



# TEXAS MUTUAL

## 2025 FINANCIAL REPORT

## Financial Highlights

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### For the year ended December 31, 2025

(in thousands)

Gross premiums written	\$1,000,218
Net premiums earned	\$1,033,593
Net investment income	\$430,161
Claim benefits paid and incurred	\$538,778
Underwriting expense	\$383,179
Dividends to policyholders	\$349,228
Federal income taxes	\$1,397
Total other expense	\$1,626
Net income	\$189,546

### At December 31, 2025

(in thousands, except number of policies in force and employees covered)

Admitted assets	\$8,750,195
Liabilities	\$3,498,649
Policyholders' surplus	\$5,251,546
Number of policies in force	81,395
Number of employees covered on policies in force	1,947,180

### Key indicators, year ended December 31, 2025

Incurred loss ratio	52.1%
Statutory combined ratio	90.6%
Combined ratio including dividends	125.5%
Premiums written to surplus ratio	0.19:1



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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Texas Mutual Insurance Company

### **Opinions**

We have audited the statutory-basis financial statements of Texas Mutual Insurance Company (the "Company"), which comprise the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2025 and 2024, and the related statutory-basis statements of operations, changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements (collectively referred to as the "statutory-basis financial statements").

### **Unmodified Opinion on Statutory-Basis of Accounting**

In our opinion, the accompanying statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Texas Department of Insurance described in Note 1.

### **Adverse Opinion on Accounting Principles Generally Accepted in the United States of America**

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America section of our report, the statutory-basis financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2025 and 2024, or the results of its operations or its cash flows for the years then ended.

### **Basis for Opinions**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory-Basis Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America**

As described in Note 1 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by the Company using the accounting practices prescribed or permitted

by the Texas Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Texas Department of Insurance. The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

### **Responsibilities of Management for the Statutory-Basis Financial Statements**

Management is responsible for the preparation and fair presentation of the statutory-basis financial statements in accordance with the accounting practices prescribed or permitted by the Texas Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory-basis financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the statutory-basis financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the statutory-basis financial statements are issued.

### **Auditor's Responsibilities for the Audit of the Statutory-Basis Financial Statements**

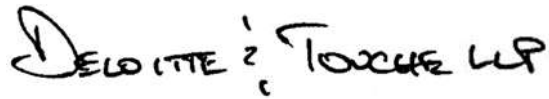
Our objectives are to obtain reasonable assurance about whether the statutory-basis financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory-basis financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory-basis financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory-basis financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory-basis financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "DELOITTE TOUCHE LLP". The signature is written in a cursive, somewhat stylized font. The word "DELOITTE" is on the left, followed by a small flourish, and then "TOUCHE LLP" is on the right.

February 27, 2026

# TEXAS MUTUAL INSURANCE COMPANY

## STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND POLICYHOLDERS' SURPLUS AS OF DECEMBER 31, 2025 AND 2024

ADMITTED ASSETS	2025	2024
CASH AND INVESTED ASSETS:		
Bonds (Note 2)	\$5,174,118,088	\$5,061,192,233
Common stocks and mutual funds (Note 2)	971,397,984	980,226,772
Real estate—properties occupied by the company (Note 2)	88,125,779	90,847,909
Cash, cash equivalents, and short-term investments	117,433,437	133,995,879
Other invested assets (Note 2)	<u>1,886,669,400</u>	<u>1,768,127,464</u>
Total cash and invested assets	8,237,744,688	8,034,390,257
PREMIUMS RECEIVABLE—Net of allowance	453,197,260	475,360,743
REINSURANCE RECOVERABLE ON PAID LOSSES (Note 5)	227,348	274,521
INVESTMENT INCOME DUE AND ACCRUED	53,479,071	50,656,873
FURNITURE AND ELECTRONIC DATA PROCESSING EQUIPMENT	49,313	303,263
RECEIVABLES FROM PARENT, SUBSIDIARIES, AND AFFILIATES (Note 2)	265,141	66,958
OTHER ASSETS	<u>5,232,570</u>	<u>5,079,655</u>
TOTAL ADMITTED ASSETS	<u>\$8,750,195,391</u>	<u>\$8,566,132,270</u>
<b>LIABILITIES AND POLICYHOLDERS' SURPLUS</b>		
LIABILITIES:		
Reserve for losses and loss adjustment expenses (Note 3)	\$2,858,060,937	\$2,855,395,537
Unearned premiums	502,660,027	536,034,417
Taxes, licenses, and fees	14,409,075	15,357,995
Commissions payable	38,675,591	47,138,020
Advance premiums	6,837,726	7,694,176
Other liabilities	60,685,489	54,522,806
Payables for securities	<u>17,319,941</u>	<u>2,868,524</u>
Total liabilities	<u>3,498,648,786</u>	<u>3,519,011,475</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
POLICYHOLDERS' SURPLUS—Unassigned surplus	<u>5,251,546,605</u>	<u>5,047,120,795</u>
Total policyholders' surplus	<u>5,251,546,605</u>	<u>5,047,120,795</u>
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	<u>\$8,750,195,391</u>	<u>\$8,566,132,270</u>

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

# TEXAS MUTUAL INSURANCE COMPANY

## STATUTORY-BASIS STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
PREMIUMS:		
Premiums written—direct and assumed	\$1,000,218,195	\$1,085,245,883
Change in unearned premium reserve	<u>33,374,390</u>	<u>(1,898,728)</u>
Net premiums earned	<u>1,033,592,585</u>	<u>1,083,347,155</u>
LOSSES AND EXPENSES INCURRED:		
Losses and loss adjustment expenses (Note 3)	538,777,762	504,427,788
Underwriting expenses	<u>383,179,376</u>	<u>393,724,121</u>
Total losses and expenses incurred	<u>921,957,138</u>	<u>898,151,909</u>
NET UNDERWRITING GAIN	<u>111,635,447</u>	<u>185,195,246</u>
NET INVESTMENT INCOME (Note 2):		
Net interest, dividend and other investment income earned	310,940,605	288,446,572
Net realized capital gains (losses) on investments	<u>119,220,633</u>	<u>118,376,418</u>
Net investment income	<u>430,161,238</u>	<u>406,822,990</u>
OTHER INCOME (EXPENSE):		
Finance and service charges	606,908	833,962
Provision for uncollectible premiums	(2,261,572)	(3,030,127)
Miscellaneous income	<u>28,144</u>	<u>30,498</u>
Total other expense	<u>(1,626,520)</u>	<u>(2,165,667)</u>
NET INCOME BEFORE DIVIDENDS TO POLICYHOLDERS AND FEDERAL INCOME TAX	540,170,165	589,852,569
DIVIDENDS TO POLICYHOLDERS (Note 4)	349,227,827	372,249,585
FEDERAL INCOME TAXES (Note 1)	<u>1,396,550</u>	<u>1,507,538</u>
NET INCOME	<u>\$189,545,788</u>	<u>\$216,095,446</u>

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

## TEXAS MUTUAL INSURANCE COMPANY

### STATUTORY-BASIS STATEMENTS OF CHANGES IN POLICYHOLDERS' SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
TOTAL POLICYHOLDERS' SURPLUS—Beginning of the year	<u>\$5,047,120,795</u>	<u>\$4,878,101,725</u>
Net income	189,545,788	216,095,446
Change in net unrealized capital gains (losses)	18,261,588	(37,360,261)
Change in non-admitted assets	(3,384,566)	(9,713,115)
Change in provision for reinsurance	<u>3,000</u>	<u>(3,000)</u>
Change in policyholders' surplus for the year	<u>204,425,810</u>	<u>169,019,070</u>
TOTAL POLICYHOLDERS' SURPLUS—End of year	<u><u>\$5,251,546,605</u></u>	<u><u>\$5,047,120,795</u></u>

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

# TEXAS MUTUAL INSURANCE COMPANY

## STATUTORY-BASIS STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
CASH FROM OPERATIONS:		
Premiums collected—net of reinsurance	\$1,019,200,338	\$1,081,408,307
Losses and loss adjustment expenses paid—net of subrogation (Note 3)	(536,112,362)	(499,656,483)
Underwriting expenses paid	(378,699,761)	(394,002,161)
Net cash from underwriting	104,388,215	187,749,663
Net investment income	290,696,722	263,814,634
Other expense—net	615,051	839,660
Dividends to policyholders	(349,487,861)	(373,343,904)
Federal income taxes paid	(1,396,550)	(1,507,538)
Net cash from operations	44,815,577	77,552,515
CASH FROM INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	4,097,611,665	3,320,186,904
Common stocks and mutual funds	433,117,832	321,648,139
Other invested assets	236,287,087	439,610,033
Net miscellaneous investment gains	(13,747)	301
Total investment proceeds	4,767,002,837	4,081,445,377
Cost of investments acquired:		
Bonds	(4,191,145,754)	(3,521,979,285)
Common stocks and mutual funds	(376,767,905)	(280,949,046)
Capital improvements—real estate	0	(631,508)
Other invested assets	(259,635,204)	(311,162,785)
Total investments acquired	(4,827,548,863)	(4,114,722,624)
Net cash used by investments	(60,546,026)	(33,277,247)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES:		
Borrowed funds (Note 6)	(838,993)	(445,787)
Other cash applied	7,000	(201,833)
Net cash used by financing and miscellaneous sources	(831,993)	(647,620)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	(16,562,442)	43,627,648
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	133,995,879	90,368,231
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT END OF YEAR	\$117,433,437	\$133,995,879

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

# TEXAS MUTUAL INSURANCE COMPANY

## NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Description of Operations

Effective September 1, 2001, the Texas Workers' Compensation Insurance Fund, which began operations on January 1, 1992, became Texas Mutual Insurance Company (the "Company"). This change occurred through the passage of Texas House Bill 3458, acts of the 77th Regular Session of the Legislature. The legislation mandates that the Company operate as a domestic mutual insurance company, authorized to write workers' compensation insurance in the state of Texas. The Company currently has a contract with another carrier to provide workers' compensation coverage to certain Texas policyholders of the Company for their out-of-state operations (Note 5). All monies, revenues and assets belong solely to the Company and may not be borrowed or appropriated by the state of Texas. The Company is subject to the rules, regulations, taxes and assessments of the Texas Department of Insurance ("TDI"), and assessments of the Texas Property and Casualty Insurance Guaranty Association ("TPCIGA") (Note 8). The Company serves as a competitive force in the Texas workers' compensation insurance market and as the insurer of last resort.

The Company has a nine-member Board of Directors (the "Board"). Five members, including the chair, are appointed by the Governor and confirmed by the State Senate, and the Company's policyholders elect the remaining four members.

In September 2022, as a result of the Texas Legislature passing House Bill No. 3752, the Company's Board of Directors approved the formation of a healthcare subsidiary, focused on providing health coverage to small businesses in Texas. The Company is the sole member and manager of TXM Holdings, LLC, a 100% owned subsidiary, and subject to the Insurance Holding Company System Act. TXM Holdings, LLC holds 100% ownership interest in Texicare Health Insurance Company, an entity established in 2023 with licensure and registration occurring in 2024. Three of the Company's nine board members participate as board members of both the holding company and underlying insurance entity.

#### (b) Summary of Significant Accounting Policies

##### *Basis of Presentation*

The accompanying financial statements have been prepared in conformity with the accounting practices prescribed or permitted by the TDI.

The TDI has adopted the National Association of Insurance Commissioners' statutory accounting practices ("NAIC SAP") except that it has retained certain prescribed accounting practices that differ from those found in NAIC SAP. Among these differences that impact the Company is the prescribed practice of admitting office furniture and electronic data processing equipment to the extent that the total value of those assets is less than 5% of the other admitted assets of the Company. The Company's statutory surplus would be decreased by \$49,313 and \$303,263 as of December 31,

2025 and 2024, respectively, if all office furniture were non-admitted as required by NAIC SAP. As of December 31, 2025 and 2024, all electronic data processing equipment has been fully depreciated. The accompanying statutory financial statements vary in some respects from accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”).

The significant differences between statutory accounting principles and GAAP are as follows:

- Policy acquisition costs, such as commissions, premium taxes, and other expenses directly related to the cost of acquiring new and renewal business are expensed as incurred, while under GAAP, they are deferred and amortized over the policy term to provide for proper matching of revenue and expense;
- Investments in bonds are generally carried at amortized cost, while under GAAP, they would be classified as available for sale and carried at fair value;
- Assets are reported under NAIC SAP at “admitted-asset” value and “non-admitted” assets are excluded through a charge against policyholders’ surplus, while under GAAP, all assets are reported on the balance sheet, net of any required valuation allowance;
- The reserve for losses and loss adjustment expenses (“LAE”) is reported net of reinsurance, while under GAAP, reinsurance recoverable amounts related to losses paid and losses incurred but not reported are recorded on the balance sheet as assets;
- The Company’s share of undistributed earnings or losses on ownership interests in partnerships and limited liability companies included with other invested assets are recorded to unrealized gains or losses as a component of surplus, while under GAAP the accounting treatment varies based upon the ownership level and type of interest.

The effect of the differences between the statutory basis of accounting and generally accepted accounting principles, although not reasonably determinable, is presumed to be material.

#### ***Use of Estimates in the Preparation of the Statutory Financial Statements***

The accompanying statutory financial statements have been prepared in conformity with NAIC SAP which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Such estimates and assumptions could change in the future as more information becomes known.

#### ***Property and Equipment***

Furniture and electronic data processing equipment are stated at depreciated cost and are allowed to be recorded as admissible assets for insurance companies domiciled in the state of Texas.

Fixtures, software, automobiles, and leasehold improvements are recorded as non-admitted assets. Costs incurred for the development of internal use software are capitalized as non-operating system software and are not admissible assets.

Depreciation and amortization expense for all property and equipment are recorded using the straight-line method over the estimated useful lives of the property and equipment generally as follows:

Building	39 years
Fixtures	10 years
Furniture and equipment	5 years
Major applications and internally developed software	5 years
Electronic data processing equipment	3 years
Other software	3 years

Leasehold improvements are amortized over the term of the related lease, or the estimated useful life of the asset, whichever is shorter.

Depreciation and amortization expense for property and equipment for the years ended December 31, 2025 and 2024, totaled \$281,046 and \$312,498 respectively. Depreciation for the Company's owned and occupied buildings is shown in Note 2.

### ***Investments***

Under provisions of the Company's Statement of Investment Policies and Objectives and in accordance with applicable Texas regulations, the Company is restricted to investments authorized by law as provided by Chapter 424 of the Texas Insurance Code. The Company's investment portfolio consists primarily of U.S. Treasury and government agency securities, corporate bonds, mortgage-backed and asset-backed securities, collateralized mortgage obligations, equity securities, investments in funds, short term securities and cash equivalents.

All the Company's investments are valued in accordance with guidelines established by the NAIC SAP. Investments in bonds with NAIC designations of 1 or 2 are stated at amortized cost. Investments in bonds with NAIC designations of 3 through 6 are stated at the lower of amortized cost or fair value. Premiums and discounts are amortized or accreted until maturity or earlier call date for each security. The amortization or accretion is an adjustment to yield using the effective interest method. For asset-backed securities subject to Statement of Statutory Accounting Principles (SSAP) No. 43, *Asset-Backed Securities* (SSAP No. 43), the constant-yield method is used based on the anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments.

Prepayment assumptions are obtained from investment managers or Bloomberg.

Amounts pertaining to prepayment penalty and/or acceleration fees for callable bonds and asset-backed securities are reported as investment income.

Common stocks, preferred stocks and mutual funds are stated at fair value with the change in fair value being recognized as a change in unrealized holding gains and losses.

Short-term investments include those issuer credit obligation securities that mature within one year and are stated at amortized cost.

Unrealized holding gains and losses are excluded from income and reported as net unrealized capital gains or losses in policyholders' surplus. Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Realized capital gains and losses on sales of investments are recognized in income on a first-in, first-out basis.

Investment securities are regularly reviewed by management for impairment based on criteria that include the extent to which cost exceeds fair value, the duration of the valuation decline, the financial health and specific prospects for the issuer, and the Company's intent and ability to hold the investment to recovery. The Company employs a systematic methodology to evaluate declines in fair value below the amortized cost for its investments. In addition, the methodology incorporates a qualitative process ensuring that available evidence concerning the declines in fair value below amortized cost is evaluated in a disciplined manner. A decline in the fair value below cost that is deemed other-than-temporary is charged to income in the reporting period for which the assessment is made.

SSAP No. 43 requires additional consideration be given for asset-backed securities that have declined below book value to determine if the present value of expected cash flows is less than the amortized cost. The Company applies measurement and disclosure provisions of SSAP No. 43 for asset-backed securities. As defined in SSAP No. 43, when the holder of an asset-backed security ("security") with an unrealized loss position either has the intent to sell or does not have the intent and ability to hold the security for the period of time sufficient to recover the amortized cost basis, the security is considered other-than-temporarily impaired and must be written down to fair value. Additionally, if the holder of a security does not expect to recover the entire amortized cost basis of the security even if the holder has no intent to sell and has the intent and ability to hold the security, the security is considered other-than-temporarily impaired and should be written down to the present value of cash flows expected to be collected. The other-than-temporary write-down shall be recognized in earnings as a realized loss.

Investments in real estate are depreciated over an estimated useful life and stated at depreciated cost.

Other invested assets consist of ownership interests in limited liability companies and limited partnerships, which are recorded at initial cost and subsequently adjusted to recognize the Company's share of GAAP basis earnings or losses, adjusted for any distributions received or additional capital contributions. The adjustment is recorded as an increase/decrease to the carrying value with an offsetting amount recorded to unrealized capital gains and losses on investments within unassigned surplus.

Also included in other invested assets are ownership interests in subsidiary, controlled and affiliated ("SCA") entities totaling less than 2% of the other invested asset portfolio. The Company accounts for SCA entities using the equity method in accordance with *SSAP No. 97 Investments in Subsidiary, Controlled and Affiliated Entities* (SSAP No. 97) and *SSAP No. 48 Joint Venture, Partnerships and Limited Liability Company* (SSAP No. 48). The Company also discloses such transactions in accordance with *SSAP No. 25 Affiliates and Other Related Parties*.

### ***Concentration of Credit Risk***

Concentration of credit risk arises from exposure to issuers that are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company seeks to mitigate credit risk by actively monitoring the credit worthiness of issuers and use of an overall bond portfolio rating minimum along with individual investment manager minimum portfolio quality ratings and issuer ratings.

The Company was not exposed to any concentration of credit risk to a single issuer greater than 5% of the Company's admitted assets, other than U.S. Government and Agency obligations, which comprised 23% of admitted assets at December 31, 2025. The next ten largest single issuer exposures comprised less than 15% of the Company's total admitted assets.

### ***Reserve for Losses and Loss Adjustment Expenses***

The reserve for losses and loss adjustment expenses is comprised of the following: aggregate case-basis estimates of reported losses in the process of settlement, estimates of incurred but not reported losses ("IBNR"), and estimates of LAE to be incurred in the settlement of claims. The reserve represents the estimated claim costs and LAE necessary to cover the ultimate net costs of investigating and settling all losses incurred and unpaid. These estimates are adjusted in the aggregate for ultimate loss expectations based on historical experience and current economic trends.

The Company projects estimated ultimate losses, which are used in determining the estimated reserve for losses and LAE. An independent consulting actuary is retained to provide an independent estimate of reserves. Management believes that the provision for losses and LAE is adequate to cover the ultimate liability at December 31, 2025 and 2024. However, the actual amounts paid when claims are settled may be different from such estimates. Adjustments to these estimates are reflected as adjustments to incurred losses in the period in which such adjustments are known.

### ***Escrow Deposits for Funding Deductibles***

Policyholders who purchase coverage under a deductible plan are required to deposit a predetermined escrow amount with the Company at inception of coverage. Funds held of \$2,897,393 and \$2,684,760 at December 31, 2025 and 2024, respectively, are included in other liabilities. These amounts are held by the Company in a liability (escrow) account until one of the following two events occur:

- **Default by Insured**—if insured fails to remit payment for advances made by the Company on the insured's behalf on a monthly basis as billed, the Company may elect to cancel the policy for nonpayment and may offset any amounts due against such escrow funds.
- **Policyholder Terminates the Relationship with the Company**—as stated in a security agreement with the policyholder, the balance in the escrow account is held by the Company after the expiration of the policy and is returned to the policyholder over a period of 36 months or when all claims related to the policyholder are closed.

The Company is liable for claims under deductible plan policies even if the policyholder is unable to meet the obligations under the terms of the policy.

### ***Premium Revenues***

Premiums are calculated based on rates filed with the Texas Department of Insurance. For policies on interim reporting, premiums are earned over the policy term based on the periodic reports submitted by policyholders during the term of their coverage. Premiums for all other policies are earned using the daily pro rata method over the term of the policy. Unearned premium reserves are established to cover the unexpired portion of premiums written. Upon expiration or cancellation, a policy is audited or reviewed to determine the actual premiums earned and revenues are increased or decreased accordingly.

***Subrogation***

Subrogation claims (claims against third parties) are recognized as a reduction of losses incurred upon collection.

***Reinsurance***

The Company has historically reinsured risks above certain retention levels with other insurance companies. The reinsurance recoverable on paid losses in which the Company is not relieved of its legal liability to the policyholders is reported separately on the statutory statements of admitted assets, liabilities, and policyholders' surplus. Due to the Company's financial strength and ability to cover future losses, the Company declined obtaining reinsurance coverage for accident years ended December 31, 2025 and 2024.

***Federal Income Taxes***

While the Company is exempt from federal income taxation under Section 501(c)(27) of the Internal Revenue Code, it is subject to unrelated business income taxes ("UBTI") on income generated from certain partnerships in its investment portfolio. Accordingly, the accompanying statutory financial statements do not include a provision for income taxes but do include an amount paid for UBTI totaling \$1,396,550 and \$1,507,538 for the years ended December 31, 2025 and 2024, respectively.

***Disclosures about Fair Value of Financial Instruments***

In preparing disclosures about the fair value of financial instruments, the Company has assumed that the carrying amount approximates fair value for cash and short-term investments because of the short maturities of these instruments. The fair value of bonds and stocks is determined by the Company based on fair values obtained from third party pricing services. If not available, the quoted market values or estimated values using the current interest rates available to the Company for investments with similar terms and remaining maturities are used. See Note 10 for additional fair value disclosures.

***Adoption of new accounting standards***

Effective January 1, 2025, the Company adopted the principle-based bond definition ("PBBB"). This adoption clarifies that securities qualifying as issuer credit obligations fall under the scope of SSAP No. 26, Bonds, while those qualifying asset-backed securities fall under SSAP No. 43. Securities that do not meet these criteria are reported as other invested assets. The Company determined there were no securities that needed to be reclassified under the PBBB and there was no impact to surplus.



The amortized cost/adjusted carrying value and estimated fair value of bonds, short-term investments, and cash equivalents are shown below by contractual maturities as of December 31, 2025. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations without call or prepayment penalties.

	<b>December 31, 2025</b>	
	<b>Amortized Cost/Adjusted Carrying Value</b>	<b>Fair Value</b>
Due in one year or less	\$149,056,820	\$147,724,222
Due after one year through five years	1,957,318,212	1,961,320,992
Due after five years through ten years	1,759,289,449	1,767,369,647
Due after ten years	1,309,625,316	1,262,991,241
	<u>\$5,175,289,797</u>	<u>\$5,139,406,102</u>

Proceeds from the sale of bonds for the years ended December 31, 2025 and 2024, were \$4,093,442,339 and \$3,325,612,895 respectively. Gross gains of \$20,750,212 and \$23,494,942 and gross losses of \$27,615,137 and \$39,981,503 were realized from the sales of bonds for the years ended December 31, 2025 and 2024, respectively.

Proceeds from the sale of stocks for the years ended December 31, 2025 and 2024, were \$433,001,385 and \$318,830,615 respectively. Gross gains of \$125,303,342 and \$121,306,154 and gross losses of \$24,198,257 and \$16,311,497 were realized from the sales of stocks for the years ended December 31, 2025 and 2024, respectively.

The Company's sales of investment securities in an unrealized loss position are due primarily to perceived changes in market conditions, creditworthiness of an issuer or to take advantage of more attractive investment opportunities.

Also included in the bond portfolio are securities considered below investment grade. The Company defines below investment grade securities as those securities rated below a 2 by the NAIC. At December 31, 2025 the value of these securities was \$188,741,072 making up just over 2% of total admitted assets.

During the years ended December 31, 2025 and 2024, the fair value of certain securities was lower than the related cost basis and these declines in value were determined to be other-than-temporary. Within the scope of *SSAP No. 30. Unaffiliated Common Stock* (SSAP No. 30), \$1,587,147 and \$1,953,631 in other-than-temporary impairments was recorded for the years ended December 31, 2025 and 2024, respectively. Within the scope of *SSAP No. 26. Bonds* (SSAP No. 26), \$853,351 and \$461,454 in other-than-temporary impairments was recorded for the years ended December 31, 2025 and 2024, respectively.

Within the scope of *SSAP No. 43* the Company had no other-than-temporary impairments recognized at December 31, 2025 and \$125,836 recognized for the year ended December 31, 2024, due to present value of cash flow for securities.

The following table summarizes other-than-temporary impairments for asset-backed securities held at December 31, 2024 based on the fact that the present value of projected cash flows expected to be collected was less than the amortized cost of the securities.

December 31, 2024						
CUSIP	Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized Other- Than- Temporary Impairment	Amortized Cost After Other- Than- Temporary Impairment	Fair Value at time of OTTI	Date of Financial Statement Where Reported
020908-AA-7	\$589,442	\$463,606	\$125,836	\$463,606	\$463,606	12/31/2024

The following two tables reflect securities whose fair values were lower than the related cost basis at December 31, 2025 and 2024, respectively. However, these declines in value were not deemed to be other than temporary. Substantially all of the unrealized losses are due to the significant rise in interest rates subsequent to the purchase of these securities. The tables show the fair value and the unrealized losses, aggregated by investment category and category of duration that individual securities have been in a continuous unrealized loss position.

	<b>December 31, 2025</b>			
	<b>Less than Twelve Months</b>		<b>Twelve Months or Greater</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Issuer Credit Obligations	\$257,347,641	(\$1,492,445)	\$1,067,762,791	(\$53,597,105)
Asset-Backed Securities	75,348,859	(852,748)	602,678,806	(42,889,133)
Total bonds	332,696,500	(2,345,193)	1,670,441,597	(96,486,238)
Common stocks and mutual funds	106,340,571	(8,172,800)	27,458,878	(5,048,667)
	<u>\$439,037,071</u>	<u>(\$10,517,993)</u>	<u>\$1,697,900,475</u>	<u>(\$101,534,905)</u>

	<b>December 31, 2024</b>			
	<b>Less than Twelve Months</b>		<b>Twelve Months or Greater</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$565,336,127	(\$12,876,618)	\$519,161,355	(\$43,549,527)
Foreign government	-	-	1,915,147	(428,819)
Industrial and miscellaneous	417,681,171	(7,990,148)	1,117,132,841	(75,877,214)
Mortgage-backed securities	150,217,092	(2,430,956)	308,768,759	(41,583,591)
Asset-backed securities	56,800,257	(611,652)	66,469,135	(3,632,659)
Collateralized mortgage obligations	45,504,324	(875,866)	345,782,594	(28,053,412)
Total bonds	1,235,538,971	(24,785,240)	2,359,229,831	(193,125,222)
Common stocks and mutual funds	66,091,286	(4,613,743)	17,685,313	(1,806,697)
	<u>\$1,301,630,257</u>	<u>(\$29,398,983)</u>	<u>\$2,376,915,144</u>	<u>(\$194,931,919)</u>

### Other Invested Assets

Other invested assets consist mainly of ownership interests in limited liability companies and limited partnerships with underlying characteristics primarily consisting of real estate and private credit representing approximately 70% of other invested assets. The remaining portfolio is a combination of mainly public fixed income and common stock funds. The other invested assets portfolio has historically exhibited relatively lower correlations with public equity and fixed income investments and provides strategic diversification, including relative downside protection during periods of severe market sell-offs. There were no other invested asset holdings that exceeded 10% of admitted assets.

As of December 31, 2025 and 2024, the Company recognized other-than temporary impairments totaling \$6,370,837 and \$6,934,538, respectively, in accordance with SSAP No. 48. The impairments were due to declines in the fair value of the underlying investments and were deemed to be other-than-temporary. Fair value was determined based on an assessment of the market value of the partnership's investments.

### ***Subsidiary, Controlled and Affiliated Entities—Recorded Within Other Invested Assets***

The Company holds 100% interest in TXM Holdings, LLC with an initial funding commitment of \$60,000,000. In February 2025, the Board of Directors authorized an additional funding commitment of up to \$240,000,000 consisting of an initial \$60,000,000 with three additional tranches of funding of \$60,000,000 each, which will only be released based on milestone reporting and agreement by the Board of Directors. The Company funded \$26,400,000 and \$21,500,000 for the years ended December 31, 2025 and 2024, respectively. As of December 31, 2025, the investment had a carrying value of \$7,238,206 but was non-admitted in accordance with SSAP No. 97. The Company has agreed to provide certain services to the subsidiary, which are provided based on a written agreement and require settlement within 30 days.

Additionally, the Company holds 100% ownership interest in two co-investment vehicles, Carlyle Credit Opportunities TX Co-Invest, LLC and Audax DLS Co-Investment Fund 5, LP. The Company participates as a limited partner with 100% ownership interest by providing capital contributions to the manager. As of December 31, 2025 and 2024, these investments had a total carrying value of \$29,626,986 and \$32,980,105 respectively.

### **Investment income**

Net investment income consists of the following:

	<b>For the Year Ended December 31,</b>	
	<b>2025</b>	<b>2024</b>
Net interest, dividend and other investment income earned:		
Bonds	\$217,518,372	\$197,520,924
Common stocks and mutual funds	24,874,640	26,731,469
Cash equivalents and short-term investments	7,343,784	6,974,005
Other invested assets	99,724,368	87,712,657
Miscellaneous investments	189,701	254,892
Net real estate income (loss)	1,088,564	1,405,710
Less interest expense on borrowed funds	(838,993)	(445,787)
Less investment expenses	<u>(38,959,831)</u>	<u>(31,707,298)</u>
Total net interest, dividend and other investment income earned	<u>310,940,605</u>	<u>288,446,572</u>
Net realized capital gains (losses) on investments:		
Bonds	(7,718,276)	(17,073,851)
Common stocks and mutual funds	99,517,938	103,041,026
Cash equivalents and short-term investments	-	301
Other invested assets	<u>27,420,971</u>	<u>32,408,942</u>
Total net realized capital gains (losses) on investments	<u>119,220,633</u>	<u>118,376,418</u>
Net investment income	<u>\$430,161,238</u>	<u>\$406,822,990</u>

Amounts pertaining to prepayment penalty and/or acceleration fees for callable bonds, asset-backed securities are reported as investment income pursuant to SSAP No. 26R and SSAP No. 43. As of December 31, 2025 and 2024, net investment income included prepayment penalties amounting to \$739,585 and \$35,200 respectively.

## Restricted Assets

As of December 31, 2025 and 2024, the Company has pledged as collateral fixed income securities with a book/adjusted carrying value of \$370,376,301 and \$393,798,815 respectively. In addition, the Company has other restricted assets of \$7,529,186 as of December 31, 2025, including \$3,509,100 of Federal Home Loan Bank (“FHLB”) Capital and Activity Stock.

The following table provides information about the Company’s assets pledged to others as collateral or otherwise restricted at book/adjusted carrying value as of December 31, 2025 and 2024.

	December 31,		Increase/ (Decrease)	Restricted to Total Admitted Assets
	2025	2024		
Pledged as collateral:				
FHLB Loan (Note 6)	\$202,176,637	\$248,144,647	(\$45,968,010)	2.31%
FHLB TXM Holdings LOC Collateral	2,899,192	2,898,784	408	0.03%
FHLB Travelers LOC Collateral	0	1,120,021	(1,120,021)	0.00%
Argonaut reinsurance	159,876,170	136,212,079	23,664,091	1.83%
Federal Longshore and Harbor Workers’ Compensation Act	5,424,302	5,423,284	1,018	0.06%
Total Pledged as collateral	370,376,301	393,798,815	(23,422,514)	4.23%
Other restricted assets:				
Argonaut reinsurance	3,737,086	3,737,086	-	0.05%
Chesapeake Employers’ Ins Fund reinsurance	283,000	290,000	(7,000)	0.00%
FHLB capital stock (Note 6)	3,509,100	3,442,000	67,100	0.04%
Total other restricted assets	7,529,186	7,469,086	60,100	0.09%
Total admitted restricted assets	\$377,905,487	\$401,267,901	(\$23,362,414)	4.32%

## Real Estate

The Company owns land and a commercial building for its main office in Austin, Texas. Depreciation expense on the building as of the years ended December 31, 2025 and 2024, totaled \$2,622,531 and \$2,648,042 respectively. Accumulated depreciation on the building as of the years ended December 31, 2025 and 2024, totaled \$19,160,325 and \$16,537,795 respectively.

The Company also owns land and a commercial building for its regional office in Lubbock, Texas. Depreciation expense on the building totaled \$99,599 for both years ended December 31, 2025 and 2024. Accumulated depreciation on the building as of the years ended December 31, 2025 and 2024, totaled \$1,665,567 and \$1,565,968 respectively.

### 3. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The changes in reserves for losses and LAE consist of the following:

	For the Year Ended December 31,	
	2025	2024
Reserve for losses and LAE—net of reinsurance, at January 1	\$2,855,395,537	\$2,850,624,232
Incurring losses and LAE—net of reinsurance:		
Provision for insured events of the current year	642,634,029	640,509,406
Change in provision for insured events of prior years	(103,856,267)	(136,081,618)
Total incurred losses and LAE—net of reinsurance	538,777,762	504,427,788
Payments for losses and LAE—net of reinsurance:		
Attributable to insured events of the current year	(226,789,375)	(209,500,131)
Attributable to insured events of the prior years	(309,322,987)	(290,156,352)
Losses and LAE paid during the year—net of reinsurance	(536,112,362)	(499,656,483)
Reserve for losses and LAE—net of reinsurance, at December 31	\$2,858,060,937	\$2,855,395,537

Incurring losses and LAE of \$538,777,762 and \$504,427,788 included decreases of \$103,856,267 and \$136,081,618 due to favorable development of prior year estimates for the years ended December 31, 2025 and 2024, respectively.

### 4. POLICYHOLDERS' SURPLUS

Policyholder dividends totaled \$349,227,827 and \$372,249,585 for the years ended December 31, 2025 and 2024, respectively. Included in this amount are dividends paid to safety group policyholders totaling \$19,582,669 and \$22,945,121 for the years ended December 31, 2025 and 2024, respectively. TDI is notified of all dividends declared by the Company prior to payment. Future dividends to policyholders, if any, will be determined based on future operating results, and will be expensed as declared by the Board. The portion of unassigned surplus represented or (reduced) by each item below is as follows:

	December 31,	
	2025	2024
Net unrealized capital gains	\$663,495,218	\$645,233,630
Non-admitted asset values	(36,244,079)	(32,859,513)
Provision for reinsurance	-	(3,000)

See Note 1 detailing the prescribed practice of admitting office furniture and electronic data processing equipment and the resulting impact on unassigned surplus.

### 5. REINSURANCE

The Company contracts with Argonaut Insurance Company to write coverage for the Company's direct policyholder employees located in other states. The Argonaut contract calls for 100% reinsurance assumption of premiums, losses and LAE. As of December 31, 2025 and 2024, funds and securities with

a total book/adjusted carrying value of \$163,613,256 and \$139,949,165 respectively, were held in trust as collateral for losses paid by Argonaut. Assumed losses and LAE incurred for the calendar years ended December 31, 2025 and 2024, were \$46,099,654 and \$31,852,999 respectively.

The effect of assumed reinsurance on premiums written and earned is as follows:

	For the Year Ended December 31,			
	2025		2024	
	Written	Earned	Written	Earned
Direct	\$941,881,289	\$974,367,964	\$1,027,243,222	\$1,031,139,915
Assumed	\$58,336,906	\$59,224,621	\$58,002,661	\$52,207,240
Total	<u>\$1,000,218,195</u>	<u>\$1,033,592,585</u>	<u>\$1,085,245,883</u>	<u>\$1,083,347,155</u>

Prior to March 31, 2020, the Company held ceded insurance for catastrophic exposures. Various reinsurers provide the reinsurance coverage either directly or through pools or associations. The Company is liable if the reinsurance companies are unable to meet their obligations under the existing agreements. Ceded losses incurred for the calendar years ended December 31, 2025 and 2024, were (\$674,299) and (\$3,404,315) respectively.

Reinsurance recoverable on paid losses at December 31, 2025 and 2024, totaled \$227,348 and \$274,521 respectively. Reinsurance recoverable on unpaid losses at December 31, 2025 and 2024, totaled \$15,002,524 and \$15,294,568 respectively.

## 6. BORROWED FUNDS

The Company is a member of the Federal Home Loan Bank (FHLB) of Dallas through Class B membership stock. Membership provides financial flexibility and a source of liquidity to the Company. Any funds obtained from the FHLB of Dallas are accounted for in accordance with *SSAP No. 15, Debt and Holding Company Obligations*, as borrowed money. The Company has approval from the Board of Directors to borrow from the FHLB for liquidity purposes, up to statutory limitations, as management deems necessary to fund policyholder dividends and insurance operations. In the event of future borrowing needs, the Company has purchased FHLB activity stock and pledged securities as collateral.

	2025	2024
Membership stock—class B	\$3,506,900	\$3,438,900
Activity stock	2,200	3,100
Maximum amount pledged during reporting period	242,216,137	256,383,657
Maximum debt during reporting period	75,000,000	89,000,000

Throughout 2025 and 2024, the Company borrowed funds from the FHLB of Dallas which was all repaid at December 31, 2025 and 2024, including \$838,993 and \$445,787 respectively, in interest. At December 31, 2025 and 2024, the Company had fixed income securities pledged as collateral with a

carrying value of \$205,075,829 and \$252,163,452 and fair value of \$203,284,244 and \$241,712,205 respectively. The collateral constitutes restricted assets and represents 2.31% and 2.94% of total admitted assets at December 31, 2025 and 2024, respectively.

## 7. RETIREMENT PLANS

The Company sponsors a defined contribution retirement plan (the “Plan”) as provided for under Section 401 of the Internal Revenue Code. All employees, except interns, who are 18 years of age and older automatically participate in the Plan. Under the terms of the Plan, the Company makes nonelective employer contributions to the Plan on behalf of plan participants in the amount equal to 4% of each participant’s eligible wages plus 4% of the excess of each participant’s eligible wages over the Social Security wage base. Each new participant automatically contributes 6% of their eligible compensation into the Plan until they elect otherwise, subject to IRS limitations. The Company matches 100% of participant contributions to the Plan, up to a maximum matching contribution by the Company of 6% of the participant’s eligible wages. The Company’s contributions totaled \$11,258,318 and \$11,003,004 for the years ended December 31, 2025 and 2024, respectively.

## 8. COMMITMENTS AND CONTINGENCIES

### Leases

The Company has entered into various operating leases that expire over the next five years. The leases contain various renewal options. For financial reporting purposes, rent expense is charged to operations on a straight-line basis over the term of the lease, resulting in a liability for deferred rent of \$131,898 and \$240,006 included in other liabilities at December 31, 2025 and 2024, respectively. The deferred rent represents the difference between the actual lease payments and the rent expense recognized. Rental expense for operating leases totaled \$7,146,878 and \$7,211,059 for the years ended December 31, 2025 and 2024, respectively. The future minimum rental payments required under operating leases for office space and equipment that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2025 is \$9,609,717 in the aggregate, and amounts due for the succeeding 5 years are as follows:

2026	\$4,141,769
2027	2,816,031
2028	1,005,716
2029	808,229
2030	837,972
Thereafter	-
Total	<u>\$9,609,717</u>

### Commitments

As of December 31, 2025 and 2024, the Company has made total commitments of \$912,926,580 and \$550,916,877 respectively, to provide additional funds to limited liability companies (“LLC”), limited partnerships (“LP”) investments and SCA entities recorded within other invested assets. The Company understands and has agreed that the commitment for additional investment could be due and payable at one or more closings of subscriptions for interests in the limited partnership and SCA entities over the life of the fund. In addition, the closings could be held on dates reasonably selected and in amounts to be determined by the General Partner in their sole and absolute discretion, but not to exceed, in the aggregate, the total amount of the commitment for additional investment.

The Company has made commitments to provide additional funds as needed to the following vehicles:

	<b>December 31, 2025</b>
<b>LLC and LP:</b>	
Audax DLS Fund III B-1 Feeder LLC	\$100,000,000
Arrow Credit Opportunities Fund III LP	91,024,374
Churchill Mid Mkt Sr Ln Fund V LP	54,914,178
Carlyle Credit Opportunities Fund II LP	49,563,172
NML Four Columns JR CAP FD VI LP	44,236,573
Ares Pathfinder Fund II LP	35,315,299
Audax DLS Fund II B-1 Feeder LLC	34,084,726
Crestline Opportunity Fund IV LTD	31,336,227
Churchill Mid Mkt Sr Ln Fund IV LP	26,747,356
Alpinvest Co-Invest Fund IX LP	25,454,044
NML Capital Equity Fund VII	20,701,417
Principal RE Debt Fund III LP	15,419,745
Encap Energy Capital Fund XII LP	14,743,544
Ares Pathfinder Fund LP	13,935,506
GSO Credit Alpha Fund II LP	11,675,212
Partners Group RE SEC 2013A LP	8,989,301
Arrow Credit Opportunities Fund II LP	6,125,602
Crestline Opportunity Fund III LTD	5,072,749
Sixth Street TAO Partners E LP	4,861,078
AMFAM VC Fund IV LP	4,049,481
NML Regal Co-Invest	2,396,778
Encap Grayson Mill III Co-Invest	964,942
Encap Double Eagle V Co-Invest	880,000
AMFAM VC Fund III LP	855,729
Encap Double Eagle IV Co-Invest	498,845
Golub Capital Pearls DLP LP	433,736
CL Raiders Co-Invest	27,886
Total LLC and LP	<u>604,307,500</u>
<b>SCA entities:</b>	
TXM Holdings, LLC	240,499,900
Audax DLS Co-Investment Fund 5 LP	67,828,854
Carlyle Credit Opportunities TX Co-Invest LLC	<u>290,326</u>
SCA entities total	<u>308,619,080</u>
Total commitments	<u><u>912,926,580</u></u>

### **Litigation**

The Company is party to lawsuits and claims generally incidental to its business, which are expected to be adequately covered by loss reserves established at December 31, 2025. The ultimate disposition of these matters is not expected to have a significant adverse effect on the Company's financial position, results of operations, or cash flows.

## Guaranty Fund Assessments

Effective January 1, 2000, the Company became a member of the Texas Property and Casualty Insurance Guaranty Association (TPCIGA), which protects Texas policyholders by covering claims from insolvent insurers. TPCIGA assesses member companies based on prior-year premiums when funds are needed to cover claims or expenses from an insolvency. The Company records liabilities for these assessments when payment is probable and reasonably estimable and recognizes a corresponding asset for premium tax credits provided by Texas, recoverable over ten years. Guaranty fund assessments are amortized in line with the related premium tax offsets.

As of December 31, 2025 the guaranty fund asset was fully amortized. An assessment was not incurred for the years 2025 and 2024.

## 9. HIGH DEDUCTIBLES

As of December 31, 2025 and 2024, the Company had no reserve credit recorded for high deductibles on unpaid losses and the deductible amounts billed and recoverable on paid claims were \$936 and \$86,740 respectively. These amounts were not in excess of collateral specifically held and therefore were admissible as assets.

## 10. FAIR VALUE MEASUREMENTS

The investments carried at fair value on the financial statements have been classified, for disclosure purposes, based on the hierarchy defined by the *SSAP No. 100, Fair Value (SSAP No. 100)*. The Statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SSAP No. 100 establishes a fair value hierarchy that distinguishes between market participant assumptions developed on market data obtained from sources independent of the Company (observable inputs) and the Company's own assumptions about market participants based on best information available in the circumstances (unobservable inputs). The asset's classification in the hierarchy is based on the lowest level of input that is significant to its valuation.

The levels of the fair value hierarchy are as follows:

- **Level 1**—Quoted prices for *identical* instruments in active markets.
- **Level 2**—Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- **Level 3**—Significant Unobservable Inputs for the asset or liability that reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

### Level 1 Financial Assets

These assets include actively traded exchange-listed common stocks and mutual funds. Unadjusted quoted prices for these securities are provided by various independent pricing services.

## Level 2 Financial Assets

The assets in this category include bonds with fair values provided by independent pricing services, utilizing observable inputs. The Company has obtained an understanding of the methods, models and inputs used in pricing, and controls in place to validate that amounts provided represent current fair values.

Typical inputs to models used by independent pricing services include but are not limited to benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers, reference data, and industry and economic events. Because some bonds do not trade daily, independent pricing services regularly derive fair values using recent trades of securities with similar features. When recent trades are not available, pricing models are used to estimate the fair values of securities by discounting future cash flows at estimated market interest rates. As part of the Company's control over pricing, management reviews all prices obtained to ensure reasonableness of values and corroborates these prices with other independent sources.

## Level 3 Financial Assets

These assets include bonds with fair values provided by independent broker quotations, utilizing inputs that cannot be corroborated by observable market data.

## Fair Value at Reporting Date

The following two tables provide information about the Company's financial assets reported at fair value, excluding those accounted for under the equity method (limited partnership and limited liability company interests), as of December 31, 2025 and 2024, respectively.

	December 31, 2025			
	Level 1	Level 2	Level 3	Total
Bonds				
Issuer Credit Obligations	\$ -	\$30,668,419	\$ -	\$30,668,419
Asset-Backed Securities	-	4,801,882	-	4,801,882
Total bonds	-	35,470,301	-	35,470,301
Common stock and mutual funds	967,888,884	-	-	967,888,884
Total assets at fair value	<u>\$967,888,884</u>	<u>\$35,470,301</u>	<u>\$ -</u>	<u>\$1,003,359,185</u>
	December 31, 2024			
	Level 1	Level 2	Level 3	Total
Bonds				
Industrial and miscellaneous	\$ -	\$75,357,473	\$ -	\$75,357,473
Asset-Backed Securities	-	883,638	-	883,638
Collateralized mortgage obligations	-	3,131,511	-	3,131,511
Total bonds	-	79,372,622	-	79,372,622
Common stock and mutual funds	976,784,772	-	-	976,784,772
Total assets at fair value	<u>\$976,784,772</u>	<u>\$79,372,622</u>	<u>\$ -</u>	<u>\$1,056,157,394</u>

## Fair Values for All Financial Instruments

The table below reflects the fair values of all admitted assets that are financial instruments excluding those accounted for under the equity method (limited partnership and limited liability company interests). See Note 2 for admitted values. The fair values are also categorized into the three-level fair value hierarchy as described above, with the exception of those securities in which it was not practicable to determine fair value. Due to the nature of FHLB Capital Stock and the restrictions placed on the transferability, determining fair value was deemed not practicable.

	<b>December 31, 2025</b>				
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Not Practicable Carrying Value</b>
Financial instruments:					
Bonds	\$5,138,234,423	\$-	\$5,088,178,610	\$50,055,813	\$-
Common stocks and mutual funds	971,397,984	967,888,884	-	-	3,509,100
Cash, cash equivalents and short-term investments	<u>117,433,407</u>	<u>116,261,728</u>	<u>1,171,679</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$6,227,065,814</u>	<u>\$1,084,150,612</u>	<u>\$5,089,350,289</u>	<u>\$50,055,813</u>	<u>\$3,509,100</u>

	<b>December 31, 2024</b>				
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Not Practicable Carrying Value</b>
Financial instruments:					
Bonds	\$4,860,869,927	\$-	\$4,814,207,048	\$46,662,879	\$-
Common stocks and mutual funds	980,226,772	976,784,772	-	-	3,442,000
Cash, cash equivalents and short-term investments	<u>133,995,879</u>	<u>133,995,879</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$5,975,092,578</u>	<u>\$1,110,780,651</u>	<u>\$4,814,207,048</u>	<u>\$46,662,879</u>	<u>\$3,442,000</u>

## **11. STRUCTURED SETTLEMENTS**

Structured settlements are arrangements under which claimants agree to fixed financial payments for a determinable period, or for life in return for releasing the Company from its claim liabilities. In current and prior years, the Company has purchased annuities from various life insurance companies for the settlement of certain Employer Liability (“EL”) and other claims as allowed by statute. For each annuity purchased, the claimant is the payee and has signed a full release of liability. The purchase of these annuities allows the Company to reduce reserves for unpaid losses. The related amount of reserves no longer carried by the Company is \$22,486,840 and \$20,670,923 as of December 31, 2025 and 2024, respectively. Since a full release of liability from the claimant has been obtained, the Company is not contingently liable for payments in the event of default or insolvency of the life insurer.

The Company has not purchased annuities from life insurers under which the Company is payee and therefore, no balances are due from such annuity insurers.

## **12. EVENTS SUBSEQUENT**

The Company has considered subsequent events through February 27, 2026 the date statutory-basis financial statements were available to be issued. There were no events occurring subsequent to the end of the year that merited recognition or disclosure in these statements.

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