

Accident Fund Insurance Company of America and Subsidiaries

Combined Statutory-Basis Financial Statements
as of and for the Years Ended December 31, 2025 and 2024,
Combining Statutory-Basis Information as of
and for the Year Ended December 31, 2025,
Combined Statutory-Basis Supplemental Schedules
as of and for the Year Ended December 31, 2025, and
Independent Auditor's Report

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Accident Fund Insurance Company of America
Lansing, Michigan

Opinions

We have audited the combined statutory-basis financial statements of Accident Fund Insurance Company of America and subsidiaries (the "Company"), which comprise the combined statutory-basis statements of admitted assets, liabilities, and capital and surplus as of December 31, 2025 and 2024, and the related combined statutory-basis statements of operations, capital and surplus, and cash flows for the years then ended, and the related notes to the combined 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 capital and 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 Michigan Department of Insurance and Financial Services ("DIFS") and the Ohio Department of Insurance described in Note 2.

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 2 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 DIFS and the Ohio 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 DIFS and the Ohio Department of Insurance. The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Emphasis of Matter

As disclosed in Note 2 to the statutory-basis financial statements, the accompanying financial statements have been prepared from separate records maintained by the Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company of Blue Cross Blue Shield Michigan Mutual Insurance Company and subsidiaries. Our opinion is not modified with respect to this matter.

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 DIFS and the Ohio 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 available to be 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.

Report on Supplemental Schedules

Our 2025 audit was conducted for the purpose of forming an opinion on the 2025 statutory-basis financial statements as a whole. The combined supplemental schedule of investment risk interrogatories-statutory-basis, the combined supplemental summary investment schedule-statutory-basis, and the combined supplemental schedule of reinsurance interrogatories-statutory-basis (the “statutory-basis supplemental schedules”) as of and for the year ended December 31, 2025, are presented for purposes of additional analysis and are not a required part of the 2025 statutory-basis financial statements. In addition, the combining statutory-basis supplemental schedules are presented for the purpose of additional analysis of the statutory-basis financial statements rather than to present the statutory-basis financial position, result of operations, changes in capital and surplus, and cash flows of the individual companies, and are not a required part of the 2025 statutory-basis financial statements. These statutory-basis supplemental schedules and combining statutory-basis schedules are the responsibility of the Company’s management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such statutory-basis supplemental schedules and combining statutory-basis schedules have been subjected to the auditing procedures applied in our audit of the 2025 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, such statutory-basis supplemental schedules and combining statutory-basis schedules are fairly stated in all material respects in relation to the 2025 statutory-basis financial statements as a whole.

Deloitte + Touche LLP

March 25, 2026

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

COMBINED STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS- STATUTORY-BASIS AS OF DECEMBER 31, 2025 AND 2024 (Dollars in thousands)

	<u>2025</u>	<u>2024</u>
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	\$ 5,327,790	\$ 3,151,461
Stocks and mutual funds	227,872	188,036
Property occupied by the Company	114,677	96,198
Cash and cash equivalents	570,770	95,511
Short-term investments	143,682	63,967
Other invested assets-affiliated	90,585	853,682
Other invested assets-unaffiliated	282,671	269,129
Receivable from sale of securities	2,074	246
Securities lending reinvested collateral assets	6,562	56,301
Total cash and invested assets	<u>6,766,683</u>	<u>4,774,531</u>
OTHER ADMITTED ASSETS:		
Premiums in the course of collection	338,031	242,026
Premiums deferred and not yet due	498,595	483,154
Reinsurance receivables	139,420	95,791
Net deferred tax asset	117,183	99,448
Investment income due and accrued	48,197	28,901
Other assets	122,789	165,248
TOTAL ADMITTED ASSETS	<u>\$ 8,030,898</u>	<u>\$ 5,889,099</u>
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Losses and loss adjustment expenses	\$ 3,800,486	\$ 2,665,069
Unearned premiums	1,020,584	666,052
Assessments, taxes, and fees payable	27,652	34,033
Payable for purchase of securities	284	5,635
Payable for securities lending	6,562	56,301
Notes payable and accrued interest	4,176	5,840
Reinsurance balances payable	149,340	148,340
Accrued commissions	57,340	59,493
Accrued pension and postretirement benefits	55,596	50,595
Other accrued expenses	74,748	100,575
Funds held by the Company under reinsurance treaties	528,008	774
Other liabilities	191,501	121,443
Total liabilities	<u>5,916,277</u>	<u>3,914,150</u>
CAPITAL AND SURPLUS:		
Common capital stock	3,000	3,000
Contributed surplus	134,000	134,000
Surplus notes	350,000	350,000
Unassigned surplus	1,627,621	1,487,949
Total capital and surplus	<u>2,114,621</u>	<u>1,974,949</u>
TOTAL LIABILITIES AND CAPITAL AND SURPLUS	<u>\$ 8,030,898</u>	<u>\$ 5,889,099</u>

See notes to combined statutory-basis financial statements.

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

COMBINED STATEMENTS OF OPERATIONS-STATUTORY-BASIS FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024 (Dollars in thousands)

	2025	2024
NET PREMIUM EARNED	\$ 2,866,686	\$ 1,988,005
UNDERWRITING DEDUCTIONS:		
Losses	1,571,415	1,066,076
Loss adjustment expenses	373,383	271,749
Other underwriting expenses	896,332	549,987
Policyholder dividends	15,083	18,045
Total underwriting deductions	2,856,213	1,905,857
NET UNDERWRITING GAIN	10,473	82,148
INVESTMENT INCOME:		
Net investment income	181,296	108,881
Net realized capital (loss) gain-net of tax expense of \$1,070 and \$18,383 in 2025 and 2024, respectively	(7,617)	58,785
Total investment income	173,679	167,666
OTHER EXPENSES-Net	(9,973)	(39,849)
INCOME BEFORE FEDERAL INCOME TAXES	174,179	209,965
FEDERAL INCOME TAX EXPENSE	(44,664)	(25,210)
NET INCOME	\$ 129,515	\$ 184,755

See notes to combined statutory-basis financial statements.

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

COMBINED STATEMENTS OF CAPITAL AND SURPLUS-STATUTORY-BASIS FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024 (Dollars in thousands)

	Common Capital Stock	Contributed Surplus	Surplus Notes	Unassigned Surplus	Total Capital and Surplus
BALANCE-January 1, 2024	\$ 3,000	\$ 134,000	\$350,000	\$ 1,349,013	\$ 1,836,013
Net income	-	-	-	184,755	184,755
Change in net unrealized gains and losses on investments-net of tax	-	-	-	38,105	38,105
Change in net deferred income taxes	-	-	-	(6,128)	(6,128)
Change in nonadmitted assets	-	-	-	45,839	45,839
Change in the provision for reinsurance	-	-	-	(16,656)	(16,656)
Dividends to stockholder	-	-	-	(102,102)	(102,102)
Other charges to surplus	-	-	-	(4,877)	(4,877)
BALANCE-December 31, 2024	3,000	134,000	350,000	1,487,949	1,974,949
Net income	-	-	-	129,515	129,515
Change in net unrealized gains and losses on investments-net of tax	-	-	-	38,749	38,749
Change in net deferred income taxes	-	-	-	13,529	13,529
Change in nonadmitted assets	-	-	-	8,889	8,889
Change in the provision for reinsurance	-	-	-	(24,460)	(24,460)
Dividends to stockholder	-	-	-	(55,000)	(55,000)
Other increases to surplus	-	-	-	28,450	28,450
BALANCE-December 31, 2025	<u>\$ 3,000</u>	<u>\$ 134,000</u>	<u>\$350,000</u>	<u>\$ 1,627,621</u>	<u>\$ 2,114,621</u>

See notes to combined statutory-basis financial statements.

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

COMBINED STATEMENTS OF CASH FLOWS-STATUTORY-BASIS FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024 (Dollars in thousands)

	2025	2024
CASH FLOWS FROM OPERATIONS:		
Cash received from premiums collected-net of reinsurance	\$ 2,875,686	\$ 1,947,185
Cash paid for:		
Losses	(1,326,879)	(903,743)
Loss adjustment and underwriting expenses	(1,268,432)	(749,002)
Total cash paid	(2,595,311)	(1,652,745)
Other expenses	(28,205)	(58,494)
Interest, dividends, and rental income received	176,483	98,531
Income taxes paid	(42,544)	(47,373)
Net cash from operations	386,109	287,104
CASH FROM INVESTMENTS:		
Purchase of investments	(3,492,014)	(3,869,966)
Proceeds from sale and maturity of investments	3,368,882	3,631,530
Miscellaneous applications	(6,357)	(4,328)
Net cash from investments	(129,489)	(242,764)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES:		
Repayments of borrowed funds	(1,663)	(1,772)
Stockholder dividends	(55,000)	(92,102)
Other cash provided (applied)	68,079	(27,629)
Net cash from financing and miscellaneous sources	11,416	(121,503)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS	268,036	(77,163)
STAR CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS- Beginning of year	286,938	
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS- Beginning of year	159,478	236,641
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS-End of year	\$ 714,452	\$ 159,478

See notes to combined statutory-basis financial statements.

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

NOTES TO COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024 (Dollars in thousands)

1. ORGANIZATION

The December 31, 2025 combined statutory-basis financial statements include the accounts of Accident Fund Insurance Company of America (Accident Fund) and its insurance subsidiaries that participate in its amended intercompany pooling agreement that became effective January 1, 2025: Accident Fund National Insurance Company (National), Accident Fund General Insurance Company (General), United Wisconsin Insurance Company (UWIC), CompWest Insurance Company (CompWest), Third Coast Insurance Company (TCIC), and Star Insurance Company and its insurance subsidiaries Ameritrust Insurance Corporation, Williamsburg National Insurance Company, Century Surety Company, and ProCentury Insurance Company. Star and its insurance subsidiaries are collectively referred to as "Star". Under this amended pooling arrangement, Accident Fund pools 100% of underwriting activity and retrocedes 26% of the pool to Star. Collectively, Accident Fund and its insurance subsidiaries that participate in its amended pooling arrangement are referred to as the Company.

The 2024 combined statutory-basis financial statements only include the accounts of Accident Fund, National, General, UWIC, CompWest, and TCIC. Star did not participate in Accident Fund's intercompany pooling arrangement in 2024. Therefore, Star is not combined in the 2024 statutory-basis financial statements, but rather included in other invested assets-affiliated.

Accident Fund is a Michigan-domiciled property and casualty insurance company wholly owned by Accident Fund Holdings, Inc. (AFHI), which is a wholly owned subsidiary of Emergent Holdings, Inc. (EHI), and ultimately Blue Cross Blue Shield of Michigan Mutual Insurance Company (BCBSM).

The Company sells admitted and non-admitted property and casualty insurance and insurance services to customers throughout the United States. One or more of the insurance subsidiaries are licensed to write property and casualty insurance in all 50 states and the District of Columbia as of December 31, 2025.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The Michigan Department of Insurance and Financial Services (DIFS) recognizes only statutory accounting practices prescribed or permitted by the State of Michigan for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Michigan Insurance Code. DIFS has adopted the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP) as the basis for its statutory accounting practices to the extent that the accounting practices, procedures, and reporting standards are not modified by the Michigan Insurance Code.

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by DIFS and the Ohio Department of Insurance (ODI). The Company has received permission from the Wisconsin Office of the Commissioner of Insurance, the California Department of Insurance, the ODI and DIFS to file consolidated or combined financial statements. The Company has not received permission to use any practices that deviate from prescribed practices.

NAIC SAP is designed primarily to demonstrate a company's ability to meet claims of policyholders. These practices differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applied in the presentation of financial position, results of operations, and cash flows, and in some cases, those differences may be material.

The more significant of these differences are as follows:

Investments—High-quality bonds (NAIC designation 1 and 2) are recorded at amortized cost and other bonds (NAIC designation 3 to 6) are recorded at the lower of amortized cost or fair value. For GAAP, bonds are classified as either trading or available-for-sale in accordance with the Company's intent and are carried at fair value. Under GAAP, changes in unrealized gains and losses on available-for-sale debt securities are recorded directly to equity through other comprehensive income. Exchange Traded Funds (ETFs), eligible for bond reporting by the NAIC Securities Valuation Office (SVO) are stated at fair value and classified as bonds, with changes in fair value recorded directly to surplus. For GAAP, such securities are classified as equity securities and are carried at fair value, with changes in fair value reported in income. For bonds that have experienced a credit impairment, the bond is written down to its fair value, with an offsetting charge to net income. For US GAAP, a valuation allowance is established for credit impairments for bonds classified as available-for-sale.

For NAIC SAP, investments in preferred and common stock are reported at fair or book value, depending on the NAIC designation. Changes in unrealized appreciation and depreciation in the value of preferred stocks and common stocks are reflected as direct increases or decreases in surplus. Under GAAP, changes in unrealized gains and losses on equity securities are reported in income.

Real Estate—Real estate owned and occupied by the Company is included in investments. Under GAAP, it is reported as property, software, and equipment. Statutory-basis investment income and operating expenses include implied rent for the Company's occupancy of those properties.

Policy Acquisition Costs—The Company expenses policy acquisition costs, such as commissions, premium taxes, and other costs related to acquiring new business, as they are incurred; under GAAP, the Company defers and amortizes policy acquisition costs as premiums are earned.

Deferred Income Taxes—NAIC SAP requires an amount to be recorded for deferred taxes on temporary differences between the tax basis and the financial reporting basis of assets and liabilities; however, there are limitations as to the amount of deferred tax assets (DTA) that may be reported as admitted assets. NAIC SAP allows companies upon meeting risk-based capital requirements to recognize gross DTA in excess of gross deferred tax liabilities (DTL) expected to be realized within three years of the balance sheet date, not to exceed 15% of the Company's adjusted surplus and capital. This is not a requirement for GAAP.

For statutory purposes, the Company records changes in DTAs and DTLs directly to surplus whereas for GAAP the changes are generally reported through income.

Reinsurance—The Company is required to establish a liability (provision for reinsurance) for unsecured unearned premiums and unpaid losses ceded to reinsurers unauthorized to assume such business and for certain overdue reinsurance balances. Changes to those amounts are credited or charged directly to unassigned surplus. GAAP does not require this liability to be established.

Reinsurance receivables for items past due more than 90 days are designated as nonadmitted assets. Under GAAP, an allowance for uncollectible reinsurance balances is established as appropriate and recorded through a charge to earnings.

In the combined statutory-basis statements of admitted assets, liabilities, and capital and surplus, unpaid losses recoverable from reinsurers and prepaid reinsurance premiums are netted against the related liabilities; under GAAP, such items appear as assets in the consolidated balance sheets.

Policyholder Dividends—Under NAIC SAP, the Company records policyholder dividends as an expense when declared by the board of directors, which is generally after the related premiums have been earned. Under GAAP, the Company records policyholder dividends as an expense as the related premiums are earned.

Goodwill—For NAIC SAP, goodwill is calculated as the difference between the cost of acquiring an entity and the reporting entity's share of the historical book value of the acquired entity and results in either positive or negative goodwill. Pushdown accounting is not permitted. Under GAAP, goodwill is

calculated as the difference between the cost of acquiring an entity and the fair value of the assets received and liabilities assumed and is pushed down to the acquired entity. Under NAIC SAP, the amount of goodwill recorded as an admitted asset is subject to limitations and amortized over a period not to exceed 10 years. Under GAAP, the Company has elected the Private Company Council election for the amortization of positive goodwill on a straight-line basis over a 10-year period and goodwill is evaluated for impairment if a triggering event occurs. Under GAAP, negative goodwill is recognized as an immediate gain in the statement of operations.

Nonadmitted Assets—Assets not specifically identified as an admitted asset within the NAIC SAP and the Company’s state of domicile are designated as “nonadmitted.” Nonadmitted assets are excluded from the accompanying balance sheets and are charged directly to unassigned surplus. Under GAAP, such assets are included in the combined balance sheets, subject to review for impairment.

Premiums Receivable—Certain premiums receivable for items past due more than 90 days are designated as nonadmitted assets. Under GAAP, an allowance for doubtful accounts is established.

Investment in Variable Interest Entities—The Company entered into an agreement with a variable interest entity (VIE)—Phoenix Development Partners II (PDP II)—for the construction and lease of the corporate headquarters parking structure in Lansing, Michigan. Under GAAP, this VIE is consolidated in the financial statements. Under NAIC SAP, the VIE is not consolidated in the financial statements.

On October 10, 2025, the Company exercised its conveyance option in the lease agreement and acquired the parking structure from PDP II in exchange for satisfying the remaining amount on the bonds used to fund the construction. This thereby ended the VIE relationship with PDP II. The Company recorded the transfer of the parking structure at its appraised value, plus closing costs, of \$21,452, resulting in a benefit on the transfer of \$21,000. The benefit was recorded as a direct increase to statutory surplus.

Insurance-Related Assessments—The Company establishes liabilities for insurance-related assessments when it is probable that one or more future events, including future-premium writings, will occur that will result in an assessment. In some states, the Company may be entitled to partial recoveries through future-premium tax credits. The Company recognizes such credits as recoverable when the related assessments are recorded. Under GAAP, expenses are recorded for insurance-related premium-based assessments only as related premiums are earned.

Surplus Notes—Surplus notes are reported as surplus for NAIC SAP while under GAAP, they are reported as long-term debt, net of issuance costs. Under NAIC SAP, the costs of issuing surplus notes are charged to net investment income when incurred. Paid and accrued interest expense is not recognized until approved by the commissioner of the state of domicile under NAIC SAP. Under GAAP, interest expense is recognized when incurred.

Combined Statutory-Basis Statements of Cash Flows—Cash, cash equivalents, and short-term investments in the combined statutory-basis statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and cash equivalents with maturities of three months or less from its acquisition.

The combined statutory-basis statements of cash flows are presented using the direct method whereas the GAAP statements may utilize an indirect method. The combined statutory-basis statements of cash flows are prepared in accordance with NAIC guidelines.

Combined Statutory-Basis Statements of Operations—Comprehensive income and its components are not presented in the combined statutory-basis financial statements.

Under NAIC SAP, majority-owned insurance and noninsurance subsidiaries are carried under the equity method, with the equity in the operating results of subsidiaries credited or charged directly to the Company’s surplus. Dividends received from subsidiaries are recorded in net investment income. Under GAAP, such subsidiaries would be consolidated and dividends from such subsidiaries would be eliminated in consolidation.

The NAIC SAP to GAAP differences noted above are presumed to be material.

Significant Accounting Policies

Estimates—The preparation of financial statements in accordance with NAIC SAP requires the Company to make estimates and assumptions that affect the reported amounts of admitted 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 reporting period. Actual results could differ from these estimates. The significant estimates include amounts recorded relating to liabilities for loss and loss adjustment expenses, and pension and postretirement benefits.

Premiums and Unearned Premiums—The Company recognizes premiums as earned over the policy terms using the daily pro rata method. Certain premiums are subject to retrospective premium adjustments. Unearned premiums represent the portion of written premiums that relate to the unexpired term of the policies in force—net of prepaid ceded premiums.

Premium Deficiency Reserves—A liability for premium deficiency reserves is an actuarial estimate that is recognized when it is probable that anticipated claim losses, loss adjustment expenses, commissions and other acquisition and maintenance costs are in excess of the recorded unearned premium reserves on existing policies. The Company anticipates investment income in determining whether an unearned premium deficiency reserve is necessary. As of December 31, 2025 and 2024, no such reserve was necessary.

Cash and Invested Assets

Cash Equivalents and Short-Term Investments—Cash equivalents and short-term investments include commercial paper, certificates of deposits, money market mutual funds and other readily marketable investments with initial maturities less than one year for short-term investments and three months or less for cash equivalents. In general, cash equivalents are highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that they present an insignificant risk of changes in value because of changes in interest rates. In general, cash equivalents and short-term investments are recorded at amortized cost, which approximates fair value. Money market mutual funds are recorded at fair value or net asset value (NAV) per share.

Common Stocks—Common stocks are valued at fair value. Changes in unrealized appreciation and depreciation in the value of common stocks are reflected as direct increases or decreases in surplus. The common stock related to the Company's investment in Federal Home Loan Bank of Indianapolis (FHLBI) is recorded at cost and is restricted since it can only be sold back to the FHLBI at its stated value.

Preferred Stocks—Redeemable preferred stocks are stated at book value for NAIC designation 1 and 2 and lower of book value or fair value for NAIC designation 3 through 6. Changes in unrealized appreciation and depreciation in the value of preferred stocks are reflected as direct increases or decreases in surplus.

Bonds—Bonds classified as US government, all other governments, special revenue and assessment, municipals, industrial and miscellaneous, or hybrid loans that have a NAIC designation of 1 or 2 are stated at amortized cost using the scientific effective interest method. Bonds with a NAIC designation of 3 to 6 are carried at the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker-dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method. Should the present value of anticipated cash flows collected be less than the amortized cost basis, a determination will be made on whether the decline in value is other-than-temporary. If the Company has the ability and intent to hold the security to maturity, but does not expect recovery of the carrying value, the credit portion of the decline is recognized as an impairment loss.

Financial Futures and Forward Contracts—Financial futures and forward contracts are commitments to purchase or sell designated financial instruments at a future date for a specified price or yield. They

may be settled in cash or through delivery. Most of the securities the Company purchases settle within normal time requirements and, therefore, are not considered futures or forward contracts. The Company does periodically purchase “to-be-announced” securities that settle more than 30 days from the trade date. The Company considers such securities to be forwards and account for them as such. As of December 31, 2025 and 2024, there were no commitments to purchase any security that was expected to settle outside normal time requirements.

Investments in Partnerships and Limited Liability Companies—The Company has ownership interests in unaffiliated partnerships and limited liability companies. The Company carries these investments based on the underlying GAAP equity. Such investments are included in other invested assets-unaffiliated on the statutory-basis statements of admitted assets, liabilities, and capital and surplus. Investment in affiliated downstream limited liability holding companies, and its non-insurance affiliates, are carried based on its audited US GAAP equity. Such investments are included in other invested assets-affiliated on the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

Investment Income—Investment income consists primarily of interest and dividends. The Company recognizes interest on an accrual basis and records dividends as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Amortization of bond premium or discount is calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions are amortized to the yield-to-worst date which typically is the call date. The Company suspends accrual of income for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt.

Investment income due and accrued with amounts over 90 days past due is nonadmitted. Realized gains and losses on disposition of investments are based on specific identification of the investments sold.

Securities Lending—In the normal course of business, the Company enters into securities lending agreements with various counterparties. Under these agreements, the Company lends US debt securities in exchange for cash collateral approximating 102% of the value of the securities loaned. The cash collateral received is reinvested in money market securities. These agreements are primarily overnight in nature and settle the next business day. The cash collateral received is reinvested by the Company’s unaffiliated agents, and as a result, the Company recognizes the cash collateral received and the corresponding liability to return the cash collateral in the combined statutory-basis statements of admitted assets, liabilities, and capital and surplus. The fees the Company earns are included in net investment income.

Fair Value Measurements—The fair value of the Company’s securities and the pension and postretirement trust investments are based on quoted market prices, where available. These fair values are obtained primarily from third-party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value.

The Company obtains only one quoted price for each security from third-party pricing services, which are derived through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. For securities not actively traded, the third-party pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds. As the Company is responsible for the determination of fair value, management performs periodic analyses on the prices received from third parties to determine whether the prices are reasonable estimates of fair value. The analysis includes a review of month-to-month price fluctuations. If unusual fluctuations are noted, management may obtain additional information from other pricing services to validate the quoted price.

In certain circumstances, it may not be possible to derive pricing model inputs from observable market activity, and therefore, such inputs are estimated internally. Such securities are designated Level 3 in accordance with NAIC SAP guidance.

Transfers between levels may occur due to changes in the availability of market observable inputs. Transfers in and/or out of any level are assumed to occur at the end of the period.

The aforementioned techniques were used to estimate the fair value and determine the classification of assets and liabilities pursuant to the valuation hierarchy. The fair value classification of investments includes the Company's investments and pension and postretirement trust assets:

Cash Equivalents and Short-Term Investments—Pension and Postretirement Trust Investments—Consists of money market and short-term securities with an original maturity of one year or less. Cash equivalents include money market mutual funds and other readily marketable investments with initial maturities less than three months. Short-term investments include commercial paper, certificates of deposits, and other readily marketable investments with initial maturities greater than three months, but less than one year. Securities where the valuation is based upon unadjusted quoted prices are classified as Level 1.

US Government Obligations—Consists of certain US government securities and bonds issued by US government-backed agencies. Valuation is based on observable inputs such as the US Treasury yield curve and/or similar assets in markets that are active and are classified as Level 2.

Other US Government Obligations—Consist of government securities and bonds issued by foreign government-backed agencies. Valuation is based on prices by a pricing service using a composite yield curve. These securities are classified as Level 2.

Non-US Sovereign Jurisdiction Securities—Consist of bonds issued by non-U.S. sovereign governments, including bonds of political subdivisions and special revenue, bonds issued by utilities owned by non-US governments, and bonds fully guaranteed by non-US governments. These securities are classified as Level 2.

Special Revenue and Assessment Obligations (asset-backed and non asset-backed)—Consist of bonds and debt backed securities where valuations are based on inputs derived directly from observable market data, such as discounted cash flows. These securities are not consistently or actively traded and are classified as Level 2.

Municipals—Consist of long-term notes and bonds issued by state and local governments. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

Corporate Bonds and Industrial and Miscellaneous—Consist of corporate notes and bonds. Valuation is determined using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustment for certain risks that may not be observable such as credit and liquidity risk or a broker quote, if available. These securities are classified as Level 2.

Single Entity Backed Obligations—Consist of bonds for which repayment is fully supported by an underlying contractual obligation of a single operating entity. These securities are classified as Level 2.

Foreign Debt Securities—Consists of foreign notes and bonds issued by corporate entities. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

State and Local Debt Securities—Consists of long-term notes and bonds issued by state and local governments. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

Corporate Debt Securities, and Other Asset Backed Securities—Consists of corporate notes and bonds, debt issued by non-corporate entities, commercial paper and discount notes that mature after three

months. Valuation is based on inputs derived directly from observable inputs but are not consistently traded. These securities are classified as Level 2. Certain other corporate debt and asset-backed securities which do not have observable inputs are classified as Level 3.

SVO Identified Bond Exchange Traded Funds—Consist of ETFs that invest in corporate bonds. The SVO maintains the list of ETFs that are eligible for classification as bonds. These securities are classified as Level 1.

Asset-Backed Securities consist of:

Agency Mortgage-Backed Securities—Consist of debt issued by government agencies. In situations where valuations of U.S. government agency securities are based on unadjusted quoted prices in an active market and there is transparency into the specific pricing of the individual securities, these securities are classified as Level 2. The agency securities that are based just on unadjusted quoted prices in an active market are classified as Level 2.

Non-Agency Mortgage-Backed Securities—Consist of debt issued by private entities and are backed by pools of residential mortgage loans that are subject to the credit risk of the underlying borrowers. Valuation is determined using pricing models or third-party pricing services that incorporate observable market inputs when available, including interest rates, credit spreads, prepayment assumptions and recent market activity. These securities are classified as Level 2.

Other financial assets-backed securities-self liquidating—Consist of self-liquidating financial asset-backed securities not issued by a government agency that are not backed by commercial or residential mortgage loans and that are not considered collateralized loan obligations, collateralized bond obligations and collateralized debt obligations.

Other non-financial assets-backed securities practical expedient—Consist of securities that are backed by non-financial assets where the generation of cash flows is used towards repayment of the asset-backed security are predominantly driven from underlying cash flow streams that do not predominantly reflect lease arrangements.

Single entity backed obligations (unaffiliated)—Consist of bonds for which repayment is fully supported by an underlying contractual obligation of a single operating entity.

Common Stocks—Consist of actively traded, exchange-listed equity securities and private entity investments. The valuation for exchange-traded securities is based on unadjusted quoted prices for these securities or funds in an active market and are classified as Level 1. The Company holds one private common stock that was priced using the SVO unit price on December 31. The private common stock has been classified as Level 3. Certain private equity investments, included in Level 3 category, are valued using external pricing, supplemented by internal review and analysis.

Mutual Funds—Consist of publicly traded and private mutual funds and are based on an observable price in an active market. There are no restrictions on the Company with regard to redemption of these funds and are classified as Level 1.

Commingled Equity Funds—Pension and Postretirement Trust Investments—Consists of funds of international equity securities valued at NAV and are not required to be classified in the fair value hierarchy. Redemption of these funds requires 30 days' notice. There are no unfunded commitments related to these funds.

Commingled Fixed Income Funds—Pension and Postretirement Trust Investments—Consist of fixed income securities valued at NAV and are not required to be classified in the fair value hierarchy. Redemption of these funds requires 30 days' notice. There are no unfunded commitments related to these funds.

Limited Partnerships—Pension and Postretirement Trust Investments—Consists of private equity funds and hedge funds structured as limited partnerships. Valuation is recorded at NAV based on information provided by the fund managers along with audited financial information. These securities

are not required to be classified in the fair value hierarchy. Redemptions of these investments can be made with 60–75 days' notice or, in the case of one limited partnership investment, 25% per quarter with 45 days' notice. There are no unfunded commitments related to these funds.

Securities Lending Collateral—Consists of cash collateral posted on securities lending transactions and reinvested in money market securities. These securities are classified as Level 1.

Disclosures about Fair Value of Financial Instruments—The Company has estimated fair values based on values obtained from independent pricing services. For mortgage-backed securities, estimated fair value is based on inputs derived directly from observable market data, such as discounted cash flows and are not consistently or actively traded. Some of these estimates are subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments, and estimation methodologies may have a material effect on the estimated fair values.

Liability for Losses and Loss Adjustment Expenses—Losses represent the amounts the Company expects to pay for reported and unreported claims, reduced for estimated recoveries from third parties. The costs of investigating, resolving, and processing these claims are known as loss adjustment expenses (LAE).

The liability for losses and loss adjustment expenses is an estimate that reflects the total cost of claims reported but not yet paid and the cost of claims incurred but not reported (IBNR). These liabilities are based on actuarial and other assumptions. Because losses depend upon factors, such as duration of worker disability, medical cost trends, occupational disease, inflation, and life expectancy, the process the Company uses to establish the liability for losses and loss adjustment expenses is necessarily based on judgments.

The Company discounts the indemnity portion of liabilities for unpaid losses on a tabular basis. The tabular discounting on these workers' compensation claims is based on the Centers for Disease Control National Center for Health Statistics Table, using a 3.5% rate. The reserves on these claims, net of reinsurance and tabular discounts of \$69,796 and \$65,149, at December 31, 2025 and 2024, were \$825,816 and \$811,832, respectively.

The Company continually reviews its reserves using a variety of statistical and actuarial techniques to analyze current claims costs, frequency and severity data, and economic and legal factors. As loss experience develops and new information becomes available, the Company adjusts the liability established in prior years. Adjustments resulting from revisions of the estimates of the liability for losses and loss adjustment expenses are reflected in the Company's combined statutory-basis results of operations in the period in which they are determined.

The Company believes the liability for losses and LAE as of December 31, 2025, is adequate to meet the Company's current obligations. However, actual claim experience may differ significantly from the established reserves.

Real Estate—Real property occupied by the Company is stated at cost or initial fair value, less accumulated depreciation, at \$114,677 and \$96,198 as of December 31, 2025 and 2024, respectively. Depreciation is calculated using the straight-line method over the estimated useful life of 40 years. Depreciation expense was \$2,973 and \$2,503 for the years ended December 31, 2025 and 2024, respectively. Statutory-basis investment income and operating expenses include rent of \$5,434 and \$5,666 for the Company's occupancy of this property for the years ended December 31, 2025 and 2024, respectively.

Properties and Equipment—Properties and equipment include electronic data processing equipment, electronic data processing software, and furniture and equipment. The Company carries these assets at historical cost, less accumulated depreciation. All electronic data processing software is nonoperating system software and, therefore, is a nonadmitted asset.

The Company depreciates capitalized items on a straight-line basis over their expected useful lives, which are as follows: electronic data processing equipment—three years, software—three to five years,

and furniture and equipment—three to five years. The Company charges items falling below the capitalization thresholds and expenditures for repairs and maintenance to operations as incurred.

The Company also capitalizes and depreciates additions and improvements to buildings and other fixed assets over the remaining useful life of the properties and equipment. Upon disposition, the Company removes the asset cost and related depreciation and includes the resulting gain or loss in income.

Accumulated depreciation as of December 31, 2025 and 2024, and depreciation expense for the years ended December 31, 2025 and 2024, are as follows by asset group:

	<u>2025</u>	<u>2024</u>
Software:		
Accumulated depreciation	\$ 114,891	\$ 102,171
Depreciation expense	13,296	15,369
Furniture and equipment:		
Accumulated depreciation	37,069	33,784
Depreciation expense	275	580

Expense Allocations—Certain expenses are allocated between related entities based on time studies conducted when budgets and forecasts are prepared. The time studies are updated no less than three times per year. These allocated expenses are reported in other underwriting expenses in the consolidated statutory-basis statements of operations.

Principles of Combination—The Company has eliminated all intercompany balances and transactions.

Adopted Accounting Pronouncement—In August 2023, revisions were adopted to SSAP No. 26R, SSAP No. 43R and other SSAPs (e.g., SSAP No. 21R and SSAP No. 86) to incorporate the principles-based bond definition for use in determining whether an investment (i.e., security) qualifies as a bond and address the accounting treatment for securities that do qualify as bonds. SSAP No. 2R was also revised to exclude asset-backed securities from being reported as a cash equivalent or short-term investment. The revisions were effective January 1, 2025, and the adoption did not have a material effect on the Company's financial statements and related disclosures.

Forthcoming Accounting Pronouncement—In December 2025, revisions were adopted to SSAP Nos. 2, 21, 26, and 43 to improve the utilization of existing disclosures, clarify guidance, and incorporate consistent locations and frequency for debt security disclosures. The revisions will go into effect at December 31, 2026. The Company is still evaluating the impact on the Company's consolidated statements and disclosures.

3. BUSINESS COMBINATIONS AND GOODWILL

Effective December 31, 2022, AFICA acquired 100% of the membership interests of Miracle Nova I (US) LLC, including AmeriTrust, a Michigan based holding company, for \$608,859. AmeriTrust, through its affiliated insurance company subsidiaries, is a specialty niche focused commercial insurance underwriter and insurance administration services company. The acquisition of AmeriTrust by the Company enhances the Company's distribution channels and diversifies its product offerings. The Company accounted for this transaction using the statutory purchase method which resulted in \$8,087 of negative goodwill. The negative goodwill is being amortized over a 3-year period and is included in the carrying value of the investment which is reported in other invested assets-affiliated on the statutory-basis statements of admitted assets, liabilities, and capital and surplus. Negative goodwill amortization was \$2,696 and \$2,696 for the years ended December 31, 2025 and 2024, respectively. Unamortized negative goodwill was \$0 and \$2,696 as of December 31, 2025 and 2024, respectively.

4. DEBT

As a member of the FHLBI, the Company has long-term and line-of-credit borrowing privileges and is required to own FHLBI common stock equal to 5% of all outstanding loans. As of December 31, 2025 and 2024, the Company owns FHLBI common stock with a carrying value of \$8,495 and \$5,855, respectively.

The outstanding borrowings with the FHLBI as of December 31, 2025 and 2024, are as follows:

Year Originated	Term	Interest Rate	Description	2025	2024
2008	20 years	4.81%	FHLBI—Loan no. 1	\$ 2,083	\$ 2,913
2008	20 years	5.53%	FHLBI—Loan no. 2	2,083	2,913
Total outstanding debt				<u>4,166</u>	<u>5,826</u>
Accrued interest				<u>10</u>	<u>14</u>
Total notes payable and accrued interest				<u>\$ 4,176</u>	<u>\$ 5,840</u>

Total interest expense for the years ended December 31, 2025 and 2024, was \$268 and \$351, respectively.

All borrowings and letters of credit with FHLBI are fully collateralized with government-backed securities at 105% of the loan amount. As of December 31, 2025 and 2024, the FHLBI loans and letters of credit were collateralized by bonds held in a segregated trust account. The fair value of the bonds held as collateral as of December 31, 2025 and 2024 is \$174,264 and \$188,875, respectively. The carrying value of the bonds held as collateral as of December 31, 2025 and 2024, is \$196,862 and \$219,537, respectively.

The weighted-average borrowing rates were 5.17% as of December 31, 2025 and 2024.

Future minimum payments required on outstanding debt as of December 31, 2025, are as follows:

Years Ending December 31	
2026	\$ 1,728
2027	1,555
2028	1,170
2029	<u>-</u>
Total minimum payments	4,453
Less amount representing interest	<u>(287)</u>
Total debt	<u>\$ 4,166</u>

5. INVESTMENTS

Investments in securities as of December 31, 2025, consist of the following:

	2025			
	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Issuer Credit Obligations:				
US government obligations	\$ 1,771,760	\$ 7,061	\$ (84,537)	\$ 1,694,284
Other US governments obligations	9,906	27	-	9,933
Non-US sovereign jurisdiction securities	4,764	10	(545)	4,229
Municipal bonds - general obligations	28,273	89	(965)	27,397
Municipal bonds - special revenue	72,156	61	(3,624)	68,593
Corporate bonds (unaffiliated)	1,846,582	23,614	(49,060)	1,821,136
Single entity backed obligations (unaffiliated)	21,355	16	(783)	20,588
SVO-identified bond exchange traded funds	3,869	-	-	3,869
Asset-Backed Securities:				
Agency RMBS - guaranteed	4,174	62	(57)	4,179
Agency RMBS - not/partially guaranteed	1,223,280	12,035	(53,887)	1,181,428
Agency CMBS - not/partially guaranteed	36,037	42	(881)	35,198
Non-agency RMBS (unaffiliated)	36,146	2	(5,188)	30,960
Non-agency CMBS (unaffiliated)	85,215	219	(5,445)	79,989
Non-agency - CLOs/CBOs/ CDOs (unaffiliated)	43,197	139	(242)	43,094
Other financial ABS (unaffiliated)	44,101	56	(2,055)	42,102
Lease-backed securities - practical expedient (unaffiliated)	64,427	150	(3,275)	61,302
Other non-financial ABS - practical expedient (unaffiliated)	20,767	35	(475)	20,327
Lease-backed securities-full analysis	11,781	-	(157)	11,624
Total bonds	5,327,790	43,618	(211,176)	5,160,232
Preferred stock	197	1	-	198
Common stocks	115,540	-	-	115,540
Exchange traded funds	101,947	-	-	101,947
Mutual funds	10,187	-	-	10,187
Total	<u>\$ 5,555,661</u>	<u>\$ 43,619</u>	<u>\$ (211,176)</u>	<u>\$ 5,388,104</u>

Investments in securities as of December 31, 2024, consist of the following:

	2024			
	Book/Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
US government	\$ 1,068,295	\$ 82	\$ (107,499)	\$ 960,878
All other governments	3,891	-	(776)	3,115
Special revenue and assessment	806,425	367	(76,725)	730,067
Municipals	31,398	1	(4,291)	27,108
Industrial and miscellaneous	1,239,975	3,802	(28,284)	1,215,493
Exchange traded funds	1,477	-	-	1,477
Total bonds	3,151,461	4,252	(217,575)	2,938,138
Common stocks	169,592	12,898	(3,244)	179,246
Mutual funds	7,992	882	(84)	8,790
Total	<u>\$ 3,329,045</u>	<u>\$ 18,032</u>	<u>\$ (220,903)</u>	<u>\$ 3,126,174</u>

The book/adjusted carrying value and fair value of bonds, notes, and other debt securities, excluding exchange traded funds, held as of December 31, 2025, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Book/Adjusted Carrying Value	Fair Value
Due in one year or less	\$ 188,258	\$ 188,342
Due after one year through five years	1,504,335	1,505,842
Due after five years through 10 years	1,308,479	1,280,785
Due after 10 years through 20 years	671,012	620,342
Due after 20 years	1,651,837	1,561,052
Total	<u>\$ 5,323,921</u>	<u>\$ 5,156,363</u>

The Company received proceeds of \$7,465,888 and \$2,545,358 from the sale of bonds and \$138,301 and \$748,852 from the sale of other investments, during 2025 and 2024, respectively. Realized gains and losses on such sales are as follows:

	2025			2024		
	Gains	Losses	Net	Gains	Losses	Net
Bonds	\$ 20,037	\$ (27,320)	\$ (7,283)	\$ 48,257	\$ (16,494)	\$ 31,763
Other investments	12,848	(469)	12,379	64,270	(8,502)	55,768
Total	<u>\$ 32,885</u>	<u>\$ (27,789)</u>	<u>\$ 5,096</u>	<u>\$ 112,527</u>	<u>\$ (24,996)</u>	<u>\$ 87,531</u>

The aggregate fair values of investments, by asset category, in an unrealized loss position as of December 31, 2025 and 2024, are as follows:

	2025					
	Less than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Issuer Credit Obligations:						
US government obligations	\$ 6,170	\$ 507,640	\$ 78,367	\$ 598,122	\$ 84,537	\$ 1,105,762
Non-US sovereign jurisdiction securities	10	1,380	535	2,714	545	4,094
Municipal bonds - general obligations	10	1,589	955	17,928	965	19,517
Municipal bonds - special revenue	46	3,582	3,578	58,808	3,624	62,390
Corporate bonds (unaffiliated)	2,005	224,455	47,055	451,108	49,060	675,563
Single entity backed obligations (unaffiliated)	2	362	781	16,488	783	16,850
Asset-Backed Securities:						
Agency RMBS - guaranteed	-	-	57	1,918	57	1,918
Agency RMBS - not/partially guaranteed	374	115,092	53,513	357,232	53,887	472,324
Agency CMBS - not/partially guaranteed	-	-	881	29,418	881	29,418
Non-agency RMBS (unaffiliated)	-	-	5,188	29,910	5,188	29,910
Non-agency CMBS (unaffiliated)	-	-	5,445	68,515	5,445	68,515
Non-agency - CLOs/CBOs/ CDOs (unaffiliated)	7	4,536	235	4,784	242	9,320
Other financial ABS (unaffiliated)	-	-	2,055	36,041	2,055	36,041
Lease-backed securities - practical expedient (unaffiliated)	255	1,345	3,020	55,783	3,275	57,128
Other non-financial ABS - practical expedient (unaffiliated)	346	10,916	129	6,328	475	17,244
Lease-backed securities-full analysis	-	-	157	11,624	157	11,624
Total bonds	\$ 9,225	\$ 870,897	\$ 201,951	\$ 1,746,721	\$ 211,176	\$ 2,617,618

	2024					
	Less than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
US government	\$ 16,860	\$ 416,080	\$ 90,639	\$ 529,588	\$ 107,499	\$ 945,668
All other governments	16	384	760	2,731	776	3,115
Special revenue and assessment	7,477	317,790	69,248	361,314	76,725	679,104
Municipals	298	5,577	3,993	21,131	4,291	26,708
Industrial and miscellaneous	10,013	411,733	18,272	92,477	28,284	504,211
Total bonds	34,664	1,151,564	182,912	1,007,241	217,575	2,158,806
Common stocks	3,240	56,625	4	146	3,244	56,771
Mutual funds	84	2,634	-	-	84	2,634
Total	\$ 37,988	\$ 1,210,823	\$ 182,916	\$1,007,387	\$ 220,903	\$ 2,218,211

The Company has concluded that the unrealized losses in the above tables are not credit related. For declines in market value related to general market movement in interest rates, securities are not considered impaired unless the Company has the positive intent to sell the security as of the reporting date.

In accordance with the Company's impairment policy, securities that have a fair value that is below amortized cost are considered impaired and are analyzed and reviewed by management to determine if the impairment is other-than-temporary impairment (OTTI). The determination of when a decline in value of a marketable security is OTTI requires significant judgment. The Company has a consistent process for recognizing impairments of securities that have sustained other-than-temporary declines in value. The decision to impair includes both quantitative and qualitative information. For securities that are deemed to be impaired, the security is adjusted to fair value and the resulting losses are recognized in realized losses in the consolidated statements of operations. Subsequent to the impairment, future recoveries in value of the impaired securities are not recognized until cash is received.

For investments managed by outside investment managers, OTTI is presumed to exist when fair values are below cost because the Company cannot assert the "intent and ability to hold to recovery."

The write-down to fair value of debt securities resulted in \$11,604 and \$8,814 in 2025 and 2024, respectively, of OTTI losses. For the years ended December 31, 2025 and 2024, OTTI losses of \$39 and \$1,550, respectively, were recorded for equity securities.

Other Invested Assets—The Company's investment in Miracle Nova I (US), which is a wholly owned limited liability company, was over 10% of admitted assets with a carrying value of \$763,682 at December 31, 2024. The 2024 carrying value of Miracle Nova I (US) included Star, which is now included in the 2025 combined statutory-basis financial statement. No other investments in joint ventures, partnerships, or limited liability companies exceeded 10% of admitted assets in 2025 and 2024.

Net Investment Income-The components of net investment income for the years ended December 31, 2025 and 2024, are as follows:

	<u>2025</u>	<u>2024</u>
Bonds	\$ 222,207	\$ 126,633
Short-term investments	6,241	3,772
Cash equivalents	12,646	8,943
Stocks	3,360	4,482
Real estate and other	<u>7,394</u>	<u>8,436</u>
Gross investment income	<u>251,848</u>	<u>152,266</u>
Investment expenses	(15,019)	(13,284)
Interest expense	<u>(55,533)</u>	<u>(30,101)</u>
Net investment income	<u>\$ 181,296</u>	<u>\$ 108,881</u>

US government securities with carrying values of \$959,928 and \$570,546 as of December 31, 2025 and 2024, respectively, were on deposit with regulatory authorities.

Securities Lending-The carrying value of securities and collateral involved in securities lending arrangements as of December 31, 2025 and 2024, is as follows:

	<u>2025</u>	<u>2024</u>
Securities	\$ 6,444	\$ 55,147
Cash collateral balance	6,562	56,301

6. FAIR VALUE MEASUREMENTS

The tables below reflect the fair values and admitted values of all admitted assets that are financial instruments, excluding those accounted for under the equity method (subsidiaries and joint ventures). The fair values are categorized into the three-level fair value hierarchy as described above.

Assets and liabilities are transferred into Level 3 when a significant input can no longer be corroborated with market observable data. This typically occurs when market activity related to particular securities becomes unobservable. Transfers into Level 3 are reflected as if they had occurred at the end of the period.

There were no transfers into or out of Level 3 during 2024.

As of December 31, 2025, values are summarized as follows:

	Fair Value Measurement Using				
	Fair Value	Admitted Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Issuer Credit Obligations:					
US government obligations	\$1,694,284	\$1,771,760	\$ -	\$ 1,694,284	\$ -
Other US government obligations	9,933	9,906	-	9,933	-
Non-US sovereign jurisdiction securities	4,229	4,764	-	4,229	-
Municipal bonds - general obligations	27,397	28,273	-	27,397	-
Municipal bonds - special revenue	68,593	72,156	-	68,593	-
Corporate bonds (unaffiliated)	1,821,136	1,846,582	-	1,821,070	66
Single entity backed obligations (unaffiliated)	20,588	21,355	-	20,588	-
SVO-identified bond exchange traded funds	3,869	3,869	3,698	171	-
Asset-Backed Securities:					
Agency RMBS - guaranteed	4,179	4,174	-	4,179	-
Agency RMBS - not/partially guaranteed	1,181,428	1,223,280	-	1,181,428	-
Agency CMBS - not/partially guaranteed	35,198	36,037	-	35,198	-
Non-agency RMBS (unaffiliated)	30,960	36,146	-	30,960	-
Non-agency CMBS (unaffiliated)	79,989	85,215	-	79,989	-
Non-agency - CLOs/CBOs/CDOs (unaffiliated)	43,094	43,197	-	42,506	588
Other financial ABS (unaffiliated)	42,102	44,101	-	42,102	-
Lease-backed securities - practical expedient (unaffiliated)	61,302	64,427	-	61,302	-
Other non-financial ABS - practical expedient (unaffiliated)	20,327	20,767	-	19,287	1,040
Lease-backed securities-full analysis	11,624	11,781	-	11,624	-
Total bonds	5,160,232	5,327,790	3,698	5,154,840	1,694

	Fair Value Measurement Using				
	Fair Value	Admitted Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stocks:					
Preferred stocks	198	198	198	-	-
Common stocks	115,540	115,540	103,810	-	11,730
Exchange traded funds	101,947	101,947	101,947	-	-
Mutual funds	10,187	10,187	10,187	-	-
Total stocks	227,872	227,872	216,142	-	11,730
Security-lending collateral-equity fund	6,562	6,562	6,562	-	-
Total	<u>\$5,394,666</u>	<u>\$5,562,224</u>	<u>\$ 226,402</u>	<u>\$ 5,154,840</u>	<u>\$ 13,424</u>

As of December 31, 2024, values are summarized as follows:

	Fair Value Measurement Using				
	Fair Value	Admitted Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bonds:					
US government	\$ 960,878	\$1,068,295	\$ -	\$ 960,878	\$ -
All other governments	3,115	3,891	-	3,115	-
Special revenue and assessment	730,067	806,424	-	730,067	-
Municipals	27,108	31,398	-	27,108	-
Industrial and miscellaneous	1,215,493	1,239,975	-	1,215,493	-
Exchange traded funds	1,477	1,477	1,477	-	-
Total bonds	2,938,138	3,151,460	1,477	2,936,661	-
Common stocks:					
Common stocks	179,246	179,246	168,053	-	11,193
Mutual funds	8,790	8,790	8,790	-	-
Total common stocks	188,036	188,036	176,843	-	11,193
Security-lending collateral-equity fund	56,301	56,301	56,301	-	-
Total	<u>\$3,182,475</u>	<u>\$3,395,797</u>	<u>\$ 234,621</u>	<u>\$ 2,936,661</u>	<u>\$ 11,193</u>

The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2025:

Description	Beginning Balance at January 1, 2025	Beginning Balance at January 1, 2025 - Star	Transfers into Level 3	Transfers out of Level 3	Total Gains and Losses Included in Net Income	Total Gains and Losses Included in Surplus	Purchases	Sales	Settlement	Ending Balance at December 31, 2025
Corporate bonds unaffiliated	\$ -	\$ 60	\$ -	\$ -	\$ 3	\$ 3	\$ -	\$ -	\$ -	\$ 66
Non-agency - CLSs/CBOs/CDOs unaffiliated	-	543	-	-	-	45	-	-	-	588
Other non-financial ABS - practical expedient	-	1,138	1,961	(527)	(1,334)	(198)	-	-	-	1,040
Assets-common stock	11,193	-	-	-	-	537	-	-	-	11,730
Total assets	\$ 11,193	\$ 1,741	\$ 1,961	\$ (527)	\$ (1,331)	\$ 387	\$ -	\$ -	\$ -	\$ 13,424

The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2024:

Description	Beginning Balance at January 1, 2024	Transfers into Level 3	Transfers out of Level 3	Total Gains and Losses Included in Net Income	Total Gains and Losses Included in Surplus	Purchases	Issuances	Sales	Settlement	Ending Balance at December 31, 2024
Assets-common stock	\$ 9,467	\$ -	\$ -	\$ -	\$ 1,726	\$ -	\$ -	\$ -	\$ -	\$ 11,193

The Company held no securities at December 31, 2025 and 2024, where it was not practicable to determine the fair value of the investment.

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the liability for losses and LAE for the years ended December 31, 2025 and 2024, is summarized as follows:

	<u>2025</u>	<u>2024</u>
Balance-January 1	\$ 2,665,069	\$ 2,432,727
Add Star effective January 1, 2025	827,612	-
Incurred related to:		
Current year	1,936,494	1,354,469
Prior years	8,304	(16,644)
Total	<u>1,944,798</u>	<u>1,337,825</u>
Paid related to:		
Current year	477,650	377,182
Prior years	1,159,343	728,301
Total	<u>1,636,993</u>	<u>1,105,483</u>
Balance-December 31	<u>\$ 3,800,486</u>	<u>\$ 2,665,069</u>

The liability for losses and LAE is reduced for estimated subrogation recoveries of approximately \$49,638 and \$36,062 as of December 31, 2025 and 2024, respectively.

The provision for prior years' losses and LAE, net of reinsurance recoveries, increased by \$8,304 and decreased by \$16,644 in 2025 and 2024, respectively. The increase during 2025 was due to higher than expected development on liability lines of business. The decrease during 2024 was due to a combination of lower than anticipated claims inflation and fewer large losses developing than expected.

8. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS

The Company uses managing general agents (MGA) to underwrite or administer various property casualty policies related to its fronting and program arrangements. The MGAs with direct written premium greater than 5% of surplus for the years ended December 31, 2025 and 2024 are summarized as follows:

Managing General Agent	<u>2025</u>	<u>2024</u>
Program Brokerage Corporation	N/A	\$ 177,157
Total	<u>N/A</u>	<u>\$ 177,157</u>

9. REINSURANCE

In the ordinary course of business, the Company enters into reinsurance contracts, also known as treaties, whereby the Company assumes and cedes premiums and losses with other insurance companies. Ceded reinsurance is placed on both a quota-share and excess-of-loss basis. These arrangements serve to limit the Company's maximum net loss on catastrophes.

The Company also participates as a reinsurer in various residual market workers' compensation pools. Participation in these pools is mandatory in many states in which the Company conducts business, and, thus, the pools are frequently referred to as involuntary pools. Involuntary pool underwriting results generally are distributed to companies writing workers' compensation insurance in each state based upon each company's market share of the total voluntary workers' compensation market. In addition, the Company serves as a servicing carrier for several of these involuntary pools. As a servicing carrier, the Company retains no direct underwriting risk but cedes 100% of the involuntary market premium and losses back to the pool and in return, receives a fee for servicing the business.

The Company also enters into quota-share reinsurance agreements in conjunction with its fronting arrangements, whereby the Company cedes to the reinsurer the majority (50% to 100%) of its gross liability under all policies issued by and on behalf of the Company. The Company remains exposed to the credit risk of the reinsurer, or the risk that one of its reinsurers becomes insolvent or otherwise unable or unwilling to pay policyholder claims. This credit risk is generally mitigated by selecting well capitalized, highly rated authorized reinsurers and in some cases requiring that the reinsurer post collateral to secure the reinsured risks.

In 2023, Star entered into an Adverse Development Cover Excess of Loss (ADC) reinsurance contract with Woodward Straits Insurance Company (WSIC), a wholly owned subsidiary of BCBSM and an affiliated party. Under the terms of the contract, WSIC is liable for 100% of Star and its insurance subsidiaries ultimate net loss of \$500,000 in excess of Star's retention of \$571,325 recorded at that time. Star retains a loss corridor equal to the next \$57,300 of ultimate net loss; this loss corridor does not erode WSIC's limit of liability. WSIC is then liable to Star for up to \$200,000 of ultimate net loss in excess of the loss corridor. Star withheld \$500,000 of the initial premium due WSIC as reinsurance funds held. This contract is a retroactive reinsurance contract. Star is accounting for this contract using prospective accounting based on SSAP 62R, paragraph 36(d), which requires prospective accounting treatment for intercompany reinsurance agreements among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a results of the transaction. Star's participation in AFICA's pooling arrangement does not modify the terms of this ADC arrangement.

In 2015, Star entered into an ADC with Hannover Re Limited - Ireland ("Hannover Re"). Hannover Re provides 50% of \$100,000 of indemnity for losses incurred by Star prior to December 31, 2014 but not paid until September 30, 2015 or after, on accident years 2014 and prior, in excess of the statutory consolidated booked loss reserves of \$768,800 plus 2% of that amount or \$784,200 in the aggregate. Total consideration of \$30,000 was paid by Star under the contract. The contract is a retroactive reinsurance contract and is accounted and reported for as such. Star's participation in AFICA's pooling arrangement does not modify the terms of this ADC arrangement.

Reinsurance does not relieve the Company of the primary obligations under the Company's contracts of insurance. To the extent reinsurers are unable or unwilling to honor their obligations under the reinsurance treaties, the Company remains primarily liable to the policyholders. To manage this risk, the Company periodically evaluates the financial condition of the reinsurers.

The Company had unsecured aggregate reinsurance recoverable balances greater than 3% of statutory surplus. These balances include amounts for paid and unpaid losses, including IBNR, LAE, and unearned

premium, net of amounts payable to the reinsurer. The reportable unsecured aggregate reinsurance recoverable balances as of December 31, 2025 and 2024, are as follows:

Reinsurer	2025	2024
Lyndon Southern Insurance Company	\$ 395,369	\$ 310,587
Swiss Reinsurance America Corporation	192,580	195,732
Hannover Ruck SE	118,054	N/A

The effects of reinsurance activities on premiums and losses for the years ended December 31, 2025 and 2024, are as follows:

	2025	2024
Written premiums:		
Direct	\$ 2,725,423	\$ 1,984,031
Reinsurance assumed	610,483	410,047
Reinsurance ceded	<u>(447,820)</u>	<u>(422,442)</u>
Net	<u>\$ 2,888,086</u>	<u>\$ 1,971,636</u>
Earned premiums:		
Direct	\$ 2,761,020	\$ 2,075,741
Reinsurance assumed	562,093	405,433
Reinsurance ceded	<u>(456,427)</u>	<u>(493,169)</u>
Net	<u>\$ 2,866,686</u>	<u>\$ 1,988,005</u>
Losses and loss adjustment expenses:		
Direct	\$ 1,816,794	\$ 1,529,469
Reinsurance assumed	323,549	386,847
Reinsurance ceded	<u>(195,545)</u>	<u>(578,491)</u>
Net	<u>\$ 1,944,798</u>	<u>\$ 1,337,825</u>

There were no reinsurance balances deemed uncollectible during 2025 or 2024.

10. INSURANCE-RELATED ASSESSMENTS

The liabilities and anticipated payment schedules for guaranty fund and other insurance-related assessments recorded as of December 31, 2025 and 2024, are as follows:

	<u>2025</u>	<u>2024</u>
Payable in one year or less	\$ 25,897	\$ 30,017
Total insurance-related assessments	25,897	30,017
Other taxes and fees	<u>1,755</u>	<u>4,016</u>
Total assessments, taxes, and fees payable	<u>\$ 27,652</u>	<u>\$ 34,033</u>

The Company receives assessments from state guaranty funds to cover losses owed to policyholders by insolvent insurance companies. Adjustments to accruals for guaranty fund assessments of \$784 and \$445 were included in other expenses during 2025 and 2024, respectively. The Company anticipates future assessments relating to insolvencies occurring in 2025 and 2024 and has established a related liability of \$4,321 and \$3,792 as of December 31, 2025 and 2024, respectively, for these future assessments.

The assets and anticipated receipt schedules for premium tax credit offsets related to guaranty fund assessments recorded as of December 31, 2025 and 2024, are as follows:

	<u>2025</u>	<u>2024</u>
Recoverable in one year or less	\$ 505	\$ 390
Recoverable after one year through five years	83	27
Recoverable after five years through ten years	<u>71</u>	<u>26</u>
Total tax credit recoverable	<u>\$ 659</u>	<u>\$ 443</u>

11. FEDERAL INCOME TAXES

The Company is included in the BCBSM consolidated federal income tax return. Current and deferred taxes are allocated to the Company under the “benefits for loss” method. Under this method, taxes are calculated individually for the Company. These calculations are then combined as the basis for the consolidated return. Net operating losses and other tax attributes realized or realizable at the consolidated return level are allocated back to the Company, even those which would not have otherwise realized these attributes on an individual basis. Each taxable subsidiary is responsible for its own federal tax liability, and BCBSM has a master tax-sharing agreement in place with each respective subsidiary. Federal income taxes payable as of December 31, 2025 and 2024, were \$23,210 and \$9,055, respectively.

The components of the net DTA as of December 31, 2025 and 2024, are as follows:

	2025			2024			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Components of net deferred tax assets (liabilities):									
Gross deferred tax assets	\$ 155,393	\$ 17,915	\$173,308	\$ 132,597	\$ 4,008	\$136,605	\$ 22,796	\$ 13,907	\$ 36,703
Statutory valuation allowance	-	-	-	-	-	-	-	-	-
Adjusted gross deferred tax assets	155,393	17,915	173,308	132,597	4,008	136,605	22,796	13,907	36,703
Deferred tax assets nonadmitted	10,433	2,187	12,620	2,210	-	2,210	8,223	2,187	10,410
Subtotal net admitted deferred tax asset	144,960	15,728	160,688	130,387	4,008	134,395	14,573	11,720	26,293
Deferred tax liability	6,182	37,323	43,505	11,790	23,157	34,947	(5,608)	14,166	8,558
Net admitted deferred tax asset	<u>\$ 138,778</u>	<u>\$(21,595)</u>	<u>\$117,183</u>	<u>\$ 118,597</u>	<u>\$(19,149)</u>	<u>\$ 99,448</u>	<u>\$ 20,181</u>	<u>\$(2,446)</u>	<u>\$ 17,735</u>
Admission calculation components:									
Federal income taxes paid in prior years recoverable through loss carrybacks									
	\$ -	\$ -	\$ -	\$ 62,557	\$ 3,930	\$ 66,487	\$(62,557)	\$ (3,930)	\$(66,487)
Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets above) after application of the threshold limitation.									
	115,964	1,496	117,460	34,914	54	34,968	81,050	1,442	82,492
Adjusted gross deferred tax assets expected to be realized following the balance sheet date.									
	115,964	1,496	117,460	34,914	54	34,968	81,050	1,442	82,492
Adjusted gross deferred tax assets allowed per limitation threshold.									
	-	-	299,616	-	-	281,288	-	-	18,328
Adjusted gross deferred tax assets (excluding the amount of deferred tax assets offset by gross deferred tax liabilities)									
	28,996	14,232	43,228	32,916	24	32,940	(3,920)	14,208	10,288
Deferred tax assets admitted as a result of tax planning strategies.									
	-	-	-	-	-	-	-	-	-
Total	<u>\$ 144,960</u>	<u>\$ 15,728</u>	<u>\$160,688</u>	<u>\$ 130,387</u>	<u>\$ 4,008</u>	<u>\$134,395</u>	<u>\$ 14,573</u>	<u>\$ 11,720</u>	<u>\$ 26,293</u>
Ratio percentage used to determine recovery period and threshold limitation amount.									
	<u>452 %</u>	- %	- %	<u>473 %</u>	- %	- %			
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation.									
	<u>\$1,997,438</u>			<u>\$1,875,250</u>					
Impact of tax planning strategies:									
Determination of adjusted gross deferred tax assets, by tax character as a percentage									
Adjusted gross DTAs.	\$ 155,393	\$ 17,915	\$173,308	\$ 132,597	\$ 4,008	\$136,605	\$ 22,796	\$ 13,907	\$ 36,703
Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies.									
	- %	- %	- %	- %	- %	- %	- %	- %	- %
Net admitted adjusted gross DTAs	\$ 144,960	\$ 15,728	\$160,688	\$ 130,387	\$ 4,008	\$134,395	\$ 14,573	\$ 11,720	\$ 26,293
Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies.									
	- %	- %	- %	- %	- %	- %	- %	- %	- %
Does the Company's tax planning strategies include the use of reinsurance?									
	No			No					

In 2025 and 2024, there are no temporary differences for which a DTL has not been established.

The tax effects of temporary differences that give rise to significant portions of the DTA are as follows:

	December 31,		
	2025	2024	Change
Current income taxes incurred consist of the following major components:			
Current income tax:			
Federal	\$ 44,664	\$ 25,210	\$ 19,454
Federal income tax on net capital gain and losses	1,070	18,383	(17,313)
Federal and foreign income taxes incurred	<u>\$ 45,734</u>	<u>\$ 43,593</u>	<u>\$ 2,141</u>
Deferred tax assets:			
Ordinary:			
Discounting of unpaid losses	\$ 71,793	\$ 62,729	\$ 9,064
Unearned premium reserve	43,144	28,207	14,937
Fixed assets	2,891	5,298	(2,407)
Compensation and benefits accrued	12,840	9,072	3,768
Pension accrual	3,579	4,734	(1,155)
Receivables-nonadmitted	4,022	143	3,879
Net operating loss carryforward	-	263	(263)
Tax credit carryforward	3,039	-	3,039
Other (including items <5% of total ordinary tax assets)	14,085	22,151	(8,066)
Subtotal	<u>155,393</u>	<u>132,597</u>	<u>22,796</u>
Nonadmitted	<u>10,433</u>	<u>2,210</u>	<u>8,223</u>
Admitted ordinary deferred tax assets	<u>144,960</u>	<u>130,387</u>	<u>14,573</u>
Capital:			
Investments	17,915	4,008	13,907
Subtotal	<u>17,915</u>	<u>4,008</u>	<u>13,907</u>
Nonadmitted	<u>2,187</u>	<u>-</u>	<u>2,187</u>
Admitted capital deferred tax assets	<u>15,728</u>	<u>4,008</u>	<u>11,720</u>
Admitted deferred tax assets	<u>160,688</u>	<u>134,395</u>	<u>26,293</u>
Deferred tax liabilities:			
Ordinary:			
Investments	2,908	-	2,908
Fixed assets	1,385	2,224	(839)
Loss Reserve Transition Liability	-	2,883	(2,883)
Other (including items <5% of total ordinary tax liabilities)	1,889	6,683	(4,794)
Subtotal	<u>6,182</u>	<u>11,790</u>	<u>(5,608)</u>
Capital:			
Investments	36,178	22,481	13,697
Real Estate	371	-	371
Other (including items <5% of total ordinary tax liabilities)	774	676	98
Subtotal	<u>37,323</u>	<u>23,157</u>	<u>14,166</u>
Deferred tax liabilities	<u>43,505</u>	<u>34,947</u>	<u>8,558</u>
Net deferred tax asset	<u><u>\$ 117,183</u></u>	<u><u>\$ 99,448</u></u>	<u><u>\$ 17,735</u></u>

The change in net deferred income taxes is composed of the following (this analysis is exclusive of nonadmitted assets as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in the surplus section of the annual statement):

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Total deferred tax assets	\$ 173,308	\$ 136,605	\$ 36,703
Total deferred tax liabilities	(43,505)	(34,947)	(8,558)
Net deferred tax asset	<u>\$ 129,803</u>	<u>\$ 101,658</u>	<u>28,145</u>
Tax effect of unrealized gains			12,636
Tax effect on pension and postretirement benefits			1,264
Prior year unconsolidated subsidiary amount			<u>(28,516)</u>
Change in net deferred income tax			<u>\$ 13,529</u>

The provision for income taxes differs from the amount computed by applying the US statutory income tax rate of 21% to income before taxes in 2025 and 2024 for the following reasons:

	<u>2025</u>		<u>2024</u>	
	<u>Tax</u>	<u>Rate</u>	<u>Tax</u>	<u>Rate</u>
Provision computed at statutory rate	\$ 36,802	21.00 %	\$ 47,953	21.00 %
Permanent differences	(2,538)	(1.45)	351	0.16
Change in nonadmitted assets	3,750	2.14	9,950	4.36
Executive compensation limitation	-	-	1,284	0.56
Worthless security deduction	-	-	(8,841)	(3.88)
Deferred tax asset true up	(9,717)	(5.54)	-	-
Other	3,908	2.23	(976)	(0.43)
Total	<u>\$ 32,205</u>	<u>18.38 %</u>	<u>\$ 49,721</u>	<u>21.77 %</u>
Federal income taxes incurred	45,734	26.10	43,593	19.09
Change in net deferred income tax	<u>(13,529)</u>	<u>(7.72)</u>	<u>6,128</u>	<u>2.68</u>
Total statutory income taxes	<u>\$ 32,205</u>	<u>18.38 %</u>	<u>\$ 49,721</u>	<u>21.77 %</u>

As of December 31, 2025, the Company had no unused operating loss carryforwards available to offset against future taxable income. Income taxes incurred in the current and prior years that will be available for recoupment in the event of future losses are as follows:

December 31

2025	\$	—
2024		—
2023		—

Under SSAP No. 5R, the Company is required to evaluate all tax positions as to their relative uncertainty and certainty. Uncertain positions are recognized as tax loss contingencies. The Company recognizes accrued interest and penalties related to tax loss contingencies in current income tax expense. As of December 31, 2025, the Company had \$518 in tax loss contingencies. The company had no such contingencies at December 31, 2024. The Company does not believe that it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date. Federal tax years 2022 to 2025 were open for examination as of December 31, 2025.

At December 31, 2025 and 2024, the Company did not have any protective tax deposits under Internal Revenue Code 6603.

Changes in tax law and rates may affect recorded deferred tax assets and liabilities and the Company's effective tax rate in the future. On August 16, 2022, the US government enacted the Inflation Reduction Act of 2022 that includes changes to the US corporate income tax system, including a 15% minimum tax assessed on corporations with "adjusted financial statement income" in excess of \$1,000,000. This provision does not apply to the Company in tax year 2025. Additionally, on July 4, 2025, the One Big Beautiful Bill Act ("OBBBA") was signed into law. The Company has assessed the provisions of the OBBBA and has determined that it does not have a material impact on the financial statements for the year ended December 31, 2025.

12. EMPLOYEE BENEFITS

The Company's employees participate in employee benefit plans, several of which are sponsored by BCBSM. The Company maintains separate records for the liabilities of the BCBSM-sponsored plans that pertain to its employees; plan assets are commingled for all plan participants but for purposes of financial reporting are allocated to the Company on a basis of a predefined formula. The plans are as follows:

Defined Contribution Plans—Substantially all employees who meet age and service requirements may participate in a 401(k) plan. The Company matches 50% of employee contributions up to 10% of biweekly adjusted wages. The Company will also contribute a nonmatching contribution of 3.5% of compensation for certain eligible employees. Total 401(k) expense for 2025 and 2024 was \$6,755 and \$6,783, respectively.

Qualified Defined Benefit Pension Plans—The Company participates in two tax-qualified defined benefit pension plans administered under a single master trust as follows:

Retirement Account Plan—Certain employees who meet age and service requirements and who are not members of a labor union participate in a defined benefit plan that provides participants an account balance to which interest credits and earning credits are added. Subject to an annual 4% minimum, interest is credited quarterly based on a rate equal to the yield on a one-year US Treasury bill as of August, immediately preceding the plan year. Annual earning credits ranging from 3% to 10% based on age and date of hire are credited on a monthly basis. Employees can elect to receive the lump-sum value of their account balance when they retire or leave employment, or they can receive monthly payments at retirement. The Company made contributions to the retirement account plan totaling \$193 during 2025. The Company did not make any contributions to the retirement account plan during 2024.

Represented Employees' Retirement Income Plan—Employees who meet age and service requirements and who are members of a labor union participate in this plan. The plan is a final average pay arrangement for participants hired prior to January 1, 2009 and provides a postretirement monthly benefit based on average monthly earnings and credited service years. For participants hired after January 1, 2009, the plan is a cash balance arrangement and provides an account balance that grows through earnings and interest credits. These participants can elect to receive their vested balance as a lump sum or in monthly payments upon retirement. Employees participating under the final average payment provisions only can elect from various monthly payment options upon retirement. The Company makes annual contributions sufficient to meet the minimum funding standards of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986. The Company did not make any contributions to the retirement income plan during 2025 and 2024.

Nonqualified Plans—Retirement benefits are provided for a group of key employees under nonqualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations applicable to tax-qualified plans under the Internal Revenue Code of 1986. Benefits under the plans are unfunded and paid out of the general assets of the Company. The pension benefit obligation for these plans was \$4,186 and \$4,635 as of December 31, 2025 and 2024, respectively.

Other Postretirement Benefits—The Company provides postretirement health care and selected other benefits to some of its employees who meet service and age requirements. Postretirement benefits for employees who are represented by a labor union are subject to collective bargaining agreements. Postretirement health care benefits are subject to revision at the discretion of the Company.

BCBSM established two trusts to fund retiree medical benefits. Both of these trusts qualify as tax-exempt 501(c)(9) entities. Plan sponsorship and the determination of plan benefit design continue to reside with BCBSM. Similar to pension trust assets, the assets in the retiree medical trusts are restricted and cannot revert back to the Company for any purpose.

Information regarding the change in benefit obligation, plan assets, and funded status as of December 31, 2025 and 2024, for the qualified and nonqualified defined benefit pension plans and other postretirement benefits is shown in the tables below.

Defined Benefit Plans

Change in components of benefit obligation as of December 31, is as follows:

	<u>2025</u>	<u>2024</u>
Pension benefits:		
Benefit obligation at beginning of year	\$ 150,122	\$ 147,043
Service cost	8,410	8,362
Interest cost	8,690	7,884
Actuarial loss (gain)	417	(7,922)
Benefits paid	(8,002)	(5,245)
Plan amendments	47	-
Benefit obligation at end of year	<u>\$ 159,684</u>	<u>\$ 150,122</u>
Postretirement benefits:		
Benefit obligation at beginning of year	\$ 34,471	\$ 24,472
Service cost	1,321	989
Interest cost	1,996	1,321
Actuarial loss	369	9,674
Benefits paid	(1,396)	(1,985)
Benefit obligation at end of year	<u>\$ 36,761</u>	<u>\$ 34,471</u>

Change in plan assets, as of December 31, is as follows:

	<u>Pension</u>		<u>Postretirement</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Fair value of plan assets-beginning of year	\$ 122,733	\$ 124,573	\$ 23,924	\$ 25,457
Actual return on plan assets	13,502	3,187	4,014	(149)
Reporting entity contribution	193	-	354	601
Benefits paid	(7,375)	(5,027)	(1,396)	(1,985)
Fair value of plan assets-end of year	<u>\$ 129,053</u>	<u>\$ 122,733</u>	<u>\$ 26,896</u>	<u>\$ 23,924</u>

Funded status of pension plan and postretirement benefits, as of December 31, is as follows:

	Pension		Postretirement	
	2025	2024	2025	2024
Components:				
Prepaid benefit cost	\$ 10,144	\$ 10,476	\$ 4,132	\$ 3,342
(Underfunded) overfunded plan assets	(2,424)	(3,285)	3,248	2,126
Accrued benefit costs	(23,732)	(15,515)	(17,738)	(16,920)
Liability for pension benefits	(14,619)	(19,065)	493	905
Assets and liabilities recognized:				
Assets-non-admitted	\$ 7,720	\$ 7,191	\$ 7,380	\$ 5,468
Liabilities recognized	(38,351)	(34,580)	(17,245)	(16,015)

Information regarding the pension and postretirement benefit plans' components of net periodic costs as of December 31, are shown below:

	Pension		Postretirement	
	2025	2024	2025	2024
Service cost	\$ 8,410	\$ 8,362	\$ 1,321	\$ 989
Interest cost	8,690	7,884	1,996	1,321
Expected return on plan assets	(8,549)	(8,257)	(1,568)	(1,587)
Amortization of losses	817	1,191	10	791
Amortization of prior service cost or credit	1	2	205	460
Total net periodic benefit cost	<u>\$ 9,369</u>	<u>\$ 9,182</u>	<u>\$ 1,964</u>	<u>\$ 1,974</u>

Amounts in unassigned surplus recognized as components of net periodic benefit cost, as of December 31, are shown below:

	Pension		Postretirement	
	2025	2024	2025	2024
Items not yet recognized as a component of net period cost-prior year	\$ 22,350	\$ 26,396	\$ (3,030)	\$ (13,249)
Other adjustments	-	-	-	59
Net prior service cost or credit arising during the period	48	-	-	-
Net prior service cost or credit recognized	(1)	(2)	(205)	(460)
Net (gain) and loss arising during the period	(4,537)	(2,853)	(2,077)	11,411
Net (gain) loss recognized	(817)	(1,191)	1,571	(791)
Items not yet recognized as a component of net periodic cost-current year	<u>\$ 17,043</u>	<u>\$ 22,350</u>	<u>\$ (3,741)</u>	<u>\$ (3,030)</u>

Amounts in unassigned surplus expected to be recognized in the next fiscal year as components of net periodic benefit cost, as of December 31, are shown below:

	Pension		Postretirement	
	2025	2024	2025	2024
Net prior service cost or credit	\$ 10	\$ -	\$ 40	\$ 200
Net recognized gains and losses	390	820	(30)	10

Amounts in unassigned surplus that have not yet been recognized as components of net periodic benefit cost as of December 31, are shown below:

	Pension		Postretirement	
	2025	2024	2025	2024
Net prior service cost or credit	\$ 55	\$ 8	\$ 41	\$ 246
Net recognized gains and losses	16,988	22,342	(3,782)	(3,276)

Weighted average assumptions used to determine net periodic benefit costs as of December 31, are shown below:

	Pension		Postretirement	
	2025	2024	2025	2024
Weighted-average discount rate	5.85%-5.95%	5.50%-5.55%	5.90%-5.95%	5.55 %
Expected long-term rate of return on plan assets	7.20 %	6.90 %	6.30%-6.70%	5.90%-6.40%
Rate of compensation increase	2.67%-5.82%	2.64%-5.88%	5.00%-5.84%	5.00%-5.86%
	(depending on age of participants)	(depending on age of participants)		

Weighted average assumptions used to determine net periodic benefit obligations as of December 31, are shown below:

	Pension		Postretirement	
	2025	2024	2025	2024
Weighted-average discount rate	5.55%-5.75%	5.85%-5.92%	5.65%-5.75%	5.90%-5.95%
Rate of compensation increase	2.67%-5.82%	2.64%-5.88%	5.00%-5.83%	5.00%-5.86%
	(depending on age of participants)	(depending on age of participants)		

For measurement purposes, a 7.72% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2025. The rate was assumed to decrease gradually to 5.70% for 2029 and remain at that level thereafter.

The amount of the accumulated benefit obligation for defined benefit pension plans was \$149,661 and \$140,440 as of December 31, 2025 and 2024, respectively.

The following estimated future benefit payments for pension and postretirement plans reflect expected future service and are expected to be paid in the years indicated:

	<u>Amount</u>
2025	\$ 9,780
2026	10,490
2027	11,760
2028	13,160
2029	13,420
2030 through 2034	<u>79,550</u>
Total	<u>\$ 138,160</u>

The Company expects to contribute \$5,043 to pension and postretirement plans during 2026.

Information about Plan Assets

Pension and Retiree Medical Trusts Investment Policy—Plan assets for both the nonrepresented and represented employee’s pension plans are held in a single master trust with State Street Bank. Plan assets for the retiree medical trusts are held with The Northern Trust. Each plan owns its allocable share of all master trust assets. Master trust assets are for the exclusive benefit of participants and can only be used to pay plan benefits and administrative expenses. Plan assets in the master trust are managed by external investment managers with assets allocated to equity, fixed-income securities, cash, and alternative investments based on the pension investment policy statement.

The pension trust asset allocation considers return objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. The pension trust allocation is currently transitioning to an allocation that will reduce the consolidated balance sheet and funding volatility while ensuring the continued maintenance of trust assets sufficient to cover plan benefits and expenses.

The target allocation under the investment policy for the pension trust is based on the funded status, allocated between long-duration fixed-income securities and return-seeking assets. Return-seeking assets under the policy are defined as any asset class other than long-duration fixed-income securities and cash equivalents. The return-seeking allocation currently includes publicly traded equities, publicly traded high-yield fixed-income securities, and fund-of-fund private equity funds. As of December 31, 2025, the actual allocation of plan assets was approximately 44% long-duration fixed income securities and 56% return-seeking assets.

For the retiree medical trusts’ investment policy, allocations consider risk and return objectives, hedge interest rate risk on plan liabilities, and are designed to ensure the availability of funds to pay benefits. Medical trust target allocations include a 40-60% allocation to return-seeking assets and the balance to long duration and municipal bonds.

Fair Value of Plan Assets

Fair value measurements of pension plan assets as of December 31, 2025:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Lack of Observable Inputs (Level 3)	Total
Corporate debt securities	\$ -	\$ 16,571	\$ 70	\$ 16,641
Common stocks	3,248	-	3	3,251
Cash equivalents and short-term	22	-	-	22
US government	-	10,380	-	10,380
Foreign debt securities	-	718	-	718
State and local debt securities	-	656	-	656
Special revenue and assessments	-	-	-	-
Other asset-backed securities	-	62	-	62
Total	<u>\$ 3,270</u>	<u>\$ 28,387</u>	<u>\$ 73</u>	31,730
Measured at NAV:				
Commingled equity funds				42,182
Commingled fixed income funds				34,909
Limited partnerships				<u>20,232</u>
Total measured at NAV				<u>97,323</u>
Total plan assets				<u>\$ 129,053</u>

Fair value measurements of pension plan assets as of December 31, 2024:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Lack of Observable Inputs (Level 3)	Total
Corporate debt securities	\$ -	\$ 15,314	\$ 67	\$ 15,381
Common stocks	3,611	-	2	3,613
Cash equivalents and short-term	3,249	-	-	3,249
US government	-	9,819	-	9,819
Foreign debt securities	-	537	-	537
State and local debt securities	-	538	-	538
Special revenue and assessments	-	5	-	5
Other asset-backed securities	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>\$ 6,860</u>	<u>\$ 26,213</u>	<u>\$ 69</u>	33,142
Measured at NAV:				
Commingled equity funds				71,617
Limited partnerships				<u>17,974</u>
				<hr/>
Total measured at NAV				89,591
				<hr/>
Total plan assets				<u><u>\$ 122,733</u></u>

The Company's share of the retiree medical trust plan assets by category for 2025 is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Lack of Observable Inputs (Level 3)	Total
Corporate debt securities	\$ -	\$ 5,667	\$ -	\$ 5,667
Common stocks	6,810	-	-	6,810
US government	-	56	-	56
Mortgage-backed securities	-	57	-	57
Foreign debt securities	-	10	-	10
State and local debt securities	-	914	-	914
US agency securities	-	16	-	16
	<hr/>	<hr/>	<hr/>	
Total	<u>\$ 6,810</u>	<u>\$ 6,720</u>	<u>\$ -</u>	13,530
Measured at NAV:				
Commingled fixed income funds				6,518
Commingled equity funds				<u>6,848</u>
Total plan assets				<u>\$ 26,896</u>

The Company's share of the retiree medical trust plan assets by category for 2024 is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Lack of Observable Inputs (Level 3)	Total
Corporate debt securities	\$ -	\$ 5,338	\$ -	\$ 5,338
Common stocks	5,951	-	-	5,951
Cash equivalents and short-term investments	545	-	-	545
US government	-	28	-	28
Mortgage-backed securities	-	-	-	-
Foreign debt securities	-	23	-	23
State and local debt securities	-	1,009	-	1,009
Other asset-backed securities	-	-	-	-
Total	<u>\$ 6,496</u>	<u>\$ 6,398</u>	<u>\$ -</u>	12,894
Measured at NAV:				
Commingled international equity funds				<u>11,030</u>
Total plan assets				<u>\$ 23,924</u>

The Company has no obligations to current or former employees for benefits after their employment ends, but before their retirement, other than for compensation related to earned vacation and certain deferred compensation agreements.

13. RELATED-PARTY TRANSACTIONS

The Company entered into an agreement whereby the Company, BCBSM, and other affiliated entities may provide services to one another. The agreement provides for monthly payments and a year-end settlement based on actual cost of services performed.

During 2025 and 2024, BCBSM supplied executive, legal, financial, and other services to the Company at a cost of \$15,481 and \$9,895, respectively. In addition, other subsidiaries of BCBSM provided these types of services to the Company at a cost of \$80,497 and \$41,376 during 2025 and 2024, respectively.

As a result of these transactions, the Company had a net payable to BCBSM and subsidiaries of \$27,501 and \$9,569 as of December 31, 2025 and 2024, respectively.

Loans—The Company entered into an intercompany credit facility with EHI to provide funding to EHI for working capital and other general corporate purposes. The maximum borrowing capacity is \$300,000. The loans bear interest at a rate equal to the applicable federal rate prescribed by the United States Internal Revenue Service for mid-term loans compounded annually. During 2025 and 2024, the interest rate on the loans was 4.82%. As of December 31, 2025 and 2024, the outstanding loan balance related to the credit facility was \$0 and \$90,000, respectively and is included in other invested assets-affiliated on the combined statement of admitted assets, liabilities and capital and surplus. Interest received during 2025 and 2024 was \$1,416 and \$412, respectively.

Investments—In December 2024, upon non-disapproval of the Michigan Department of Insurance and Financial Services, the Company entered into a securities purchase and sale agreement with BCBSM. Subsequently, the Company acquired \$292,577 of high-yield bonds at fair value from BCBSM.

Cyber Insurance—The Company maintains cyber & privacy resilience coverage through BCBSM affiliate Woodward Straits Insurance Company (WSIC). During 2024, the Company experienced a cyber security incident, resulting in a claim being filed with WSIC to recover expenses and lost profits incurred. As of December 31, 2024, the Company recognized a \$6,912 recoverable with WSIC related to the incident within other assets in the combined statement of admitted assets, liabilities, and capital and surplus, corresponding with \$6,568 of insurance proceeds within other underwriting expenses and \$344 of proceeds within net investment income in the combined statement of operations. During 2025, upon settlement of this claim, the Company realized an additional \$3,110 within other underwriting expenses and a reduction of \$503 to net investment income in the 2025 combined statement of operations.

14. CLAIMS ADMINISTRATION SERVICES

The Company sells claims administration services to large employers who have qualified to self-insure their workers' compensation obligations. In some cases, the Company also sells these employers excess workers' compensation insurance, which caps their obligations on an occurrence or aggregate basis.

The Company's results from claims administration services was a net gain of \$888 and \$965 in 2025 and 2024, respectively. The gains were attributable to accounts that do not purchase excess workers' compensation insurance from the Company.

The amount payable to self-insured employers was \$9,522 and \$2,103 as of December 31, 2025 and 2024, respectively.

15. CAPITAL AND SURPLUS

The Company is subject to state regulatory restrictions that limit the maximum amount of annual dividends or other distributions, including loans or cash advances that can be paid without prior approval by insurance regulatory authorities.

The Company paid ordinary dividends in the amount of \$55,000 and \$92,102 to AFHI during 2025 and 2024, respectively.

As of December 31, 2025, the maximum amount of dividends and other distributions that may be made during 2026 without prior approval is as follows:

Accident Fund	\$	211,462
National		9,713
General		12,682
UWIC		4,069
CompWest		16,445
Star		70,443
Ameritrust		2,044
Williamsburg		1,764
ProCentury		3,918

As of December 31, 2025, TCIC has negative unassigned surplus; therefore, no dividends may be declared or paid without the prior approval of the Wisconsin Insurance Commissioner. As of December 31, 2025, Century Surety Company has negative earned surplus; therefore, no dividends may be declared or paid without the prior approval of the Ohio Department of Insurance.

Capital and surplus within each of the insurance companies in excess of the amounts shown above is considered restricted.

Unassigned surplus has been increased or decreased for various items by the amounts shown below as of December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Unrealized gain-net of tax	\$ 90,812	\$ 139,192
Nonadmitted assets	\$ (88,789)	\$ (83,721)
Provision for reinsurance	\$ (74,698)	\$ (46,656)

16. SURPLUS NOTES

On November 7, 2022, the Company issued \$350,000 in surplus notes due August 1, 2032, at par, in exchange for cash, less debt issuance costs of \$3,500. Interest on the surplus notes is fixed at 8.5% and payable semiannually. The surplus notes were issued pursuant to Rule 144A under the Securities Act of 1933 and underwritten by J.P. Morgan Securities LLC, and administered by The Bank of New York Mellon as the fiscal agent. The surplus notes are subject to optional redemption.

The surplus notes are an unsecured obligation of the Company and subordinated to all present and future indebtedness, policy claims and prior claims of the Company. Repayment of principal and interest on the surplus notes is restricted to earned surplus of the Company and all such payments must be approved by the DIFS. The surplus notes will not be entitled to any sinking funds.

The carrying value of the surplus notes was \$350,000 as of December 31, 2025 and 2024. Interest paid was \$29,750 and \$29,750 in 2025 and 2024, respectively. The surplus notes are held by bank custodians for unaffiliated investors which may hold 10.0% of more of the outstanding surplus notes at any time.

17. OTHER LIABILITIES

Other liabilities as of December 31, 2025 and 2024, consist of the following:

	<u>2025</u>	<u>2024</u>
Provision for reinsurance	\$ 74,698	\$ 46,656
Policyholder dividends	17,551	20,700
Shareholder dividends	10,000	10,000
Advanced premiums	6,687	5,546
Federal income tax payable	23,210	9,055
Payable to affiliates	27,501	12,291
Miscellaneous liabilities	31,854	17,195
Total	<u>\$ 191,501</u>	<u>\$ 121,443</u>

18. LEASES

The Company leases certain office space, office equipment, parking spaces, fleet vehicles, and storage under various operating leases. Rental expense for 2025 and 2024 was \$9,905 and \$10,179, respectively. Future minimum lease payments are as follows:

Years Ending December 31		
2026	\$	5,018
2027		1,896
2028		1,614
2029		<u>74</u>
Total	\$	<u>8,602</u>

19. RETROSPECTIVELY RATED CONTRACTS

The Company estimates accrued retrospective premium adjustments through the review of each individual retrospectively rated risk. Adjustments to retrospectively rated contracts are recorded as increases or decreases to written premiums. Net premiums written that were subject to retrospective rating features were \$67,779 and \$85,128 during 2025 and 2024, respectively, representing 3% and 4% of total net premiums written for 2025 and 2024, respectively. Ten percent of accrued retrospective premiums, to the extent they are not offset by retrospective return premiums, other liabilities to the same party (other than losses and loss adjustment expenses), or appropriate collateral, are classified as nonadmitted assets. Accrued retrospective premiums as of December 31, 2025 and 2024, are as follows:

	<u>2025</u>	<u>2024</u>
Total accrued retrospective premiums	<u>\$ 22,458</u>	<u>\$ 20,256</u>
Unsecured amount	\$ 22,458	\$ 20,256
Less nonadmitted amount	<u>(2,246)</u>	<u>(2,026)</u>
Admitted amount	<u>\$ 20,212</u>	<u>\$ 18,230</u>

20. STRUCTURED SETTLEMENTS

In the course of settling claims, the Company sometimes buys annuities from life insurance companies. These annuities, which name the claimant as beneficiary, pay periodic amounts to the claimant, and relieve the Company of the primary liability for the claim. If the life insurance company becomes unable to meet its obligations under the annuity contract, the Company could again become liable for the claim. Management believes the likelihood of this occurring is minimal.

21. HIGH-DEDUCTIBLE POLICIES

The liability recorded for high-deductible unpaid claims is \$28,653 and \$24,469 as of December 31, 2025 and 2024, respectively. The amount billed and recoverable on paid claims for high-deductible policies is \$759 and \$698 as of December 31, 2025 and 2024, respectively. All high-deductible policies are secured by either cash collateral or letters of credit.

22. CONCENTRATION OF RISK

The Company is exposed to risk as a result of concentrations within geographic areas and as a result of writing primarily one line of business. Specifically, the Company insures a small number of employers whose size and concentration of employees in a limited geographic area expose the Company to severe financial consequences should a catastrophic event occur at a work location of these employers. Workers' compensation insurance accounts for 52% of the Company's direct premium revenues. California, New York, and Michigan generated approximately 18%, 12%, and 8%, respectively, of direct written premiums in 2025.

23. COMMITMENTS AND CONTINGENCIES

The Company is involved in lawsuits arising in the normal course of administering the property casualty business. In management's opinion, adequate provision for the costs of resolving those matters is included in the loss and loss adjustment expense liabilities or, based on the advice of legal counsel, management believes the matters will be resolved without material adverse effect on the Company's financial position, results of operations, or cash flows.

Where available information indicates that it is probable that a loss has been incurred as of the date of the combined financial statements and the amount of the loss can be reasonably estimated, the Company will accrue the estimated loss. As of December 31, 2025 and 2024, the Company recorded \$1,095 and \$21,630 in other accrued expenses on the consolidated balance sheet for all probable and reasonably estimable losses, respectively.

24. SUBSEQUENT EVENTS

The Company has evaluated all events subsequent to the combined statutory statements of admitted assets, liabilities, and capital and surplus date of December 31, 2025, through March 25, 2026, which is the date these combined statutory-basis financial statements were available to be issued and has determined that there were no events that require adjustment to the consolidated financial statements. Additionally, management has determined that there were no events that require disclosure in the consolidated financial statements, except for the following:

Effective January 1, 2026, the Company has entered into a definitive agreement to commute in full its Adverse Development Cover (ADC) reinsurance arrangement (see Note 9) with Woodward Straits Insurance Company (WSIC), a wholly owned subsidiary of BCBSM and an affiliated party authorized reinsurer. The commutation terminated all ceded liabilities and eliminated related statutory reinsurance recoverables. The final settlement amount represents the agreed net value of ceded reserves and contractual settlement features. Effective January 1, 2026, the Company reassumes full statutory liability for all unpaid losses and LAE previously ceded. The resulting statutory impacts will be reflected in the Company's 2026 statutory financial statements. The Company will recognize profit commission during 2026 which will result in approximately \$30,000 of net income.

On February 12, 2026, Emergent Holdings, Inc., a subsidiary of BCBSM, entered into a definitive agreement to sell AFHI, including AFICA and subsidiaries, to Enstar Group Limited, a subsidiary of Sixth Street. The transaction is subject to customary closing conditions, including regulatory approvals from each of AFHI's insurance subsidiaries' states of domicile. As of the reporting date, the transaction has not yet closed. Management does not anticipate that the transaction will impact the financial statements.

COMBINING INFORMATION

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

COMBINING STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS-STATUTORY-BASIS AS OF DECEMBER 31, 2025 (Dollars in thousands)

	Accident Fund	General	National	CompWest	TCIC	UWIC	Star	AmeriTrust	Williamsburg	Century	ProCentury	Elim	Combined
ADMITTED ASSETS													
CASH AND INVESTED ASSETS:													
Bonds	\$ 2,720,261	\$ 132,260	\$ 101,363	\$ 166,068	\$ 57,808	\$ 135,894	\$ 1,892,030	\$ 17,723	\$ 14,416	\$ 59,257	\$ 30,710	\$ -	\$ 5,327,790
Common stocks and mutual funds	806,849	-	-	53	-	74	133,818	145	39	39,183	-	(752,289)	227,872
Property occupied by the Company	114,677	-	-	-	-	-	-	-	-	-	-	-	114,677
Cash and cash equivalents	283,115	2,819	3,041	7,026	2,323	4,465	153,287	8,200	11,514	76,033	18,947	-	570,770
Short-term investments	99,781	70	50	710	1,660	967	40,444	-	-	-	-	-	143,682
Other invested assets-affiliated	795,017	-	-	-	-	-	-	-	-	-	-	(704,432)	90,585
Other invested assets-unaffiliated	280,151	-	-	-	-	-	2,520	-	-	-	-	-	282,671
Receivable from sale of securities	2,001	-	-	26	-	-	15	-	-	32	-	-	2,074
Securities lending reinvested collateral assets	6,459	87	16	-	-	-	-	-	-	-	-	-	6,562
Total cash and invested assets	5,108,311	135,236	104,470	173,883	61,791	141,400	2,222,114	26,068	25,969	174,505	49,657	(1,456,721)	6,766,683
OTHER ADMITTED ASSETS:													
Premiums in the course of collection	437,923	46,566	9,183	7,601	40,381	13,807	181,692	378	3,764	36,549	39,127	(478,940)	338,031
Premiums deferred and not yet due	511,087	96,909	57,371	39,492	31,960	47,010	157,280	1,472	1,168	152	16,624	(461,930)	498,595
Reinsurance receivables	184,338	16,559	4,258	86	-	6,344	36,249	-	-	-	-	(108,414)	139,420
Net deferred tax asset	85,830	697	406	1,230	644	1,454	24,971	76	31	1,082	762	-	117,183
Investment income due and accrued	26,897	976	776	1,386	472	1,101	15,561	120	84	627	197	-	48,197
Other assets	103,682	4	2	307	687	2,478	117,967	501	435	9,787	1,504	(114,565)	122,789
TOTAL ADMITTED ASSETS	<u>\$ 6,458,068</u>	<u>\$ 296,947</u>	<u>\$ 176,466</u>	<u>\$ 223,985</u>	<u>\$ 135,935</u>	<u>\$ 213,594</u>	<u>\$ 2,755,834</u>	<u>\$ 28,615</u>	<u>\$ 31,451</u>	<u>\$ 222,702</u>	<u>\$ 107,871</u>	<u>\$ (2,620,570)</u>	<u>\$ 8,030,898</u>

Continued below.

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

COMBINING STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS-STATUTORY-BASIS AS OF DECEMBER 31, 2025 (Dollars in thousands)

	Accident Fund	General	National	CompWest	TCIC	UWIC	Star	AmeriTrust	Williamsburg	Century	ProCentury	Elim	Combined
LIABILITIES AND CAPITAL AND SURPLUS													
LIABILITIES:													
Losses and loss adjustment expenses	\$ 2,812,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 988,126	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,800,486
Unearned premiums	755,232	-	-	-	-	-	265,352	-	-	-	-	-	1,020,584
Assessments, taxes, and fees payable	20,462	-	-	-	-	-	7,190	-	-	-	-	-	27,652
Payable for purchase of securities	-	-	-	-	-	-	284	-	-	-	-	-	284
Payable for securities lending	6,459	87	16	-	-	-	-	-	-	-	-	-	6,562
Notes payable and accrued interest	4,176	-	-	-	-	-	-	-	-	-	-	-	4,176
Reinsurance balances payable	424,232	169,458	78,854	58,948	77,625	76,850	195,392	551	-	73,772	30,450	(1,036,792)	149,340
Accrued commissions	42,432	-	-	-	-	-	14,908	-	-	-	-	-	57,340
Accrued pension and postretirement benefits	55,596	-	-	-	-	-	-	-	-	-	-	-	55,596
Other accrued expenses	55,280	-	-	8	7	8	19,445	-	-	-	-	-	74,748
Funds held by the Company under reinsurance treaties	573	-	-	-	-	-	527,435	-	-	-	-	-	528,008
Other liabilities	166,645	574	459	579	578	1,101	33,270	7,622	11,698	57,794	38,238	(127,057)	191,501
Total liabilities	4,343,447	170,119	79,329	59,535	78,210	77,959	2,051,402	8,173	11,698	131,566	68,688	(1,163,849)	5,916,277
CAPITAL AND SURPLUS:													
Common capital stock	3,000	4,500	3,000	3,000	1,000	3,000	5,040	3,000	3,000	3,000	3,601	(32,141)	3,000
Contributed surplus	134,000	72,000	37,000	47,000	71,401	40,820	392,154	14,467	14,989	86,467	31,173	(807,471)	134,000
Surplus notes	350,000	-	-	-	-	-	-	-	-	-	-	-	350,000
Special surplus	-	-	-	-	-	-	1,875	-	-	-	-	(1,875)	-
Unassigned surplus	1,627,621	50,328	57,137	114,450	(14,676)	91,815	305,363	2,975	1,764	1,669	4,409	(615,234)	1,627,621
Total capital and surplus	2,114,621	126,828	97,137	164,450	57,725	135,635	704,432	20,442	19,753	91,136	39,183	(1,456,721)	2,114,621
TOTAL LIABILITIES AND CAPITAL AND SURPLUS	\$ 6,458,068	\$ 296,947	\$ 176,466	\$ 223,985	\$ 135,935	\$ 213,594	\$ 2,755,834	\$ 28,615	\$ 31,451	\$ 222,702	\$ 107,871	\$ (2,620,570)	\$ 8,030,898

Concluded

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES
COMBINING STATEMENTS OF OPERATIONS-STATUTORY-BASIS
FOR THE YEARS ENDED DECEMBER 31, 2025
(Dollars in thousands)

	Accident Fund	General	National	CompWest	TCIC	UWIC	Star	AmeriTrust	Williamsburg	Century	ProCentury	Elim	Combined
NET PREMIUMS EARNED	\$ 2,121,396	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 745,290	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,866,686
UNDERWRITING DEDUCTIONS:													
Losses	1,162,847	—	—	—	—	—	408,568	—	—	—	—	—	1,571,415
Loss adjustment expenses	276,303	—	—	—	—	—	97,080	—	—	—	—	—	373,383
Other underwriting expenses	663,185	(78)	(11)	9	(3)	50	233,155	(1)	—	26	—	—	896,332
Policyholder dividends	11,162	—	—	—	—	—	3,921	—	—	—	—	—	15,083
Total underwriting deductions	2,113,497	(78)	(11)	9	(3)	50	742,724	(1)	—	26	—	—	2,856,213
NET UNDERWRITING GAIN	7,899	78	11	(9)	3	(50)	2,566	1	—	(26)	—	—	10,473
INVESTMENT INCOME:													
Net investment income	103,821	4,761	3,937	6,473	2,228	5,329	51,526	729	487	973	1,032	—	181,296
Net realized capital loss-net of tax	2,709	(287)	(261)	(909)	(570)	(1,055)	(6,932)	(6)	(30)	(216)	(60)	—	(7,617)
Total investment income	106,530	4,474	3,676	5,564	1,658	4,274	44,594	723	457	757	972	—	173,679
OTHER EXPENSE-Net	(7,380)	—	—	—	—	—	(2,593)	—	—	—	—	—	(9,973)
INCOME BEFORE FEDERAL INCOME TAXES	107,049	4,552	3,687	5,555	1,661	4,224	44,567	724	457	731	972	—	174,179
FEDERAL INCOME TAXES	(24,182)	(770)	(738)	(655)	(998)	(1,209)	(15,405)	(139)	(115)	(309)	(144)	—	(44,664)
NET INCOME	\$ 82,867	\$ 3,782	\$ 2,949	\$ 4,900	\$ 663	\$ 3,015	\$ 29,162	\$ 585	\$ 342	\$ 422	\$ 828	\$ —	\$ 129,515

COMBINED SUPPLEMENTAL SCHEDULES

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

COMBINED SUPPLEMENTAL SCHEDULE OF INVESTMENT RISK INTERROGATORIES-STATUTORY-BASIS

AS OF DECEMBER 31, 2025
(Dollars in thousands)

- Total admitted assets were \$8,030,898 as of December 31, 2025.
- The 10 largest exposures, by investment category, to a single issuer, borrower, or investment, excluding US government, US government agency securities, certain US government money market funds, property occupied by the Company, policy loans and all SEC and foreign registered funds as of December 31, 2025, are as follows:

	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Federal Home Loan Mortgage Corporation	\$ 700,245	8.7 %
Federal National Mortgage Association	559,064	7.0 %
Arrowstreet ACWI EX US Fund-NHIT	100,115	1.2 %
Miracle Nova	90,585	1.1 %
iShares Trust - iShares Core S&P 500 ETF	75,893	0.9 %
JPMorgan Chase & Co.	54,350	0.7 %
iShares Trust - iShares Russell 3000 ETF	45,389	0.6 %
The Goldman Sachs Group, Inc.	41,559	0.5 %
SPDR Series Trust - State Street SPDR Portfolio S&P 500 ETF	37,194	0.5 %
Vista Partners	35,610	0.4 %

- The amounts and percentages of total admitted assets held in bonds and preferred stock by NAIC rating category as of December 31, 2025, are as follows:

<u>NAIC Category</u>	<u>Amount</u>	<u>Percentage</u>
NAIC-1	\$ 4,004,112	49.9 %
NAIC-2	946,644	11.8
NAIC-3	350,694	4.4
NAIC-4	188,599	2.3
NAIC-5	20,918	0.3
NAIC-6	1,154	0.0

- Total admitted assets held in foreign investments of \$184,867 were less than 2.5% of total admitted assets.

5-10. Responses are not applicable for interrogatories 5-10 because assets held in foreign investments are less than 2.5%.

11. Assets held in Canadian investments are less than 2.5% of the total admitted assets.

12. Total assets held in investments with contractual sales restrictions of \$381,751 are greater than 2.5% of total admitted assets. The three largest investments with contractual sales restrictions are as follows:

Investment	Amount	Percentage
Arrowstreet ACWI EX US Fund-NHIT	\$ 100,115	1.3 %
Miracle Nova	90,585	1.1
Verition Multi-Strategy Fund Management LLC	20,768	0.3

13. The amounts and percentages of total admitted assets in the 10 largest equity interests were as follows:

	Amount	Percentage of Total Admitted Assets
Arrowstreet ACWI EX US Fund-NHIT	\$ 100,115	1.2 %
Miracle Nova	90,585	1.1
ISHARES:CORE S&P 500	75,893	0.9
ISHARES:RUSSELL 3000	45,389	0.6
SS SPDR PTF S&P 500	37,194	0.5
Vista Partners	35,610	0.4
Verition Multi-Strategy Fund Management LLC	20,768	0.3
Mariner Atlantic Multi-Strategy Fund L.P.	19,076	0.2
Blue Owl GP Stakes IV	16,923	0.2
Brookfield Strategic Real Estate Partners III	15,344	0.2

14. The aggregate statement value of assets held in non-affiliated, privately placed equities of \$510,721 are greater than 2.5% of total admitted assets. The three largest investments held in non-affiliated, private placed equities are as follows.

Investment	Amount	Percentage
Arrowstreet ACWI EX US Fund-NHIT	\$ 100,115	1.2 %
iShares Trust - iShares Core S&P 500 ETF	75,893	0.9
iShares Trust - iShares Russell 3000 ETF	45,389	0.6

The ten largest fund managers are as follows:

Fund Manager	<u>Total Invested</u>	<u>Diversified</u>	<u>Non- Diversified</u>
Goldman Sachs Trust - Goldman Sachs Financial Square Government Fund	\$ 100,935	\$ 100,935	\$ -
Arrowstreet ACWI EX US Fund-NHIT	100,115	100,115	-
Northern Institutional Funds - U.S. Government Portfolio	84,176	84,176	-
iShares Trust - iShares Core S&P 500 ETF	75,893	75,893	-
BlackRock Liquidity Funds - FedFund	73,416	73,416	-
Dreyfus Government Cash Management Fund	70,286	70,286	-
JPMorgan Trust II - JPMorgan U.S. Government Money Market Fund	70,000	70,000	-
iShares Trust - iShares Russell 3000 ETF	45,389	45,389	-
SPDR Series Trust - State Street SPDR Portfolio S&P 500 ETF	37,194	37,194	-
Vista Partners	35,610	-	35,610

15. Assets held in general partnership interests are less than 2.5% of total admitted assets.

16. Assets held in mortgage loans are less than 2.5% of total admitted assets.

17. Response is not required for interrogatory 17 because assets held in mortgage loans are less than 2.5% of total admitted assets.

18. Assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A are less than 2.5% of total admitted assets.

19. The Company held no investments in mezzanine real estate loans as of December 31, 2025.

20. The amounts and percentages of total admitted assets subject to securities lending agreements were as follows:

December 31, 2025	\$ 6,444	0.1 %
September 30, 2025	8,025	0.0 %
June 30, 2025	11,865	0.0 %
March 31, 2025	13,807	0.0 %

21. The Company did not own any warrants not attached to other financial instruments, options, caps, and floors as of December 31, 2025.

22. The Company did not have any potential exposure related to investments in collars, swaps, and forwards as of December 31, 2025.

23. The Company did not have potential exposure related to investments in future contracts as of December 31, 2025.

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

COMBINED SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE-STATUTORY-BASIS AS OF DECEMBER 31, 2025 (Dollars in thousands)

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percent	Amount	Percent
Issuer Credit Obligations:				
US government obligations	\$ 1,771,760	26.2 %	\$ 1,771,760	26.2 %
Other US government obligations	9,906	0.1	9,906	0.1
Non-US Sovereign jurisdiction securities	4,764	0.1	4,764	0.1
Municipal bonds - general obligations (direct and gauranteed)	28,273	0.4	28,273	0.4
Municipal bonds - special revenue	72,156	1.1	72,156	1.1
Corporate bonds (unaffiliated)	1,846,582	27.3	1,846,582	27.3
Single entity backed obligations (Unaffiliated)	21,355	0.3	21,355	0.3
SVO-identified bond exchange traded funds - fair value	3,869	0.1	3,869	0.1
Asset Backed Securities:		-		-
Financial asset-backed securities - not self-liquidating (unaffiliated)	1,472,150	21.8	1,472,150	21.8
Non-financial asset-backed securities	96,975	1.4	96,975	1.4
Total long-term bonds	5,327,790	78.8	5,327,790	78.8
Stocks:				
Preferred stocks - Industrial and miscellaneous	198	-	198	-
Common stocks				
Industrial and miscellaneous publicly traded (unaffiliated)	95,316	1.4	95,316	1.4
Industrial and miscellaneous other (unaffiliated)	20,224	0.3	20,224	0.3
Mutual funds	10,187	0.2	10,187	0.2
Exchange traded funds	101,947	1.5	101,947	1.5
Total stocks	227,872	3.4	227,872	3.4
Real estate:				
Property occupied by Company	114,677	1.7	114,677	1.7
Total real estate	114,677	1.7	114,677	1.7
Receivable for securities	2,074	-	2,074	-
Securities lending	6,562	0.1	N/A	N/A
Cash	122,159	1.8	122,159	1.8
Cash equivalents	448,611	6.6	455,173	6.7
Short-term investments	143,682	2.1	143,682	2.1
Other invested assets-affiliated	90,585	1.3	90,585	1.3
Other invested assets-unaffiliated	282,671	4.2	282,671	4.2
TOTAL	\$ 6,766,683	100.0 %	\$ 6,766,683	100.0 %

ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

COMBINED SUPPLEMENTAL SCHEDULE OF REINSURANCE INTERROGATORIES—STATUTORY-BASIS FOR THE YEAR ENDED DECEMBER 31, 2025 (Dollars in thousands)

The Company has reinsured risk under a quota-share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota-share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit, or any similar provisions). The amount of reinsurance credit taken reflects the reduction in quota-share coverage caused by any applicable limiting provision.

The Company has ceded risk under a reinsurance contract for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where: The written premium ceded to the reinsurer by the reporting entity or its affiliate represents 50% or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement.

The Company has not ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders, (ii) it accounted for that contract as reinsurance and not as a deposit, and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- a. A contract term longer than two years and the contract is noncancelable by the reporting entity during the contract term
- b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer or an affiliate of the reinsurer
- c. Aggregate stop loss reinsurance coverage
- d. An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions, which are only triggered by a decline in the credit status of the other party
- e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period)
- f. Payment schedule, accumulating retentions from multiple years, or any features inherently designed to delay timing of the reimbursement to the ceding entity; or
- g. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, the Company has not ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- h. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under GAAP
- i. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP