2025 FINANCIAL SUMMARY

RESULTS OF OPERATIONS

State Fund's results of operations for years ended December 31, 2025 and 2024 and its corresponding financial ratios are shown below:

(In millions)		**2025**		**2024**
Net premiums earned	$	956	$	1,086
Losses incurred		250		318
Loss adjustment expenses (LAE) incurred		126		209
Underwriting and administrative expenses		462		448
Net underwriting gain		118		111
Net investment income		644		575
Net realized (loss) gain		(72)		28
Other income		12		21
Income before dividends		702		735
Dividends to policyholders		(189)		(142)
Net income	$	513	$	593
Loss ratio		26.1%		29.3%
LAE ratio		13.2%		19.2%
Underwriting expense ratio		48.1%		41.0%
Combined ratio		87.4%		89.5%

State Fund's premium declined by $130 in 2025 primarily due to 7.9% rate reduction effective December 2024. Losses incurred went down by $68, due to a higher release in loss reserves of $503 for insured events that happened in prior years that were recognized this year compared to $496 in the prior year, and a $69 favorable decrease in losses incurred for insured events happened in current year. LAE incurred decreased by $83, mainly due to a higher release in LAE reserves of $114 this year compared to $48 in the prior year.

Underwriting gain increased by $6, largely due to lower losses and LAE incurred, offset by lower premium earned.

Net investment income of $644 was $69 higher than the prior year due to reinvestment rates remaining high. Net realized capital loss of $72 was $100 worse than the prior year, primarily due to the loss from the bond restructuring swap portfolio. The bond restructuring swap program was aimed at locking in higher book yields while maintaining overall portfolio duration and credit quality. Other income was lower by $9 mainly due to less charge-off recoveries.

Net income before dividends to policyholders of $702, down $33 from the prior year. The decrease was mainly driven by lower net premium earned and realized capital losses associated with the bond restructuring swap program, offset by more loss and LAE reserves releases and higher net investment income.

In 2025, State Fund declared regular dividends of $200 and large account safety dividends of $8 for policies that were incepted between January 1, 2025 and December 31, 2025. In addition, State Fund released a total of $19 from the dividend reserve for policy year 2023, bringing total net dividends to $189, which resulted in net income after dividends of $513 in comparison to $593 in 2024.

2025 FINANCIAL SUMMARY

FINANCIAL POSITIONS

State Fund's financial positions at December 31 are as follows:

(In millions)		2025		2024
Admitted Assets				
Bonds	$	18,447	$	18,761
Preferred stocks		45		33
Common stocks		959		815
Real estate		259		253
Cash, cash equivalents and short-term investments		163		217
Other invested assets		66		68
Receivable for securities		1		-
Total cash and invested assets		19,940		20,147
Other assets		403		403
Total admitted assets	$	20,343	$	20,550
Liabilities and Policyholders' Surplus				
Loss and LAE reserves net of reinsurance	$	9,408	$	10,019
Other liabilities		2,890		2,918
Total liabilities		12,298		12,937
Policyholders' surplus		8,045		7,613
Total liabilities and policyholders' surplus	$	20,343	$	20,550

In 2025, State Fund maintained a balanced investment portfolio that was focused on both credit quality and investment yield (88% of the $18,447 bond portfolio was rated NAIC 1, the NAIC's highest quality credit class). The weighted average credit quality of the overall bond portfolio was Aa3/AA- by Moody's and Standard & Poor's respectively. Book yield at December 31, 2025 was 4.0%, increased from 3.5% at December 31, 2024.

Management believes that its reserves are adequate, and State Fund's appointed actuary, Michael L. DeMattei of Milliman Inc., has opined to the adequacy of State Fund's carried reserves as of December 31, 2025, and 2024, respectively.

Policyholders' surplus increased by $432 compared to prior year. This increase is a result of the net income of $513, and $4 favorable decrease in provision for reinsurance. This increase was offset by an adjustment of $60 to recognize State Fund's share of Pension and Other Post Employment Benefit (OPEB) liabilities in compliance with Statements of Statutory Accounting Principles (SSAP) No. 5 – "Liabilities, Contingencies and Impairments of Assets", $19 loss from the Loss Portfolio Transfer (LPT) commutation, $3 decrease in net unrealized gain from equities, and an unfavorable increase of $3 in non-admitted assets.

State Fund operates in conformity with the California law imposed for risk-based capital (RBC). As of December 31, 2025 and 2024, policyholders' surplus exceeded the minimum RBC requirements. In addition, it passed all the Insurance Regulatory Information System (IRIS) tests for years ended December 31, 2025, and 2024.

2025 FINANCIAL SUMMARY

CASH FLOW

State Fund's statements of cash flow are summarized below:

(In millions)		2025		2024
Premiums collected net of reinsurance	$	953	$	1,016
Net investment income		636		591
Miscellaneous income		11		15
Benefits and loss related payments		(848)		(879)
Other underwriting expenses		(731)		(722)
Dividend paid to policyholders		(106)		(72)
Net cash used in operations		(85)		(51)
Proceeds from investments sold, matured, or repaid		5,695		2,585
Cost of investments acquired		(5,616)		(2,144)
Net cash provided by investments		79		441
Net cash used in financing and miscellaneous sources		(48)		(186)
Net change in cash, cash equivalents and short-term investments		(54)		204
Cash, cash equivalents and short-term investments, beginning of year		217		13
Cash, cash equivalents and short-term investments, end of year	$	163	$	217

Primary sources of cash included cash flow from premiums, investment income, and the sale or maturity of invested assets. Primary uses of cash included the purchase of long-term investments and the payments of benefits, loss related expenses, and other underwriting expenses.

Cash used in operations unfavorably increased by $34 from the prior year primarily due to $63 decrease in premium collection, $34 increase in dividend paid to policyholders, $9 increase in underwriting expenses, $4 decrease in miscellaneous income, offset by $45 increase in investment income and $31 decrease in loss related payments.

Cash from investing activities decreased by $362 mainly due to higher net cash outflow from acquisitions of bonds as a result of the bond restructuring swap program.

Cash from financing and miscellaneous activities increased by $138, primarily driven by the $128 retroactive reinsurance LPT commutation, along with lower Federal Home Loan Bank loan repayments and other miscellaneous items totaling a net increase of $10.