1%	59,192	19.8%	50,618	18.2%
Runoff		0.0%	(1)	0.0%	(7)	0.0%
Total	$ 319,244	100.0%	$ 298,545	100.0%	$ 277,561	100.0%

Net Written Premiums

The following table sets forth our net written premiums and the percentage of total net written premiums by division for the years ended December 31, 2012, 2011 and 2010 (dollars in thousands):

	Years Ended December 31,					
	2012		2011		2010	
E & S	$ 148,297	58.1%	$ 125,107	52.0%	$ 114,223	51.2%
Alternative Risk Transfer	49,357	19.3%	57,329	23.8%	62,366	27.9%
Assumed Reinsurance	57,706	22.6%	58,183	24.2%	46,658	20.9%
Runoff		0.0%	(1)	0.0%	(7)	0.0%
Total	$ 255,360	100.0%	$ 240,618	100.0%	$ 223,240	100.0%

Combined Ratio

The combined ratio is a standard measure of a property and casualty company s performance in managing its losses and expenses. Underwriting results are considered profitable when the combined ratio is less than 100%. On a Generally Accepted Accounting Principles (GAAP) basis, the combined ratio is determined by adding losses and loss adjustment expenses, acquisition expenses and other underwriting expenses, less fee income, and dividing the sum of those numbers by net earned premiums. Our combined ratio was 108.1% in 2012, 111.8% in 2011, and 100.0% in 2010. See Management s Discussion and Analysis for further explanation.

The combined ratio of an insurance or reinsurance company measures only the underwriting results and not necessarily the profitability of the overall company. Our reported combined ratio may fluctuate from time to time depending on our mix of business, loss trends, pricing of the business and other factors.

Losses and Loss Adjustment Expense Reserves

We are required to maintain reserves to cover the unpaid portion of our ultimate liability for losses and loss adjustment expenses with respect to (i) reported claims and (ii) incurred but not reported (IBNR) claims. An actuarial analysis is performed to estimate our unpaid losses and loss adjustment expenses under the terms of our contracts and agreements. In evaluating whether the reserves are adequate for unpaid losses and loss adjustment expenses, it is necessary to project future losses and loss adjustment expense payments. The establishment of appropriate loss and loss adjustment expense reserves is an inherently uncertain process and there can be no assurances our ultimate liabilities will not vary materially. See Risk Factors for a further explanation of this risk. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding our historical losses and loss adjustment expenses.

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With respect to reported claims, reserves are established on a case-by-case or treaty basis. The reserve amounts on each reported claim are determined by taking into account the circumstances surrounding each claim and policy provisions relating to the type of loss. Loss reserves are reviewed on a regular basis, and as new information becomes available, appropriate adjustments are made. In establishing IBNR reserves, we employ several methods in determining our ultimate losses: (i) the expected loss ratio method; (ii) the loss development method based on paid and reported losses; and (iii) the Bornhuetter-Ferguson method based on paid and reported losses. The methods described above are used for all segments except for construction defect losses where we use a frequency/severity method.

All of the methods used are generally accepted actuarial methods and rely in part on loss reporting and payment patterns while considering the long term nature of some of the coverages and inherent variability in projected results from year-to-year. The patterns used are based on internal data where credible and supplemented with industry data when internal data is not credible. Our reserves are carried at the total estimate for ultimate expected losses and loss adjustment expenses, without any discount to reflect the time value of money. Reserve estimations are reviewed regularly by management and periodically by regulators. Our in-house actuarial department reviews the reserve adequacy on a quarterly basis. In addition, an independent third-party actuarial firm annually performs an actuarial analysis, assessing the adequacy of statutory reserves established by management. A statutory actuarial opinion is filed by management in states in which our insurance and reinsurance subsidiaries and our non-subsidiary risk retention group affiliate are licensed. Statutory reserves are reserves established to provide for future obligations with respect to all insurance policies as determined in accordance with statutory accounting principles (SAP), the rules and procedures prescribed or permitted by state insurance regulatory authorities for recording transactions and preparing financial statements. Based upon the practices and procedures employed by us described above, management believes that our reserves are adequate.

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The net carried reserves at December 31, 2012, 2011 and 2010 were as follows (dollars in thousands):

	Years Ended December 31,					
	2012		2011		2010	
E & S	$ 312,854	58.0%	$ 301,779	59.6%	$ 300,908	66.4%
Alternative Risk Transfer	92,290	17.1%	92,683	18.3%	69,884	15.4%
Assumed Reinsurance	124,618	23.1%	102,887	20.1%	72,506	16.0%
Runoff	9,834	1.8%	9,585	2.0%	9,753	2.2%
Total	$ 539,596	100.0%	$ 506,934	100.0%	$ 453,051	100.0%

The following table provides a reconciliation of beginning and ending losses and loss adjustment expenses to reserve liability balances on a GAAP basis for the years indicated:

	Years Ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
Gross reserves, beginning of year	$ 680,201	$ 649,641	$ 616,444
Ceded reserves, beginning of year	173,267	196,590	196,080
Net reserves, beginning of year	506,934	453,051	420,364
Incurred related to:			
Current accident year	162,660	155,998	119,939
Prior accident years	9,038	13,369	356
Total incurred	171,698	169,367	120,295
Claim payments related to:			
Current accident year	26,822	22,454	13,302
Prior accident years	112,214	93,030	74,306
Total claim payments	139,036	115,484	87,608
Net reserves, end of year	539,596	506,934	453,051
Ceded reserves, end of year	185,648	173,267	196,590
Gross reserves, end of year	$ 725,244	$ 680,201	$ 649,641

The net prior year reserve development for 2012, 2011 and 2010, occurred in the following business lines:

	Years Ended December 31,		
	2012	2011	2010
	(dollars in thousands)		

(Favorable) Unfavorable			
E & S	$ (1,780)	$ (10,209)	$ (2,397)
Alternative Risk Transfer	2,946	12,120	2,666
Assumed Reinsurance	8,096	9,437	1,448
Runoff	(224)	2,021	(1,361)
Total	$ 9,038	$ 13,369	$ 356

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The 2012 prior year loss reserve strengthening is composed of $8.1 million in the Reinsurance division, $2.9 in ART, offset by $2.0 million of favorable prior year development in the E&S and Run-off divisions. The net favorable development in the E&S division was driven by the environmental product line offset by unfavorable development in the primary casualty and surety products. Reinsurance prior year loss reserve strengthening stemmed from four casualty contracts that were non-renewed in prior years while the strengthening in the ART division was primarily attributable to two casualty programs.

The $10.2 million of net favorable development in the E&S division in 2011 was driven by $14.0 million in favorable development in the construction business (not construction defect) partially offset by unfavorable development in the other lines. Prior year unfavorable loss development in the ART division of $12.1 million is primarily driven by one program terminated in 2011. The $9.4 million of prior year unfavorable loss development in the Reinsurance division is primarily associated with one professional liability contract that was non-renewed in 2010. The $2.4 million of favorable development in the E&S division in 2010 resulted from $9.9 million of favorable development in the construction product that was partially offset by unfavorable development in the environmental, property, and healthcare products. The $2.7 million of unfavorable development in the ART division was in 2010 attributable primarily to professional liability and habitational products while the reinsurance adverse development related primarily to two professional liability treaties.

The following table shows the gross, ceded and net development of the reserves for unpaid losses and loss adjustment expenses from 2002 through 2012. The top line of the table shows the liabilities at the balance sheet date for each of the indicated years and reflects the estimated amounts for losses and loss adjustment expenses for claims arising in that year and all prior years that are unpaid at the balance sheet date, including IBNR losses. In the gross and ceded sections of the table, the second line shows the re-estimated amount of previously recorded liabilities based on experience as of the end of each succeeding year. The lower portion of the table in the net section shows the cumulative amounts subsequently paid as of successive years with respect to the liabilities. The estimates change as more information becomes known about the frequency and severity of claims for individual years. A redundancy (deficiency) exists when the re-estimated liabilities at each December 31 is less (greater) than the prior liability estimate. The cumulative redundancy (deficiency) depicted in the table, for any particular calendar year, represents the aggregate change in the initial estimates over all subsequent calendar years.

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Years Ended December 31,[1]
(dollars in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
erves	$ 179,164	$ 230,104	$ 321,038	$ 393,493	$ 439,673	$ 504,779	$ 586,647	$ 616,444	$ 649,641	$ 680,201
ated 12	376,957	447,141	489,613	501,494	487,998	501,407	541,641	600,551	683,677	717,100
ve cy cy)	(197,793)	(217,037)	(168,575)	(108,001)	(48,325)	3,372	45,006	15,893	(34,036)	(36,899)
	109,543	115,061	136,998	159,515	161,146	175,481	193,338	196,080	196,590	173,267
ated 12	205,691	238,245	235,396	234,239	195,762	196,822	177,090	191,948	213,509	201,128
ve cy cy)	(96,148)	(123,184)	(98,398)	(74,724)	(34,616)	(21,341)	16,248	4,132	(16,919)	
ves d d loss nt	69,621	115,043	184,040	233,978	278,527	329,298	393,309	420,364	453,051	506,934
rves ted at r 31:										
er	74,857	129,445	186,646	236,576	280,739	334,692	388,792	420,720	466,420	515,972
ater	93,943	144,083	193,597	251,775	288,812	328,322	390,360	418,607	470,167	
ater	106,264	148,386	216,849	252,806	279,129	327,915	377,218	408,603		
ater	109,016	171,037	219,644	243,904	272,931	311,786	364,551			
ater	136,423	175,485	212,818	244,758	288,565	304,585				
ater	140,726	171,019	225,127	259,181	292,236					
ater	138,820	190,331	245,128	267,255						
ater	153,036	206,320	254,217							
ater	168,599	208,896								
later	171,266									
ve cy cy)	(101,645)	(93,853)	(70,177)	(33,277)	(13,709)	24,713	28,758	11,761	(17,116)	(9,038)

ve
f net

paid										
er 31:										
er	17,873	21,939	31,967	41,821	36,406	45,125	64,611	74,306	93,030	112,214
ater	35,642	48,426	70,241	74,163	76,794	88,746	122,318	143,836	180,605	
ater	55,094	77,685	96,786	106,874	112,550	131,736	178,373	200,546		
ater	72,668	94,761	122,570	134,061	144,690	170,354	218,493			
ater	83,599	112,380	144,174	158,317	170,977	199,179				
ater	97,479	128,397	164,612	177,271	195,153					
ater	110,465	142,341	181,801	199,007						
ater	121,271	156,408	203,157							
ater	130,577	175,408								
later	146,108									
ves										
er 31	69,621	115,043	184,040	233,978	278,527	329,298	393,309	420,364	453,051	506,934
	109,543	115,061	136,998	159,515	161,146	175,481	193,338	196,080	196,590	173,267
	$ 179,164	$ 230,104	$ 321,038	$ 393,493	$ 439,673	$ 504,779	$ 586,647	$ 616,444	$ 649,641	$ 680,201

(1) Years ended December 31, 2002 through 2012, including the consolidated values of American Safety RRG, our non-subsidiary affiliate.

As of December 31, 2002, our net reserves for loss and loss adjustment expenses were deficient by approximately $101.6 million. This deficiency was driven by increases in our estimates for ultimate losses due to actual loss experience developing greater than our initial estimates. The unfavorable development was driven primarily by loss experience in our Construction ($80.0 million) and Workers Compensation ($13.7 million). The increases in Construction were due to greater than expected losses in construction defect claims primarily in California. The increases in Workers Compensation ultimate net losses primarily related to losses from insureds who were involved in the clean- up of the World Trade Center site as a result of the September 2001 terrorist attacks.

As of December 31, 2007, our net reserves for loss and loss adjustment expenses were redundant by approximately $24.7 million. This redundancy was primarily driven by a decrease in ultimate net losses of $31.0 million in our Construction product due to better than anticipated experience in 2004 2007 as rate per exposure increased significantly compared to prior years. Partially offsetting the decrease in Construction were increases in ultimate net losses in Assumed Reinsurance ($6.9 million).

As of December 31, 2010, our net reserves for loss and loss adjustment expenses were deficient by approximately $17.1 million. Unfavorable development of prior year losses was primarily attributable to Specialty Programs ($10.1 million), Assumed Reinsurance ($17.9 million), Surety ($4.5 million) and Workers Compensation ($4.4 million). The unfavorable development was partially offset by favorable development within our Construction ($14.3 million) and Environmental products ($15.5 million).

Investments

The Company s investment portfolio is managed for the preservation of principal, with due consideration for income targets and the Company s overall asset/liability strategy.

Our investment portfolio is managed by independent, nationally recognized investment management companies pursuant to the investment policies and guidelines established by management and approved by our Board of Directors. In addition, during 2011 we hired an investment consultant to assist in assessing the sector allocation of the investment portfolio and revised our allocations to certain sectors of fixed income securities. We have investment policies which limit the maximum duration and set target levels for the average duration of the entire portfolio. The duration target for our investment portfolio takes into account the need to manage the portfolio to produce cash flow to fund operational needs while allowing flexibility to manage our assets. Our investment guidelines limit the percentage of our portfolio that is permitted to be invested in any asset class. The guidelines further limit the amount that may be invested by issuer credit rating. Additionally, we use specific criteria to judge the credit quality of our investments and use a variety of credit rating services to monitor these criteria. In conjunction with our investment policy, guidelines and strategy, we have invested predominantly in investment grade fixed income securities. Our investment portfolio consists primarily of government and government agency securities, asset and mortgage-backed securities, commercial mortgage-backed securities, and high quality corporate securities which are rated investment grade or better at time of investment. In 2012, we purchased $12.7 million securities classified as trading. Also during 2012, we purchased $2.1 million in select exchange traded funds and classified as common stock. We also invest in common and preferred securities that represented 3.4% of our year-end shareholders equity.

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At December 31, 2012 and 2011, the fair value of our cash and invested assets totaled approximately $950.9 million and $926.6 million, respectively, and were classified as follows:

Type of Investment	Fair Value at December 31, 2012	Amortized Cost at December 31, 2012	Percent of Amortized Cost Portfolio
	(dollars in thousands)		
Cash and short-term investments	$ 96,726	$ 96,726	10.9%
Fixed maturity securities:			
U.S. Government Securities	56,541	53,591	6.0%
States of the U.S. and political subdivisions of the states	46,164	40,100	4.5%
Corporate securities	340,729	304,725	34.4%
Mortgage-backed securities	248,240	237,653	26.8%
Commercial mortgage-backed securities	63,215	57,521	6.5%
Asset-backed securities	74,688	71,769	8.1%
Subtotal	829,577	765,359	86.3%
Common and preferred stocks	11,857	11,793	1.3%
Trading Securities	12,712	12,712	1.4%
Total	$ 950,872	$ 886,590	100.0%

Type of Investment	Fair Value at December 31, 2011	Amortized Cost at December 31, 2011	Percent of Amortized Cost Portfolio
	(dollars in thousands)		
Cash and short-term investments	$ 100,898	$ 100,898	11.6%
Fixed maturity securities:			
U.S. Government Securities	63,090	58,814	6.7%
States of the U.S. and political subdivisions of the states	32,257	27,676	3.2%
Corporate securities	326,926	298,452	34.2%
Mortgage-backed securities	270,811	257,864	29.6%
Commercial mortgage-backed securities	63,961	60,198	6.9%
Asset-backed securities	58,954	58,437	6.7%
Subtotal	815,999	761,441	87.3%
Common and preferred stocks	9,683	9,715	1.1%
Total	$ 926,580	$ 872,054	100.0%

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The fair value of our fixed maturity securities portfolio (excluding cash, short-term investments, and trading securities), classified by rating, as of December 31, 2012 and 2011, were as follows:

S&P/Moody s Rating	Fair Value at December 31, 2012	Amortized Cost at December 31, 2012	Percent of Fair Value Total
		(dollars in thousands)	
AAA/Aaa (including U.S. Treasuries of $31,032)	$ 80,529	$ 73,591	9.7%
AA/Aa	359,620	340,744	43.4%
A/A	266,606	238,943	32.1%
BBB/Baa	99,919	89,005	12.0%
Less than BBB/Baa [1]	22,903	23,076	2.8%
Total	$ 829,577	$ 765,359	100.0%

S&P/Moody s Rating	Fair Value at December 31, 2011	Amortized Cost at December 31, 2011	Percent of Fair Value Total
		(dollars in thousands)	
AAA/Aaa (including U.S. Treasuries of $24,065)	$ 84,284	$ 78,624	10.3%
AA/Aa	375,495	355,310	46.0%
A/A	252,770	231,463	31.0%
BBB/Baa	102,925	95,507	12.6%
Less than BBB/Baa [1]	525	537	0.1%
Total	$ 815,999	$ 761,441	100.0%

[1] The less than BBB/Baa rated securities were rated investment grade at the time of investment.

The National Association of Insurance Commissioners (the NAIC) has a security rating system by which it assigns investments to classes called NAIC designations that are used by insurers when preparing their annual statutory financial statements. The NAIC assigns designations to publicly traded as well as privately placed securities. The designations assigned by the NAIC range from class 1 to class 6, with a rating in class 1 being the highest quality. As of December 31, 2012, virtually all portfolios of our U.S. insurance subsidiaries were invested in securities rated in class 1 or class 2 by the NAIC, which are considered investment grade.

The maturity distribution of our fixed maturity portfolio (excluding cash, short-term investments and trading securities), as of December 31, 2012, based on stated maturity dates with no prepayment assumptions, was as follows:

Maturity	**Fair Value**	**Amortized Cost**
	(dollars in thousands)	
Due in one year or less	$ 41,544	$ 40,900
Due from one to five years	104,414	97,214
Due from five to ten years	207,642	189,141
Due after ten years	89,834	71,161
Mortgage and asset-backed securities	386,143	366,943
Total	$ 829,577	$ 765,359

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Our mortgage and asset-backed securities are subject to risks associated with the variable prepayments of the underlying mortgage loans. As of December 31, 2012, 99.5% of our mortgage-backed securities are fixed income securities issued by FNMA, FHLMA or GNMA and are therefore explicitly guaranteed (GNMA) by the U.S. government or implicitly guaranteed (FNMA/FHLMA) by the U.S. government.

Our Non-Subsidiary Affiliate

The Risk Retention Act of 1986 (the Risk Retention Act) allowed companies with specialized liability insurance needs that could not be met in the standard insurance market to create a new type of insurance vehicle called a risk retention group. We assisted in the formation of American Safety RRG in 1988 in order to establish a U.S. insurance company to market and underwrite specialty environmental coverages. The advantage of writing policies through a risk retention group is that it is permitted to write policies in all fifty states without having to be specifically authorized to do so in each state.

American Safety RRG is a variable interest entity which is consolidated in our financial statements in accordance with Accounting Standard Codification (ASC) 810-10-05. American Safety RRG is authorized to write liability insurance in all 50 states as a result of the Risk Retention Act and is licensed by the Vermont Department of Financial Regulation (the Vermont Department) under Title 8 of the Vermont Statutes Annotated (the Vermont Captive Act) as a stock captive insurance company. Presently, three of our directors are also directors of American Safety RRG: David V. Brueggen, Thomas W. Mueller and Cody W. Birdwell. The directors of American Safety RRG are elected annually by the shareholders of American Safety RRG.

Insurance Services

Our subsidiary, American Safety Insurance Services, Inc. (AS Insurance Services), provides a number of services to our U.S. insurance subsidiaries and American Safety RRG. These services include:

- business development services for developing new producer relations and new business opportunities;
- program management services for the overall management and administration of a program;
- underwriting services for evaluating individual risks or classes of risk;
- reinsurance services for placing reinsurance for a program; and
- policy and endorsement issuance and policy administration.

AS Insurance Services has developed many of our primary insurance product platforms and places our ceded reinsurance programs. Since 1990, AS Insurance Services has served as the program manager for American Safety RRG, providing it with program management, underwriting, and through its subsidiary, American Safety Claims Services, Inc. (ASCS), claims services. American Safety Administrative Services (ASAS) provides marketing, accounting, legal and other administrative services to American Safety RRG. In each case, these services are provided pursuant to guidelines and procedures established by the Board of Directors of American Safety RRG.

Our subsidiary, ASCS, provides claims administration services for the handling of claims, and the supervision of claims adjusters and TPAs and payment of claims to our U.S. insurance subsidiaries and American Safety RRG.

Our subsidiary, ASAS, provides other services to our U.S. insurance subsidiaries, to American Safety RRG and to our Bermuda insurance subsidiaries, including:

- legal services;
- accounting, actuarial and finance services;
- human resources services; and
- marketing services for designing and placing advertisements and other marketing materials, as well as marketing insurance programs to producers.

Regulatory Environment

Insurance Regulation Generally

Our insurance operations are subject to regulation under applicable insurance statutes of the jurisdictions or states in which each subsidiary is domiciled and writes insurance. Insurance regulations are intended to provide safeguards for policyholders rather than to protect shareholders of insurance companies or their holding companies.

The nature and extent of state regulation varies from jurisdiction to jurisdiction, but typically involves prior approval of the acquisition of control of an insurance company or of any company controlling an insurance company, regulation of certain transactions entered into by an insurance company with an affiliate, approval of premium rates for lines of insurance, standards of solvency and minimum amounts of capital and surplus which must be maintained, limitations on types and amounts of investments, restrictions on the size of risks which may be insured by a single company, deposits of securities for the benefit of policyholders, licensing to transact business, accreditation of reinsurers, admittance of assets to statutory surplus and reports with respect to financial condition and other matters. In addition, state regulatory examiners perform periodic examinations of insurance companies. American Safety RRG, American Safety Casualty, American Safety Indemnity and American Safety Assurance (Vermont) are all subject to examination by state regulatory examiners generally every three years. A state regulatory examination for American Safety Casualty and American Safety Indemnity by the Oklahoma Department of Insurance was concluded on June 11, 2011, and a report covering the two-year period ended December 31, 2009, was issued with no material findings. The Insurance Division of the Vermont Department completed its examination for the period ended December 31, 2011 on February 8, 2013 with no significant findings. American Safety Assurance (VT) was formed in 2008 and therefore will be subject to examinations in the future.

Although the federal government does not directly regulate the business of insurance in the U.S., Federal initiatives often affect the insurance business in a variety of ways. The insurance regulatory structure has also been subject to scrutiny in recent years by the NAIC, federal and state legislative bodies and state regulatory authorities. Various new regulatory standards have been adopted and proposed in recent years. The development of standards to ensure the maintenance of appropriate levels of statutory surplus by insurers has been a matter of particular concern to insurance regulatory authorities. The statutory surplus is the amount remaining after all liabilities, including loss reserves, are subtracted from all admitted assets and is determined in accordance with SAP. The difference between statutory financial statements and statements prepared in accordance with GAAP vary by jurisdiction; however, the primary

difference is that statutory financial statements do not reflect deferred acquisition costs, certain net deferred tax assets, intangible assets, unrealized appreciation on debt securities or certain reinsurance recoverables.

Bermuda Regulation

Our Bermuda subsidiaries that conduct reinsurance business, American Safety Reinsurance, Ltd. (ASRe) and American Safety Assurance, Ltd., are subject to regulation under The Insurance Act of 1978, as amended, of Bermuda and related regulations (the Bermuda Act), which provide that no person shall conduct insurance business (including reinsurance) in or from Bermuda unless registered as an insurer under the Bermuda Act by the Supervisor of Insurance (the Supervisor). ASRe and American Safety Assurance, Ltd. are registered insurers under the Bermuda Act.

The Bermuda Act requires, among other things, Bermuda insurance companies to meet and maintain certain standards of solvency, to file periodic reports in accordance with the Bermuda Statutory Accounting Rules, to produce annual audited financial statements, to maintain a minimum level of statutory capital and surplus and to adhere to an Insurance Company Code of Conduct promulgated by the Bermuda Monetary Authority. In general, the regulation of insurers in Bermuda relies heavily upon the auditors, directors and managers of the Bermuda insurer, each of which must certify that the insurer meets the solvency capital requirements of the Bermuda Act. Furthermore, the Supervisor is granted powers to supervise, investigate and intervene in the affairs of insurance companies.

Bermuda has adopted the Bermuda Solvency Capital Requirement (the BSCR) model, which is a risk based capital model introduced by the Bermuda Monetary Authority (the BMA). The BSCR measures risk and determines enhanced capital requirements and a target capital level. As a Class 3 reinsurer, ASRe is not currently subject to the requirements of the BSCR. Any change in ASRe s classification as a Class 3 Reinsurer would subject ASRe to the enhanced capital requirements of the BSCR.

All Bermuda insurers are required to comply with the BMA s Insurance Code of Conduct which establishes duties, requirements and standards to be complied with under the Bermuda Act. Failure to comply with these requirements is a factor taken into account by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner under the Bermuda Act. Our Bermuda subsidiaries are in compliance as of December 31, 2012.

Neither American Safety Insurance Holdings, Ltd., ASRe, nor American Safety Assurance, Ltd., is registered or licensed as an insurance company, nor do they conduct any business in any state or jurisdiction in the U.S.

U.S. Regulation

As a Bermuda insurance holding company, we do not conduct business in the U.S. Our four U.S. insurance subsidiaries operations and the operations of our non-subsidiary affiliate are subject to state regulation where each is domiciled. In addition, our U.S. insurance subsidiaries are subject to varying degrees of state regulation where each writes insurance.

We acquired American Safety Casualty, a U.S. property and casualty insurance company domiciled in Delaware, in 1993. During 2007, American Safety Casualty was re-domesticated from Delaware to Oklahoma. American Safety Casualty is licensed as a property and casualty insurer in 48 states and the District of Columbia. American Safety Casualty is subject to regulation and examination by the Oklahoma Insurance Department and the other states in which it is an admitted insurer. The insurance laws of Oklahoma place restrictions on a change of control of American Safety Insurance as result of our ownership of American Safety Casualty. Under Oklahoma law, no person may obtain 10% or more of our voting securities without the prior approval of the Oklahoma Insurance Department.

American Safety Casualty, as a licensed insurer, is subject to state regulation of rates and policy forms in the various states in which its direct premiums are written. Under these regulations, a licensed insurer may be required to file and obtain prior approval of its policy form and the rates that are charged to insureds. American Safety Casualty is also required to participate in state insolvency funds which are designed to protect insurers that become unable to pay claims due to an insurer s insolvency. Assessments made against insurers participating in these funds are usually based on gross written premiums in the state by a participating insurer, as a percentage of total gross written premiums in the state by all participating insurers.

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We acquired American Safety Indemnity, a U.S. E&S lines insurance company domiciled in Oklahoma, in 2000. American Safety Indemnity is currently licensed or approved as an E&S lines insurer in 49 states and the District of Columbia. The insurance laws of Oklahoma place restrictions on a change of control of American Safety Insurance as a result of our ownership of American Safety Indemnity. Under Oklahoma law, no person may obtain 10% or more of our voting securities without the prior approval of the Oklahoma Insurance Department.

Because American Safety Indemnity is an E&S lines insurer, its premium rates are not filed and approved with the various state insurance departments, but certain requirements regarding the types of insurance written by E&S lines insurers must still be met. Generally, E&S lines insurers may only write coverage that is not available in the admitted or standard market and strict guidelines regarding the coverages are set forth in various state statutes. Surplus lines brokers are the licensed individuals or entities placing coverage with E&S lines insurers, and in most states, the broker is responsible for the payment of surplus lines taxes which are payable to the state in which the surplus lines risk is located. Surplus lines insurers are exempt from participation in state insolvency funds which are designed to protect insureds if admitted insurers become insolvent and are unable to pay claims. While American Safety Indemnity is exempt from the majority of state regulatory requirements, it must be approved to write the type of insurance in the states where its surplus lines business is written. The Oklahoma Insurance Department retains primary regulatory authority over American Safety Indemnity, as a licensed and admitted insurance company in Oklahoma.

The Risk Retention Act allows the establishment of risk retention groups to insure certain liability risks of its members. The statute applies only to commercial liability insurance and does not permit coverage for liability for personal injury, damage to property or workers compensation.

The Risk Retention Act and Title 8 of the Vermont Captive Act require that each insured of American Safety RRG be a shareholder. Each insured is required to purchase one share of American Safety RRG s common stock upon acceptance as an insured. There is no trading market for the shares of common stock of American Safety RRG and each share is restricted as to transfer. If and when a holder of American Safety RRG common stock ceases to be an insured, whether voluntarily or involuntarily, that holder s share of common stock is automatically canceled and that person is no longer a shareholder of American Safety RRG. The ownership interests of members in a risk retention group are considered to be exempt securities for purposes of the registration provisions of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and are likewise not considered securities for purposes of any state securities law.

Congress intended under the Risk Retention Act that the primary responsibility for regulating the financial condition of a risk retention group would rest on the state in which the group is licensed or chartered. American Safety RRG is subject to regulation as a captive insurer under the insurance laws of Vermont and, to a lesser extent, under the laws of each state in which it does business. Any merger or acquisition of American Safety RRG is subject to the prior written approval of the commissioner of the Vermont Department. The Risk Retention Act requires a risk retention group to provide a notice on each insurance policy which it issues to the effect that (i) the policy is issued by a risk retention group; (ii) the risk retention group may not be subject to all of the insurance laws and regulations of the state in which the policy is being issued; and (iii) no state insurance insolvency guaranty fund is available to the policies issued by the risk retention group.

American Safety Casualty, American Safety Indemnity, and American Safety RRG are required to comply with NAIC risk-based capital (RBC) requirements. RBC is a method of measuring the amount of capital appropriate for an insurance company to support its overall business in light of its size and risk profile. The ratio of a company s actual policyholder surplus to its minimum capital requirements will determine whether any state regulatory action is required. State regulatory authorities use the RBC formula to identify insurance companies which may be undercapitalized and may require further regulatory attention. As of December 31, 2012, each of the Company s U.S.

domiciled insurance subsidiaries RBC exceeded the minimum threshold.

American Safety Assurance (Vermont), Inc. (ASA VT) is a licensed Vermont sponsored captive insurance company formed in December 2008. ASA VT is subject to regulation and to examination by the Vermont Department of Banking. Standard Vermont regulatory requirements applicable to traditional insurers generally are not applicable to captive insurers, but applicable Vermont captive laws do limit the type of entity that may act as a sponsor, limit a participant to insuring its risks only through the segregated or protected cell and require that a participant s assets and liabilities be maintained in a segregated or protected cell separate from the experience of other cells and from the assets of the sponsored captive s general account. Vermont regulators evaluate the financial condition of the Company and of each segregated cell. Subsequent to the year ended December 31, 2012, ASA VT was dissolved.

Employees

At December 31, 2012, we employed 242 persons, none of whom were represented by a labor union.

Item 1A. Risk Factors

Our business is subject to the following risk factors, among others, in addition to the information (including disclosures relative to forward-looking statements) set forth elsewhere in this report.

Risk Factors Relating to American Safety Insurance

A downgrade in our A.M. Best rating or increased capital requirements could impair our ability to sell insurance policies.

On February 01, 2013, A.M. Best, the most widely recognized insurance company rating agency, affirmed its financial strength rating of A (Excellent) on a group basis of our U.S. insurance subsidiaries, our Bermuda reinsurance subsidiary and our U.S. non-subsidiary risk retention group affiliate. A.M. Best did revise the outlook to negative citing operating performance in the past two years and execution risk with respect to planned growth in the E&S division. An A (Excellent) financial strength rating is the third highest of sixteen ratings assigned by A.M. Best to companies that have, in the opinion of A.M. Best, an excellent ability to meet their ongoing obligations to policyholders.

A.M. Best assigns ratings that represent an independent opinion of a company s ability to meet its obligations to policyholders that is of concern primarily to policyholders, brokers and agents, and its rating and outlook should not be considered an investment recommendation. Because A.M. Best continually monitors companies with regard to their ratings, our ratings could change at any time, and any downgrade of our current rating may impair our ability to sell insurance policies, provide reinsurance coverage, and, ultimately, our financial condition and operating results.

The key factors that could result in negative actions regarding the rating would be continuing deterioration in the operating ratios or failure to maintain adequate capitalization in the subsidiaries or on a consolidated basis.

The exclusions and limitations in our policies may not be enforceable.

We draft the terms and conditions of our E&S lines policies to manage our exposure to expanding theories of legal liability in business lines such as asbestos abatement, construction defect, environmental, property and professional liability. Many of the policies we issue include exclusions or other conditions that define and limit coverage. In addition, many of our policies limit the period during which a policyholder may bring a claim under the policy, which period in many cases is shorter than the statutory period under which these claims can be brought against our policyholders. While these exclusions and limitations help us assess and control our loss exposure, it is possible that a

court or regulatory authority could nullify or void an exclusion or limitation, or legislation could be enacted modifying or barring the use of these exclusions and limitations particularly with respect to evolving business lines such as construction defect. This could result in higher than anticipated losses and loss adjustment expenses by extending coverage beyond our underwriting intent or increasing the number or size of claims, which could have a material adverse effect on our operating results. In some instances, these changes may not become apparent until sometime after we have issued the insurance policies that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a policy is issued.

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The risks we underwrite are concentrated in relatively few industries.

We focus much of our underwriting on specialty risks in the construction and environmental remediation industries. As a result of our diversification efforts, for the year ended December 31, 2012, approximately 26.1% of our gross written premiums were written in these two industries compared to 25.2% for 2011. Our operating results could be more exposed than our more diversified competitors to unfavorable changes in business, economic or regulatory conditions, changes in federal, state or local environmental standards and establishment of legal precedents affecting these industries. Similarly, a significant incident impacting one of these industries that has the effect of increasing claims generally (or their settlement value) could negatively impact our financial condition and operating results.

We may respond to market trends by expanding or contracting our underwriting activities in certain business lines, which may cause our financial results to be volatile.

Although we perform due diligence and risk analysis before entering into a new business line or insuring a new type of risk, and carefully assess the impact of exiting a business line, changing business lines inherently has more risk than remaining in the same business lines over a period of time. Because we actively seek to expand or contract our capacity in the markets we serve in response to factors such as loss experience and premium production, our operating results may experience material fluctuations.

Our industry is highly competitive and we may lack the financial resources to compete effectively.

We believe that competition in the specialty insurance markets that we target is fragmented and not dominated by one or more competitors. We face competition from several types of companies, such as insurance companies, reinsurance companies, underwriting agencies, program managers and captive insurance companies. Many of our competitors are significantly larger and possess greater financial, marketing and management resources than we do. We compete on the basis of many factors, including coverage availability, claims management, payment terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial strength ratings and reputation. If any of our competitors offer premium rates, policy terms or types of insurance that are more competitive than ours we could lose business. If we are unable to compete effectively in the markets in which we operate or to establish a competitive position in new markets, our financial condition and operating results would be adversely impacted.

Our actual incurred losses may be greater than reserves for our losses and loss adjustment expenses.

Insurance companies are required to maintain reserves to cover their estimated liability for losses and loss adjustment expenses with respect to both reported and incurred but not reported (IBNR) claims. Reserves are estimates at a given time involving actuarial and statistical projections of what we expect to be the cost of the ultimate resolution and administration of claims. These estimates are based on facts and circumstances then known, predictions of future events, estimates of future trends, projected claims frequency and severity, potential judicial expansion of liability precedents, legislative activity and other factors, such as inflation. Our in-house actuarial staff reviews the reserves on a quarterly basis. In addition, an independent third-party actuarial firm performs an actuarial analysis annually, which includes assessing the adequacy of loss and loss adjustment expense reserves.

Notwithstanding these efforts, the establishment of adequate reserves for losses and loss adjustment expenses is an inherently uncertain process, particularly in the environmental remediation industry, construction industry and some of the other industries we underwrite where extensive historical data may not exist or where the risks insured are long-tail in nature, in that claims that have occurred may not be reported to us for long periods of time (such as construction defect claims). Therefore, traditional actuarial analysis may be less reliable. Due to these uncertainties, our ultimate losses could materially exceed our reserves for losses and loss adjustment expenses, especially in business lines where we have increased or intend to increase our risk retention.

To the extent that reserves for losses or loss adjustment expenses are estimated in the future to be inadequate, we would have to increase our reserves and incur charges to earnings in the periods in which the reserves are increased. In addition, increases in reserves may also cause additional reinsurance premiums to be payable to our reinsurers. These increases in reserves and reinsurance premiums could adversely impact our financial condition and operating results. For more information on our losses and loss adjustment expenses, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

If we are unable to obtain reinsurance on favorable terms, our ability to write new business could be adversely affected.

Reinsurance is a contractual arrangement under which one insurer (the ceding company) transfers to another insurer (the reinsurer) a portion of the liabilities that the ceding company has assumed under an insurance policy it has issued. Our business involves ceding portions of the risks that we underwrite to reinsurers. The availability and cost of reinsurance are subject to prevailing market conditions that are beyond our control and there are factors that could materially impact our financial condition and operating results. There is no certainty that reinsurance will continue to be available in the form or in the amount that we require or, if available, at an affordable cost. The availability of reinsurance is dependent not only on reinsurers reactions to the specific risks that we underwrite, but also events that impact the overall reinsurance industry. If we are unable to maintain or replace our reinsurance, our total loss exposure could increase and, if we were unwilling or unable to assume that increase in exposure, we would be required to mitigate the increase in exposure by writing fewer policies or writing policies with lower limits or different coverage.

We may be unable to recover amounts due from our reinsurers.

While reinsurance contractually obligates the reinsurer to reimburse us for a portion of our losses, it does not relieve us of our primary financial liability to our insureds. If our reinsurers are either unwilling or unable to pay some or all of the claims made by us on a timely basis, we may bear the financial exposure. As a result, we are subject to credit risk with respect to our reinsurers. The total amount of reinsurance recoverables at December 31, 2012, was $213.4 million (which includes ceded unearned premiums), or 61.8% of equity. Of this amount, $123.9 million, or approximately 58.1% of the total recoverable amount, is collateralized by cash, irrevocable letters of credit or other acceptable forms of collateral posted by the reinsurer.

We purchase reinsurance from reinsurers we believe to be financially sound. We have reinsurance security procedures that establish financial requirements for reinsurance companies prior to reinsuring business we underwrite. Among these requirements is a stipulation that reinsurance companies must have an A.M. Best rating of at least A- (Excellent) and a financial size category of Class VIII or greater at the time of placing any reinsurance unless sufficient collateral has been provided at the time we enter into the reinsurance agreement. We have also established an internal reinsurance security committee, including members of senior management, which meets quarterly to discuss and approve reinsurance security and evaluate reinsurance recoverables. To protect against our reinsurers potential inability to satisfy their contractual obligations to us, our reinsurance contracts stipulate a collateral requirement for reinsurance companies that do not meet the financial strength and size requirements described above. These collateral

requirements can be met through the issuance of irrevocable letters of credit, the establishment and funding of escrow accounts for our benefit or cash advances paid into a segregated account. In the event collateral is not sufficient, there is no certainty that these reinsurers will be able to provide additional collateral or fulfill their obligations to us.

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As of December 31, 2012, we had exposure to our reinsurers of $213.4 million, consisting of reinsurance recoverables on unpaid losses, reinsurance recoverables on paid losses and unearned premiums. Our net exposure (after collateral) to our reinsurers totaled $89.5 million as of December 31, 2012. Included are balances from reinsurance counterparties that may no longer carry a financial strength rating and therefore could present a higher default risk. Because we remain primarily liable to our policyholders for the payment of their claims, in the event that one of our reinsurers under an uncollateralized treaty became insolvent or refused to reimburse us for losses paid, or delayed in reimbursing us for losses paid, our cash flow and financial results could be materially and adversely impacted. As of December 31, 2012, our largest net exposure to any one reinsurer was approximately $19.7 million from Partner Reinsurance Company which is rated A+ by A. M. Best Company.

We rely on independent insurance agents and brokers to market our products.

We market most of our insurance products through approximately 700 independent insurance agents and brokers, which we refer to as producers. These producers are not obligated to promote our products and may sell competitors products. Our profitability depends, in part, on the marketing efforts of these producers and on our ability to offer insurance products and services while maintaining financial strength ratings that meet the requirements of our producers and their customers. The failure or inability of producers to market our insurance products successfully would have a material adverse effect on our business and operating results. As of December 31, 2012, the Company has no individual producers that generate greater than 10% of gross written premiums.

We are subject to credit risk in connection with producers that market our products.

In accordance with industry practice, when the insured pays premiums for our policies to producers, these premiums are considered to have been paid and, in most cases, the insured is no longer liable to us for those amounts, whether or not we actually have received the premiums. Consequently, we assume a degree of credit risk associated with the producers with whom we choose to do business. To date, we have not experienced any material losses related to these credit risks.

Our long-term growth strategy is dependent on several factors, the failure to achieve any one of which may impair our ability to expand our operations or may prevent us from operating profitably.

Our long-term growth strategy includes expanding in our E&S and Reinsurance markets, entering new geographic markets, creating relationships with new producers and developing new insurance products. In order to generate this growth, we are subject to various risks, including risks associated with our ability to:

- identify insurable risks not adequately served by the standard insurance market;
- maintain adequate levels of capital;
- obtain reinsurance on favorable terms;
- obtain necessary regulatory approvals when writing on an admitted basis;

- attract and retain qualified personnel to manage our expanded operations;

- complete acquisitions of small specialty insurers, general agents or lines of business;

- invest in products and markets that may adversely impact near term results; and

- maintain our financial strength ratings.

Our inability to achieve any of the above objectives could affect our long-term growth strategy and may cause our business and operating results to suffer.

If we lose key personnel or are unable to recruit qualified personnel, our ability to implement our business strategies could be delayed or hindered.

Our future success will depend, in part, upon the efforts of our executive officers and other key personnel.

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Our ability to recruit and retain key personnel will depend upon a number of factors, such as our results of operations, business prospects and the level of competition then prevailing in the market for qualified personnel. The loss of any of these officers or other key personnel or our inability to recruit key personnel could prevent us from fully implementing our business strategies and could materially adversely affect our business, financial condition and operating results.

We routinely evaluate opportunities to expand our business through acquisitions of other companies or business lines. There are many risks associated with acquisitions that we may be unable to control.

We evaluate potential acquisition opportunities as a means to grow our business. There are a number of risks attendant to any acquisition. These risks include, among others, the difficulty in integrating the operations and personnel of an acquired company; potential disruption of our ongoing business; inability to successfully integrate acquired systems and insurance programs into our operations; maintenance of uniform standards, controls and procedures; possible impairment of relationships with employees and insureds of an acquired business as a result of changes in management; and that the acquired business may not produce the level of expected profitability. As a result, the impact of any acquisition on our future performance may not be consistent with original expectations, and may impair our business, financial condition and operating results.

Adverse economic factors including recession, inflation, periods of high unemployment or lower economic activity could result in the Company selling fewer policies than expected and/or an increase in premium defaults and/or claim activity which, in turn, could affect the Company s growth and profitability.

Negative economic factors may also affect our ability to receive the appropriate rate for the risk we insure with our policyholders and may impact the quality of business submitted to us. In an economic downturn, the degree to which prospective policyholders apply for insurance and fail to pay all balances owed may increase. Existing policyholders may exaggerate or even falsify claims to obtain higher claims payments. These outcomes would reduce the Company s underwriting profit to the extent these effects are not reflected in the rates charged by the combined company.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write profitable new business, retain existing customers and establish premium rates and reserves at levels sufficient to cover losses and related expenses. Many factors will affect our capital needs and the amount and timing, including our growth and profitability, our claims experience and the availability of reinsurance, as well as possible acquisition opportunities, market disruptions, changes in regulatory requirements and other unforeseeable developments. If we have to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are unfavorable to us. In the case of equity financings, dilution to our shareholders could result. In the case of debt financings, we may be subject to covenants that restrict our ability to freely operate our business. If we cannot obtain adequate capital on favorable terms or at all, we may not have sufficient capital to implement our business plans and therefore our financial condition and operating results could be adversely affected.

Changes in the value of our investment portfolio may have a material impact on our operating results.

We derive a significant portion of our net earnings from our investment portfolio. As a result, our operating results depend in part on the performance of our investment portfolio. As of December 31, 2012, the fair value of our investment portfolio was $930.6 million and net investment income derived from these assets was $30.2 million. We also recognized net realized gains of $9.7 million in 2012. Our realized gains consist of $9.4 million from sales of

fixed maturity securities and $0.3 million in net unrealized holding gains from trading securities. Our investment portfolio is subject to various risks, including:

credit risk, which is the risk that our invested assets will decrease in value due to unfavorable changes in the financial prospects or a downgrade in the credit rating of an entity in which we have invested;

interest rate risk, which is the risk that our invested assets or investment income may decrease due to changes in interest rates;

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- pricing risk, which is the risk that we will incur economic loss due to a decline in pricing;
- duration risk, which is the risk that our invested assets may not adequately match the duration of our insurance liabilities;
- liquidity risk, which is the risk that our invested assets cannot be sold due to market conditions or the nature of the security;
- industry sector concentration risk, which is the risk that our invested assets are concentrated in a small number of investment sectors;
- mortgage-backed securities, which may have exposure to sub-prime mortgages although the majority of mortgage-backed securities in the Company s portfolio are issued by Fannie Mae, Freddie Mac or Ginnie Mae; and
- general economic conditions that may negatively impact the volume or income stream from our invested amounts or require that we recognize losses on certain investments.

Our investment portfolio is comprised mostly of fixed-income securities. We do not hedge our investments against interest rate risk and, accordingly, changes in interest rates may result in fluctuations in the value of these investments.

Our investment portfolio is managed by independent, nationally recognized investment management firms, in accordance with detailed investment policies and guidelines established by management and approved by the Board of Directors, that stress preservation of principal with due consideration for income targets and the Company s overall asset/liability strategy. If our investment portfolios are not appropriately matched with the respective insurance and reinsurance liabilities, we may be forced to liquidate investments prior to their maturity at a significant loss in order to fund these liabilities. This might occur, for instance, in the event of a large or unexpected claim or series of claims. Large investment losses could significantly decrease our asset base, thereby affecting our ability to underwrite new business. For more information about our investment portfolio, see Business-Investments.

We rely upon the successful and uninterrupted functioning of our information technology, information processing and telecommunication systems.

Our business is highly dependent upon the successful and uninterrupted functioning of our information technology, information processing and telecommunications systems. We rely on these systems to support our marketing operations, process new and renewal business, provide customer service, make claims payments, and facilitate premium collections and policy cancellations. These systems also enable us to perform actuarial and other modeling functions necessary for underwriting. We have a highly trained staff that is committed to the continual development and maintenance of these systems. However, the failure of these systems could interrupt our operations or materially impact our ability to evaluate and write new business. Because our information technology, information processing and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for this service exceeds capacity or if the third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to write and process new and renewal business and provide customer service or compromise our ability to pay claims in a timely

manner. There can be no guarantee that these systems can effectively support our continued growth. Additionally, some of our systems are not fully redundant, and our disaster recovery planning may not account for eventualities which could adversely affect our business. Our current technology initiatives may not provide us with the ability to leverage fixed costs as much as anticipated which could affect our financial results.

We are subject to risks related to litigation.

From time to time, we are subject to lawsuits and other claims arising out of our insurance, reinsurance and former real estate operations. We have responded to the lawsuits we face and, although the outcome of these lawsuits cannot be predicted, we believe that there are meritorious defenses and intend to vigorously contest these claims. Adverse judgments in one or more of these lawsuits could require us to change aspects of our operations in addition to paying significant damage amounts. In addition, the expenses related to these lawsuits may be significant. Lawsuits can have a material adverse effect on our business and operating results, particularly where we have not established an accrual or a sufficient accrual for damages, settlements or expenses. For information on the material litigation in which we are involved, see Item 3 Legal Proceedings.

Risk Factors Related to Taxation

Our Bermuda operations may be subject to U.S. tax.

American Safety Insurance Holdings, Ltd., its reinsurance subsidiary, ASRe and its segregated account captive, American Safety Assurance, are organized in Bermuda. Under current U.S. tax law, American Safety Insurance Holdings, Ltd., ASRe and American Safety Assurance are operated in a manner such that they should not be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income) because none of these companies should be treated as engaged in a trade or business within the U.S. (and, in the case of ASRe and American Safety Assurance, to be doing business through a permanent establishment within the U.S.). However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the U.S. (and what constitutes a permanent establishment under the income tax treaty between the U.S. and Bermuda (the Bermuda Treaty) as well as the entitlement of ASRe and American Safety Assurance to treaty benefits), there can be no assurances that the U.S. Internal Revenue Service (the IRS) will not contend successfully that American Safety Insurance Holdings, Ltd., ASRe and/or American Safety Assurance is engaged in a trade or business in the U.S. (or that ASRe or American Safety Assurance is carrying on business through a permanent establishment in the U.S.). If any of American Safety Insurance Holdings, Ltd., ASRe or American Safety Assurance were considered to be engaged in a trade or business in the U.S., it could be subject to U.S. corporate income taxes on the portion of its earnings effectively connected to such U.S. business, in which case its operating results could be materially adversely affected.

Changes in U.S. federal income tax law could materially adversely affect us.

Legislation has been introduced in the U.S. Congress from time to time intended to eliminate some perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States but have certain U.S. operations. Changes in federal income tax law could be enacted by the current Congress or future Congresses that could have an adverse impact on our results of operations.

If you acquire 10% or more of the Common Shares, you may be subject to taxation under the controlled foreign corporation (CFC) rules.

Under certain circumstances, a U.S. 10% shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year must include in gross income for U.S. Federal income tax purposes that U.S. 10% shareholder s subpart F income, even if the subpart F income is not distributed to that U.S. 10% shareholder. Subpart F income of a foreign insurance corporation typically includes foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income

(including underwriting and investment income) attributable to the insurance of risks situated outside the CFC s country of incorporation.

We believe that because of the dispersion of our Common Share ownership, provisions in our organizational documents that limit voting power and other factors, no U.S. person who acquires Common Shares directly or indirectly through one or more foreign entities should be required to include our subpart F income in income under the CFC rules of the Code. It is possible that the IRS could challenge the effectiveness of these provisions and that a court could sustain that challenge, in which case, one s investment could be materially adversely affected.

U.S. persons who hold Common Shares may be subject to U.S. federal income taxation at ordinary income rates on their proportionate share of our related party insurance income (RPII).

If the RPII of American Safety Re or American Safety Assurance were to equal or exceed 20% of its gross insurance income in any taxable year and direct or indirect insureds (and persons related to those insureds) own directly or indirectly through entities 20% or more of the voting power or value of American Safety Re or American Safety Assurance, then a U.S. person who owns any Common Shares (directly or indirectly through foreign entities) on the last day of the taxable year would be required to include in income for U.S. federal income tax purposes that person s pro rata share of that company s RPII for the entire taxable year, determined as if that RPII were distributed proportionately only to U.S. persons at that date regardless of whether that income is distributed. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income. Neither American Safety Re nor American Safety Assurance expects gross RPII to equal or exceed 20% of its gross income for 2011 or subsequent years, and neither expects its direct or indirect insureds (including related persons) to directly or indirectly hold 20% or more of its voting power or value, but we cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond our control. If these thresholds are met or exceeded, and if you are an affected U.S. person, your investment could be materially adversely affected. The RPII provisions, however, have never been interpreted by the courts or the U.S. Treasury Department (the Treasury Department) in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any of those changes, as well as any interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. The Treasury Department has authority to impose, among other things, additional reporting requirements with respect to RPII. Accordingly, the meaning of the RPII provisions and the application thereof to us is uncertain.

U.S. persons who dispose of Common Shares may be subject to U.S. federal income taxation at the rates applicable to dividends on a portion of their gain, if any.

Section 1248 of the Internal Revenue Code of 1986, as amended (the Code) provides that if a U.S. person sells or exchanges stock of a foreign corporation and that person owned, directly, indirectly through certain foreign entities or constructively, 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of that person s share of the CFC s earnings and profits (determined under U.S. federal income tax principles) during the period that person held the shares and while the corporation was a CFC (with certain adjustments). We believe that because of the dispersion of our Common Share ownership, provisions in our organizational documents that limit voting power and other factors, no U.S. shareholder, other than Fredrick C. Treadway or Treadway Associates, L.P., of American Safety Insurance should be treated as owning (directly, indirectly through foreign entities or constructively) 10% or more of the total voting power of American Safety Insurance. As a result, American Safety Insurance should not be a CFC and Section 1248 of the Code, as applicable under the general CFC rules, should not apply to dispositions of our shares. It is possible; however, that the IRS could challenge these provisions in our organizational documents and that a court could sustain that challenge. To the extent American Safety Insurance is a CFC, a 10% U.S. Shareholder may in certain circumstances be required to report a disposition of Common Shares by attaching IRS Form 5471 to the U.S. federal income tax or information return that it

would normally file for the taxable year in which the disposition occurs.

For purposes of Section 1248 of the Code and the requirement to file Form 5471, special rules apply with respect to a U.S. person s disposition of shares of a foreign insurance company that has RPII during the five-year period ending on the date of the disposition. In general, if a U.S. person disposes of shares in a foreign insurance corporation in which U.S. persons own 25% or more of the shares (even if the amount of gross RPII is less than 20% of the corporation s gross insurance income and the ownership of its shares by direct or indirect insureds and related persons is less than the 20% threshold), any gain from the disposition may be treated as a dividend to the extent of that person s share of the corporation s undistributed earnings and profits that were accumulated during the period that person owned the shares (whether or not those earnings and profits are attributable to RPII). As a result of these special rules and proposed Treasury Department regulations, the IRS may assert that Section 1248 of the Code and the requirement to file Form 5471 apply to dispositions of Common Shares because American Safety Insurance is engaged in the insurance business indirectly through subsidiaries.

U.S. persons who hold Common Shares will be subject to adverse tax consequences if American Safety Insurance is considered to be a Passive Foreign Investment Company (a PFIC) for U.S. federal income tax purposes.

If American Safety Insurance is considered a PFIC for U.S. federal income tax purposes, a U.S. person who owns Common Shares will be subject to adverse tax consequences, including subjecting the investor to a greater tax liability than might otherwise apply and subjecting the investor to tax on amounts in advance of when tax would otherwise be imposed, in which case your investment could be materially adversely affected. In addition, if American Safety Insurance were considered a PFIC, upon the death of any U.S. individual owning Common Shares, that individual s heirs or estate would not be entitled to a step-up in the basis of the shares which might otherwise be available under U.S. federal income tax laws. American Safety Insurance does not believe that it is, and does not expect to become, a PFIC for U.S. federal income tax purposes. No assurance can be given, however, that American Safety Insurance will not be deemed a PFIC by the IRS. If American Safety Insurance were considered a PFIC, it could have material adverse tax consequences for an investor that is subject to U.S. federal income taxation. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, that guidance would have on an investor that is subject to U.S. federal income taxation.

American Safety Insurance Holdings, Ltd., American Safety Reinsurance, and American Safety Assurance may become subject to Bermuda taxes in the future.

Bermuda currently imposes no income taxes on corporations. American Safety Insurance, American Safety Re and American Safety Assurance have received an assurance from the Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 2011 of Bermuda,(the Tax Protection Act), that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of the tax will not be applicable to American Safety Insurance, American Safety Re or American Safety Assurance until 2035. No assurance can be given that American Safety Insurance, American Safety Re or American Safety Assurance will not be subject to any Bermuda tax after that date.

The impact of Bermuda s letter of commitment to the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect the Bermuda tax status of American Safety Insurance, American Safety Reinsurance, and American Safety Assurance.

The Organization for Economic Cooperation and Development (the OECD) has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries

around the world. In the OECD s report dated April 18, 2002, and updated as of June 2004, Bermuda was not listed as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether these changes will subject us to additional taxes.

Risk Factors Relating to the Property and Casualty Insurance Industry

Our industry is exposed to catastrophic losses.

We are subject to claims arising out of catastrophes that may have a significant effect on the results of operations, and/or financial condition. Catastrophes can be caused by various events, including tornadoes, hurricanes, windstorms, earthquakes, tsunamis, hailstorms, explosions, power outages, severe winter weather, fires and intentional man-made events, such as terrorist attacks. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Insurance companies are not permitted to reserve for catastrophes until such event takes place. Therefore, although we actively manage our exposure through the underwriting process and the purchase of reinsurance protection, a catastrophe or series of catastrophes could have a material adverse impact on our results of operations and/or financial condition. We have exposure to catastrophe in all of our product divisions; including, but not limited to the following: in our E&S division, we underwrite property that is potentially exposed to catastrophe losses; through our Reinsurance division we are exposed to catastrophes (hurricane, earthquake, etc.) worldwide but have participated with a finite limit during the treaty period; our ART division s dealer open lot program is catastrophe exposed and this risk has been reinsured.

Our industry is exposed to terrorism.

We may also have exposure to losses resulting from acts of terrorism. Even if reinsurers are able to exclude coverage for terrorist acts or price that coverage at rates that we consider unattractive, direct insurers, like us, might not be able to likewise exclude terrorist acts because of regulatory constraints. If this does occur, we could have gap in our reinsurance protection and would be exposed to potential losses as a result of any terrorist acts. These events are inherently unpredictable. It is difficult to predict occurrence of such events with statistical certainty or to estimate the amount of loss per occurrence they will generate. If there is a future terrorist attack, the possibility remains that losses resulting from such event could prove to be material to our financial condition and results of operations. Terrorist acts may also cause multiple claims, and there is no assurance that our attempts to limit our liability through contractual policy provisions will be effective.

Policy pricing in our industry is cyclical, and our financial results are impacted by that cyclicality.

The property and casualty insurance industry has historically been a cyclical industry consisting of both hard market periods and soft market periods. The E&S lines market historically has tended to move in response to the underwriting cycles in the standard insurance market. Hard market periods are characterized by shortages of underwriting capacity, limited availability of capital, less competition and higher premium rates. Typically, during hard markets, as rates increase and coverage terms become more restrictive, business shifts from the standard insurance market to the E&S lines market as standard insurance market carriers rely on traditional underwriting techniques and focus on their core business lines. In soft markets, business shifts from the E&S lines market to the standard insurance market as standard insurance market carriers tend to change underwriting standards and seek to expand market share by moving into business lines traditionally characterized as surplus lines.

Our industry is subject to significant and increasing regulatory scrutiny.

In recent years, the insurance industry has been subject to a significant and increasing level of scrutiny by various regulatory bodies, including state attorneys general and insurance departments, concerning certain practices within the insurance industry. These practices include the receipt of contingent commissions by insurance brokers and agents from insurance companies and the extent to which this compensation has been disclosed, bid rigging and related

matters. As a result of these and related matters, there have been a number of recent revisions to existing, or proposals to modify or enact new, laws and regulations regarding the relationship between insurance companies and producers. Any changes or further requirements that are adopted by federal, state or local governments could adversely affect our business and operating results.

We operate in a heavily regulated industry, and existing and future regulations may constrain how we conduct our business and could impose liabilities and other obligations upon us.

Insurance Regulation. Our primary insurance and reinsurance subsidiaries, as well as our non-subsidiary risk retention group affiliate, are subject to regulation under applicable insurance statutes of the jurisdictions in which they are domiciled or licensed and write insurance. This regulation may limit our ability to, or speed with which we can, effectively respond to market opportunities and may require us to incur significant annual regulatory compliance expenditures. Insurance regulation is intended to provide safeguards for policyholders rather than to protect shareholders of insurance companies. Insurance regulation relates to authorized business lines, capital and surplus requirements, types and amounts of investments, underwriting limitations, trade practices, policy forms, premium rates, claims practices, mandated participation in shared markets, loss reserve adequacy, insurer solvency, transactions with related parties, changes in control, payment of dividends and a variety of other financial and non-financial components of an insurance company s business. For instance, our domestic insurance subsidiaries are subject to risk-based capital, or RBC, restrictions. RBC is a method of measuring the amount of capital appropriate for an insurance company to support its overall business in light of its size and risk profile. The ratio of a company s actual policyholder surplus to its minimum capital requirements will determine whether any state regulatory action is required. State regulatory authorities use the RBC formula to identify insurance companies which may be undercapitalized and may require further regulatory attention.

Any changes in insurance laws and regulations could materially affect our operating results. For example, the Dodd-Frank Act, enacted in July 2010, created the Federal Insurance Office (FIO) within the Treasury Department. The FIO is responsible for gathering information and monitoring the insurance industry to identify gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or U.S. financial system. The FIO also has the authority to recommend changes to state insurance laws and regulations. We are unable to predict whether the FIO will recommend any such changes, whether any states will adopt any such changes, or what effect such changes may have on our insurance operations. In addition, the National Association of Insurance Commissioners (the NAIC) is considering the adoption of all or part of Solvency II, including minimum capital requirements that could be in excess of our minimum capital requirements established by current state regulations. If the NAIC adopted Solvency II including additional capital requirements, our business and results of operations could be materially impacted. Solvency II is an EU legislative program to be implemented in all 27 Member States, including the UK. It introduces a new, harmonized EU-wide insurance regulatory regime. The legislation replaces 13 existing EU insurance directives. Bermuda has adopted the Bermuda Solvency Requirement (the BSCR) model, which is a risk based capital model introduced by the Bermuda Monetary Authority (the BMA). The BSCR measures risk and determines enhanced capital requirements and a target capital level. As a Class 3 reinsurer, ASRe is not currently subject to the requirements of the BCSR. Any change in ASRe s classification as a Class 3 Reinsurer would subject ASRe to the enhanced capital requirements of the BSCR and could materially impact our operating results. We are unable to predict what additional laws and regulations, if any, affecting our business may be promulgated in the future or how they might be interpreted.

Dividend Regulation. Like other insurance holding companies, American Safety Insurance relies on dividends from its insurance subsidiaries to be able to fulfill its financial obligations. The payment of dividends by these subsidiaries and other intercompany transactions are subject to regulatory restrictions and will depend on the surplus and earnings of these subsidiaries. As a result, insurance holding companies may not be able to receive dividends from their subsidiaries at times and in amounts sufficient to fulfill their other financial obligations. Additionally, as a Bermuda holding company, American Safety Insurance is subject to Bermuda regulatory constraints that will affect its ability to pay dividends on the Common Shares and to make other payments. Under the Companies Act 1981, of Bermuda (the Companies Act) an insurance holding company may declare or pay a dividend out of distributable reserves only if it has reasonable grounds to believe that it is, and would after the payment be, able to pay liabilities as they become due

and if the realizable value of its assets would thereby not be less than the aggregate of its liabilities and issued share capital and share premium accounts. We do not anticipate paying cash dividends on the Common Shares in the near future.

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Environmental Regulation. Environmental remediation activities and other environmental risks are heavily regulated by both federal and state governments. Environmental regulation is continually evolving, and changes in the regulatory patterns at federal and state levels may have a significant effect upon potential claims against our insureds and us. These changes also may affect the demand for the types of insurance offered by us and the availability or cost of reinsurance. We are unable to predict what additional laws and regulations, if any, affecting environmental remediation activities and other environmental risks may be promulgated in the future, how they might be applied, and what their impact might be.

The risk factors presented above are all of the ones that we consider to be material as of the date of this annual report on Form 10-K. However, they are not the only risks facing the Company. Additional risks not presently known to us, or which we consider immaterial based on our current knowledge or understanding, may also adversely affect us. There may be risks that a particular investor views differently than we do, and our analysis may be incorrect. If any of the risks that we face actually occurs, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or may make. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our offices are located at Boyle Building, 2nd Floor, 31 Queen Street, Hamilton, Bermuda HM11, and the telephone number is (441) 296-8560. The principal corporate offices of our U.S. subsidiaries are located at 100 Galleria Parkway, Suite 700, Atlanta, Georgia 30339, and the telephone number is (770) 916-1908.

Item 3. Legal Proceedings

The Company, through its subsidiaries, is routinely party to pending or threatened litigation or arbitration disputes in the normal course of or related to its business. Based upon information presently available, in view of legal and other defenses available to our subsidiaries, management does not believe that any pending or threatened litigation or arbitration disputes will have any material adverse effect on our financial condition or operating results.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Holders of Common Stock

The Company s common shares trade on the New York Stock Exchange, Inc. under the symbol ASI. As of March 1, 2013, there were approximately 634 holders of the Company s common shares. The closing price on March 1, 2013, was $23.45.

The following table sets forth the high and low prices per share of the Company s common shares for the periods indicated.

Fiscal Year Ended December 31, 2012	High	Low	Close
First Quarter	$ 22.32	$ 18.04	$ 18.85
Second Quarter	19.39	17.08	18.75
Third Quarter	19.61	16.71	18.69
Fourth Quarter	19.05	15.75	18.92

Fiscal Year Ended December 31, 2011	High	Low	Close
First Quarter	$ 21.95	$ 18.82	$ 21.43
Second Quarter	21.52	17.28	19.14
Third Quarter	20.10	16.97	18.40
Fourth Quarter	22.00	17.38	21.75

Dividends

The Company did not pay any cash dividends during fiscal years 2012 and 2011. Payment of cash dividends in the future will be periodically reviewed by the Board of Directors. As an insurance holding company, the Company s ability to pay cash dividends to its shareholders will depend, to a significant degree, on the ability of the Company s subsidiaries to generate earnings from which to pay cash dividends to American Safety Insurance Holdings, Ltd.

The jurisdictions in which American Safety Insurance Holdings, Ltd. and its insurance and reinsurance subsidiaries are domiciled place limitations on the amount of dividends or other distributions payable by insurance companies in order to protect the solvency of insurers. See Regulatory Environment in Item 1 of this report.

Issuer Purchase of Equity Securities

On January 24, 2012 and subsequently on October 23, 2012, the Company s Board of Directors authorized the repurchase of up to 500,000 shares of common stock with a total authorized repurchase during the year of 1,000,000 shares. Pursuant to this authorization, as of December 31, 2012, the Company had repurchased 799,034 shares at an average cost of $17.70 per share or approximately $13.8 million.

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The following table provides information with respect to shares of our common stock that were repurchased or surrendered during year 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program
January 1 through March 31, 2012	5,000	$ 18.37	5,000	995,000
April 1 through June 30, 2012	6,032	$ 17.94	6,032	988,968
July 1 through September 30, 2012	392,323	$ 17.92	392,323	596,645
October1 through December 31, 2012	375,679	$ 17.45	375,679	220,966
Total	779,034	$ 17.70	779,034	

Item 6. Selected Financial Data

The table on the following page sets forth selected consolidated financial data with respect to the Company for the periods indicated. The balance sheet and statement of operations data have been derived from the audited consolidated financial statements of the Company. This information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Company s consolidated financial statements and notes thereto included elsewhere in this Report.

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	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(dollars in thousands except per share data and ratios)				
Statement of Operations Data:					
Gross written premiums	$ 319,244	$ 298,545	$ 277,561	$ 253,519	$ 260,384
Net written premiums	255,360	240,618	223,240	164,709	179,865
Net earned premiums	253,866	232,879	200,733	168,517	174,471
Fee income earned	3,316	3,309	4,631	5,448	2,632
Net investment income	30,198	31,338	32,138	30,554	29,591
Net realized gains (losses)	9,693	10,966	2,251	163	(14,348)
Total revenue	297,122	278,539	239,310	204,733	192,322
Losses and loss adjustment expenses incurred	171,698	169,367	120,295	97,646	110,146
Acquisition expenses	58,579	52,080	43,044	37,203	43,484
Other underwriting expenses	47,531	42,230	42,158	38,073	33,882
Real estate expenses					(2,747)
Earnings before income taxes	12,030	7,448	28,426	24,866	341
Net earnings attributable to American Safety Insurance Holdings, Ltd.	11,839	10,842	30,508	24,325	310
Net earnings per share:					
Basic	$ 1.18	$ 1.04	$ 2.96	$ 2.36	$ 0.03
Diluted	$ 1.14	$ 1.01	$ 2.87	$ 2.30	$ 0.03
Common shares used in computing net basic earnings per share	10,073	10,394	10,303	10,308	10,459
Common shares and common share equivalents used in computing net diluted earnings per share	10,383	10,739	10,646	10,558	10,686
Balance Sheet Data (at end of period):					
Total investments excluding real estate	$ 930,648	$ 883,099	$ 818,450	$ 750,425	$ 673,739
Total assets	1,373,131	1,286,532	1,221,253	1,147,660	1,026,364
Unpaid losses and loss adjustment expenses	725,244	680,201	649,641	616,444	586,647
Unearned premiums	146,096	135,059	128,981	124,189	122,259
Loans payable	39,183	39,183	39,183	36,328	38,932
Total liabilities	1,028,083	951,852	902,719	872,148	806,236
Total equity	345,048	334,680	318,534	275,512	220,128
GAAP Underwriting Ratios:					
Loss and loss adjustment expense ratio (1)	67.6%	72.7%	59.9%	57.9%	63.1%
Expense ratio (2)	40.5%	39.1%	40.1%	41.5%	42.9%
Combined ratio (3)	108.1%	111.8%	100.0%	99.4%	106.0%
Other Data:					
	1.6%	0.0%	10.9%	10.8%	6.6%

Return on average shareholders equity [4]					
Debt to total capitalization ratio [5]	10.4%	10.7%	11.1%	11.8%	15.2%
Net written premiums to equity [6]	0.8X	0.7X	0.7X	0.6X	0.8X

(1) *Loss and loss adjustment expenses ratio*: The loss and loss adjustment expenses ratio, expressed as a percentage of loss and loss adjustment expenses to net earned premiums.

(2) *Expense ratio:* The expense ratio is the ratio, expressed as a percentage, of acquisition and other operating expenses less fee income to net earned premiums. Our reported expense ratio excludes certain holding company expenses such as interest expense as well as other corporate expenses.

(3) *Combined ratio:* The combined ratio is the sum of the losses and loss adjustment expenses ratio and the expense ratio.

(4) *Return on average shareholders equity:* Return on average shareholders equity is the ratio, expressed as a percentage, of net earnings, excluding realized gains and losses, net of tax, to the average of the beginning of period and end of period total shareholders equity, excluding accumulated other comprehensive income.

(5) *Debt to total capitalization ratio:* The debt to total capitalization ratio, is the ratio, expressed as a percentage, of total debt to the sum of total debt and shareholders equity. The Company s total debt consists solely of trust preferred loans payable.

(6) *Net written premiums to equity:* The net written premiums to equity is the ratio of net written premiums to the total shareholders equity.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

We segregate our business into two segments: insurance operations and other. The insurance operations are further classified into three divisions: E&S, ART and Reinsurance (Assumed Re). E&S consists of seven product lines: environmental, primary casualty, excess, property, surety, healthcare, and professional liability. ART consists of two product lines: specialty programs and fully funded. Reinsurance consists of property and casualty business assumed from unaffiliated specialty insurers and reinsurers. Other includes lines of business that we no longer underwrite (run-off) and other ancillary product lines. Prior year amounts have been reclassified to conform to the current year presentation.

The Company measures segments using net income, total assets and total equity. The reportable insurance divisions are measured based on underwriting profit (loss) and pre-tax operating income (loss).

The following information is presented on the basis of GAAP accepted in the United States of America and should be read in conjunction with Business and Risk Factors, and our consolidated financial statements and the related notes included elsewhere in this report. All amounts and percentages are rounded.

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The following table sets forth the Company s consolidated premium and total revenue information:

	Years Ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
Net Earned Premiums:			
Excess and Surplus	$ 138,464	$ 119,225	$ 102,907
Alternative Risk Transfer	56,466	60,667	53,752
Assumed Reinsurance	58,936	52,988	44,081
Runoff		(1)	(7)
Total Net Earned Premiums	$ 253,866	$ 232,879	$ 200,733
Net investment income	$ 30,198	$ 31,338	$ 32,138
Net realized gains	9,693	10,966	2,251
Fee Income	3,316	3,309	4,631
Other income (expense)	49	47	(443)
Total Revenues	$ 297,122	$ 278,539	$ 239,310

The following table sets forth the Company s consolidated expenses:

	Years Ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
Total Expenses:			
Loss and loss adjustment expenses	$ 171,698	$ 169,367	$ 120,295
Acquisition expenses	58,579	52,080	43,044
Other underwriting expenses	47,531	42,230	42,158
Interest expense	1,521	1,444	2,677
Corporate and other expenses	3,844	2,688	3,267
Total Expenses	$ 283,173	$ 267,809	$ 211,441

The following table sets forth the components of the Company s insurance operations GAAP combined ratio for the periods indicated:

	Years Ended December 31,		
	2012	2011	2010
Insurance operations:			
Loss & loss adjustment expense ratio	67.6%	72.7%	59.9%
Expense ratio	40.5%	39.1%	40.1%

Combined ratio	108.1%	111.8%	100.0%

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Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Net Earned Premiums

Net earned premiums totaled $253.9 in 2012 compared to $232.9 million in 2011, an increase of 9.0%. E&S totaled $138.5 million, a 16.2% increase from $119.2 million for the same period in 2011; ART decreased to $56.5 million, a 6.9% decrease over the 2011 period; Reinsurance totaled $58.9 million, an 11.2% increase from 2011. The increase in earned premium for the E&S division was due to increased production across all product lines but driven primarily by our primary casualty, excess and surety lines. The surety line includes premiums earned following the acquisition of the Bluestone business. The ART division s decrease in net earned premiums was due primarily to the non-renewal of certain programs in addition to the de-emphasis of the specialty program business. The Reinsurance division s increase in net earned premiums was due to continued increased writings in targeted classes of business during 2011 and 2012.

Net Investment Income

Net investment income decreased 3.6% to $30.2 million for the year ended December 31, 2012, compared to $31.3 million for 2011 due to lower yields on increased average invested assets. The continued low interest rate environment during 2012 impacted investment income as cash flow prepayments and portfolio maturities were reinvested at lower rates than the prevailing market yield of the portfolio. Average invested assets increased to $906.9 million as of December 31, 2012, from $850.8 million as of December 31, 2011. The average pre-tax investment yield was 3.8% for 2012 and 4.1% for 2011.

Net Realized Gains

Net realized gains for the period ended December 31, 2012 were $9.7 million as compared to $11.0 million in 2011. The Company had sales of $115.3 million and $342.6 million in 2012 and 2011 of available for sale securities, resulting in generation of realized gains of $9.4 million and $11.0 million in 2012 and 2011, respectively. Included in the 2012 net realized gains are $0.3 million of holding gains from our trading securities.

Fee Income

Fee income earned was approximately $3.3 million for both 2011 and 2012, reflecting soft market conditions. Currently, fee income is generated from the healthcare industry.

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Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses totaled $171.7 million, or 67.6%, of net earned premiums for the year ended December 31, 2012, compared to $169.4 million and 72.7% in 2011. 2012 results include $9.0 million of development to prior year loss reserves as shown below.

The table below sets forth the prior year reserve development for the years ended December 31, 2012 and 2011 (dollars in millions):

	Years Ended December 31,	
	2012	2011
(Favorable) Unfavorable		
E & S	$ (1.8)	$ (10.2)
Alternative Risk Transfer	2.9	12.1
Reinsurance	8.1	9.4
Runoff	(0.2)	2.0
Total	$ 9.0	$ 13.3

The prior year reserve strengthening is comprised of $8.1 million in the Reinsurance division and $2.9 million in the ART division partially offset by $2.0 million of favorable prior year loss reserve development in the E&S and run-off. Reinsurance prior year loss reserve strengthening resulted from four casualty contracts that were non-renewed in prior years. The reserve strengthening in the ART division was primarily attributable to two casualty programs. The $2.0 million favorable development was driven by Environmental favorable development offset by unfavorable development in both Surety and Casualty lines.

Also during 2012, the Company s loss ratio included property catastrophe losses of $11.4 million compared to $12.1 million in 2011. The 2012 losses included $5.9 million of losses from super storm Sandy.

See Business-Losses and Loss Adjustment Expenses Reserves and Note 13 to the Company s consolidated financial statements for additional information regarding the Company s reserves for unpaid losses and loss adjustment expenses.

Acquisition Expenses

Acquisition expenses are commissions paid to our producers, offset by ceding commissions we receive from our reinsurers. Acquisition expenses also include premium taxes paid to states in which we are admitted to conduct business. Acquisition expenses increased to $58.6 million for the year ended December 31, 2012, as compared to $52.1 million for the same period of 2011. The increase year over year is the result of growth in gross written premiums of $319.2 million for 2012 as compared to $298.5 million in 2011. As a percentage of net earned premiums acquisition costs were 23.1 % in 2012 and 22.5% in 2011, due primarily to changes in business mix.

Other Underwriting Expenses

Other underwriting expenses were $47.5 million for the year ended December 31, 2012, compared to $42.2 million for the same 2011 period due primarily to the addition of underwriting teams and the acquisition of Bluestone Surety.

Corporate and Other Expenses

Corporate and other expenses increased to $3.8 million compared to $2.7 million in 2011 due to increase excise taxes of $1.4 million in 2012 compared to $0.4 million in 2011.

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Income Taxes

The income tax expense totaled $0.8 million for the year ended December 31, 2012 compared to a tax benefit of $3.4 million for the year ended December 31, 2011. During 2010 and 2011, the RRG was in an NOL position and carrying a valuation allowance and therefore did not provide income tax expense (benefit). During 2012, the RRG generated income before taxes of $1.9 million and tax expense of $0.6 million. The $0.6 million of tax expense for the RRG is included in total tax expense of $0.8 million.

Operations by Geographic Location

The Company operates through its subsidiaries in the U.S. and Bermuda. Significant differences exist in the regulatory environment in each country. The table below depicts the Company s operations by geographic location for the years ended December 31, 2012 and 2011 (dollars in thousands):

December 31, 2012	**U.S.**	**Bermuda**	**Total**
Income Tax	$ 841	$	$ 841
Net earnings attributable to American Safety Insurance Holdings, Ltd.	$ 60	$ 11,779	$ 11,839
Assets	$ 719,235	$ 653,896	$ 1,373,131
Equity	$ 140,011	$ 205,037	$ 345,048

December 31, 2011	**U.S.**	**Bermuda**	**Total**
Income Tax	$ (3,394)	$	$ (3,394)
Net earnings (loss) attributable to American Safety Insurance Holdings, Ltd.	$ (7,029)	$ 17,871	$ 10,842
Assets	$ 671,619	$ 614,913	$ 1,286,532
Equity	$ 106,689	$ 227,991	$ 334,680

Net Earnings attributable to American Safety Insurance Holdings, Ltd. Net earnings attributable to American Safety Insurance Holdings, Ltd., from Bermuda operations decreased to $11.8 million for the year ended December 31, 2012, compared to $17.9 million for 2011, due to loss reserve strengthening previously discussed and increased catastrophe losses during 2012. The U.S. operations had net income attributable to American Safety Insurance Holdings, Ltd., of $0.06 million for the year ended December 31, 2012, compared to losses of $7.0 million for 2011, due to higher reserve strengthening in the U.S. during 2011.

Assets. Assets attributable to the Bermuda operations increased to $653.9 million at the end of 2012 compared to $614.9 million at the end of 2011. This increase is primarily due to cash flow from operations and increased market values of investments. Assets attributable to the U.S. operations at the end of 2012 increased to $719.2 million as compared to $671.6 million at the end of 2011 due primarily to increased market values of investments.

Equity. Equity in the Bermuda operations was $205.0 million at the end of 2012 compared to $228.0 million at the end of 2011. The reduction was the result of dividends to the Company from our Bermuda operations in the amount of $33.8 million that were subsequently utilized to fund acquisitions and to increase the capital of the U.S. insurance companies. Equity of U.S. operations increased to $140.0 million at the end of 2012 from $106.7 million at December 31, 2011, due to net unrealized gains in the investment portfolio as well as investments made in the U.S. operations from the Bermuda Holding Company.

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Year Ended December 31, 2011 compared to Year Ended December 31, 2010

The combined ratio for 2011 was 111.8% with an increase in the loss ratio offsetting an improvement in the expense ratio. The 2011 loss ratio increased to 72.7% compared to 59.9% in 2010 while the expense ratio decreased from 40.1% to 39.1% in 2011. The loss ratio increased as a result of prior accident year loss reserve development discussed under Loss and Loss Adjustment Expenses and higher than expected property losses in 2011 within the E&S and ART divisions. The reduction in the expense ratio is primarily due to economies of scale associated with the growth in premiums which was partially offset by lower fee income.

Net Earned Premiums

Net earned premiums totaled $232.9 in 2011 compared to $200.7 million in 2010, an increase of 16.0%. E&S totaled $119.2 million, a 15.8% increase from $102.9 million the same period in 2010; ART increased to $57.3 million, a 12.9% increase over the 2010 period; Reinsurance totaled $53.0 million, a 20.2% increase from 2010. The increase in earned premium for the E&S lines division was due to increased production across all product lines but driven primarily by excess, professional liability, property, and healthcare product lines. The ART division s increase in net earned premiums was due primarily to the growth in programs during 2010 and 2011. This growth included a dealer open lot program as well as hospitality programs, some of which have been non-renewed or moved to other carriers in 2012. As a result, 2012 net earned premiums for the ART division are expected to decrease. The Reinsurance division s increase in net earned premiums was due to continued increased writings in targeted classes of business during 2010 and 2011.

Net Investment Income

Net investment income decreased 2.5% to $31.3 million for the year ended December 31, 2011, compared to $32.1 million for 2010 due to lower yields on increased average invested assets. Yield compression during 2011 impacted investment income as cash flow and portfolio maturities were reinvested at lower rates. Average invested assets increased to $850.8 million as of December 31, 2011, from $784.4 million as of December 31, 2010. The average pre-tax investment yield was 4.1% for 2011.

Net Realized Gains

Net realized gains for the period ended December 31, 2011, were $11.0 million as compared to $2.3 million in 2010. The Company sold fixed maturity securities with proceeds of $342.6 million and $191.5 million generating realized gains of $11.0 million and $2.0 million in 2011 and 2010, respectively.

Fee Income

Fee income earned decreased to $3.3 million for the year ended December 31, 2011, from $4.6 million in 2010 due to less opportunity in the risk transfer market and the sale of a wholly owned agency subsidiary in 2010.

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Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses totaled $169.4 million, or 72.7%, of net earned premiums for the year ended December 31, 2011, compared to $120.3 million and 59.9% in 2010. 2011 results include $13.3 million of development to prior year loss reserves as shown below.

The table below sets forth the prior year reserve development for the years ended December 31, 2011 and 2010 (dollars in millions):

	Years Ended December 31,	
	2011	2010
(Favorable) Unfavorable		
E & S	$ (10.2)	$ (2.4)
Alternative Risk Transfer	12.1	2.7
Assumed Reinsurance	9.4	1.5
Runoff	2.0	(1.4)
Total	$ 13.3	$ 0.4

The $10.2 million of favorable development in the E&S division was primarily attributable to construction business (not construction defect). The $12.1 million of unfavorable development in the ART division was attributable to one program terminated in 2011. The $9.4 million in development in the Reinsurance division was attributable to two contracts that have been non-renewed.

Also during 2011, the Company s loss ratio included adjustments to the current accident year of $20.2 million. The ART division accounted for $11.5 million due to increased loss activity primarily in one program and Reinsurance accounted for $7.4 million due to catastrophes.

See Business-Losses and Loss Adjustment Expenses Reserves and Note 13 to the Company s consolidated financial statements for additional information regarding the Company s reserves for unpaid losses and loss adjustment expenses.

Acquisition Expenses

Acquisition expenses are commissions paid to our producers, offset by ceding commissions we receive from our reinsurers. Acquisition expenses also include premium taxes paid to states in which we are admitted to conduct business. Acquisition expenses increased to $52.1 million for the year ended December 31, 2011, as compared to $43.5 million for the same period of 2010. The increase year over year is the result of growth in gross written premiums in 2011 of $298.5 million as compared to $277.6 million in 2010. As a percentage of net earned premiums acquisition costs were constant for both years at approximately 22%.

Corporate and Other Underwriting Expenses

Corporate and other underwriting expenses were $44.9 million for the year ended December 31, 2011, compared to $45.4 million for the same 2010 period as lower salary and related costs were offset by higher technology costs.

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Income Taxes

The income tax benefit totaled $(3.4) million and $(2.1) million for the years ended December 31, 2011 and 2010, respectively. In 2010, $1.6 million of the remaining valuation allowance established in 2008 was reversed. Additionally, as shown below, a larger percentage of our earnings for 2011 and 2010 were generated in Bermuda. Also contributing to the tax benefit were losses incurred in primarily the ART division which are retained in the U.S.

Operations by Geographic Location

The Company operates through its subsidiaries in the U.S. and Bermuda. Significant differences exist in the regulatory environment in each country. The table below depicts the Company s operations by geographic location for the years ended December 31, 2011 and 2010 (dollars in thousands):

December 31, 2011	**U.S.**	**Bermuda**	**Total**
Income Tax	$ (3,394)	$	$ (3,394)
Net earnings (loss) attributable to American Safety Insurance Holdings, Ltd.	$ (7,029)	$ 17,871	$ 10,842
Assets	$ 671,619	$ 614,913	$ 1,286,532
Equity	$ 106,689	$ 227,991	$ 334,680

December 31, 2010	**U.S.**	**Bermuda**	**Total**
Income Tax	$ (2,082)	$	$ (2,082)
Net earnings attributable to American Safety Insurance Holdings, Ltd.	$ 918	$ 29,590	$ 30,508
Assets	$ 652,108	$ 569,145	$ 1,221,253
Equity	$ 99,373	$ 219,162	$ 318,534

Net Earnings attributable to American Safety Insurance Holdings, Ltd. Net earnings attributable to American Safety Insurance Holdings, Ltd., from Bermuda operations decreased to $17.9 million for the year ended December 31, 2011, compared to $29.6 million for 2010, due to loss reserve strengthening previously discussed and increased catastrophe losses during 2011. The U.S. operations net loss attributable to American Safety Insurance Holdings, Ltd., of $7.0 million for the year ended December 31, 2011, compared to earnings of $0.9 million for 2010.

Assets. Assets attributable to the Bermuda operations increased to $614.9 million at the end of 2011 compared to $569.1 million at the end of 2010. This increase is primarily due to cash flow from operations and increased market values of investments. Assets attributable to the U.S. operations at the end of 2011 increased to $671.6 million as compared to $652.1 million at the end of 2010 due primarily to increased market values of investments.

Equity. Equity in the Bermuda operations was $228.0 million at the end of 2011 compared to $219.2 million at the end of 2010. The increase is due to net earnings coupled with an increase in net unrealized gains associated with the investment portfolio. Equity of U.S. operations increased to $106.7 million at the end of 2011 from $99.4 million at December 31, 2010, due to net unrealized gains in the investment portfolio.

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Fair Value Measurements

As management is ultimately responsible for determining the fair value measurements for all securities, we selectively validate prices received by comparing the fair value estimates to our knowledge of the current market and investigate prices deemed not to be representative of fair value. See Note 6 to the Company s consolidated financial statements for additional information regarding the Company s fair value measurements. Assets measured at fair value on a recurring basis are summarized below:

	As of December 31, 2012 Fair Value Measurements Using (dollars in thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed maturities	$ 31,032	$ 798,545	$	$ 829,577
Equities securities	5,151		6,706	11,857
Short term investments	76,502			76,502
Trading securities	990	11,722		12,712
Total	$ 113,675	$ 810,267	$ 6,706	$ 930,648

	As of December 31, 2011 Fair Value Measurements Using (dollars in thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed maturities	$ 24,065	$ 791,934	$	$ 815,999
Equities securities	2,932		6,751	9,683
Short term investments	57,417			57,417
Trading securities				
Total	$ 84,414	$ 791,934	$ 6,751	$ 883,099

As of December 31, 2012

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (dollars in thousands) Equities	
Level 3 Financial Instruments		
Balance at December 31, 2011	$	6,751
Total gains (losses) (realized/unrealized):		
Included in earnings		
Included in other comprehensive income		(45)
Purchases		
Sales		
Issuance and settlements		
Net transfers in (out of) Level 3		
Balance at December 31, 2012	$	6,706
Change in net unrealized losses relating to assets still held at reporting date		(45)

	As of December 31, 2011 Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (dollars in thousands) Equities	
Level 3 Financial Instruments		
Balance at December 31, 2010	$	5,082
Total gains (losses) (realized/unrealized):		
Included in earnings		
Included in other comprehensive income		(175)
Purchases		1,844
Sales		
Issuance and settlements		
Net transfers in (out of) Level 3		
Balance at December 31, 2011	$	6,751
Change in net unrealized losses relating to assets still held at reporting date		(175)

On a quarterly basis, we evaluate whether the fair values of the Company s individual securities are other-than-temporarily impaired when the fair value is below amortized cost. To make this assessment we consider several factors including (i) our intent and ability to hold the security, (ii) the potential for the security to recover in value, (iii) an analysis of the financial condition of the issuer, (iv) an analysis of the collateral structure and credit support of the security, if applicable, (v) the time during which there has been a decline below cost, and (vi) the extent of the decline below cost. If we conclude a security is other-than-temporarily impaired, we write down the amortized cost of the security to fair value, with a charge to net realized investment losses in the Consolidated Statements of Operations.

After a review of the individual securities in the investment portfolio, the Company did not record net realized losses due to other-than-temporary-impairment. The analysis to determine other-than-temporary-impairment was completed on all securities with additional focus on securities with unrealized losses greater than 30% of book value and securities whose unrealized loss was greater than 20% of book value for more than three months.

Liquidity and Capital Resources

The Company meets its cash requirements and finances its growth principally through cash flows generated from operations. The Company s primary sources of short-term cash flow are premium writings and investment income. The Company has experienced both a reduction in premium rates due to competition and overall market conditions and a reduction in investment yields due to declines in interest rates. Short-term cash requirements relate to claims payments, reinsurance payments, commissions, salaries, employee benefits and other operating expenses. Due to the uncertainty regarding the timing and amount of settlements of unpaid claims, the Company s future liquidity requirements may vary; therefore, the Company has structured its investment portfolio maturities to mitigate the variations in those factors. The Company believes its current cash flows are sufficient for the short-term needs of its business and its invested assets are sufficient for the long-term needs of its insurance business.

Net cash provided by operations was $34.2 million for the year ended December 31, 2012, and $61.9 million for the year ended December 31, 2011. The decrease is attributable to increased paid losses, mostly in the E&S division. In 2012, paid losses were $139.0 million compared to $115.5 in 2011.

Our ability to pay future dividends to shareholders will depend, to a significant degree, on the ability of our subsidiaries to generate earnings from which to pay dividends. The jurisdictions in which we and our insurance and reinsurance subsidiaries are domiciled place limitations on the amount of dividends or other distributions payable by insurance companies in order to protect the solvency of insurers. The Company has not paid dividends in the past and does not anticipate paying dividends on the common shares in the near future.

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Contractual Obligations

Our contractual obligations (in thousands of dollars) as of December 31, 2012, were:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Loans Payable	$ 39,183	$	$	$	$ 39,183
Interest [(1)]	33,219	1,535	4,605	3,070	24,009
Operating leases	3,060	1,708	1,090	262	
Gross loss reserves [(2)]	725,244	133,059	197,428	104,062	290,695
Total contractual obligations	$ 800,706	$ 136,302	$ 203,123	$ 107,394	$ 353,887

(1) The above table includes all interest payments through the expiration of debt instruments. All amounts are reflected based on final maturity dates. Variable rate interest obligations are estimated based on current interest rates. As a result of applying interest rates based on the current LIBOR rate plus the contractual spread for each capital trust, the interest rates were 4.5%, 4.4% and 3.8% for American Safety Capital Trust, American Safety Capital Trust II and American Safety Capital Trust III, respectively as of December 31, 2012. These rates are used to calculate the variable interest rate obligations through maturity.

(2) The above table includes the expected settlement of our gross loss reserves. The Company relies on reinsurance to reduce current risk exposures. The expected payout of gross loss reserves net of reinsurance recoverables is as follows: total $539.6 million; $99.0 million less than a year; $146.9 million 1-3 years, $77.4 million; 3-5 years and $216.3 million; more than 5 years. More information about our unpaid loss and loss adjustment expenses appears in Note 13 to our consolidated financial statements.

For these purposes, routine purchases of services, including insurance, that are expected to be used in the ordinary course of the Company s business have been excluded. More information about our contractual obligations appears in Notes 8 and 12 to our consolidated financial statements.

Recent Accounting Pronouncements

See Note 1(m), Summary of Significant Accounting Polices, to the Company s consolidated financial statements included herein for a discussion on recent accounting pronouncements.

Critical Accounting Policies

The accounting policies described below are those we consider critical in preparing our financial statements. These policies include significant estimates made by management using information available at the time the estimates are made. However, as described below, these estimates could change materially if different information or assumptions were used and there is no assurance that actual results will not differ materially from the estimates.

Investments. We routinely review our investments that have experienced declines in fair value to determine if the decline is other than temporary. These reviews are performed with consideration of the facts and circumstances of an issuer in accordance with the Securities and Exchange Commission (SEC), Accounting for Non-Current Marketable Equity Securities; ASC 320-10-05, Accounting for Certain Investments in Debt and Equity Securities; and Issue

No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments; and related guidance. The identification of distressed investments and the assessment of whether a decline is other than temporary involve significant management judgment and require evaluation of factors including but not limited to:

- percentage decline in value and the length of time during which the decline has occurred;
- recoverability of principal and interest;

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- market conditions;
- ability and intent to hold the investment to recovery;
- a pattern of continuing operating losses of the issuer;
- rating agency actions that affect the issuer s credit status;
- adverse changes in the issuer s availability of production resources, revenue sources, technological conditions; and
- adverse changes in the issuer s economic, regulatory or political environment.

The Company routinely monitors and evaluates the difference between the cost and fair value of its investments. Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in market value is other than temporary (OTTI). For investments with a market value below cost, the process includes evaluating the length of time and the extent to which cost exceeds market value, the prospects and financial condition of the issuer, and evaluation for a potential recovery in market value, among other factors. This process is not exact and further requires consideration of risks such as credit risk and interest rate risk. Therefore, if an investment s cost exceeds its market value solely due to changes in interest rates, impairment may not be appropriate.

The OTTI is split between a credit loss portion and a portion due to other factors like liquidity and market interest rate changes. The credit portion of the OTTI is the difference between the amortized cost of the debt security and the present value of the estimated cash flows to be received from the security and is charged to expense. The non-credit portion is recorded in a new category of other comprehensive income (OCI), net of applicable deferred taxes, separately from unrealized gains and losses on available-for-sale (AFS) securities.

We determine the fair values of certain financial instruments based on the fair value hierarchy established in Fair Value Measurements (ASC 820-10-15). ASC 820-10-15 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1: quoted price (unadjusted) in active markets for identical assets.

Level 2: inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumption about the assumptions that market participants would use in pricing an asset or liability.

ASC 820-10-15 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction

between market participants on the measurement date.

Our Level 1 instruments are primarily U.S. Treasuries, money market funds and equity securities listed on stock exchanges. We use quoted prices for identical instruments to measure fair value.

Our Level 2 instruments include most of our fixed income securities, which consist of U.S. government agency securities, municipal bonds, certain corporate debt securities, and certain mortgage and asset-backed securities. We measure fair value of our Level 2 instruments using quoted prices of securities with similar characteristics.

Our Level 3 instruments include privately held equity securities. Fair value is based on internally developed criteria that use assumptions or other data that are not readily observable from objective sources.

Reserves. Claims made policies provide coverage for claims that are incurred and reported during the policy period. Insurance policies and reinsurance treaties can be occurrence based and therefore may be subject to claims brought years after an incident has occurred or the policy period has ended. We are required to maintain reserves to cover the unpaid portion of our ultimate liability for losses and loss adjustment expenses with respect to (i) reported claims and (ii) incurred but not reported (IBNR) claims. An actuarial analysis is performed quarterly to estimate all of our unpaid losses and loss adjustment expenses under the terms of our contracts and agreements. In evaluating whether the reserves are adequate for unpaid losses and loss adjustment expenses, it is necessary to project future losses and loss adjustment expenses payments. It is probable that the actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary materially from the projections.

With respect to reported claims, reserves are established on a case-by-case basis. The reserve amounts on each reported claim are determined by taking into account the circumstances surrounding each claim and policy provisions relating to the type of loss. Loss reserves are reviewed on a regular basis, and as new information becomes available, appropriate adjustments are made to reserves. See Business-Losses and Loss Adjustment Expense Reserves for a description of reserve methodology.

Short-tail business is generally characterized by the industry as business for which claims are received and settled within one year. Our total net reserves for short tail business as generally defined by the industry, as of December 31, 2012, were approximately 2.2% of total net reserves. In the aggregate, our primary long-tail lines are construction, where we offer general liability insurance to construction contractors and environmental where we offer general liability and professional liability insurance to environmental contractors and consultants.

Because the Company s loss reserves are primarily comprised of long-tail business, current year ultimate losses are developed using mostly the expected loss ratio method. The method is appropriate because there are very few claims reported from the most recent accident year for long-tail lines of business. The expected loss ratio is determined based on the review of the projected ultimate loss ratios for similar risks from the prior years. At December 31, 2012, the carried loss and loss adjustment expense reserves for accident years prior to 2008 were determined largely based on the indications produced by the Bornhuetter-Ferguson method or loss development factor method because of the additional claims experience gained as the business line matures.

On a quarterly basis, the Company s internal actuary performs a reserve analysis. The evaluation entails the examination of our current actuarial assumptions compared to actual claim activity. If there is a material deviation from actual emerged losses and the actuarially determined expected losses, further research is completed to determine the cause. Discussions with the claims staff and the underwriting staff relative to these deviations, in some cases, reveal trends that warrant modifications of the current assumptions about loss development patterns and or expected loss ratios.

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As part of our year-end process, the Company has an external actuarial firm perform an independent analysis and issues an actuarial opinion on the insurance operating companies carried loss and loss adjustment expense reserves.

The carried gross loss reserves by division are as follows (in thousands of dollars):

	December 31, 2012				
	Loss		Loss Adjustment Expenses		Total
	Case	IBNR	Case	IBNR	Case and IBNR
E & S	$ 59,117	$ 200,692	$ 22,128	$ 108,065	$ 390,002
ART	57,062	84,163	8,575	45,318	195,118
Assumed Reinsurance	45,461	51,883	3,563	27,937	128,844
Runoff	4,138	4,519	190	2,433	11,280
Total	$ 165,778	$ 341,257	$ 34,456	$ 183,753	$ 725,244

	December 31, 2011				
	Loss		Loss Adjustment Expenses		Total
	Case	IBNR	Case	IBNR	Case and IBNR
E & S	$ 58,860	$ 189,825	$ 17,415	$ 100,996	$ 367,096
ART	56,133	79,712	8,735	49,852	194,432
Assumed Reinsurance	37,070	54,508	1,671	13,613	106,862
Runoff	6,492	2,444	2,719	156	11,811
Total	$ 158,555	$ 326,489	$ 30,540	$ 164,617	$ 680,201

The actuarial staff evaluates reserves for each of the following exclusive categories: (1) construction defect claims in California; (2) construction defect in all other states; (3) commercial and residential contractors claims other than construction defects; (4) claims in New York state; (5) claims from product liability exposures; (6) claims from habitational risks; and (7) claims from miscellaneous risks.

Construction defect claims in general have a higher frequency, a lower severity and a longer reporting period than other types of claims. The construction defect exposures in California were analyzed separately from other states because of the state s relatively longer statute which makes the claim reporting period longer, and the litigious environment, which potentially increases the per claim cost. The Company wrote New York commercial contractor risks in 1999, 2000 and 2001. Due to the short amount of time we wrote this business and the higher severity with respect to these New York claims, the reserves for these exposures are estimated separately. Products liability claims tend to be severe and can be reported over an extended period.

Environmental exposures may involve bodily injury and property damage claims. These claims tend to be reported sooner but take longer to settle because often times multiple parties are involved in a claim. The loss development patterns and the expected loss ratios are estimated based on our internal loss history.

Variability of Loss Reserves Based on Reasonably Likely Assumptions

A number of assumptions were made in the determination of the best reserve estimates for each line of business at December 31, 2012. The key assumptions among them were the expected loss ratios and loss development patterns. If the actual future losses and loss adjustment expenses develop materially differently from those key assumptions, there could be a potential for significant variation in the development of loss reserves. The effect of any specific assumptions can vary by accident year and line of business. We performed sensitivity analyses that tested the effects on the loss reserve position of using alternative expected loss ratios and loss development patterns. The tests addressed each major line of business for which a material deviation to the overall reserve position is possible and used what we believed was a reasonably likely range of potential deviation for each line of business. If our net carried reserves were to decrease from our best estimate, this would increase our net earnings, while an increase in our net carried reserves would decrease our earnings.

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The following table displays the resulting range of possible deviation of the net carried reserves for each division at December 31, 2012 (dollars in thousands):

	Net Carried Reserves	Possible Amount Change From The Carried Reserves (Decrease)	Increase	Possible Percentage Change From The Carried Reserves (Decrease)	Increase
E & S Lines:	$ 312,854	$ (43,800)	$ 46,928	(14%)	15%
ART	92,290	(20,304)	21,227	(22%)	23%
Assumed Reinsurance	124,618	(32,401)	42,370	(26%)	34%
Runoff	9,834	(1,967)	1,967	(20%)	20%
Total Net Reserves	$ 539,596	$ (98,472)	$ 112,492	(18%)	21%

Ceded Reinsurance. Ceded unearned premiums and reinsurance balances recoverable on paid and unpaid losses and settlement expenses are reported separately as assets, instead of being netted with the related liabilities, since reinsurance does not relieve us of our legal liability to our policyholders. We continuously monitor the financial condition of our reinsurers. Our policy is to periodically charge to earnings, in the form of an allowance, an estimate of unrecoverable amounts from troubled or insolvent reinsurers. We believe that current reserve levels for uncollectible reinsurance are sufficient to cover our exposures.

The following table depicts the effects on our financial position and results of operations of our ceded reinsurance activities (dollars in thousands):

	Years Ended December 31, 2012	2011	2010
Shareholders equity as reported	$ 345,048	$ 334,680	$ 318,534
Less: Net effects of reinsurance	10,746	(13,942)	(17,374)
Shareholders equity without reinsurance	334,302	348,622	335,908
Net earnings attributable to American Safety Insurance Holdings, Ltd.	$ 11,839	$ 10,842	$ 30,508
Less: Net effects of reinsurance	10,746	(13,942)	(17,374)
Net earnings attributable to American Safety Insurance Holdings, Ltd. without reinsurance	$ 1,093	$ 24,784	$ 47,882
Net cash flow from operations	$ 5,782	$ (11,689)	$ (3,178)

See Part I Ceded Reinsurance for additional discussion relative to reinsurance coverage.

Acquisition Costs. We defer commissions and premium taxes that are related to the acquisition of insurance contracts. These costs are capitalized and charged to expense in proportion to premium revenue recognized. The method followed in computing deferred acquisition costs limits the amount of such deferred costs to their estimated realizable

value. This would also give effect to the premiums to be earned and anticipated losses and settlement expenses as well as certain other costs expected to be incurred as the premiums are earned. Judgments as to the ultimate recoverability of such deferred costs are highly dependent upon estimated future loss costs associated with the written premiums as well as investment income.

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Deferred Income Taxes. The majority of our deferred taxes associated with our premium writings will be realized over the policy period and payout of related claims. We believe it is more likely than not that we will realize the full benefit of our deferred tax assets. See Note 5 to the Company s consolidated financial statements for additional information on deferred tax assets.

Recognition of Premium Income. Our premiums are primarily estimated based upon the annual revenues of the underlying insureds or other factors specific to the class of business. Additional or return premiums are recognized for differences between provisional premiums billed and ultimate premiums due when a final audit is complete after the policy has expired. Our premiums are earned ratably over the policy period with unearned premium calculated on a pro rata basis over the lives of the underlying coverages. The Company reviews the collectability of its premium receivables on a quarterly basis.

Income Taxes

We are incorporated under the laws of Bermuda and, under current Bermuda law, are not obligated to pay taxes in Bermuda based upon income or capital gains. We have received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of The Exempted Undertakings Tax Protection Act 1966, which exempts us and our shareholders, other than shareholders ordinarily resident in Bermuda, from any Bermuda taxes computed on profits, income or any capital asset, gain or appreciation, or any tax in the nature of estate, duty or inheritance until 2035. Exclusive of our United States subsidiaries, we do not consider ourselves to be engaged in a trade or business in the United States and accordingly, do not expect to be subject to direct United States income taxation. Our U.S. subsidiaries are subject to taxation in the United States.

Impact of Inflation

Property and casualty insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such amounts, is known. Substantial future increases in inflation could result in increased interest rates, which, in turn, are likely to result in a decline in the market value of the Company s investment portfolio and result in unrealized losses and/or reductions in shareholders equity. Inflation can also impact our ultimate losses and we consider such in evaluating our loss and loss adjustment expense reserves. However, inflation could materially impact our financial results.

Forward Looking Statements

This report contains forward-looking statements. These forward-looking statements reflect the Company s current views with respect to future events and financial performance, including insurance market conditions, premium growth, acquisitions and new products and the impact of new accounting standards. Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially, including competitive conditions in the insurance industry, levels of new and renewal insurance business, developments in loss trends, adequacy and changes in loss reserves and actuarial assumptions, timing or collectability of reinsurance recoverables, market acceptance of new coverages and enhancements, changes in reinsurance costs and availability, potential adverse decisions in court and arbitration proceedings, the integration and other challenges attendant to acquisitions, and changes in levels of general business activity and economic conditions.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign exchange rates and commodity prices. Our consolidated

balance sheets include assets whose estimated fair values are subject to market risk. The primary market risks to us are interest rate and credit risk associated with our investments. We have no direct commodity or foreign exchange risk as of December 31, 2012. The estimated fair value of our investment portfolio at December 31, 2012, was $930.6 million, of which 98.7% was invested in fixed maturities and short-term investments and 1.3% was invested in equities.

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Interest Rate Risk. Our fixed income holdings are invested predominantly in high quality government, corporate, asset backed and municipal bonds with relatively short durations. The fixed income portfolio is exposed to interest rate fluctuations; assuming all other factors remain constant as interest rates rise, their fair values decline and as interest rates fall, their fair values rise. The changes in the fair market value of the fixed rate portfolio are presented as a component of shareholders equity in accumulated other comprehensive income, net of taxes.

We work to manage the impact of interest rate fluctuations on our fixed income portfolio. The effective duration of the fixed income portfolio is managed with consideration given to the estimated payout timing of our liabilities. We have investment policies which limit the maximum duration within the portfolio and set target levels for average duration of the entire portfolio. For additional information on our investments and investment policies, see Business Investments.

Credit Risk. We invest primarily in debt securities, which expose us to credit risk. Credit risk is a consequence of extending credit and/or carrying investment positions. We require that all securities be rated investment grade at the time of purchase. We use specific criteria to judge the credit quality and liquidity of our investments and use a variety of credit rating services to monitor these criteria. For additional information on our investments and our investment criteria, see Business Investments.

The table below summarizes our interest rate risk and shows the effect of hypothetical changes in interest rates as of December 31, 2012. The selected hypothetical changes do not indicate what would be the potential best or worst case scenarios (dollars in thousands):

	Estimated Fair Value at December 31, 2012	Hypothetical Change in Interest Rate (bp=basis points)	Estimated Fair Value after Hypothetical Change in Interest Rate	Hypothetical Percentage Increase (Decrease) in Shareholders Equity
Total Fixed Maturity Investments (including short-term investments, cash and cash equivalents)	$ 935,864	200bp decrease	$ 1,003,374	20.0%
		100bp decrease	972,348	10.8%
		100bp increase	898,365	(11.1%)
		200bp increase	860,874	(22.2%)

Item 8. Financial Statements and Supplementary Data

The Company s consolidated financial statements required under this Item 8 are included as part of Item 15 of this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management s Responsibility for Financial Statements

The financial statements presented in this Annual Report have been prepared with integrity and objectivity and are the responsibility of the management of American Safety Insurance Holdings, Ltd. These financial statements have been prepared in conformity with U.S. GAAP and properly reflect certain estimates and judgments based upon the best available information.

The financial statements of the Company have been audited by BDO USA, LLP, an independent registered public accounting firm. Its accompanying report is based upon an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Audit Committee of the Board of Directors, consisting solely of independent directors, meets a minimum of four times a year with the independent registered public accounting firm, the internal auditor and representatives of management to discuss auditing and financial reporting matters. A meeting is held prior to each quarterly earnings release. The Audit Committee recommends to the Board of Directors the appointment of the independent registered public accounting firm and reviews management s supervision of the effectiveness of the internal accounting controls, the activities of the independent registered public accounting firm and internal auditor and the financial condition of the Company. Both the Company s independent registered public accounting firm and the internal auditor have access to the Audit Committee at any time.

Evaluation of Disclosure Controls and Procedures

As of December 31, 2012, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a 15(e) under the Securities Exchange Act of 1934) was carried out on behalf of American Safety Insurance Holdings, Ltd., and its subsidiaries by our management with the participation of our Chief Executive Officer and Chief Financial Officer. Based upon the evaluation, management concluded that these disclosure controls and procedures were effective as of December 31, 2012.

Changes in Internal Controls

During the fourth quarter of the year ended December 31, 2012, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting for the fiscal year in which the acquisition occurred. Management s evaluation of internal control over financial reporting excluded the internal control activities of Bluestone. Bluestone represented approximately 2.0% of consolidated revenues and approximately 2.0% of consolidated net income for the year ended December 31, 2012 and approximately 2.0% of total assets and approximately 3.0% of net assets as of December 31, 2012. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

/s/ Stephen R. Crim	/s/ Mark W. Haushill
Stephen R. Crim	Mark W. Haushill
President and Chief Executive Officer	Chief Financial Officer

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance of the Registrant

The information required by this Item 10 regarding directors and executive officers of the Company will be set forth in the Company s 2013 Proxy Statement which will be filed with the Securities and Exchange Commission pursuant to applicable regulations, and is hereby incorporated by this reference.

Item 11. Executive Compensation

The information required by this Item 11 regarding executive compensation will be set forth in the Company s 2013 Proxy Statement which will be filed with the Securities and Exchange Commission pursuant to applicable regulations, and is hereby incorporated by this reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 regarding security ownership of certain beneficial owners and management of the Company will be set forth in the Company s 2013 Proxy Statement which will be filed with the Securities and Exchange Commission pursuant to applicable regulations, and is hereby incorporated by this reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 regarding certain relationships and related transactions of the Company will be set forth in the Company s 2013 Proxy Statement which will be filed with the Securities and Exchange Commission pursuant to applicable regulations, and is hereby incorporated by this reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 regarding principal accountant fees and services will be set forth in the Company s 2013 Proxy Statement which will be filed with the Securities and Exchange Commission pursuant to applicable regulations, and is hereby incorporated by reference.

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PART IV

Item 15. Exhibits and Financial Statements, Schedules.

A. Financial Statements, Schedules and Exhibits

1. Financial Statements

The following is a list of financial statements, together with Reports thereon, filed as part of this Report:

Reports of BDO USA, LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2012 and 2011

Consolidated Statements of Operations for the Years Ended December 31, 2012, 2011 and 2010

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010

Consolidated Statements of Shareholders Equity for the Years Ended December 31, 2012, 2011 and 2010

Consolidated Statements of Cash Flow for the Years Ended December 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

Selected Quarterly Financial Data

2. Financial Statement Schedules and Exhibits

The following is a list of financial statement schedules and exhibits filed as part of this report:

Schedule/Exhibit Number	**Page**
Schedule II Condensed Financial Statements (Parent only)	101
Schedule III Supplemental Information	105

Schedule IV   Reinsurance 106

Other schedules have been omitted as they are not applicable to the Company, or the required information has been included in the financial statements and related notes.

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3. Exhibits

The following is a list of exhibits required to be filed as part of this Report:

Exhibit Number	Title
3.1	Memorandum of Association of American Safety Insurance Holdings, Ltd. [incorporated by reference to Exhibit 3.1 to Registrant s Amendment No. 1 to the Registration Statement on Form S-1 filed January 27, 1998, (Registration No. 333-42749)] and the Certificate of Incorporation of Change of Name.
3.2	Bye-Laws of American Safety Insurance Holdings, Ltd. [incorporated by reference to Exhibit 3.2 to Registrant s Amendment No. 1 to Registration Statement on Form S-1 filed January 27, 1998 (Registration No. 333-42749)].
4.2	Amended and Restated Declaration of Trust of American Safety Capital Trust dated as of May 22, 2003, among Wilmington Trust Company, as institutional trustee, American Safety Holdings Corp., as sponsor, American Safety Insurance Holdings, Ltd. (formerly known as American Safety Insurance Group, Ltd.), as guarantor, Steven B. Mathis, Stephen R. Crim and Fred J. Pinckney, as administrators [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated May 22, 2003 (File No. 001-14795)].
4.3	Indenture dated as of May 22, 2003, between American Safety Holdings Corp., American Safety Insurance Holdings, Ltd. (formerly known as American Safety Insurance Group, Ltd.), as guarantor, and Wilmington Trust Company, as trustee [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated May 22, 2003 (File No. 001-14795)].
4.4	Guarantee Agreement dated as of May 22, 2003, between American Safety Insurance Holdings, Ltd. (formerly known as American Safety Insurance Group, Ltd.), as guarantor, and Wilmington Trust Company, as trustee [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated May 22, 2003 (File No. 001-14795)].
4.5	Amended and Restated Trust Agreement of American Safety Capital Trust II dated as of September 30, 2003, among American Safety Holdings Corp., as depositor, JPMorgan Chase Bank, as property trustee, Chase Manhattan Bank USA, National Association, as Delaware trustee, and Steven B. Mathis, Stephen R. Crim and Fred J. Pinckney, as administrative trustees [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated September 30, 2003 (File No. 001-14795)].
4.6	Junior Subordinated Indenture dated as of September 30, 2003, between American Safety Holdings Corp. and JPMorgan Chase Bank, as trustee [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated September 30, 2003 (File No. 001-14795)].

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Exhibit Number	Title
4.7	Guarantee Agreement dated as of September 30, 2003, among American Safety Holdings Corp., as guarantor, American Safety Insurance Holdings, Ltd., as parent guarantor and JPMorgan Chase Bank, as guarantee trustee [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated October 15, 2003 (File No. 001-14795)].
4.8	Common Securities Subscription Agreement dated as of September 30, 2002, between American Safety Holdings Corp. and American Safety Capital Trust II, together as offerors [incorporated by reference to the Exhibits to the Current Report on Form 8-K filed October 15, 2003 (File No. 001-14795)].
4.9	Amended and Restated Declaration of Trust of American Safety Capital Trust III dated as of November 17, 2005, among American Safety Holdings Corp., Wilmington Trust Company, as institutional trustee and Delaware trustee, and Steven B. Mathis and Stephen R. Crim, as administrators [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated November 16, 2006 (File No. 001-14795)].
4.10	Indenture dated as of November 17, 2006, between American Safety Holdings Corp. and Wilmington Trust Company as trustee [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated November 16, 2005 (File No. 001-14795)].
4.11	Guarantee Agreement dated as of November 17, 2006, between American Safety Holdings Corp., as guarantors and Wilmington Trust Company, as guarantee trustee, [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated November 16, 2005 (File No. 001-14795)].
4.12	Parent Guarantee Agreement dated as of November 17, 2005, between American Safety Insurance Holdings, Ltd. and Wilmington Trust Company [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated November 16, 2006 (File No. 001-14795)].
4.13	Subscription Agreement dated as of November 17, 2005, among American Safety Capital Trust III, American Safety Holdings Corp. and Keefe, Bruyette & Woods, Inc. [incorporated by reference to the Exhibits to the Current Report on Form 8-K dated November 16, 2006 (File No. 001-14795)].
10.1+	2007 Incentive Stock Plan [incorporated by reference to Exhibit 10.1 to the Form 10-K of American Safety Insurance Holdings, Ltd. for the year ended December 31, 2007 (File No. 001-14795)].
10.2+	1998 Director Stock Award Plan [incorporated by reference to Exhibit 10.3 to the Form 10-K of American Safety Insurance Holdings, Ltd. for the year ended December 31, 2005 (File No. 001-14795)].

10.3 Amended and Restated Program Management Agreement between American Safety Insurance Services, Inc. and American Safety Risk Retention Group, Inc., dated January 1, 2009, [incorporated by reference to Exhibit 10.3 to the Form 10-K of American Safety Insurance Holdings, Ltd. for the year ended December 31, 2008 (File No. 001-14795)].

10.4 Amended and Restated Program Management Agreement between American Safety Insurance Services, Inc. and American Safety Casualty Insurance Company, dated January 1, 2009, [incorporated by reference to Exhibit 10.4 to the Form 10-K of American Safety Insurance Holdings, Ltd. for the year ended December 31, 2008 (File No. 001-14795)].

10.5 Amended and Restated Program Management Agreement between American Safety Insurance Services, Inc. and American Safety Indemnity Company, dated January 1, 2009, [incorporated by reference to Exhibit 10.5 to the Form 10-K of American Safety Insurance Holdings, Ltd. for the year ended December 31, 2008 (File No. 001-14795)].

10.6 Professional and Administrative Services Agreement between American Safety Administrative Services, Inc. and American Safety Risk Retention Group, Inc., dated January 1, 2009, [incorporated by reference to Exhibit 10.6 to the Form 10-K of American Safety Insurance Holdings, Ltd. for the year ended December 31, 2008 (File No. 001-14795)].

10.7 Professional and Administrative Services Agreement between American Safety Administrative Services, Inc. and American Safety Casualty Insurance Company, dated January 1, 2009, [incorporated by reference to Exhibit 10.7 to the Form 10-K of American Safety Insurance Holdings, Ltd. for the year ended December 31, 2008 (File No. 001-14795)].

10.8 Professional and Administrative Services Agreement between American Safety Administrative Services, Inc. and American Safety Indemnity Company, dated January 1, 2009, [incorporated by reference to Exhibit 10.8 to the Form 10-K of American Safety Insurance Holdings, Ltd. for the year ended December 31, 2008 (File No. 001-14795)].

10.9+ Amended and Restated Employment Agreement between American Safety Insurance Services, Inc. and Stephen R. Crim [incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, dated August 9, 2011 (File No. 001-14795)].

10.10+ Amended and Restated Employment Agreement between American Safety Insurance Services, Inc. and Joseph D. Scollo [incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011, dated August 9, 2011 (File No. 001-14795)].

10.12+ Amended and Restated Employment Agreement between American Safety Insurance Services, Inc. and Randolph L. Hutto [incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, dated August 9, 2011 (File No. 001-14795)].

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10.13+	Amended and Restated Employment Agreement between American Safety Insurance Services, Inc. and Mark W. Haushill [incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, dated August 9, 2011 (File No. 001-14795)].
10.14	Office Lease Agreement between ORT, an Ohio general partnership, and American Safety Insurance Services, Inc. for office space in Atlanta, Georgia [incorporated by reference to Exhibit 10.8 to the Form 10-K of American Safety Insurance Holdings, Ltd., for the year ended December 31, 2006 [(File No. 001-14795)].
11.	Computation of Earnings Per Share.
12.	Ratio of Earnings to Fixed Charges.
14.	Code of Business Conduct and Ethics [incorporated by reference to Exhibit 14.0 to the Form 10-K of American Safety Insurance Holdings, Ltd., for the year ended December 31, 2011 [(File No. 001-14795)].
21.	Subsidiaries of the Company.
23.1	Consent of BDO USA, LLP.
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Label Linkbase Document.
101.PRE*	XBRL Taxonomy Presentation Linkbase Document.

* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

\+ Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on March 15, 2013.

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

By: /s/ Stephen R. Crim
Stephen R. Crim, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons in the capacities indicated on March 15, 2013.

Signature	Title
/s/ Stephen R. Crim Stephen R. Crim	President and Chief Executive Officer (Principal Executive Officer)
/s/ Mark W. Haushill Mark W. Haushill	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ David V. Brueggen David V. Brueggen	Chairman of the Board of Directors
/s/ Cody W. Birdwell Cody W. Birdwell	Director
/s/ Lawrence I. Geneen Lawrence I. Geneen	Director
/s/ Steven L. Groot Steven L. Groot	Director
/s/ Thomas W. Mueller Thomas W. Mueller	Director
/s/ Harris R. Chorney Harris R. Chorney	Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

American Safety Insurance Holdings, Ltd.

We have audited American Safety Insurance Holdings, Ltd. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (GAAP). A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Item 9A, Management s Report on Internal Control Over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Bluestone, which was acquired on July 2, 2012, which is included in the consolidated balance sheets of American Safety Insurance Holdings, Ltd. as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, shareholders equity, and cash flows for the year ended. Bluestone constituted approximately 2.0% of consolidated revenues and approximately 2.0% of consolidated net income for the year ended December 31, 2012 and approximately 2.0% of total assets and approximately 3.0% of net assets as of December 31, 2012. Management did not assess the effectiveness of internal control over financial reporting of Bluestone because of the timing of the acquisition which was completed on July 2, 2012. Our audit of internal control over financial reporting of American Safety Insurance Holdings, Ltd. also did not include an evaluation of the internal

control over financial reporting of Bluestone.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of American Safety Insurance Holdings, Ltd. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2012, and our report dated March 15, 2013, expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Atlanta, Georgia

March 15, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

American Safety Insurance Holdings, Ltd.

We have audited the accompanying consolidated balance sheets of American Safety Insurance Holdings, Ltd. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2012. In connection with our audits of the consolidated financial statements, we have also audited Schedules II, III, and IV as of and for each of the three years in the period ended December 31, 2012. These consolidated financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Safety Insurance Holdings, Ltd. and subsidiaries at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the related schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of American Safety Insurance Holdings, Ltd. s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2013, expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Atlanta, Georgia

March 15, 2013

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AMERICAN SAFETY INSURANCE HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

(dollars in thousands except per share data)

	December 31,	
	2012	**2011**
Assets		
Investments:		
Fixed maturity securities, at fair value (including $9,499 and $4,623 from VIE)	$ 829,577	$ 815,999
Common stock, at fair value	8,776	6,751
Preferred stock, at fair value	3,081	2,932
Short-term investments, at fair value (including $2,645 and $3,723 from VIE)	76,502	57,417
Trading securities, at fair value	12,712	
Total investments	930,648	883,099
Cash and cash equivalents (including $507 and $2,268 from VIE)	20,224	43,481
Accrued investment income (including $52 and $45 from VIE)	6,387	6,598
Premiums receivable (including $498 and $629 from VIE)	32,559	33,458
Ceded unearned premium (including $351 and $166 from VIE)	29,821	22,710
Reinsurance recoverable (including $5,039 and $3,055 from VIE)	183,562	173,982
Deferred income taxes (including $0 and $0 from VIE)		1,877
Deferred acquisition costs (including $1,100 and ($454) from VIE)	26,182	24,421
Property, plant and equipment, net	12,082	13,110
Goodwill	20,843	9,317
Funds on deposit (including $231 and $208 from VIE)	42,088	32,979
Accrued premium (including $0 and $0 from VIE)	42,886	33,968
Other assets (including $1,255 and $834 from VIE)	25,849	7,532
Total assets	$ 1,373,131	$ 1,286,532
Liabilities and Shareholders Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses (including $8,900 and $7,412 from VIE)	$ 725,244	$ 680,201
Unearned premiums (including $4,325 and $623 from VIE)	146,096	135,059
Ceded premiums payable (including $67 and $296 from VIE)	13,386	11,425
Funds held (including $113 and $174 from VIE)	76,806	71,955
Other liabilities (including $0 and $0 from VIE)	18,601	14,029
Deferred income taxes (including $30 and $0 from VIE)	8,767	
Loans payable	39,183	39,183
Total liabilities	$ 1,028,083	$ 951,852
Shareholders equity:		
	$	$

Preferred stock, $0.01 par value; authorized 5,000,000 shares; no shares issued and outstanding		
Common stock, $0.01 par value; authorized 30,000,000 shares; issued and outstanding at December 31, 2012, 9,505,906 shares and at December 31, 2011, 10,209,419 shares	95	102
Additional paid-in capital	86,568	98,394
Retained earnings	197,015	185,176
Accumulated other comprehensive income, net	53,628	44,416
Total American Safety Insurance Holdings, Ltd. shareholders equity	337,306	328,088
Equity in non-controlling interests	7,742	6,592
Total equity	345,048	334,680
Total liabilities and equity	$ 1,373,131	$ 1,286,532

See accompanying notes to consolidated financial statements.

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AMERICAN SAFETY INSURANCE HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Statements of Operations

(dollars in thousands except per share data)

	Years Ended December 31,		
	2012	**2011**	**2010**
Revenues:			
Direct earned premiums	$ 249,810	$ 241,428	$ 231,419
Assumed earned premiums	60,756	51,047	40,872
Ceded earned premiums	(56,700)	(59,596)	(71,558)
Net earned premiums	253,866	232,879	200,733
Net investment income	30,198	31,338	32,138
Net realized gains	9,693	10,966	2,251
Fee income	3,316	3,309	4,631
Other income (loss)	49	47	(443)
Total revenues	$ 297,122	$ 278,539	$ 239,310
Expenses:			
Losses and loss adjustment expenses	171,698	169,367	120,295
Acquisition expenses	58,579	52,080	43,044
Other underwriting expenses	47,531	42,230	42,158
Interest expense	1,521	1,444	2,677
Corporate and other expenses	3,844	2,688	3,267
Total expenses	$ 283,173	$ 267,809	$ 211,441
Earnings before income taxes	13,949	10,730	27,869
Income tax expense (benefit)	841	(3,394)	(2,082)
Net earnings	$ 13,108	$ 14,124	$ 29,951
Less: Net earnings (loss) attributable to the non-controlling interest	1,269	3,282	(557)
Net earnings attributable to American Safety Insurance Holdings, Ltd.	$ 11,839	$ 10,842	$ 30,508
Net earnings per share:			
Basic	$ 1.18	$ 1.04	$ 2.96
Diluted	$ 1.14	$ 1.01	$ 2.87

Weighted average number of shares outstanding:

Basic	10,073,304	10,393,766	10,302,525
Diluted	10,382,887	10,739,174	10,646,104

See accompanying notes to consolidated financial statements.

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AMERICAN SAFETY INSURANCE HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(dollars in thousands)

	Years ended December 31,		
	2012	**2011**	**2010**
Net earnings	$ 13,108	$ 14,124	$ 29,951
Other comprehensive income before income taxes:			
Unrealized gains on securities available-for-sale	19,449	21,518	17,850
Amortization of gain on hedging transactions	(81)	(78)	(739)
Reclassification adjustment for realized gains included in net earnings	(9,693)	(10,966)	(2,251)
Total other comprehensive income before income taxes	9,675	10,474	14,860
Income tax expense related to items of other comprehensive income	585	4,082	2,069
Other comprehensive income net of income taxes	9,090	6,392	12,791
Comprehensive income	$ 22,198	$ 20,516	$ 42,742
Less: Comprehensive income (loss) attributable to the non-controlling interest	1,147	3,386	(469)
Comprehensive income attributable to American Safety Insurance Holdings, Ltd.	$ 21,051	$ 17,130	$ 43,211

See accompanying notes to consolidated financial statements.

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AMERICAN SAFETY INSURANCE HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity

(dollars in thousands except shares)

	Years ended December 31,		
	2012	**2011**	**2010**
Common stock number of shares:			
Balance at beginning of period	10,209,419	10,386,519	10,323,875
Issuance of common shares	79,523	179,608	235,266
Repurchase of common shares	(783,036)	(356,708)	(172,622)
Balance at end of period	9,505,906	10,209,419	10,386,519
Common stock:			
Balance at beginning of period	$ 102	$ 104	$ 103
Issuance of common shares	1	2	1
Repurchase of common shares	(8)	(4)	
Balance at end of period	$ 95	$ 102	$ 104
Additional paid-in capital:			
Balance at beginning of period	$ 103,177	$ 107,551	$ 107,269
Issuance of common shares	96	614	959
Repurchase of common shares	(13,948)	(7,306)	(2,735)
Share based compensation	2,059	2,318	2,058
Balance at end of period	$ 91,384	$ 103,177	$ 107,551
Less: Additional paid-in capital attributable to non-controlling interest	4,816	4,783	4,783
Additional paid-in capital for American Safety Insurance Holdings, Ltd.	$ 86,568	$ 98,394	$ 102,768
Retained earnings:			
Balance at beginning of period	$ 187,818	$ 173,694	$ 143,743
Net earnings	13,108	14,124	29,951
Balance at end of period	$ 200,926	$ 187,818	$ 173,694
Less: Retained earnings (deficit) attributable to non-controlling interest	3,911	2,642	(634)
Retained earnings for American Safety Insurance Holdings, Ltd.	$ 197,015	$ 185,176	$ 174,328

Accumulated other comprehensive income:						
Balance at beginning of period	$	44,848	$	38,456	$	25,665
Unrealized gain during the period (net of deferred tax expense of $585, $4,081 and $2,068, respectively)		9,090		6,392		12,791
Balance at end of period	$	53,938	$	44,848	$	38,456
Less: Accumulated other comprehensive income attributable to non-controlling interest		310		432		328
Balance at end of period for American Safety Insurance Holdings, Ltd.	$	53,628	$	44,416	$	38,128
Total shareholders equity of American Safety Insurance Holdings, Ltd.	$	337,306	$	328,088	$	315,328

See accompanying notes to consolidated financial statements.

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AMERICAN SAFETY INSURANCE HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(dollars in thousands)

	Years ended December 31,		
	2012	**2011**	**2010**
Cash flow from operating activities:			
Net earnings	$ 13,108	$ 14,124	$ 29,951
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Realized gains on sale of investments	(9,693)	(10,966)	(2,251)
Depreciation expense	3,304	2,898	2,736
Stock based compensation expense	2,059	2,318	2,058
Amortization of deferred acquisition costs, net	(574)	(2,279)	(5,914)
Amortization of investment premium	3,356	4,151	1,651
Deferred income taxes	6,827	(99)	(1,663)
Change in operating assets and liabilities:			
Accrued investment income	211	576	(869)
Premiums receivable	3,597	(988)	(10,955)
Reinsurance recoverable	(9,581)	24,032	2,750
Ceded unearned premiums	(7,111)	1,670	17,236
Funds held	1,346	16,038	7,539
Unpaid losses and loss adjustment expenses	42,908	30,560	33,197
Unearned premiums	8,678	6,078	4,792
Ceded premiums payable	164	(71)	566
Other Liabilities	(485)	(3,472)	412
Funds on deposit	(9,109)	(12,221)	7,145
Accrued premium	(8,918)	(10,941)	(8,298)
Other, net	(5,875)	500	(20,437)
Net cash provided by operating activities	34,212	61,908	59,646
Cash flow from investing activities:			
Purchases of fixed maturities	(253,694)	(392,972)	(252,867)
Purchase of other investments	(3,444)		
Purchase of equity securities	(4,168)	(2,500)	
Proceeds from sale of fixed maturities	246,683	342,639	191,463
Proceeds from sale of equity securities		656	2,500
Consideration paid for acquired company	(10,824)		
Decrease in short term investments	(16,532)	4,915	7,050
Purchases of fixed assets	(1,631)	(2,780)	(4,520)
Net cash used in investing activities	(43,610)	(50,042)	(56,374)
Cash flow from financing activities:			
Shares repurchased to cover employment taxes	(168)	(289)	(148)

Proceeds from exercised stock options	96	614	1,107
Purchases of common stock pursuant to the Stock Repurchase Plan	(13,787)	(7,017)	(2,735)
Proceeds from unwind of Interest Rate Swaps			2,055
Net cash (used in) provided by financing activities	(13,859)	(6,692)	279
Net (decrease) increase in cash & cash equivalents	(23,257)	5,174	3,551
Cash and cash equivalents at beginning of period	43,481	38,307	34,756
Cash and cash equivalents at end of period	$ 20,224	$ 43,481	$ 38,307
Supplemental disclosure of cash flow:			
Income taxes (refunded) paid (including $731, $0 and $0 from VIE)	$ 783	$ (1,250)	$ (1,175)
Interest paid	$ 1,522	$ 1,498	$ 2,728

See accompanying notes to consolidated financial statements.

AMERICAN SAFETY INSURANCE HOLDINGS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements of American Safety Insurance Holdings, Ltd. (American Safety Insurance) and its subsidiaries and American Safety Risk Retention Group, Inc. (American Safety RRG), a non-subsidiary risk retention group affiliate (collectively, the Company), are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the FASB Accounting Standards Codification© (Codification or ASC). The preparation of financial statements in conformity with GAAP requires management to make estimates, based on the best information available, in recording transactions resulting from business operations. Certain balance sheet amounts involve accounting estimates and/or actuarial determinations and are therefore subject to change and include, but are not limited to, invested assets, deferred income taxes, reinsurance recoverable, goodwill and the liabilities for unpaid losses and loss adjustment expenses. As additional information becomes available (or actual amounts are determinable), the estimates may be revised and reflected in operating results. While management believes that these estimates are adequate, such estimates may change in the future, and such changes may be material.

Dollar amounts are in thousands unless otherwise noted.

(b) Description of Stock - Voting and Ownership Rights

The authorized share capital of the Company is 35 million shares, consisting of 30 million common shares, par value $.01 per share (Common Shares), and 5 million preferred shares, par value $.01 per share (Preferred Shares). The Common Shares are validly issued, fully paid, and non-assessable. There are no provisions of Bermuda law or the Company s Bye-Laws which impose any limitations on the rights of shareholders to hold or vote Common Shares by reason of such shareholders not being residents of Bermuda. Holders of Common Shares are entitled to receive dividends ratably when and as declared by the Board of Directors out of funds legally available therefore.

Each holder of Common Shares is entitled to one vote per share on all matters submitted to a vote of the Company s shareholders, subject to the 9.5% voting limitation described below. All matters, including the election of directors, voted upon at any duly held shareholders meeting shall be authorized by a majority of the votes cast at the meeting by shareholders represented in person or by proxy, except (i) approval of a merger, consolidation or amalgamation; (ii) the sale, lease, or exchange of all or substantially all of the assets of the Company; and (iii) amendment of certain provisions of the Bye-Laws, which each require the approval of at least 66-2/3% of the outstanding voting shares (in addition to any regulatory or court approvals). The Common Shares have non-cumulative voting rights, which means that the holders of a majority of the Common Shares may elect all of the directors of the Company and, in such event; the holders of the remaining shares will not be able to elect any directors.

The Bye-Laws contain certain provisions that limit the voting rights that may be exercised by certain holders of Common Shares. The Bye-Laws provide that each holder of Common Shares is entitled to one vote per share on all matters submitted to a vote of the Company s shareholders, except that if, and so long as, the Controlled Shares (as defined below) of any person constitute 9.5% or more of the issued and outstanding Common Shares, the voting rights

with respect to the Controlled Shares owned by such person shall be limited, in the aggregate, to a voting power of 9.5%, other than the voting rights of Frederick C. Treadway or Treadway Associates, L.P., affiliates of a founding shareholder of the Company.

Controlled Shares mean (i) all shares of the Company directly, indirectly, or constructively owned by any person and (ii) all shares of the Company directly, indirectly, or beneficially owned by such person within the meaning of Section 13(d) of the Exchange Act (including any shares owned by a group of persons, as so defined and including any shares that would otherwise be excluded by the provisions of Section 13(d)(6) of the Exchange Act). Under these provisions, if, and so long as, any person directly, indirectly, or constructively owns Controlled Shares having more than 9.5% of the total number of votes exercisable in respect of all shares of voting stock of the Company, the voting rights attributable to such shares will be limited, in the aggregate, to 9.5% of the total number of votes.

No holder of Common Shares of the Company shall, by reason only of such holder, have any preemptive right to subscribe neither to any additional issue of shares of any class or series nor to any security convertible into such shares.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of American Safety Insurance Holdings, Ltd., a Bermuda insurance holding company; American Safety Reinsurance, Ltd. (American Safety Re) and American Safety Assurance Ltd., (ASA), each a 100%-owned licensed Bermuda insurance company; American Safety UK Limited, a 100%-owned UK marketing company; American Safety Holdings Corp. (American Safety Holdings), a 100%-owned insurance holding company, and American Safety Risk Retention Group, Inc. (American Safety RRG), a non-subsidiary risk retention group affiliate. American Safety Holdings in turn wholly owns American Safety Casualty Insurance Company (American Safety Casualty), a property and casualty insurance company, American Safety Assurance (VT), a wholly owned Vermont sponsored captive; American Safety Insurance Services, Inc. (ASI Services), a wholly owned underwriting and policy administration subsidiary; LTC Risk Management, LLC (LTC); a wholly owned subsidiary providing risk management solutions for the long-term care industry; Bluestone Agency, Inc. (Bluestone), a wholly owned agency subsidiary. As of December 31, 2012, American Safety Casualty owns 78% of American Safety Indemnity Company, a property and casualty E&S lines insurance company. The remaining 22% is owned by American Safety Holdings. ASI Services wholly owns the following subsidiaries: Sureco Bond Services, Inc. (Sureco), a bonding agency; American Safety Claims Services, Inc. (ASCS), a claims service firm; American Safety Financial Corp., a financial services subsidiary; and American Safety Purchasing Group, Inc., which acts as a purchasing group for the placement of certain business with American Safety Casualty. Bluestone owns 100% of Bluestone Surety Ltd. (Bluestone Surety), a Cayman Island reinsurance company.

In accordance with ASC 810-10-05, Consolidation of Variable Interest Entities, the accompanying financial statements consolidate American Safety RRG, based on its status as a VIE and the Company s status as the primary beneficiary of the VIE. A non-controlling interest has been established for the equity holders of American Safety RRG. All significant intercompany balances have been eliminated, as appropriate, in consolidation. The accompanying financial statements also do not consolidate American Safety Capital Trust, American Safety Capital Trust II and American Safety Capital Trust III (American Safety Capital , American Safety Capital II and American Safety Capital III , respectively) based on their status as variable interest special purpose entities and the Company s status as not being the primary beneficiary. American Safety Capital, American Safety Capital II and American Safety Capital III are accounted for under the equity method.

(d) Investments

Investment income is recorded as earned on the accrual basis and includes amortization of premiums and accretion of discounts using the interest method. Realized gains or losses on sales of investments are determined on a specific identification basis and are included in revenues. Premiums and discounts arising from the purchase of fixed income securities are treated as yield adjustments over their estimated lives.

Fixed maturity securities for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are reported at amortized cost. Fixed maturity and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and are reported at fair value, with unrealized gains and losses included in earnings. Fixed maturity and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale and are reported at fair value, with unrealized gains and losses (net of deferred taxes) charged or credited as a component of accumulated other comprehensive income.

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The Company has the ability and intent to hold securities with unrealized losses until they mature or recover in value. However, the Company may, from time to time, sell securities in response to market conditions or interest rate fluctuations in accordance with its investment guidelines or to fund the cash needs of individual operating subsidiaries. When a decision is made to sell a security that has an unrealized loss, or the Company determines it is not reasonable to expect the security will recover in value, the loss is recognized at the time of the decision. At December 31, 2011, the Company considered all of its fixed maturity securities as available-for-sale. In 2012, the Company purchased securities classified as trading with the remaining portfolio classified as available-for-sale . These trading securities are separated from the available-for sale securities on the face of the balance sheet.

The Company routinely monitors and evaluates the difference between the cost and fair value of its investments. Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in market value is other than temporary. For investments with a market value below cost, the process includes evaluating the length of time and the extent to which cost exceeds market value, the prospects and financial condition of the issuer, and evaluation for a potential recovery in market value, among other factors. This process is not exact and further requires consideration of risks such as credit risk and interest rate risk. Therefore, if an investment s cost exceeds its market value solely due to changes in interest rates, impairment may not be appropriate.

The other-than-temporary impairment (OTTI) is split between a credit loss portion and a portion due to other factors like liquidity and market interest rate changes. The credit portion of the OTTI is the difference between the amortized cost of the debt security and the present value of the estimated cash flows to be received from the security and is charged to expense. The non-credit portion is recorded in a new category of other comprehensive income, net of applicable deferred taxes, separately from unrealized gains and losses on available-for-sale securities. There were no other-than-temporary charges for 2012, 2011 and 2010.

(e) Recognition of Premium Income

Premiums are generally recorded ratably over the policy period with unearned premium calculated on a pro rata basis over the lives of the underlying policies. Additional or return premiums are recognized for differences between provisional premiums billed and estimated ultimate premiums due when the final audit is complete after the policy has expired.

Our Reinsurance written business is based on estimates available at the time of pricing. We record adjustments to the initial written premium estimates in the period during which they become determinable.

(f) Deferred Acquisition Costs

The costs of acquiring business, primarily commissions and premium tax expenses offset by reinsurance ceding commission received, are deferred (to the extent they are recoverable from future premium income) and amortized to earnings in relation to the amount of earned premiums. Investment income is also considered in the determination of the recoverability of deferred acquisition costs.

An analysis of deferred acquisition costs follows:

	Years ended December 31,		
	2012	**2011**	**2010**

	(dollars in thousands)		
Balance, beginning of period	$ 24,421	$ 22,142	$ 16,228
Acquisition costs deferred, net	60,340	54,359	49,399
Costs amortized during the period	(58,579)	(52,080)	(43,485)
Balance, end of period	$ 26,182	$ 24,421	$ 22,142

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(g) Unpaid Losses and Loss Adjustment Expenses

The Company provides a liability for unpaid losses and loss adjustment expenses based upon aggregate case estimates for reported claims and estimates for incurred but not reported losses. Because of the length of time required for the ultimate liability for losses and loss adjustment expenses to be determined for certain lines of business underwritten, the Company has limited experience upon which to base an estimate of the ultimate liability. For these lines, management has established loss and loss adjustment expense reserves based on actuarial methods that determine ultimate losses and loss adjustment expenses utilizing a combination of both industry and the Company s reporting and settlement patterns, as appropriate. One primary set of actuarial methods utilized, Bornhuetter-Ferguson, entails developing an initial expected loss ratio based upon gross ultimate losses from prior accident years, estimating the portion of ultimate losses expected to be reported and unreported, and adding the actual reported losses to the expected unreported losses to derive the indicated ultimate losses. However, the net amounts that will ultimately be paid to settle the liability may be more or less than the estimated amounts provided. Our losses and loss expense reserves are reviewed quarterly and any adjustments are reflected in the period in which they become known.

(h) Income Taxes

For subsidiaries subject to taxation, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When the Company does not believe that, on the basis of available information, it is more likely than not deferred tax assets will be recovered it recognizes a valuation allowance against its deferred tax assets. In accordance with ASC 740-10, Accounting for Uncertainty in Income Taxes, the Company recognizes the financial statements benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following the audit. Interest and penalties recognized in accordance with the tax code are reported as a component of income tax expense.

(i) Reinsurance

Reinsurance contracts do not relieve the Company from its obligation to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. As of December 31, 2012 and 2011, we had a recoverable allowance of $4.7 and $5.0 million, respectively. Reinsurance recoverables on unpaid losses and prepaid reinsurance represent amounts recoverable from reinsurers for unpaid losses and unearned ceded reinsurance premiums, respectively.

(j) Acquisitions and Goodwill

The Company evaluates the carrying value of goodwill as of year-end and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. The Company accounts for business combinations using the acquisition method, which requires an allocation of the purchase price of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the net tangible and intangible assets acquired. In the event the net assets acquired exceed the purchase price, the Company will recognize a gain on bargain purchase.

In determining possible impairments of goodwill, the Company compares the estimated net present value of future cash flows against net assets of the reporting unit. We first assess qualitative factors to determine whether it is more likely than not that goodwill is impaired. If the more likely than not threshold is met, we perform a quantitative impairment test. At December 31, 2012 and 2011, the Company determined that goodwill was not impaired. At December 31, 2012 and 2011, goodwill was $20.8 million and $9.3 million, respectively.

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On July 2, 2012, American Safety Holdings Corp., a wholly-owned subsidiary of the Registrant, acquired the 100% voting equity of Bluestone Agency, Inc., an Arizona corporation, and its wholly-owned subsidiary, Bluestone Surety, Ltd., an exempted company incorporated under the laws of the Cayman Islands. Bluestone Agency and Bluestone Surety are referred to collectively as Bluestone . All issued and outstanding capital stock of Bluestone was purchased from Pearlstein Associates, LLC, a South Carolina limited liability company, for a purchase price of $20.0 million. The purchase price includes an earnout provision consisting of a payout of up to $6.0 million. The cash paid at closing was $14.0 million. The earnout provision is contingent upon the future performance of Bluestone.

Bluestone primarily offers transactional commercial surety products. In 2011, Bluestone wrote approximately $16 million in premium, primarily composed of low limit transactional commercial surety bonds. The purchase was accounted for under the guidance of ASC 805-10 as a business combination under the acquisition method. All identifiable assets and liabilities acquired were recognized using fair value measurement. As a part of the fair value measurement the Company recorded an intangible asset of $9.0 million for Agent Relationships, with an estimated useful life of ten years. The intangible asset is included in Other assets in the Consolidated Balance Sheets. Amortization expense recorded for the year ended December 31, 2012 was $0.5 million and is included in Other underwriting expenses in the Consolidated Statements of Operations. Pursuant to fair value measurement, the earnout provision was valued at $4.0 million. Under ASC 805-10 utilizing the acquisition method, the purchase price was valued at $18.0 million.

The following table summarizes the Company s fair value of the assets acquired, identifiable intangible assets acquired and liabilities assumed at July 2, 2012 (in thousands):

Assets:	
Short-term investments, at fair value	$ 3,541
Cash and cash equivalents	3,176
Premiums receivable	2,698
Deferred acquisition costs	1,186
Goodwill	11,526
Intangibles and other assets	9,784
Total Assets	$ 31,911
Liabilities:	
Unpaid losses and loss adjustment expenses	$ (2,135)
Unearned premiums	(2,358)
Ceded premiums payable	(1,797)
Funds held	(3,504)
Other Liablilities	(1,057)
Deferred income taxes	(3,060)
Total Liabilities	$ (13,911)

The effects of this acquisition were not significant to the Company s consolidated financial statements and basic and diluted earnings per share and, as such, pro forma information has not been presented.

(k) Net Earnings Per Share

Basic earnings per share and diluted earnings per share are computed by dividing net earnings attributable to American Safety Insurance Holdings, Ltd., by the weighted average number of shares outstanding for the period (basic EPS) plus dilutive shares attributable to stock options and restricted stock (diluted EPS).

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Earnings per share for the years ended December 31, are as follows:

	2012	2011	2010
Weighted average shares outstanding	10,073,304	10,393,766	10,302,525
Shares attributable to stock options and restricted stock	309,583	345,408	343,579
Weighted average shares attributable to stock options and restricted stock	10,382,887	10,739,174	10,646,104
Net earnings per share:			
Basic	$ 1.18	$ 1.04	$ 2.96
Diluted	$ 1.14	$ 1.01	$ 2.87

(l) Employee Stock Compensation

The Company s stock option plan grants stock options to employees. The majority of the options outstanding under the plan generally vests evenly over a period of three to five years and have a term of 10 years.

The Company applied the recognition and measurement principles of ASC 718-10-10, Share Based Payments under the modified prospective application method, commencing in the first quarter of 2006 and recognizes the expense over the vesting period. The Company uses the Black-Scholes option pricing model to value stock options. This plan is described further in Note 14. Compensation expense relating to stock options of $325, $577 and $636 were reflected in earnings for the years ended December 31, 2012, 2011 and 2010, respectively.

(m) Accounting Pronouncements

In February 2013, the FASB issued an accounting update to improve the reporting of reclassifications out of accumulated other comprehensive income. An entity is required to report the effect of significant reclassifications, by component, out of accumulated other comprehensive income on the respective line items in net income if the item is required under GAAP to be reclassified in its entirety in the same reporting period.

The required disclosures of the update are allowed either in the Statement of Operations or in the notes. The amendments in the update are effective for reporting periods beginning after December 15, 2012. We do not anticipate this update will have an impact on our financial disclosures.

(n) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and overnight investments. Included in cash and cash equivalents are deposits with certain states, required in order to be licensed in these states. These deposits were $75 at December 31, 2012 and 2011.

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(o) Derivatives

The underlying debt obligations between the Company and American Safety Capital, American Safety Capital II and American Safety Capital III expose the Company to variability in interest payments due to changes in interest rates.

During 2009, the Company entered into interest rate swaps on the trust preferred debts that were designated as hedging instruments. On February 12, 2010, the Company terminated those swaps resulting in cash proceeds of $2.1 million. The Company assessed at each reporting period whether the derivative financial instruments used in hedging transactions are effective in offsetting changes in fair value of the related underlying exposures. Effective changes in fair value of the interest rate swaps designated as hedging instruments of the variability of cash flow associated with a floating rate, long-term debt obligation were reported in accumulated other comprehensive income. Any ineffective portion of the change in fair value of the instruments was recognized immediately in earnings. For accounting purposes that gain is reported as comprehensive income net of tax and recognized through earnings using the effective interest method over the time period the derivative was originally designated to hedge interest payments on the underlying debt. As of December 31, 2012 and 2011, the Company had a balance of unrecognized gain of $1,213 and $1,266, respectively.

(2) Investments

Net investment income (dollars in thousands) is summarized as follows:

	Years ended December 31,		
	2012	2011	2010
Fixed maturity securities	$ 31,348	$ 32,454	$ 32,524
Common stock			626
Preferred stock	230	185	201
Short-term investments and cash and cash equivalents	43	168	67
	31,621	32,807	33,418
Less investment expenses	1,423	1,469	1,280
Net investment income	$ 30,198	$ 31,338	$ 32,138

Realized and unrealized gains and losses (dollars in thousands) were as follows:

	Years ended December 31,		
	2012	**2011**	**2010**
Realized gains:			
Fixed maturity	$ 9,851	$ 12,553	$ 2,144
Common stock			274
Preferred stock			16
Total gains	9,851	12,553	2,434
Realized losses:			
Fixed maturity	(158)	(1,587)	(183)
Common stock			
Preferred stock			
Total losses	(158)	(1,587)	(183)
Net realized gains (losses) [1]	$ 9,693	$ 10,966	$ 2,251
Changes in unrealized gains:			
Fixed maturity	$ 9,660	$ 10,706	$ 15,512
Common stock	(53)	(175)	63
Preferred stock	149	21	24
Net change in unrealized gains	$ 9,756	$ 10,552	$ 15,599

(1) Realized gains on the Statement of Operations for 2012 include $0.3 million of net unrealized holding gains from trading securities.

For the years ended December 31, 2012 and 2011, available-for-sale fixed maturity securities were sold for total proceeds of $115.3 million and $342.6 million, respectively, resulting in net realized gains to the Company totaling $9.4 million and $11.0 million in 2012 and 2011, respectively. For the purpose of determining net realized gains, the cost of securities sold is based on specific identification.

Trading securities are reported at fair value, with unrealized holding gains and losses reported as part of net earnings. Net unrealized holding gains from trading securities totaled $0.3 million for 2012. These holding gains are included in net realized gains and losses for the period. There were no trading securities within the portfolio as of December 31, 2011.

At December 31, 2012 and 2011, the Company did not hold fixed maturity securities, which individually exceeded 10% of shareholders equity, except U.S. government and government agency securities.

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The amortized cost and estimated fair values of the Company s available for sale investments at December 31, 2012 and 2011, (dollars in thousands) are as follows:

December 31, 2012	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 53,591	$ 2,961	$ (11)	$ 56,541
States of the U.S. and political subdivisions of the states	40,100	6,064		46,164
Corporate securities	304,725	36,089	(85)	340,729
Mortgage-backed securities	237,653	11,088	(501)	248,240
Commercial mortgage-backed securities	57,521	5,694		63,215
Asset-backed securities	71,769	3,138	(219)	74,688
Total fixed maturities	$ 765,359	$ 65,034	$ (816)	$ 829,577
Common stock	$ 9,004	$ 6	$ (234)	$ 8,776
Preferred stock	$ 2,789	$ 317	$ (25)	$ 3,081

December 31, 2011	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 58,814	$ 4,315	$ (39)	$ 63,090
States of the U.S. and political subdivisions of the states	27,676	4,581		32,257
Corporate securities	298,452	29,601	(1,127)	326,926
Mortgage-backed securities	257,864	12,973	(26)	270,811
Commercial mortgage-backed securities	60,198	3,941	(178)	63,961
Asset-backed securities	58,437	666	(149)	58,954
Total fixed maturities	$ 761,441	$ 56,077	$ (1,519)	$ 815,999
Common stock	$ 6,926	$	$ (175)	$ 6,751
Preferred stock	$ 2,789	$ 212	$ (69)	$ 2,932

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At December 31, 2012, the Company s investment in corporate fixed maturities totaled $340.7 million, composed of $165.2 million of securities issued by companies in the industrial sector, $127.2 million in the financial sector, $39.5 million in utilities and $8.8 million in foreign agencies and other securities.

At December 31, 2011, the Company s investment in corporate fixed maturities totaled $326.9 million, composed of $149.2 million of securities issued by companies in the industrial sector, $110.3 million in the financial sector, $57.4 million in utilities and $10.0 million in foreign agencies and other securities.

Fixed income securities with fair values of $29.5 million and $29.9 million were on deposit with insurance regulatory authorities at December 31, 2012 and 2011, in accordance with statutory requirements.

The amortized cost and estimated fair values of fixed maturities at December 31, 2012, by contractual maturity are shown below. Expected maturities may differ from contractual maturities as certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalty.

	Amortized cost	Estimated fair value
	(dollars in thousands)	
Due in one year or less	$ 40,900	$ 41,544
Due after one year through five years	97,214	104,414
Due after five years through ten years	189,141	207,642
Due after ten years	71,161	89,834
Mortgage and asset-backed securities	366,943	386,143
Total	$ 765,359	$ 829,577

The following tables summarize the gross unrecognized and unrealized losses of the Company s investment portfolio as of December 31, 2012 and 2011, by category and length of time that the securities have been in a continuous unrealized or unrecognized loss position.

December 31, 2012

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
US Treasury securities & other government corporations and agencies	$ 4,985	$ (11)	$	$	$ 4,985	$ (11)
States of the US and political subdivisions of the states						
Corporate securities	24,489	(85)			24,489	(85)
Mortgage-backed securities	36,345	(336)	3,751	(165)	40,096	(501)
Commercial mortgage-backed securities						
Asset-backed securities	7,536	(210)	59	(9)	7,595	(219)

Subtotal fixed maturity securities	73,355	(642)	3,810	(174)	77,165	(816)
Common stock	1,067	(14)	6,926	(220)	7,993	(234)
Preferred stock	490	(2)	504	(23)	994	(25)
Total temporarily impaired securities	$ 74,912	$ (658)	$ 11,240	$ (417)	$ 86,152	$ (1,075)

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December 31, 2011

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
US Treasury securities & other government corporations and agencies	$ 3,749	$ (39)	$	$	$ 3,749	$ (39)
States of the US and political subdivisions of the states						
Corporate securities	31,808	(1,127)			31,808	(1,127)
Mortgage-backed securities	6,574	(26)			6,574	(26)
Commercial mortgage-backed securities	13,401	(135)	5,432	(43)	18,833	(178)
Asset-backed securities	15,537	(149)			15,537	(149)
Subtotal fixed maturity securities	71,069	(1,476)	5,432	(43)	76,501	(1,519)
Common stock	6,751	(175)			6,751	(175)
Preferred stock	1,436	(50)	509	(19)	1,945	(69)
Total temporarily impaired securities	$ 79,256	$ (1,701)	$ 5,941	$ (62)	$ 85,197	$ (1,763)