

FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION – STATUTORY BASIS

State Compensation Insurance Fund
Years Ended December 31, 2025 and 2024
With Report of Independent Auditors

State Compensation Insurance Fund

Financial Statements and Supplementary Information – Statutory Basis

Years Ended December 31, 2025 and 2024

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Report of Independent Auditors

The Audit Committee of the Board of Directors
State Compensation Insurance Fund

Opinion

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

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the 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 at December 31, 2025 and 2024, or the results of its operations or its cash flows for the years then ended.

Basis for Opinion

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 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 U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the California Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices 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.

Responsibilities of Management for the Financial Statements

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

In preparing the 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 financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 financial statements.



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- 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 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.

Ernst & Young LLP

May 29, 2026

State Compensation Insurance Fund

Statements of Admitted Assets, Liabilities, and Policyholders' Surplus – Statutory Basis (In Thousands)

	December 31	
	2025	2024
Admitted assets		
Bonds	\$ 18,447,204	\$ 18,761,356
Preferred stocks	44,819	33,036
Common stocks	959,358	815,170
Real estate	258,999	253,282
Cash, cash equivalents, and short-term investments	163,069	216,870
Other invested assets	66,031	67,856
Receivables for securities	984	55
Total cash and investments	19,940,464	20,147,625
Premiums in the course of collection	53,071	56,738
Earned but unbilled premiums	43,200	54,000
Reinsurance recoverables	385	4,044
Accrued interest and dividends	139,850	131,719
Due from adjusting contracts	89,638	81,674
Other assets	75,973	74,479
Total admitted assets	\$ 20,342,581	\$ 20,550,279
Liabilities and policyholders' surplus		
Estimated liabilities for:		
Losses	\$ 7,726,816	\$ 8,328,957
Loss adjustment expenses	1,681,466	1,842,369
Retroactive reinsurance ceded	–	(152,425)
Unearned premiums	37,304	42,523
Dividends reserve	304,204	221,415
Pension and other postemployment benefit liability	1,501,368	1,528,585
Borrowed money and interest thereon	612,995	696,027
Deposit liability	80	79
Self-insurance reserve	107,966	94,470
Other liabilities	325,745	335,174
Total liabilities	12,297,944	12,937,174
Special surplus funds for:		
Retroactive reinsurance	–	152,425
Unfunded pension and other postemployment benefits	6,814	98,261
Unassigned surplus	8,037,823	7,362,419
Policyholders' surplus	8,044,637	7,613,105
Total liabilities and policyholders' surplus	\$ 20,342,581	\$ 20,550,279

See accompanying notes to statutory-basis financial statements.

State Compensation Insurance Fund

Statements of Income – Statutory Basis (In Thousands)

	Year Ended December 31	
	2025	2024
Net premiums earned	\$ 955,904	\$ 1,086,041
Losses incurred	249,550	318,304
Loss adjustment expenses incurred	125,932	208,302
Underwriting and administrative expenses	462,841	448,167
Total underwriting deductions	838,323	974,773
Net underwriting gain	117,581	111,268
Net investment income	644,459	575,196
Net capital (loss) gains	(71,849)	27,552
Other income	11,905	21,391
Net income before dividends to policyholders	702,096	735,407
Dividends to policyholders	189,092	142,072
Net income	\$ 513,004	\$ 593,335

See accompanying notes to statutory-basis financial statements.

State Compensation Insurance Fund

Statements of Changes in Policyholders' Surplus – Statutory Basis (In Thousands)

Balance, January 1, 2024	\$	7,181,469
Net income		593,335
Change in non-admitted assets		(92,862)
Increase in net unrealized gain		22,781
Unfunded actuarial accrued liability allocation		(92,003)
Change in provision for reinsurance		385
Balance, December 31, 2024		7,613,105
Net income		513,004
Change in non-admitted assets		(2,530)
Decrease in net unrealized gain		(3,652)
Unfunded actuarial accrued liability allocation		(60,424)
Change in provision for reinsurance		3,914
Change in special surplus for retroactive reinsurance		(18,780)
Balance, December 31, 2025	\$	8,044,637

See accompanying notes to statutory-basis financial statements.

State Compensation Insurance Fund

Statements of Cash Flows – Statutory Basis (In Thousands)

	Year Ended December 31	
	2025	2024
Operating activities		
Premiums collected net of reinsurance	\$ 952,934	\$ 1,016,133
Net investment income	635,522	591,041
Other income received	11,485	15,235
Benefits and loss-related payments	(848,049)	(878,925)
Other underwriting expenses	(837,120)	(794,596)
Net cash used in operations	(85,228)	(51,112)
Investment activities		
Proceeds from investments sold, matured, or repaid:		
Bonds	5,257,446	2,345,723
Stocks	437,034	213,755
Real estate	–	13,718
Other invested asset	1,728	11,257
Change in receivable for securities	(928)	(45)
Total investment proceeds	5,695,280	2,584,408
Cost of investments acquired:		
Bonds	(5,099,969)	(1,863,396)
Stocks	(501,286)	(276,621)
Real estate	(14,284)	(255)
Other invested asset	(543)	(3,590)
Change in payable for securities	404	–
Total investments acquired	(5,615,678)	(2,143,862)
Net cash provided by investing activities	79,602	440,546
Financing and miscellaneous activities		
Funds paid	(83,032)	(139,065)
Other cash provided (used)	34,857	(46,283)
Net cash used in financing and miscellaneous activities	(48,175)	(185,348)
Net change in cash, cash equivalents, and short-term investments	(53,801)	204,086
Cash, cash equivalents, and short-term investments, beginning of year	216,870	12,784
Cash, cash equivalents, and short-term investments, end of year	\$ 163,069	\$ 216,870

See accompanying notes to statutory-basis financial statements.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (Dollars in Thousands)

December 31, 2025

1. History and Business

State Compensation Insurance Fund (State Fund or the Company) is a public enterprise fund established by the State of California (the State) through legislation enacted in 1913 to provide an available market for workers' compensation insurance to employers located in California.

State Fund was organized pursuant to and operates in accordance with Section 11770 of the California Insurance Code (the Code). In accordance with the Code, the Governor appoints nine members, including one from organized labor, and names the chairperson. The Speaker of the Assembly appoints one member who represents organized labor, and the Senate Committee on Rules appoints one member. The board also includes the Department of Industrial Relations Director as a non-voting "ex-officio" member.

State Fund's purpose is to provide fairly priced workers' compensation insurance, make workplaces safe, and restore injured workers. State Fund is self-supported with revenue from premiums written and investment income. It does not receive any financial support from the State and the State is not liable for any obligations of State Fund.

2. Summary of Significant Accounting Policies

Basis of Presentation

The statutory-basis financial statements of State Fund have been prepared in conformity with accounting practices prescribed or permitted by the California Department of Insurance (CDI), and in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual*, to the extent those practices and procedures do not conflict with the California Insurance Code. As a state official approves State Fund's governing board members, U.S. generally accepted accounting principles (GAAP) for State Fund are those promulgated by the Governmental Accounting Standards Board (GASB), which are the accounting standards applicable to state and local governmental entities.

Statutory accounting practices differ in certain respects from GAAP, as prescribed by the GASB. The significant differences from GASB are as follows:

- Cash balances are reported net of bank overdrafts and outstanding checks and, in instances of net negative cash balance, amounts are reported as a negative asset rather than a liability.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

- Investments in bonds and short-term investments are carried principally at amortized cost, whereas under GASB, such investments would be carried at fair value with changes in fair value reflected in net income.
- Unrealized gains and losses on investments in common stocks are credited or charged directly to policyholders' surplus, whereas under GASB, such changes in fair value would be reflected in net income.
- Certain assets designated as "non-admitted assets" are excluded from total assets. These assets, the change in which is credited or charged directly to policyholders' surplus, consist primarily of the following: premiums in the course of collection that remain outstanding over 90 days, plus all related amounts due that have been recorded on those policies; nonoperating system internally developed software costs; 10% of earned but unbilled premiums (EBUB) in excess of collateral specifically held and identifiable on a per policy basis; 10% of any accrued retrospective premiums not offset by retrospective return premiums, other liabilities to the same party or collateral; office furniture and equipment; leasehold improvements; deposits held by others; prepaid expenses and investment income due and accrued over 90 days. Under GASB, these assets would be included in total assets to the extent realizable.
- Gains on retroactive reinsurance are recognized in income and established as special surplus. GASB requires the gains to be deferred and recognized over the estimated settlement period of the reinsured losses using a recovery method.
- Policyholders' dividends are accrued when declared, whereas under GASB they are accrued based on amounts to be paid.
- Fees received for processing the claims of other self-insured State of California departments are netted against loss adjustment expenses, other underwriting expenses, and investment expenses, whereas under GASB, these would be recorded as other income.
- An allocation of rental value to space owned and occupied by State Fund is included in income and expense, whereas it would be excluded under GASB.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

- GASB requires a classified presentation for the statement of net position, which distinguishes between current and long-term assets and liabilities, which is not required under statutory accounting.
- The statement of cash flows differs in certain respects from the presentation required by GASB, including the presentation of the changes in cash, cash equivalents, and short-term investments, instead of cash and cash equivalents. Short-term investments include securities with maturities, at the time of acquisition, of one year or less. In addition, there is no reconciliation between net income and cash from operations as there would be under GASB.
- A provision for reinsurance is recorded as a liability, with a corresponding adjustment to policyholders' surplus. This provision applies to reinsurance recoverables from unauthorized reinsurance carriers with inadequate collateral, reinsurance recoverables that are over 90 days past due, and all related amounts due that have been recorded on those reinsurance recoverables. Under GASB standards, such a provision for reinsurance is not recognized.
- Statutory accounting allows a company to segregate surplus to provide for contingencies; while generally, GASB would not allow surplus to be restricted unless required by law.
- Accounting for contingencies requires recording a liability at the midpoint of a range of estimated possible outcomes, when no better estimate in the range exists; while GASB would require the minimum amount in the range to be accrued.
- Under Statutory accounting for lessees, all leases shall be considered operating leases, without recognition of a right-to-use asset or lease liability. For lessors, all leases, except leveraged leases, shall be considered operating leases. Under GASB, in general, a lessee recognizes a lease liability and right-to-use asset on the balance sheet, whereas a lessor recognizes a lease receivable and a deferred inflow of resources.

The effects on the financial statements of the variances noted above, although not reasonably determined, are presumed to be material.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with statutory accounting principles prescribed or permitted by the CDI requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

Among the most significant estimates inherent in these statutory-basis financial statements are the liabilities for losses and loss adjustment expenses, the liabilities for State Fund's self-insurance program, and State Fund's portion of the pension and other postemployment benefit (OPEB) costs estimated by State Fund based on the independent actuarial valuation prepared for the State, the independent actuarial valuation by third party for retirement actuarial consulting services, and the assessment of State Fund's liabilities from the State Controller's Office (SCO).

Cash, Cash Equivalents, and Short-Term Investments

Cash consists of cash, savings accounts, and certificates of deposit in banks or other similar financial institutions with maturity dates within one year or less from the acquisition date. Cash equivalents are money market mutual fund and short-term, highly liquid investments with original maturities of three months or less that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Money market funds shall be valued at fair value or net asset value (NAV). Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at cost, which approximates fair value.

Investments

Effective January 1, 2025, State Fund adopted revisions to statutory accounting guidance issued by NAIC related to the principles-based bond definition (PBBD) guidance found in SSAP No. 26 Bonds. Beginning surplus was not impacted as the Company had no debt instruments disqualified as bonds.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Investments in bonds are valued in accordance with the requirements of the Securities Valuation Office of the NAIC. Bonds are generally stated at amortized cost, except bonds that are defined by the NAIC as Class 3 through 6, which are stated at the lower of amortized cost or fair value. Amortization is calculated using the scientific constant yield to worst method. Asset-backed securities' (ABS) prepayment assumptions used in calculating the effective yield and determining securities' statement values were obtained from third-party financial data providers and external valuations. State Fund's ABS holdings primarily consist of mortgage-backed securities (MBS). MBS are amortized using anticipated prepayments and are accounted for using the prospective method. The carrying value for MBS has been determined in accordance with the guidelines of the NAIC. State Fund uses widely accepted cash flow models from third-party data providers, which use Median Speeds model. Median Speeds model serves as a benchmark for MBS prepayment assumptions. This model looks to the specifics of the security dealers' own models. The data provider will scan all of security dealers' prepayment assumptions and choose the speed in the middle.

Investments in common stocks are stated at fair value. Federal Home Loan Bank (FHLB) shares are valued at par, which is presumed to be fair value as they are only redeemable at par and are not publicly traded. Investments in perpetual preferred stocks are stated at fair value. Investments in redeemable preferred stocks are stated at amortized cost.

Other invested assets consist of minority ownerships in limited partnerships, which are reported based upon the Company's underlying equity of the investee with changes in value being recorded as a component of unrealized gains or losses in unassigned surplus. Equity amounts are derived from net asset value (NAV) of the investee's U.S. GAAP audited financial statements. As of December 31, 2025 and December 31, 2024, State Fund's unfunded capital commitments were \$9,439 and \$8,583, respectively.

Fair value for bonds is primarily determined using a pricing hierarchy starting with a widely accepted pricing vendor, followed by State Fund's custodial bank, portfolio managers' independent pricing services, and other pricing services. Fair value for preferred stocks and common stocks are primarily determined using a pricing hierarchy from a widely accepted pricing vendor.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

State Fund reviews its investment portfolio to determine whether or not declines in fair value of individual securities held are other than temporary. Declines in the value of investments that are determined to be other than temporary result in a reduction in carrying amount to fair value, or, for MBSs, to the present value of expected cash flows if management has the ability and intent to hold the MBS to recovery and does not have the intent to sell the investment. If the Company intends to sell the MBS investment or loses the ability to hold it to recovery, the impairment charge is the full difference between the amortized cost and fair value. The impairment charge is included as a realized loss and a new cost basis for the security is established. To determine whether an impairment is “other than temporary,” State Fund considers many factors including credit quality, market analysis, current events, probability of recovery, the length of time and extent to which fair

value has been less than cost, the financial condition and near-term prospects of the issuers, whether the debtor is current on its contractually obligated interest and principal payments, and management’s intent and ability to hold the asset. If the decline is interest related, the Company considers whether it has an intent to sell, or lacks the ability to hold, and the security to recovery.

Investment expenses consist primarily of expenses incurred in the investing of funds and pursuit of investment income. Such expenses include custodial expenses, portfolio management, and advisory fees for the short and long-term bonds, equity counsel fees, and fees related to other invested assets, alteration to property, repairs and maintenance, utilities, real estate taxes, and other real property expenses for real estate investments.

Realized capital gains or losses on bonds, preferred stocks, common stocks, and other invested assets are recognized using specific identification method when securities are sold, redeemed, or otherwise disposed and reported as capital gains or losses in the statement of income. Unrealized gains and losses for assets carried at fair value are reflected in policyholders’ surplus.

For bonds, interest income for any period consists of interest collected during the period, the change in the due and accrued interest between the beginning and end of the period, reductions for premium amortization and interest paid on acquisitions of bonds, and the addition of discount accretion. Investment income is reduced for amounts which have been determined to be uncollectible. Contingent interest may be accrued if the applicable provisions of the underlying contract and the prerequisite conditions have been met. A bond may provide for a prepayment penalty or acceleration fee in the event the bond is liquidated prior to its scheduled termination date. Such fees are reported as investment income when received.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Dividends on common stock and preferred stocks are recorded as investment income on the ex-dividend date with a corresponding receivable to be extinguished upon receipt of cash (i.e., dividend income is recorded on stocks declared to be ex-dividends on or prior to the statement date).

Real Estate, Furniture, Equipment, and Leasehold Improvements

Real estate consists of office buildings occupied by State Fund and properties held for the production of income and are stated at cost less accumulated depreciation. Real estate held for sale is carried at the lower of depreciated cost or fair value less estimated cost to sell. On a nonrecurring basis, real estate held for sale is measured at fair value due to impairment recognition. When impaired, State Fund reports the fair value if it's less than the cost. The fair value is obtained from third-party and/or internal appraisals less estimated costs to sell. Impairment loss is measured as the amount by which the individual carrying amounts exceed the fair value of properties occupied or properties held for production. Depreciation on buildings is computed on a straight-line basis over the estimated useful life of the buildings. Buildings acquired prior to 2014 have an estimated useful life of 50 years. Whereas, buildings acquired starting in 2014 have an estimated useful life of 39 years.

Data processing equipment, telephone equipment, and capitalized internally developed software (IDS) are carried at cost less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the assets (3 years). Depreciation on office furniture and equipment is computed on a straight-line basis over the estimated useful lives of the assets (5 years). The aggregate amount of admitted data processing equipment (net of accumulated depreciation) is limited to 3% of State Fund's policyholders' surplus, adjusted for the carrying value of data processing equipment.

The cost of assets retired or otherwise disposed of, and the related accumulated depreciation thereon, are removed from the accounts with any gain or loss realized upon sale or disposal, credited, or charged to operations.

State Fund has a written capitalization policy for purchases of items such as buildings, electronic data processing equipment hardware, vehicles, furniture, fixtures, equipment, IDS, leasehold improvements, and land improvements.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Losses and Loss Adjustment Expenses

Management records its best estimate of the liabilities for losses and loss adjustment expenses (LAE). These liabilities include the estimated future cost of reported claims, the cost of claims incurred but not reported, and expenses related to investigating and settling claims. State Fund does not discount these liabilities. These liabilities are based on actuarial estimates that are subject to considerable uncertainty. Should State Fund's losses develop in the future differently from their historical loss development or those projected by the actuarial methods, actual losses would vary, perhaps significantly, from such actuarial estimates. Any adjustments to these estimates are reflected in operations when known (refer to Note 8).

Management's estimates are based on its knowledge and experience about past and current events and circumstances, and its assumptions about conditions it expects to exist in the future. Factors relevant to the estimation of loss and loss adjustment expense liabilities include the estimation of the ultimate frequency and severity of losses, the level of future medical cost inflation over long periods of time, the future legal and regulatory environment, and the amount of future expenses required to investigate and settle claims. Management's estimates are reviewed quarterly by a nationally recognized consulting actuarial firm (the Appointed Actuary). The Appointed Actuary is retained in accordance with CDI regulatory provisions as the designee to issue a statement of actuarial opinion that has been reviewed with the Board of Directors (BOD) as required by CDI regulatory provisions.

State Fund establishes case reserves for all claims. Incurred but not reported (IBNR) reserves are established on the book as a whole and include a provision for development of reserves on reported losses. State Fund's aggregate reserves are established based on in-house analyses, and input from external actuaries using a variety of reserve techniques, including paid loss development, incurred loss development, frequency-severity, and historical loss ratios adjusted to current rate levels.

Revenue Recognition and Unearned Premiums

State Fund applies the "Western Accounting Method" in which direct written premium is recognized when billed to the policyholder. Insurance premiums are recognized as earned ratably over the term of the policies, that is, in proportion to the amount of insurance protection provided. The portion of the premiums that will be earned in the future is deferred and reported as unearned premiums.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

State Fund offers two types of billing options to policyholders, payroll reporting and installment billing, based on estimated annual premium. Payroll reporting policies are billed at the back end of the billing cycles, whereas installment policies are billed at the front end of the billing cycles. Premium bills for both billing options are recorded as premiums written and earned pro rata over the policy term. Unearned premiums are established to cover the unexpired portion of premiums written. State Fund records an estimate for earned but unbilled premium (EBUB) as a direct adjustment to earned premiums. State Fund reflects 10% of EBUB in excess of collateral specifically held and identifiable on a per policy basis as a non-admitted asset. To the extent that amounts in excess of the 10% are not anticipated to be collected, they are written off against operations in the period that the determination is made.

A premium deficiency liability is recognized if the sum of anticipated losses and loss adjustment expenses, maintenance costs, and any acquisition costs not previously expensed, less anticipated investment income, exceed the unearned premiums. State Fund did not recognize a premium deficiency reserve as of December 31, 2025 and 2024, respectively.

Reinsurance

In the normal course of business, State Fund evaluates its net exposure to catastrophic and other events, and may use internal capital and/or reinsurance to manage that risk.

State Fund evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. State Fund does not believe it is exposed to any material credit risk.

State Fund analyzes its reinsurance agreements to ensure that they meet risk transfer requirements. The reinsurer must assume significant insurance risk under the reinsured portions of the underlying insurance contracts, and there must be a reasonably possible chance that the reinsurer may realize a significant loss from the transaction. Based on management's evaluation, all reinsurance agreements transfer significant insurance risk and, accordingly, are accounted for as reinsurance. Since 2023, State Fund does not have any new reinsurance agreements.

Reinsurance recoverables on paid losses and LAE are reported as assets. Estimated reinsurance recoverables on unpaid losses and LAE are recognized in a manner consistent with the liabilities related to the underlying reinsured contracts. The Loss Portfolio Transfer (LPT) agreement is

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

accounted for as retroactive reinsurance in accordance with SSAP No. 62, *Property and Casualty Reinsurance*. The LPT was fully commuted in 2025 (refer to Note 9).

Guaranty Fund and Other Assessments

In California, all insurers writing workers' compensation, including State Fund, are subject to assessment by the California Insurance Guarantee Association (CIGA) and the Department of Industrial Relations (DIR) to protect claimants against insurer insolvencies and administer various aspects of the workers' compensation system. The DIR assessment aggregates to approximately 5.04% and 6.05% of direct written premium for 2025 and 2024, respectively. Annual assessments are paid in advance, based on prior year premiums with the final assessment based on reported calendar year written premium.

Amounts prepaid in excess of the final assessment amount are available for credit against future assessments and included in guaranty fund receivables.

In California, all insurers are required by law to bill their policyholders a premium surcharge to cover such fund assessments. State Fund generally requires the policyholder to pay an estimated surcharge at policy inception. CIGA surcharges related to unexpired policies and DIR surcharges collected in excess of assessments are included in other liabilities. Additional surcharges owed by policyholders are included in guaranty fund receivables and the DIR assessments are included in other assets. State Fund remains liable to assessing agencies should policyholders fail to remit premium surcharges.

Effective for the year beginning 2019, the CIGA's Board of Governors elected not to declare an assessment for worker's compensation. Therefore, State Fund will not surcharge policies generating direct written premium in the workers' compensation beginning January 1, 2019. State Fund will continue to be obligated to fund CIGA at rates that are determined and announced annually as soon as CIGA resumes the assessment for workers' compensation. There were no CIGA assessments for 2025 and 2024.

Under the U.S. Longshoremen's and Harbor Workers' (L&H) Compensation Act, State Fund is required to make payments into a Special Fund based on a pro-rated assessment determined by the Secretary of the U.S. Department of Labor. The Special Fund was created to protect injured employees or their survivors by providing for subsequent injuries as defined by the Act. State Fund continues to record liability of \$4,200 and \$4,900 included in the other liabilities account as of

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

December 31, 2025 and 2024, respectively, for future assessments under the U.S. L&H Compensation Act, despite no longer writing new L&H policies since January 1, 2023.

Pension and Other Postemployment Benefit Plans

State Fund employees are employees of the State. Consequently, State Fund employees participate in the State pension and OPEB plans. State Fund is not directly liable for obligations under the plans. As a result, State Fund recognizes pension and OPEB expense attributable to its proportionate share of the State's pension and OPEB cost for the period.

The State employee pension plan is administered by the Public Employees' Retirement System of the State of California (CalPERS). State Fund pays CalPERS the estimated employers' share of its current employees' retirement cost based on assessments computed by CalPERS and SCO.

The State's OPEB plan provides medical, prescription drugs, and dental benefits (healthcare benefits) to retired statewide employees. The authority for establishing and amending the OPEB plan lies with CalPERS, while the authority for establishing and amending the funding policy lies with the State Legislature. The State's OPEB plan is a substantive agent-multiple employer defined benefit plan.

For the fiscal years beginning on July 1, 2016 and prior, the State's annual OPEB cost was calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined by the State in accordance with the parameters of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45).

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the service cost, or normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) (UAAL) over a period not to exceed 30 years.

For the fiscal year beginning on July 1, 2017, the State's annual OPEB expense is calculated based on the service cost, less member contributions, less the expected return on assets, plus an amortization of changes in the Net OPEB liability due to demographic experience, investment performance, assumption changes and plan changes in accordance with the parameters of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension* (GASB 75 or Statement). GASB 75 was effective for public employers' fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

reporting by state and local governments for postemployment benefits other than pensions. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria. The State adopted GASB 75 on July 1, 2017.

To comply with GASB No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and GASB 75, CalPERS and a third party actuarial firm prepared an actuarial valuation report for the State's net pension and OPEB liabilities for the State's fiscal year ended June 30, 2025, (using a valuation date of June 30, 2024). Prior to fiscal year 2018–2019, the State determined the annual allocation for State Fund based upon the relationship of pensionable compensation for State Fund compared to the total State for Pension liabilities and active employee health benefit costs for State Fund compared to the total State active employee health benefit costs for OPEB liability. Starting fiscal year 2018–2019, the State determines the annual OPEB allocation ratio for State Fund based on employer OPEB contributions consisting of prefunding contributions and pro-rata payments after application of implicit rate subsidy factor. Pension allocation basis remains unchanged. State Fund records its additional share (per GASB 45 for 2017 and prior, and per GASB 75 for 2018) of the annual OPEB cost and carries the accumulated balance (i.e., the allocated amount less the amount State Fund has funded to the State) as a liability. State Fund continues to pay on a “pay-as-you-go” funding policy since OPEB prefunding took effect on July 1, 2018, for additional contributions made by both employers and employees. Effective July 1, 2025, OPEB prefunding has been temporarily suspended through June 30, 2027.

Projected benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial calculations reflect a long-term perspective. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future. The State's UAAL for the pension and OPEB plans are based on a variety of actuarial assumptions as disclosed in the State's Annual Comprehensive Financial Report (ACFR). Separate actuarial valuations related to State Fund are not available. As a result, the portion of the State's unfunded pension and OPEB liabilities attributable to State Fund is estimated by State Fund, and will change over time.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

State Fund recognizes in the statement of income only the annual service cost allocation from the State, as this is the Company's current year expense for the plan for the period, in accordance with Statutory accounting for plans in which an insurer participates but is not directly liable. In December 2012, State Fund established a special surplus account to provide for the portion of the contingency for OPEB and pension costs that have not already been accrued as a liability, as permitted by SSAP No. 72, *Surplus and Quasi-Reorganizations*. The annual UAAL allocation from the State is recorded as a direct reduction to the special surplus account prior to 2019. In December 2019, State Fund reclassified its portion of OPEB and pension total liabilities based on its proportionate share provided by SCO as per compliance with GASB 68 and 75, following SSAP No. 5, *Liabilities, Contingencies and Impairment of Assets*. These resulted in State Fund reducing its special surplus for OPEB and pension and increasing its corresponding liabilities (refer to Note 11).

Effective in 2020, the pension contributions pertaining to the Amortization of Unfunded Liability are applied as a reduction to pension liability and the remaining amounts representing the normal costs are recorded as pension expenses (refer to Note 11).

State Fund continued to engage a third party for retirement actuarial consulting services to project the impact on statutory accounting from GASB 68 and GASB 75. All actuarial methodologies, assumptions, and results as of June 30, 2025, discussed herein were provided to State Fund by the State and were used by State Fund's external pension actuary for projection as of December 31, 2025, for year-end reporting purposes. In accordance with State Fund's policy, the total amount reported, comprising both liability and special surplus, reflects the higher of the State-provided estimated liability and the third-party actuarial valuation.

Related Parties

State Fund has an agreement with CalHR to adjust the workers' compensation claims and process the payments related to those claims on behalf of state agencies. This is referred to as State Contracts. State Fund pays compensation benefits to the injured workers and medical benefits to the health providers. State Fund is reimbursed by the state agencies for compensation and medical benefits paid, and the cost of adjusting. State Fund also bills monthly service fees for processing these claims on a full cost recovery basis. State Fund records a receivable for the reimbursements and monthly service fees under "Due from adjusting contracts". All agencies make deposits in a trust account that is held by State Fund for future bills. The deposits are included under other liabilities in the statements of admitted assets, liabilities, and policyholders' surplus.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

State Fund is exempt from income taxation under the Internal Revenue Code 501(a). State Fund pays premium taxes to the CDI.

3. Risk-Based Capital

California law imposes risk-based capital (RBC) requirements on admitted California insurance companies, including State Fund. These RBC requirements set forth a calculation to determine the required levels of policyholders' surplus, and provide certain consequences for failure to meet these requirements. State Fund operates in conformity with the California law imposed for RBC. As of December 31, 2025 and 2024, State Fund's policyholders' surplus exceeded the minimum RBC requirements.

4. Investment Securities

State Fund has several types of investments, but the investments primarily comprised of bonds and common stocks.

Bonds

With the implementation of PBBD, bonds are classified as either Issuer Credit Obligations (ICO) or Asset-Backed Securities (ABS). This guidance was adopted prospectively; accordingly, the following bond tables as of December 31, 2025 reflect the updated classification framework. Prior period amounts have not been restated and continue to be presented in accordance with the guidance in effect at that time. As a result, the 2024 bond tables do not reflect the ICO and ABS classifications.

The carrying value, gross unrealized gains and losses, and fair value of investments in bonds are as follows:

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

4. Investment Securities (continued)

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2025				
Issuer Credit Obligations:				
Bonds issued by funds representing operating entities	\$ 10,000	\$ 485	\$ -	\$ 10,485
Corporate bonds	8,259,675	93,925	(571,108)	7,782,492
Municipal bonds	2,121,999	15,311	(251,825)	1,885,485
Other governments	77,850	1,831	-	79,681
Single entity backed	4,373	247	-	4,620
U.S. government	41,991	1,091	-	43,082
Asset-Backed Securities:				
Mortgage-backed securities	7,665,537	68,671	(433,229)	7,300,979
Other Asset-Backed Securities	265,779	2,826	(8,220)	260,385
Total	\$ 18,447,204	\$ 184,387	\$ (1,264,382)	\$ 17,367,209

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2024				
All other governments	\$ 4,996	\$ -	\$ (147)	\$ 4,849
Industrial and miscellaneous	9,174,418	21,272	(886,782)	8,308,908
Hybrid securities	68,768	5,073	(43)	73,798
Political subdivisions	516,739	1,026	(80,410)	437,355
Special revenue/assessment	2,143,749	4,164	(268,240)	1,879,673
States, territories, and possessions	162,306	528	(15,478)	147,356
U.S. government	42,070	-	(366)	41,704
Mortgage-backed securities:				
Special revenue/assessment	6,253,821	8,749	(680,081)	5,582,489
U.S. government	394,489	651	(22,271)	372,869
Total	\$ 18,761,356	\$ 41,463	\$ (1,953,818)	\$ 16,849,001

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

4. Investment Securities (continued)

The tables below reflect the summary of temporarily impaired financial instruments:

	12 Months or Under		Over 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2025						
Issuer Credit Obligations:						
Corporate Bonds	\$ 571,809	\$ (4,414)	\$ 3,076,687	\$ (566,694)	\$ 3,648,496	\$ (571,108)
Municipal bonds	117,249	(2,088)	1,289,711	(249,738)	1,406,960	(251,825)
Asset-Backed Securities:						
Mortgage-backed securities	567,367	(2,699)	3,194,060	(430,531)	6,761,427	(433,230)
Other Asset-Backed Securities	65,707	(719)	54,407	(7,500)	120,114	(8,219)
Total	\$ 1,322,132	\$ (9,920)	\$ 7,614,865	\$ (1,254,463)	\$ 8,936,997	\$ (1,264,382)

	12 Months or Under		Over 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2024						
All other governments	\$ -	\$ -	\$ 4,849	\$ (147)	\$ 4,849	\$ (147)
Industrial and miscellaneous	1,257,391	(28,586)	5,854,588	(858,196)	7,111,979	(886,782)
Hybrid securities	12,612	(43)	-	-	12,612	(43)
Political subdivisions	42,324	(1,811)	297,003	(78,599)	339,327	(80,410)
Special revenue/assessment	292,332	(9,523)	1,328,336	(258,717)	1,620,668	(268,240)
States, territories, and possessions	37,255	(1,071)	73,917	(14,407)	111,172	(15,478)
U.S. government	41,704	(366)	-	-	41,704	(366)
Mortgage-backed securities:						
Special revenue/assessment	1,450,535	(49,480)	3,644,888	(630,601)	5,095,423	(680,081)
U.S. government	139,277	(4,918)	180,383	(17,353)	319,660	(22,271)
Total	\$ 3,273,430	\$ (95,798)	\$ 11,383,964	\$ (1,858,020)	\$ 14,657,394	\$ (1,953,818)

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

4. Investment Securities (continued)

As of December 31, 2025 and 2024, 1,818 and 2,841 securities were in an unrealized loss position, which resulted in an unrealized loss of \$1,264,382 and \$1,953,818, respectively. The decrease in unrealized losses as of December 31, 2025, relative to 2024, was primarily attributable to lower U.S. Treasury yields and restructuring the fixed income portfolio. The majority of the restructuring program was completed in 2025, and was aimed at locking in higher book yields while maintaining overall portfolio duration and credit quality. State Fund's bond portfolio is primarily comprised of investment grade securities. As of December 31, 2025 and 2024, 99% of all bonds held by State Fund were rated Class 1 or Class 2 by the NAIC. State Fund concluded that the gross unrealized losses as of those dates were temporary in nature.

For the year ended 2025 and 2024, State Fund recognized \$675 and \$4,120 other-than-temporary impairments on bonds, respectively.

The carrying value and fair value of bonds as of December 31, 2025, by contractual maturity, are shown below. MBS expected maturities are sensitive to early prepayments, causing the actual life of the investment to deviate from contractual maturities, so they are listed separately.

	2025	
	Carrying Value	Fair Value
Due in one year or less	\$ 200,090	\$ 200,250
Due after one year through five years	2,859,876	2,849,310
Due after five years through ten years	4,455,504	4,318,071
Due after ten years through twenty years	2,016,419	1,753,650
Due after twenty years	1,367,335	1,062,538
Mortgage-backed securities	7,665,537	7,300,979
Total	\$ 18,564,761	\$ 17,484,798

Proceeds from sales of bonds during 2025 were \$5,257,466 with gross realized gains of \$6,903 and gross realized losses of \$172,862. Proceeds from sales of bonds during 2024 were \$2,345,723 with gross realized gains of \$8,484 and gross realized losses of \$24,518.

State Fund had \$41,991 and \$42,070 on deposit with the Federal Reserve Bank of St. Louis as of December 31, 2025 and 2024, respectively, to satisfy the U.S. Department of Labor regulations relating to State Fund's U.S. L&H policies. All deposits were admitted assets.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

4. Investment Securities (continued)

Wilmington Trust N.A. held securities pledged by State Fund as collateral under an assumed reinsurance arrangement totaling \$6,347 as of December 31, 2025. These pledged securities secure State Fund's obligations under the related agreement. All securities were admitted assets.

Preferred Stocks

The tables below reflect costs, gross unrealized gains and losses, accretion, fair value for perpetual preferred stocks, and carrying value for redeemable preferred stocks of investments in preferred stocks:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Accretion	Fair Value/ Carrying Value
December 31, 2025					
Industrial and miscellaneous – perpetual preferred	\$ 39,989	\$ 635	\$ (750)	\$ -	\$ 39,874
Industrial and miscellaneous – redeemable preferred	4,935	-	-	10	4,945
Total preferred stocks	<u>\$ 44,924</u>	<u>\$ 635</u>	<u>\$ (750)</u>	<u>\$ 10</u>	<u>\$ 44,819</u>

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Accretion	Fair Value/ Carrying Value
December 31, 2024					
Industrial and miscellaneous – perpetual preferred	\$ 27,377	\$ 879	\$ (160)	\$ –	\$ 28,096
Industrial and miscellaneous – redeemable preferred	4,935	–	–	5	4,940
Total preferred stocks	<u>\$ 32,312</u>	<u>\$ 879</u>	<u>\$ (160)</u>	<u>\$ 5</u>	<u>\$ 33,036</u>

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

4. Investment Securities (continued)

The tables below reflect the summary of temporarily impaired preferred stocks:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2025						
Industrial and miscellaneous – perpetual preferred	\$ 20,747	\$ (634)	\$ (1,053)	\$ (116)	\$ (21,800)	\$ (750)
Total preferred stocks	\$ 20,747	\$ (634)	\$ (1,053)	\$ (116)	\$ (21,800)	\$ (750)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2024						
Industrial and miscellaneous – perpetual preferred	\$ 9,683	\$ (160)	\$ –	\$ –	\$ 9,683	\$ (160)
Total preferred stocks	\$ 9,683	\$ (160)	\$ –	\$ –	\$ 9,683	\$ (160)

There were no sales or disposals of preferred stocks during 2025.

Proceeds from sales or disposals of preferred stocks during 2024 were \$7,616 with gross realized gains of \$730.

Common Stocks

The tables below reflect costs, gross unrealized gains and losses, and fair value of investments in common stocks:

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

4. Investment Securities (continued)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2025				
Industrial and miscellaneous	\$ 798,907	\$ 180,735	\$ (20,284)	\$ 959,358
Total common stocks	<u>\$ 798,907</u>	<u>\$ 180,735</u>	<u>\$ (20,284)</u>	<u>\$ 959,358</u>
December 31, 2024				
Industrial and miscellaneous	\$ 652,515	\$ 173,104	\$ (10,449)	\$ 815,170
Total common stocks	<u>\$ 652,515</u>	<u>\$ 173,104</u>	<u>\$ (10,449)</u>	<u>\$ 815,170</u>

The tables below reflect the summary of temporarily impaired common stocks:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2025						
Industrial and miscellaneous	\$ 203,348	\$ (16,862)	\$ 18,358	\$ (3,422)	\$ 221,706	\$ (20,284)
Total common stocks	<u>\$ 203,348</u>	<u>\$ (16,862)</u>	<u>\$ 18,358</u>	<u>\$ (3,422)</u>	<u>\$ 221,706</u>	<u>\$ (20,284)</u>
December 31, 2024						
Industrial and miscellaneous	\$ 124,453	\$ (9,318)	\$ 4,725	\$ (1,131)	\$ 129,178	\$ (10,449)
Total common stocks	<u>\$ 124,453</u>	<u>\$ (9,318)</u>	<u>\$ 4,725</u>	<u>\$ (1,131)</u>	<u>\$ 129,178</u>	<u>\$ (10,449)</u>

Proceeds from sales or disposals of common stocks during 2025 were \$437,034 with gross realized gains of \$105,477 and gross realized losses of \$8,597. Proceeds from sales or disposals of common stocks during 2024 were \$206,139 with gross realized gains of \$59,980 and gross realized losses of \$2,658. State Fund recognized \$2,127 and \$5,203 other-than-temporary impairments on common stocks for the years ended 2025 and 2024, respectively.

State Fund is a member of FHLB of San Francisco and owns a Class B membership stock that is not eligible for redemption. As of December 31, 2025 and 2024, the par value of FHLB stock was \$18,829 and \$21,223, respectively. The stock was admitted asset.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

4. Investment Securities (continued)

Structured Securities and Other

State Fund does not engage in subprime residential mortgage lending and has no direct subprime mortgage-related risk exposure as of December 31, 2025 and 2024. State Fund invests in MBS that are primarily backed by government agencies or government-sponsored entities, specifically Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). These types of securities are collateralized by loans, but are ultimately backed by the issuing agencies. GNMA securities are guaranteed by the U.S. Treasury. State Fund, as well as other state and local agencies, are authorized to invest funds in the State's Pooled Money Investment Account (PMIA). State Fund's holdings in the PMIA at December 31, 2025 and 2024, were \$9,606 and \$5,716, respectively.

There were no structured securities as of December 31, 2025 and 2024. Net investment income earned by investment category is as follows:

	Year Ended December 31	
	2025	2024
Bonds	\$ 711,840	\$ 648,289
Preferred stocks	2,303	2,031
Common stocks	15,743	15,798
Real estate	28,267	31,257
Other	13,896	6,339
Total investment income	772,049	703,714
Less: investment expenses	(127,590)	(128,518)
Net investment income	\$ 644,459	\$ 575,196

As of December 31, 2025, State Fund had investment income due and accrued of \$139,853, including a non-admitted amount of \$3. As of December 31, 2024, State Fund had investment income due and accrued of \$131,719.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

5. Fair Value Measurement

State Fund categorizes its financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique, per SSAP No. 100. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest-priority-level input that is significant to the fair value measurement of the instrument in its entirety.

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs, other than quoted prices, that are observable by a marketplace participant, either directly or indirectly
- Level 3 – Unobservable inputs that are significant to the fair value measurement

The tables below summarize State Fund’s fair value of financial instruments by Level 1, 2 and 3:

	Level 1	Level 2	Level 3	Total
December 31, 2025				
Financial assets:				
Bonds	\$ -	\$ 17,367,208	\$ -	\$ 17,367,208
Preferred stocks	-	44,595	-	44,595
Common stocks	940,529	18,829	-	959,358
Cash, cash equivalents, and short-term investments	163,069	-	-	163,069
Receivables for securities	984	-	-	984
Total	\$ 1,104,582	\$ 17,430,632	\$ -	\$ 18,535,214
Financial liabilities:				
Borrowed money and interest thereon	\$ -	\$ 619,956	\$ -	\$ 619,956
Payables for securities	404	-	-	404
Total	\$ 404	\$ 619,956	\$ -	\$ 620,360

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

5. Fair Value Measurement (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2024				
Financial assets:				
Bonds	\$ –	\$ 16,849,001	\$ –	\$ 16,849,001
Preferred stocks	–	33,153	–	33,153
Common stocks	793,947	21,223	–	815,170
Cash, cash equivalents, and short-term investments	192,037	24,833	–	216,870
Receivables for securities	55	–	–	55
Total	\$ 986,039	\$ 16,928,210	\$ –	\$17,914,249
Financial liabilities:				
Borrowed money and interest thereon	\$ –	\$ 678,389	\$ –	\$ 678,389
Total	\$ –	\$ 678,389	\$ –	\$ 678,389

Observable inputs for Level 2 fair values may include price information, revenue growth, changes in profitability, volatility factors, specific and broad credit data, such as interest rates and credit spreads from similarly traded instruments.

6. Borrowed Money

Supplemental Employer Pension Contributions (Senate Bill No. 84)

Senate Bill No. (SB) 84 requires the State Controller to transfer up to \$6,000,000 from the Surplus Money Investment Fund and other funds in the PMIA that accrue interest to the General Fund as a cash loan, the proceeds of which would supplement the State's employer pension contributions for the 2017–2018 fiscal year. The bill principal loan balance was fully paid off on June 4, 2025. Accordingly, there was no outstanding loan balance or accrual interest payable as of December 31, 2025. As of December 31, 2024, State Fund's SB 84 loan balance and accrued interest payable were \$5,490 and \$176, respectively. In 2025, State Fund incurred and paid interests of \$556 and \$226, respectively. In 2024, State Fund incurred and paid interests of \$565 and \$988, respectively. The interest rate is the yield of the two-year constant maturity United States Treasury rate.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

6. Borrowed Money (continued)

Federal Home Loan Bank (FHLB) Agreements

State Fund has pledged bonds to FHLB in exchange for cash advances to utilize for operations and investment in short and intermediate-term bonds. Under the Securities Backed Credit Program, members of the FHLB may borrow based on current market value of its eligible securities pledged. FHLB assigned the appropriate borrowing capacity to each security according to the security type and then determines the total borrowing capacity as a percentage of the market value of the Securities Backed Credit collateral. The current borrowing of \$606,408 is subject to prepayment penalties.

The table below summarizes the FHLB pledge and borrowing. All FHLB pledged securities were admitted assets:

	2025	2024
Actual or estimated borrowing capacity as of reporting date	\$ 1,696,310	\$ 1,778,950
Collateral amount pledged as of reporting date:		
Fair value	1,871,961	1,967,752
Carrying value	2,125,955	2,332,493
Maximum collateral amount pledged during the reporting period:		
Fair value	1,994,854	2,182,766
Carrying value	2,302,528	2,518,621
Maximum amount borrowed during the reporting period	683,503	751,935
Borrowing from FHLB as of reporting date	\$ 606,408	\$ 683,503
Accrued interest on borrowing	6,587	6,858
Total borrowing and accrued interest	\$ 612,995	<u>\$ 690,361</u>

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)

(Dollars in Thousands)

6. Borrowed Money (continued)

The tables below summarize the date issued, maturity date, face value, carrying value, interest rate and effective interest rate, and interest paid related to the FHLB borrowing agreement:

December 31, 2025					
Date Issued	Maturity Date	Face Value/ Carrying Value	Interest Rate	Effective Interest Rate	Interest Paid
3/25/2022	1/4/2027	\$ 8,200	2.75%	2.75%	\$ 229
3/25/2022	1/2/2026	10,000	2.74%	2.74%	278
3/29/2022	4/1/2027	1,750	2.74%	2.74%	49
4/26/2022	2/1/2027	20,000	3.10%	3.10%	629
10/18/2022	7/1/2027	2,600	4.45%	4.45%	117
10/19/2022	6/15/2027	7,465	4.46%	4.46%	338
11/15/2022	11/15/2027	19,250	4.16%	4.16%	812
1/6/2023	1/6/2028	13,250	4.08%	4.08%	548
3/1/2023	1/20/2028	9,500	4.42%	4.42%	426
3/9/2023	1/21/2028	17,960	4.52%	4.52%	823
4/24/2023	4/20/2028	29,100	3.94%	3.94%	1,162
4/28/2023	3/15/2028	23,970	3.80%	3.80%	924
5/11/2023	6/3/2027	10,050	3.81%	3.81%	388
5/15/2023	7/22/2026	9,960	3.97%	3.97%	401
5/16/2023	1/27/2027	22,610	3.91%	3.91%	896
5/19/2023	5/19/2028	45,445	3.90%	3.90%	1,797
5/23/2023	6/9/2026	22,600	4.28%	4.28%	981
6/2/2023	3/2/2028	20,440	4.08%	4.08%	846
6/8/2023	3/30/2028	20,300	4.07%	4.07%	838
6/5/2023	5/30/2028	10,046	4.17%	4.17%	425
6/15/2023	1/14/2028	14,080	4.25%	4.25%	607
7/17/2023	6/7/2027	2,870	4.43%	4.43%	129
7/19/2023	6/7/2027	6,660	4.42%	4.42%	298
7/19/2023	9/1/2027	4,660	4.38%	4.38%	207
7/26/2023	2/1/2028	12,935	4.45%	4.45%	584
7/26/2023	5/24/2027	23,477	4.59%	4.59%	1,093
7/27/2023	3/27/2028	24,520	4.42%	4.42%	1,099
10/6/2023	8/16/2028	9,800	4.93%	4.93%	490
10/6/2023	4/27/2026	24,900	5.15%	5.15%	1,300
10/6/2023	8/16/2028	5,000	4.92%	4.92%	249
10/10/2023	5/21/2027	23,200	5.15%	5.15%	1,211
10/16/2023	5/15/2028	14,180	4.88%	4.88%	702
10/16/2023	7/3/2028	19,780	4.88%	4.88%	979

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

6. Borrowed Money (continued)

December 31, 2025					
Date Issued	Maturity Date	Face Value/ Carrying Value	Interest Rate	Effective Interest Rate	Interest Paid
10/17/2023	10/17/2028	\$ 16,660	4.82%	4.82%	\$ 814
10/20/2023	10/20/2026	11,250	5.28%	5.28%	602
10/20/2023	3/24/2028	9,400	5.19%	5.19%	495
10/26/2023	10/26/2026	5,000	5.13%	5.13%	260
8/9/2024	8/9/2029	1,250	4.02%	4.02%	51
8/13/2024	8/13/2029	1,495	4.01%	4.01%	61
3/21/2025	3/21/2030	4,000	4.29%	4.29%	88
4/23/2025	4/24/2028	10,000	4.00%	4.00%	204
4/23/2025	4/24/2028	10,000	4.00%	4.00%	204
4/25/2025	4/25/2028	3,750	4.00%	4.00%	77
5/8/2025	5/8/2030	23,045	4.09%	4.09%	487
		<u>\$ 606,408</u>			<u>\$ 25,198</u>

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)

(Dollars in Thousands)

6. Borrowed Money (continued)

December 31, 2024					
Date Issued	Maturity Date	Face Value/ Carrying Value	Interest Rate	Effective Interest Rate	Interest Paid
3/19/2020	3/19/2025	\$ 7,250	1.46%	1.46%	\$ 108
3/20/2020	3/3/2025	1,940	1.38%	1.38%	27
3/23/2020	3/24/2025	21,260	1.38%	1.38%	298
3/24/2020	3/24/2025	1,750	1.58%	1.58%	28
3/25/2020	3/25/2025	14,980	1.58%	1.58%	241
3/27/2020	3/27/2025	3,150	1.58%	1.58%	51
3/30/2020	3/31/2025	9,000	1.45%	1.45%	133
3/30/2020	3/31/2025	4,000	1.10%	1.10%	45
4/7/2020	4/7/2025	1,600	0.94%	0.94%	15
5/22/2020	2/13/2025	14,460	0.67%	0.67%	98
3/25/2022	1/2/2026	10,000	2.74%	2.74%	279
3/25/2022	1/4/2027	8,200	2.75%	2.75%	229
3/29/2022	4/1/2027	1,750	2.74%	2.74%	49
4/26/2022	2/1/2027	20,000	3.10%	3.10%	630
8/26/2022	8/28/2025	3,750	3.59%	3.59%	137
10/18/2022	7/1/2027	2,600	4.45%	4.45%	118
10/19/2022	6/15/2027	7,465	4.46%	4.46%	338
11/4/2022	11/4/2025	2,500	4.70%	4.70%	119
11/7/2022	10/27/2025	15,000	4.89%	4.89%	746
11/15/2022	11/15/2027	19,250	4.16%	4.16%	814
1/6/2023	1/6/2028	13,250	4.08%	4.08%	550
3/1/2023	1/20/2028	9,500	4.42%	4.42%	427
3/9/2023	1/21/2028	17,960	4.52%	4.52%	825
4/24/2023	4/20/2028	29,100	3.94%	3.94%	1,166
4/28/2023	3/15/2028	23,970	3.80%	3.80%	926
5/1/2023	5/1/2026	2,000	4.08%	4.08%	83
5/11/2023	6/3/2027	10,050	3.81%	3.81%	389
5/15/2023	7/22/2026	9,960	3.97%	3.97%	402
5/16/2023	1/27/2027	22,610	3.91%	3.91%	899
5/18/2023	5/19/2025	25,250	4.32%	4.32%	1,109
5/19/2023	5/19/2028	45,445	3.90%	3.90%	1,802
5/23/2023	6/9/2026	22,600	4.28%	4.28%	983
6/2/2023	3/2/2028	20,440	4.08%	4.08%	848

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

6. Borrowed Money (continued)

December 31, 2024					
Date Issued	Maturity Date	Face Value/ Carrying Value	Interest Rate	Effective Interest Rate	Interest Paid
6/8/2023	3/30/2028	\$ 20,300	4.07%	4.07%	\$ 840
6/5/2023	5/30/2028	10,046	4.17%	4.17%	426
6/15/2023	1/14/2028	14,080	4.25%	4.25%	608
7/17/2023	6/7/2027	2,870	4.43%	4.43%	129
7/19/2023	9/1/2027	4,660	4.38%	4.38%	208
7/19/2023	6/7/2027	6,660	4.42%	4.42%	299
7/26/2023	5/24/2027	23,477	4.59%	4.59%	1,096
7/26/2023	2/1/2028	12,935	4.45%	4.45%	585
7/27/2023	3/27/2028	24,520	4.42%	4.42%	1,102
10/6/2023	8/16/2028	9,800	4.93%	4.93%	423
10/6/2023	4/27/2026	24,900	5.15%	5.15%	1,304
10/6/2023	8/16/2028	5,000	4.92%	4.92%	215
10/10/2023	5/21/2027	23,200	5.15%	5.15%	1,215
10/16/2023	5/15/2028	14,180	4.88%	4.88%	704
10/16/2023	7/3/2028	19,780	4.88%	4.88%	700
10/17/2023	10/17/2028	16,660	4.82%	4.82%	816
10/20/2023	10/20/2026	11,250	5.28%	5.28%	604
10/20/2023	3/24/2028	9,400	5.19%	5.19%	461
10/26/2023	10/26/2026	5,000	5.13%	5.13%	261
8/9/2024	8/6/2029	1,250	4.02%	4.02%	-
8/13/2024	8/13/2029	1,495	4.01%	4.01%	-
		<u>\$ 683,503</u>			<u>\$ 26,908</u>

Based on the advance agreement, State Fund is subject to normal covenants of compliance with the FHLB credit program, compliance with applicable laws, providing reports as FHLB may require, insurance on the collateral, and notices for specified events such as defaults, mergers, change in charter, etc. There have been no violations of the terms and covenants for the advances.

As of December 31, 2025 and 2024, State Fund had long-term unused lines of credit from FHLB of \$1,436,145 and \$1,384,169, respectively.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

7. Real Estate, Furniture, Equipment, and Leasehold Improvements

Real estate is comprised of the following:

	December 31	
	2025	2024
Property occupied by the Company	\$ 258,357	\$ 326,436
Property held for the production of income	98,583	48,870
Property held for sale	32,650	–
	389,590	375,306
Accumulated depreciation	(130,591)	(122,024)
Total	\$ 258,999	\$ 253,282

Depreciation expense on real estate was \$8,567 and \$8,195 for the years ended December 31, 2025 and 2024, respectively. No impairment was recognized on real estate during 2025. During 2024, State Fund recognized an impairment loss of \$6,722, which was included in net capital gain, prior to the sale of its property. Proceeds from this sale were \$13,718, resulting in a realized gain of \$421.

As of December 31, 2025, a property was classified as held for sale. The property is currently in escrow and is expected to close in June 2026.

Furniture, equipment, and leasehold improvements are included in other assets and comprise the following:

	December 31	
	2025	2024
Data processing equipment and software	\$ 246,044	\$ 243,401
Office furniture, equipment, and leasehold improvements	71,180	79,534
	317,224	322,935
Accumulated depreciation	(292,203)	(280,316)
	25,021	42,619
Non-admitted assets	(22,368)	(39,281)
Total	\$ 2,653	\$ 3,338

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

7. Real Estate, Furniture, Equipment, and Leasehold Improvements (continued)

Depreciation and amortization expenses on furniture, equipment, and leasehold improvements were \$4,121 and \$4,257 for the years ended December 31, 2025 and 2024, respectively.

8. Estimated Liabilities for Losses and Loss Adjustment Expenses

The table below reflects changes in the estimated liabilities for losses and loss adjustment expenses over the prior 12 months through December 31, 2025 and 2024. Loss and loss adjustment expense reserves are shown net of reinsurance but gross of the impact of an LPT.

	2025	2024
Estimated liabilities for losses and loss adjustment expenses as of January 1, 2025 and 2024, net of ceded reinsurance of \$19,820 and \$22,559, respectively	\$ 10,171,326	\$ 10,805,330
Add incurred related to:		
Current year	985,537	1,070,820
Prior years	(610,055)	(544,214)
Total incurred	375,482	526,606
Less paid related to:		
Current year	171,532	181,786
Prior years	966,994	978,824
Total paid	1,138,526	1,160,610
Estimated liabilities for losses and loss adjustment expenses as of December 31, 2025 and 2024, net of ceded reinsurance of \$15,130 and \$19,820, respectively	\$ 9,408,282	\$ 10,171,326

The decrease in incurred losses and loss adjustment expenses on insured events in prior years were approximately \$610,055 and \$544,214 in 2025 and 2024, respectively. In 2025 and 2024, the significant releases in reserves were attributed to lower claims trend in California workers' compensation market and Claims programs' continued improvement to quality and timely claim closure. For both years 2025 and 2024, the decreases were due to favorable developments on loss and LAE reserves.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)

(Dollars in Thousands)

8. Estimated Liabilities for Losses and Loss Adjustment Expenses (continued)

Subrogation recoveries are considered when setting loss reserves. The estimated subrogation included as a reduction to IBNR was \$30,602 and \$39,170 as of December 31, 2025 and 2024, respectively.

State Fund writes workers' compensation insurance, a line that exposes State Fund to long-term liabilities with a potential for significant reserve variability. Management has identified the major risk factors in reserve estimation as medical inflation and changes in utilization of medical procedures, exposure to the retroactive impact of future legislative, regulatory and judicial decisions that impact medical treatment and delivery and Medicare set-aside requirements.

The workers' compensation benefit program provides medical care for the lifetime of the claimant in some cases. This exposes any current estimate of future liability to the uncertainties of future medical cost inflation. State Fund uses various development modeling techniques to assist in the evaluation of its reserves under the direction of its management.

These risk factors, coupled with the variability that is inherent in reserve estimation, could result in material adverse deviation from the carried estimated liabilities for losses and LAE.

As a workers' compensation carrier, State Fund has incidental exposure to asbestos and environmental claims. Given that State Fund's book is principally small to medium size businesses, State Fund has no significant asbestos and environmental exposure aggregations. Claims are made up on a per claim basis.

The table below reflects the amount paid and reserved for losses and loss adjustment expenses for asbestos claims on direct, assumed, and net of reinsurance bases:

	2025	2024
Asbestos, direct:		
Beginning reserves (including case, bulk and IBNR, and LAE)	\$ 40,288	\$ 45,402
Losses and LAE incurred	-	(4,000)
Calendar year payments for losses and LAE	(1,118)	(1,114)
Ending reserves (including case, bulk and IBNR, and LAE)	\$ 39,170	\$ 40,288

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)

(Dollars in Thousands)

8. Estimated Liabilities for Losses and Loss Adjustment Expenses (continued)

There were no asbestos claims with ceded reserves as of December 31, 2025 and 2024, respectively.

State Fund has purchased annuities from life insurers under which the claimants are payees. State Fund requires the insurance companies that underwrite structured settlement annuities to have an A.M. Best credit rating of A+ or better. The present value of purchased annuities reported to State Fund by the issuers, equal to the elimination of loss reserves, was \$583,346 and \$631,507 at December 31, 2025 and 2024, respectively. This represents the discounted amount, as the nominal amount is not currently readily available from the issuers. These annuities have been used to reduce unpaid losses. State Fund is contingently liable for 100% of the annuities should the issuers of the annuities fail to perform under the terms of the annuities, which would require State Fund to report these obligations at the nominal value.

9. Reinsurance

Ceded Reinsurance

Certain premiums and losses are ceded to other insurance companies under various historical reinsurance agreements. State Fund has reported ceded reinsurance balances (prior to the LPT) as follows:

	Year Ended December 31	
	2025	2024
Reinsurance ceded:		
Loss and loss adjustment expense incurred	\$ 7,034	\$ 886
Loss and loss adjustment expense recoverable	15,515	23,864

Ceded loss and loss adjustment expense recoverable includes \$12,190 and \$17,987 from Reliastar Life Insurance Company as of December 31, 2025 and 2024, respectively.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)

(Dollars in Thousands)

9. Reinsurance (continued)

During 2025, State Fund wrote off uncollectible reinsurance balances consisting of \$2,682 in losses incurred and \$23 in LAE. The table below reflects the specific reinsurers and related amounts written off during the period:

Reinsurer	Amount
Reliastar Life Ins Co	\$ 2,444
Old Republic Ins Co	74
I.R.B. Instituto De Resseguros	57
Continental Casualty Company	50
Travelers Indemnity Company	50
Yasuda Fire & Marine Ins Europe	30

State Fund remains liable for amounts ceded in the event that reinsurers are unable to honor their obligations.

State Fund cedes insurance risk relating to its workers' compensation business on multiple reinsurance treaties to multiple reinsurance companies. In accordance with statutory accounting practices, the reinsured risks are reflected net of the related loss and loss adjustment expense reserves.

State Fund does not have an unsecured aggregate recoverable for losses, paid and unpaid, loss adjustment expenses, and unearned premium with any individual reinsurers, authorized or unauthorized, that exceeds 3% of its policyholders' surplus.

Catastrophic Reinsurance

State Fund's underwriting risk exposure is concentrated in California. As such, State Fund is exposed to earthquakes, terrorist acts, and other catastrophic events. These have not had significant adverse effects on operations in the past, but could present risks in the future. Each year, State Fund evaluates catastrophic risk as well as mitigation strategies.

For 2025 and 2024, State Fund did not purchase reinsurance protection.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)

(Dollars in Thousands)

9. Reinsurance (continued)

For terrorism incidents in 2025, including losses generated from nuclear, biological, chemical, or radiological events, State Fund was covered by the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA). TRIPRA provided coverage for 80% of losses in excess of 20% of 2024 Direct Earned Premium, or approximately \$217,000, subject to a statutorily determined industry-wide maximum.

For terrorism incidents in 2024, including losses generated from nuclear, biological, chemical, or radiological events, State Fund was covered by the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA). TRIPRA provided coverage for 80% of losses in excess of 20% of 2023 Direct Earned Premium, or approximately \$228,000, subject to a statutorily determined industry-wide maximum.

Commutation

For the year ended December 31, 2025, State Fund commuted certain reinsurance contracts with recoverable on unpaid losses and loss expense of \$3, from Employers Insurance of Wausau. State Fund's commutation settlement proceeds, net of reinsurance recoverable on paid losses and loss expense was \$16. The net effect of the commutation was a decrease in losses and loss expense of \$13.

For the year ended December 31, 2024, State Fund had no commutation of ceded reinsurance.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

9. Reinsurance (continued)

Loss Portfolio Transfer (LPT)

In August 2002, State Fund entered into a Loss Portfolio Transfer agreement (LPT) with XL Re Ltd. and ACE Bermuda Insurance Ltd. (the Reinsurers). The retroactive reinsurance agreement reinsured losses paid after January 1, 2002, on accident years 1980 through 1998. Under the LPT, State Fund retains liability for the first \$950,000 of aggregate subject losses. In the first reinsured layer of coverage, the Reinsurers are liable for a 90% share of the next \$1,150,000 of subject losses. Upon exhaustion of the first layer, State Fund retains the next \$200,000 of subject losses in excess of \$2,100,000. Then, in a second reinsured layer, the Reinsurers are liable for a 90% share of the next \$300,000 of subject losses. The maximum amount recoverable from the Reinsurers under both reinsured layers of the treaty is 90% of \$1,450,000.

Under the LPT, State Fund initially recorded a retroactive ceded loss reserves credit of \$1,035,000 for a payment of \$728,744, thus recognizing a retroactive gain of \$319,756. The gain was recorded as special surplus for retroactive reinsurance. The special surplus arising from the transaction will be considered to be earned surplus and transferred to unassigned funds (surplus) when cash recoveries from the Reinsurers exceed the total consideration paid by State Fund for the LPT. Additionally, State Fund received \$1,791 as interest on monies held by the Reinsurers prior to the final consummation of the LPT. This resulted in a net amount paid by State Fund of \$726,953.

As of December 31, 2005, State Fund's carried gross loss reserves for the subject losses exceeded the upper limit of the second layer of the treaty. State Fund increased retroactive ceded reserves by an additional \$270,000 (the \$300,000 in the second layer less State Fund's 10% retention). As a result, State Fund recognized an additional retroactive gain of \$256,500 (\$270,000 net of a \$13,500 deposit with Reinsurers for the coverage). Special surplus for retroactive reinsurance increased from \$319,800 in 2004 to \$576,300 at year-end of 2005. The special surplus for retroactive reinsurance began to decline in 2012 as the total recovered balance began to exceed LPT consideration paid. The special surplus for retroactive reinsurance was reduced by \$35,572 in 2023 and \$38,627 in 2022 and transferred to unassigned surplus.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

9. Reinsurance (continued)

Effective January 1, 2007, XL Re Ltd. assumed all the rights and obligations of Ace Bermuda Insurance Ltd. to State Fund under the LPT through an Assumption Reinsurance and Novation Agreement.

In 2016, XL Re Ltd. completed a merger. The merged company holds the name XL Bermuda Ltd. and effective with the completion of the merger, XL Bermuda Ltd. assumed all rights and obligations of XL Re Ltd.

The original LPT contained a provision under the Large Payment Oversight clause, which was intended to address acceleration of payments due to settlement of claims. If the aggregate of Large Payments (defined as individual payments exceeding \$10 intended to settle future liability) exceeds tabled values in the treaty (as specified at successive year-ends), this would void coverage on claims with subsequent Large Payments unless the Reinsurers provide prior written consent for the payments, or State Fund agreed that reimbursement would be apportioned over the life expectancy of the injured employee.

The Large Payment Oversight provision was triggered in the third quarter of 2009. In order to simplify administration by all parties of this provision, State Fund and the Reinsurer amended the original LPT contract to allow the deferral of subsequent Large Payments to be done on the aggregated total for each calendar quarter, based on an agreed average life expectancy for the entire body of claims involved in the LPT.

As of December 31, 2024, cumulative subject paid losses were \$2,600,589, which exceeded the combined upper limit of the first- and second-layer total coverage of \$2,600,000, placed at 90%. After State Fund's retention of \$950,000 and \$200,000 on the first layer and second layer, respectively, resulted in combined total recoverable losses of \$1,305,000, of which \$1,152,575 was collected from the Reinsurers. Additionally, \$5,645 was billed as current receivable and \$146,780 was receivable but not yet due from deferred large loss settlements.

On May 20, 2025, State Fund executed a commutation agreement with XL Bermuda Ltd. for \$128,000, pertaining to the Loss Portfolio Transfer (LPT) agreement originally entered into in 2002. The commutation provides for a final settlement of all remaining reinsurance recoverables due to State Fund under the LPT. In return for the \$128,000 payment, XL Bermuda Ltd. is released from all liabilities previously assumed under the agreement. As a result of this transaction, State Fund will assume direct responsibility for the associated loss liabilities of \$18,780.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued)

(Dollars in Thousands)

10. Commitments and Contingencies

State Fund leases certain office space, furniture, equipment, and vehicles under noncancelable operating leases. The aggregate minimum annual lease payments under such operating leases as of December 31, 2025, were as follows:

2026	\$	8,511
2027		5,775
2028		3,010
2029		2,749
2030		2,204
Future years		2,060
Total	\$	<u>24,309</u>

Leases for office space generally require additional payments comprising State Fund's pro rata share of increases in real estate taxes and building operating expenses. For the years ended December 31, 2025 and 2024, the total rental expense for office space was \$30,722 and \$34,055, respectively, which is comprised of an allocation of rental value to space owned and occupied by State Fund of \$22,298 and \$26,216, and expense for leased properties of \$8,424 and \$7,839, respectively. Vehicle and other lease expenses were \$25 and \$155 for the years ended December 31, 2025 and 2024, respectively.

State Fund owns several properties that are partially leased to unrelated parties. Real Estate owned and leased is stated at cost, less accumulated depreciation. The Company is responsible for the payment of property taxes, insurance and maintenance costs related to the leased properties.

Rental income for the year ended December 31, 2025, was \$5,969. The portion of the cost, carrying value and accumulated depreciation of real estate owned that are partially leased are \$89,374, \$57,891 and \$31,483, respectively.

Rental income for the year ended December 31, 2024, was \$5,041. The portion of the cost, carrying value and accumulated depreciation of real estate owned that are partially leased are \$70,183, \$46,315 and \$23,868, respectively.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

10. Commitments and Contingencies (continued)

On July 15, 2024, State Fund entered into an operating lease agreement with the buyer of the real property, which was sold in the same year (refer to Note 7), for continued use of the premises. The term of lease is 10 years and 8 months with a monthly base rent of \$11 with lease payments commencing on September 1, 2025.

Future minimum lease payment receivables under noncancelable leasing arrangements as of December 31, 2025, are as follows:

2026	\$ 8,196
2027	10,188
2028	9,682
2029	9,039
2030	9,193
Future years	38,471
Total	<u>\$ 84,769</u>

Lawsuits arise against State Fund in the normal course of business. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of State Fund.

11. Pension and Other Postemployment Benefit Plans

State Fund incurred pension expenses of \$33,945 and \$34,328 for the years ended December 31, 2025 and 2024, respectively.

State Fund paid retiree health benefit pro rata assessments of \$47,189 and \$39,172 for the years ended December 31, 2025 and 2024, respectively. In addition, State Fund also paid \$5,839 and \$10,021 of additional contributions for employer's OPEB Prefunding in 2025 and 2024, respectively.

In 2025, State Fund reclassified a total of \$60,424 into liabilities from special surpluses, by decreasing OPEB surplus and increasing OPEB liability by \$71,425, increasing Pension surplus and decreasing Pension liability by \$11,001 based on the State Controller's allocation report (Accounting Element) as of June 30, 2025. In addition, a total of \$31,023 was reclassified into

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

11. Pension and Other Postemployment Benefit Plans (continued)

unassigned surplus by decreasing OPEB surplus by \$20,022 and decreasing Pension surpluses by \$11,001. These reclassifications are made in compliance with SSAP No. 5. The liabilities for OPEB and Pension as of December 31, 2025 are \$911,466 and \$589,902 respectively. In December 2025, State Fund decreased its special surplus for OPEB by \$91,446 and no change in its special surplus for Pension as projected by our third party actuary.

In 2024, State Fund reclassified a total of \$92,002 into liabilities from special surpluses, by decreasing OPEB surplus and increasing OPEB liability by \$42,934 decreasing Pension surplus and increasing Pension liability by \$49,068 based on the State Controller's allocation report (Accounting Element) as of June 30, 2024. In addition, a total of \$97,189 was reclassified into unassigned surplus by decreasing OPEB surplus by \$77,498 and decreasing Pension surpluses by \$19,691. These reclassifications are made in compliance with SSAP No. 5. The liabilities for OPEB and Pension as of December 31, 2024 are \$855,223 and \$673,362 respectively. In December 2024, State Fund decreased its special surplus for Pension by \$68,760 and its special surplus for OPEB by \$120,431 as projected by our third party actuary.

In 2025 and 2024, State Fund recorded OPEB expenses of \$37,846 and \$37,896, respectively.

The special surplus was decreased by \$91,446 and \$189,191, respectively, for the years ended December 31, 2025 and 2024.

12. Risks and Uncertainties

Some of State Fund's more significant risks are discussed below and in other notes to these financial statements. State Fund's business may also be adversely affected by risks and uncertainties not currently known or that are currently considered immaterial.

State Fund invests in various investment securities that are exposed to various risks, such as interest rate, market risk, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that change could materially affect the amounts reported in the statutory-basis financial statements. A substantial amount of the State Fund's assets is invested in debt and equity securities. Defaults, downgrades, or other events impairing the value of securities owned

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

12. Risks and Uncertainties (continued)

may reduce policyholders' surplus. State Fund attempts to mitigate these risks by adhering to investment policies that provide portfolio diversification and by complying with investment limitations governed by state insurance laws and regulations, as applicable. Additionally, management actively manages the investment risks by monitoring credit and rating changes on its portfolio. Underwriting risk is the risk that premiums from insured policies will be insufficient to cover the claims and expenses under the policies. State Fund's underwriting risk exposure is concentrated in California. As such, State Fund is exposed to losses from earthquakes, terrorist acts, and other catastrophic events, as well as the negative effects of significant economic and political events concentrated within the State. State Fund attempts to manage underwriting risk through pricing and underwriting strategies, which includes analyzing and monitoring current and historical State Fund data and industry data and trends, and through reinsurance.

State Fund attempts to protect its computer systems and communications systems but may experience interruptions and breaches, including computer viruses, malicious software, cyber-attacks, and hacking, which could impair the ability to conduct business and communicate, internally and with policyholders and customers, or result in the theft of trade secrets or other misappropriation of assets, or otherwise compromise privacy of State Fund's sensitive information, or that of its customers or other business partners.

Refer to Note 8 for discussion of the risks and uncertainties regarding estimates of reserves for losses and loss adjustment expenses incurred but unpaid. Refer to Note 2 for discussion of the risks and uncertainties regarding estimates of contingent obligations for unfunded pension and OPEB.

13. Related Parties

State Fund entered into a Master Service Agreement (MSA) with CalHR to administer state agencies' worker's compensation claims (refer to Note 2).

In 2025 and 2024, State Fund billed state agencies a total of \$246,147 and \$217,440 as service fees, respectively, based on the MSA.

State Fund reported \$89,638 and \$81,674 due from state agencies as of December 31, 2025 and 2024, respectively. The deposit in the trust fund account from state agencies has a balance of \$95,860 and \$88,693 as of December 31, 2025 and 2024, respectively.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

14. Special Surplus Funds

The following summarizes changes in the balances of special surplus funds:

	Retroactive Reinsurance	Unfunded Pension and OPEB
Balance at December 31, 2023	\$ 179,592	\$ 287,452
Transfer to unassigned surplus – LPT recoveries	(27,167)	–
Transfer to OPEB liability (<i>Note 11</i>)	–	(42,934)
Transfer to Pension liability (<i>Note 11</i>)	–	(49,068)
Transfer to unassigned surplus (<i>Note 11</i>)	–	(97,189)
Balance at December 31, 2024	152,425	98,261
Transfer to unassigned surplus – LPT recoveries	(5,645)	–
Transfer to unassigned surplus – LPT commutation	(128,000)	–
Transfer to unassigned surplus – LPT commutation loss	(18,780)	–
Transfer to OPEB liability (<i>Note 11</i>)	–	(71,425)
Transfer from Pension liability (<i>Note 11</i>)	–	11,001
Transfer to unassigned surplus (<i>Note 11</i>)	–	(31,023)
Balance at December 31, 2025	\$ -	\$ 6,814

15. Policyholders' Dividends

During 2025, State Fund declared a total of \$208,000 in dividends for qualified policies incepting from January 1, 2025 through December 31, 2025. Qualifying policyholders receive dividends equal to the lower of 20% of estimated annual premium or final billed premium, and 10% of final billed premium for Large Account Safety Dividend (LASD). Qualified policies are those not cancelled for cause, complied with the final audit if applicable, and paid timely. The declared dividends were partially offset by \$18,909 release of policyholders' dividends reserves from the prior policy years, in excess of estimated payments. During 2024, State Fund declared a total of \$155,000 in dividends. Qualifying policyholders receive 15% of estimated annual premium and 7.5% of final billed premium for Large Account Safety Dividend (LASD) for policy year 2024. This was partially offset by \$12,928 release of policyholders' dividends reserves from the prior policy years, in excess of estimated payments.

State Compensation Insurance Fund

Notes to Statutory-Basis Financial Statements (continued) *(Dollars in Thousands)*

16. Subsequent Event

Management of State Fund has evaluated all events occurring after December 31, 2025 through May 29, 2026, the date the financial statements were available to be issued, and has concluded that no other subsequent event required either recognition or disclosure in the financial statements.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Audit Committee of the Board of Directors
State Compensation Insurance Fund

We have audited the statutory-basis financial statements of State Compensation Insurance Fund (the Company) as of and for the year ended December 31, 2025 and 2024, and have issued our report thereon dated May 29, 2026, which contained an adverse opinion with respect to conformity with U.S. generally accepted accounting principles and an unmodified opinion with respect to conformity with accounting practices prescribed or permitted by the California Department of Insurance on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying reinsurance disclosures and supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Restriction on Use

This report is intended solely for the information and use of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

May 29, 2026

State Compensation Insurance Fund

Investment Risks Interrogatories (Dollars in Thousands)

December 31, 2025

The following is a summary of certain financial data included in other exhibits and schedules of State Fund's 2025 Statutory Annual Financial Statement as filed with state regulatory authorities.

The following information is as of December 31, 2025.

1. State Fund's total admitted assets as filed in the 2025 Annual Statement is: \$20,342,581
2. State Fund's ten largest exposures to a single issuer/borrower/investment:

Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
The Goldman Sachs Group	Long-term bonds, common stocks and preferred stocks	\$ 248,952	1.2%
Wells Fargo & Company	Long-term bonds, common stocks and preferred stocks	188,898	0.9
American Express Company	Long-term bonds, common stocks and preferred stocks	188,506	0.9
Morgan Stanley	Long-term bonds, common stocks and preferred stocks	188,199	0.9
JPMorgan Chase & Co.	Long-term bonds, common stocks and preferred stocks	170,433	0.8
Bank of America Corporation	Long-term bonds, common stocks and preferred stocks	166,652	0.8
The PNC Financial Services Group	Common stocks and preferred stocks	157,280	0.8
Citigroup Inc.	Long-term bonds and preferred stocks	156,619	0.8
U.S. Bancorp	Long-term bonds and preferred stocks	135,911	0.7
UnitedHealth Group Incorporated	Long-term bonds and common stocks	125,229	0.6

State Compensation Insurance Fund

Investment Risks Interrogatories (continued) (Dollars in Thousands)

December 31, 2025

3. The amounts and percentages of State Fund's total admitted assets held in bonds and preferred stocks by NAIC designation are as follows:

Ratings	Bond Amount	Percentage of Total Admitted Assets
NAIC – 1	\$ 16,338,814	80.3%
NAIC – 2	2,271,390	10.9
NAIC – 3	8,556	-

Ratings	Preferred Stocks Amount	Percentage of Total Admitted Assets
NAIC – 1	\$ 4,945	-
NAIC – 2	29,628	0.1%
NAIC – 3	10,246	0.1

- 4.–10. State Fund does not hold any foreign (non-Canadian) investments.
11. Assets held in Canadian investments are less than 2.5% of State Fund's total admitted assets.
12. State Fund does not have assets held in investments with contractual sales restrictions.

State Compensation Insurance Fund

Investment Risks Interrogatories (continued) (Dollars in Thousands)

December 31, 2025

13. State Fund's ten largest equity interests:

Issuer	Amount	Percentage of Total Admitted Assets
RREEF America II GP LLC	\$ 50,691	0.2%
Microsoft Corporation	42,653	0.2
Broadcom Inc.	38,790	0.2
Alphabet Inc.	36,931	0.2
Eli Lilly and Company	31,541	0.2
Apple Inc.	31,483	0.2
Mastercard Incorporated	24,683	0.1
Visa Inc.	22,603	0.1
American Express Company	22,266	0.1
NVIDIA Corporation	21,137	0.1

14. Assets held in nonaffiliated, privately placed equities are less than 2.5% of State Fund's total admitted assets.
15. Assets held in a partnership is less than 2.5% of State Fund's total admitted assets.
- 16.–17. State Fund does not hold any investments in mortgage loans.
18. Assets held in real estate are less than 2.5% of State Fund's total admitted assets.
19. State Fund does not hold any investment in mezzanine real estate loans.
20. State Fund does not have assets subject to securities lending, repurchase, or reverse repurchase agreements.
21. State Fund does not have warrants that are not attached to other financial instruments, options, caps, and floors.
22. State Fund does not have any collars, swaps, or forwards.
23. State Fund does not have any futures contracts.

State Compensation Insurance Fund

Summary Investment Schedule (Dollars in Thousands)

December 31, 2025

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Issuer credit obligations:				
U.S. governments	\$ 41,991	0.2%	\$ 41,991	0.2%
Other governments	77,850	0.4	77,850	0.4
Municipal bonds - general obligations (direct & guaranteed)	577,891	2.9	577,891	2.9
Municipal bonds - special revenue	1,544,108	7.7	1,544,108	7.7
Corporate bonds	8,259,675	41.4	8,259,675	41.4
Single entity backed obligations	4,373	-	4,373	-
Bonds issued by funds representing operating entities	10,000	0.1	10,000	0.1
Asset-backed securities:				
Financial asset-backed securities - self-liquidating	7,923,833	39.7	7,923,833	39.7
Non-financial asset-backed securities	7,483	0.1	7,483	0.1
Preferred stocks:				
Industrial and miscellaneous (unaffiliated)	44,819	0.3	44,819	0.3
Common stocks:				
Industrial and miscellaneous - publicly traded (unaffiliated)	959,358	4.8	959,358	4.8
Real estate:				
Properties occupied by Company	183,082	0.9	183,082	0.9
Properties held for production of income	61,800	0.3	61,800	0.3
Properties held for sale	14,117	0.1	14,117	0.1
Cash, cash equivalents, and short-term investments:				
Cash	44,309	0.2	44,309	0.2
Cash equivalents	1,203	-	1,203	-
Short-term investments	117,557	0.6	117,557	0.6
Other invested assets	66,031	0.3	66,031	0.3
Receivable for securities	984	-	984	-
Total cash and investments	\$ 19,940,464	100%	\$ 19,940,464	100%

See accompanying independent auditors' report.

State Compensation Insurance Fund

Reinsurance Interrogatories

(Dollars in Thousands)

December 31, 2025

1. Has the reporting entity reinsured any risk with any other entity 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)? Yes No

2. If yes, indicate the number of reinsurance contracts containing such provisions.

3. If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes No

4. Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? Yes No

5. If yes, give full information.

Details of commutation found in Note 9.

6. Has the reporting entity 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 noncancelable by the reporting entity during the contract term;

State Compensation Insurance Fund

Reinsurance Interrogatories (continued)

(Dollars in Thousands)

December 31, 2025

(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) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, 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); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes No

7. Has the reporting entity during the period covered by the statement 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, 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:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

State Compensation Insurance Fund

Reinsurance Interrogatories (continued)

(Dollars in Thousands)

December 31, 2025

- (b) 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.

Yes No

8. If yes to 6 or 7, please provide the following information:

- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
- (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 6 or 7; and
- (c) A brief discussion of management's principal objectives in entering into the reinsurance contract including the economic purpose to be achieved.

9. Except for transactions meeting the requirements of paragraph 37 of SSAP No. 62 *Property and Casualty Reinsurance*, has the reporting entity 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:

- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
- (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes No

10. If yes to 9, explain why the contract(s) is treated differently for GAAP and SAP.

State Compensation Insurance Fund

Note to Supplementary Information

December 31, 2025

Basis of Presentation

The accompanying supplementary information presents selected statutory-basis financial data as of December 31, 2025, and for the year then ended, for purposes of complying with the National Association of Insurance Commissioners' *Annual Statement Instructions* and *Accounting Practices and Procedures Manual* and agrees to, or is included in, the amounts reported in Company's 2025 Statutory Annual Statement as filed with the CDI.