

TEXAS MUTUAL

2023 FINANCIAL REPORT

Financial Highlights

For the year ended December 31, 2023

(in thousands)

| | |
|----------------------------------|-------------|
| Gross premiums written | \$1,142,637 |
| Gross premiums earned | \$1,115,851 |
| Net premiums earned | \$1,115,851 |
| Net investment income | \$231,103 |
| Claim benefits paid and incurred | \$486,689 |
| Underwriting expense | \$392,684 |
| Dividends to policyholders | \$361,652 |
| Total other expense | \$4,993 |
| Net income | \$100,936 |

At December 31, 2023

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

| | |
|--|-------------|
| Admitted assets | \$8,419,583 |
| Liabilities | \$3,541,481 |
| Policyholders' surplus | \$4,878,102 |
| Number of policies in force | 77,093 |
| Number of employees covered on policies in force | 1,664,432 |

Key indicators, year ended December 31, 2023

| | |
|------------------------------------|--------|
| Incurred loss ratio | 43.6% |
| Statutory combined ratio | 78.4% |
| Combined ratio including dividends | 110.1% |
| Premiums written to surplus ratio | 0.23:1 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Texas Mutual Insurance Company
Austin, Texas

Opinions

We have audited the statutory-basis financial statements of Texas Mutual Insurance Company (the "Company"), which comprise the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2023 and 2022, and the related statutory-basis statements of operations, changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements (collectively referred to as the "statutory-basis financial statements").

Unmodified Opinion on Statutory-Basis of Accounting

In our opinion, the accompanying statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Texas Department of Insurance described in Note 1.

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

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America section of our report, the statutory-basis financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2023 and 2022, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

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

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

As described in Note 1 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by the Company using the accounting practices prescribed or permitted by the Texas Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Texas Department of Insurance. The effects on the statutory-basis financial statements of the variances

between the statutory-basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Statutory-Basis Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory-basis financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory-basis financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory-basis financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

DELOITTE & TOUCHE LLP

February 28, 2024

TEXAS MUTUAL INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS AS OF DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|--|------------------------|------------------------|
| ADMITTED ASSETS | | |
| CASH AND INVESTED ASSETS: | | |
| Bonds (Note 2) | \$4,884,666,782 | \$4,807,819,821 |
| Common stocks and mutual funds (Note 2) | 925,068,551 | 1,015,866,272 |
| Real estate (Note 2)—Properties occupied by the Company | 92,964,041 | 95,566,626 |
| Cash, cash equivalents, and short-term investments | 90,368,231 | 111,334,162 |
| Other invested assets (Note 2) | <u>1,902,403,066</u> | <u>1,702,426,936</u> |
| Total cash and invested assets | 7,895,470,671 | 7,733,013,817 |
| PREMIUMS RECEIVABLE—Net of allowance | 473,985,087 | 441,729,862 |
| REINSURANCE RECOVERABLE ON PAID LOSSES (Note 5) | 355,107 | 426,718 |
| INVESTMENT INCOME DUE AND ACCRUED | 44,183,145 | 39,297,534 |
| FURNITURE AND ELECTRONIC DATA PROCESSING EQUIPMENT | 588,665 | 2,465,760 |
| RECEIVABLES FROM PARENT, SUBSIDIARIES, AND AFFILIATES (Note 2) | 49,177 | 233,061 |
| OTHER ASSETS | <u>4,951,564</u> | <u>17,805,835</u> |
| TOTAL ADMITTED ASSETS | <u>\$8,419,583,416</u> | <u>\$8,234,972,587</u> |
| LIABILITIES AND POLICYHOLDERS' SURPLUS | | |
| LIABILITIES: | | |
| Reserve for losses and loss adjustment expenses (Note 3) | \$2,850,624,232 | \$2,829,935,372 |
| Unearned premiums | 534,135,689 | 507,349,012 |
| Taxes, licenses, and fees | 17,514,310 | 19,848,233 |
| Commissions payable | 54,763,890 | 54,432,686 |
| Advance premiums | 7,106,616 | 7,520,151 |
| Other liabilities | 58,331,418 | 68,061,217 |
| Payables for securities | <u>19,005,536</u> | <u>13,030,200</u> |
| Total liabilities | <u>3,541,481,691</u> | <u>3,500,176,871</u> |
| COMMITMENTS AND CONTINGENCIES (Note 8) | | |
| POLICYHOLDERS' SURPLUS—Unassigned surplus | <u>4,878,101,725</u> | <u>4,734,795,716</u> |
| Total policyholders' surplus | <u>4,878,101,725</u> | <u>4,734,795,716</u> |
| TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS | <u>\$8,419,583,416</u> | <u>\$8,234,972,587</u> |

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

TEXAS MUTUAL INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|-----------------------|----------------------|
| PREMIUMS: | | |
| Premiums written—direct and assumed | \$1,142,637,180 | \$1,100,649,350 |
| Change in unearned premium reserve | <u>(26,786,677)</u> | <u>(24,631,493)</u> |
| Net premiums earned | <u>1,115,850,503</u> | <u>1,076,017,857</u> |
| LOSSES AND EXPENSES INCURRED: | | |
| Losses and loss adjustment expenses (Note 3) | 486,689,434 | 434,055,142 |
| Underwriting expenses | <u>392,683,969</u> | <u>366,278,573</u> |
| Total losses and expenses incurred | <u>879,373,403</u> | <u>800,333,715</u> |
| NET UNDERWRITING GAIN | <u>236,477,100</u> | <u>275,684,142</u> |
| NET INVESTMENT INCOME (Note 2): | | |
| Net interest, dividend and other investment income earned | 245,871,610 | 185,874,745 |
| Net realized capital gains (losses) on investments | <u>(14,768,323)</u> | <u>(14,253,842)</u> |
| Net investment income | <u>231,103,287</u> | <u>171,620,903</u> |
| OTHER INCOME (EXPENSE): | | |
| Finance and service charges | 454,405 | 620,429 |
| Provision for uncollectible premiums | (5,269,629) | (6,677,876) |
| Net gain (loss) on disposal of fixed assets | (177,075) | |
| Miscellaneous income | | <u>50,808</u> |
| Total other expense | <u>(4,992,299)</u> | <u>(6,006,639)</u> |
| NET INCOME BEFORE DIVIDENDS TO POLICYHOLDERS | 462,588,088 | 441,298,406 |
| DIVIDENDS TO POLICYHOLDERS (Note 4) | <u>361,652,075</u> | <u>350,858,453</u> |
| NET INCOME | <u>\$ 100,936,013</u> | <u>\$ 90,439,953</u> |

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

TEXAS MUTUAL INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CHANGES IN POLICYHOLDERS' SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|-------------------------------|-------------------------------|
| TOTAL POLICYHOLDERS SURPLUS—Beginning of the year | <u>\$4,734,795,716</u> | <u>\$4,811,203,506</u> |
| Net income | 100,936,013 | 90,439,953 |
| Change in net unrealized capital gains (losses) | 47,829,813 | (168,598,066) |
| Change in non-admitted assets | (5,460,017) | 1,750,323 |
| Change in provision for reinsurance | <u>200</u> | <u> </u> |
| Change in policyholders surplus for the year | <u>143,306,009</u> | <u>(76,407,790)</u> |
| TOTAL POLICYHOLDERS SURPLUS—End of the year | <u><u>\$4,878,101,725</u></u> | <u><u>\$4,734,795,716</u></u> |

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

TEXAS MUTUAL INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|------------------------|------------------------|
| CASH FROM OPERATIONS: | | |
| Premiums collected, net of reinsurance | \$ 1,104,648,441 | \$ 1,059,443,165 |
| Losses and loss adjustment expenses paid, net of subrogation (Note 3) | (466,000,574) | (428,766,709) |
| Underwriting expenses paid | <u>(378,534,755)</u> | <u>(332,246,579)</u> |
| Net cash from underwriting | 260,113,112 | 298,429,877 |
| Net investment income | 214,943,505 | 179,108,814 |
| Other expense, net | 454,405 | 620,429 |
| Dividends to policyholders | <u>(360,775,492)</u> | <u>(350,601,116)</u> |
| Net cash from operations | <u>114,735,530</u> | <u>127,558,004</u> |
| CASH FROM INVESTMENTS: | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | 3,143,805,661 | 3,015,641,945 |
| Common stocks and mutual funds | 314,027,660 | 272,590,310 |
| Other invested assets | 188,285,370 | 288,117,407 |
| Net miscellaneous investment gains | <u>10,629</u> | <u>23,527</u> |
| Total investment proceeds | <u>3,646,129,320</u> | <u>3,576,373,189</u> |
| Cost of investments acquired: | | |
| Bonds | (3,264,676,583) | (3,012,079,076) |
| Common stocks and mutual funds | (195,365,441) | (189,406,512) |
| Capital improvements—real estate | (168,492) | |
| Other invested assets | <u>(321,304,108)</u> | <u>(479,465,221)</u> |
| Total investments acquired | <u>(3,781,514,624)</u> | <u>(3,680,950,809)</u> |
| Net cash used by investments | <u>(135,385,304)</u> | <u>(104,577,620)</u> |
| CASH FROM FINANCING AND MISCELLANEOUS SOURCES: | | |
| Borrowed funds (Note 6) | (70,634) | (407,309) |
| Other cash applied | <u>(245,523)</u> | <u>(12,280,079)</u> |
| Net cash used by financing and miscellaneous sources | <u>(316,157)</u> | <u>(12,687,388)</u> |
| NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS | (20,965,931) | 10,292,996 |
| CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—Beginning of year | <u>111,334,162</u> | <u>101,041,166</u> |
| CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—End of year | <u>\$ 90,368,231</u> | <u>\$ 111,334,162</u> |

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

TEXAS MUTUAL INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Summary of Significant Accounting Policies:

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

The TDI has adopted the National Association of Insurance Commissioners' statutory accounting practices ("NAIC SAP") except that it has retained certain prescribed accounting practices that differ from those found in NAIC SAP. Among these differences that impact the Company is the prescribed practice of admitting office furniture and electronic data processing equipment to the extent that the total value of those assets is less than 5% of the other admitted assets of the Company. The Company's statutory surplus would be decreased by \$588,665 and \$2,111,611 as of December 31, 2023 and 2022, respectively, if all office furniture were non-admitted as required by NAIC SAP. As of December 31, 2023 all electronic data processing equipment has been fully depreciated. The Company's statutory surplus would be decreased by \$354,149 as of December 31, 2022, if all electronic data processing equipment were non-admitted. The accompanying statutory financial statements vary in some respects from accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP").

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

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

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

Use of Estimates in the Preparation of the Statutory Financial Statements—The accompanying statutory financial statements have been prepared in conformity with NAIC SAP which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Property and Equipment—Furniture and electronic data processing equipment are stated at depreciated cost and are allowed to be recorded as admissible assets for insurance companies domiciled in the state of Texas. Fixtures, software, automobiles, and leasehold improvements are recorded as non-admitted assets. Costs incurred for the development of internal use software are capitalized as non-operating system software and are not admissible assets.

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

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

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

Depreciation and amortization expense for property and equipment for the years ended December 31, 2023 and 2022, totaled \$1,727,117 and \$2,139,848, respectively. Depreciation for the Company's owned and occupied buildings is shown in Note 2.

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

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

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

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

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

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

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

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

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

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

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

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

The Company was not exposed to any concentration of credit risk of a single issuer greater than 5% of the Company’s admitted assets, other than the U.S. Government, which comprised 14% and 15% of admitted assets at December 31, 2023 and 2022, respectively. The next ten largest single issuer exposures comprised less than 15% of the Company’s total admitted assets.

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

The Company projects estimated ultimate losses, which are used in determining the estimated reserve for losses and LAE. An independent consulting actuary is retained to provide an independent estimate of reserves. Management believes that the provision for losses and LAE is adequate to cover the ultimate liability at December 31, 2023 and 2022. However, the actual amounts paid when claims are settled may be different from such estimates. Adjustments to these estimates are reflected as adjustments to incurred losses in the period in which such adjustments are known.

Escrow Deposits for Funding Deductibles—Policyholders who purchase coverage under a deductible plan are required to deposit a predetermined escrow amount with the Company at inception of coverage. Funds held of \$2,600,010 and \$2,693,010 at December 31, 2023 and 2022, respectively, are included in other liabilities. These amounts are held by the Company in a liability (escrow) account until one of the following two events occur:

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

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

Premium Revenues—Premiums are calculated from rates established by the Board based on recommendations from the Company’s consulting actuary. For policies on interim reporting, premiums are earned over the policy term based on the periodic reports submitted by policyholders during the term of their coverage. Premiums for all other policies are earned using the daily pro rata method over the term of the policy. Unearned premium reserves are established to cover the unexpired portion of premiums written. Upon expiration or cancellation, a policy is audited or reviewed to determine the actual premiums earned and revenues are increased or decreased accordingly.

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

Reinsurance—In the normal course of business, the Company has historically reinsured risks above certain retention levels with other insurance companies. Reinsurance recoverable on paid losses in which the Company is not relieved of its legal liability to the policyholders is reported separately on the statutory statements of admitted assets, liabilities, and policyholders’ surplus. Due to the Company’s financial strength and ability to cover future losses, the Company declined reinsurance coverage for the years ended December 31, 2023 and 2022.

Federal Income Taxes—The Company is exempt from federal income taxation under Section 501(c)(27) of the Internal Revenue Code. Accordingly, the accompanying statutory financial statements do not include a provision for income taxes.

Disclosures about Fair Value of Financial Instruments—In preparing disclosures about the fair value of financial instruments, the Company has assumed that the carrying amount approximates fair value for cash and short-term investments because of the short maturities of these instruments. The fair value of bonds and stocks is determined by the Company based on fair values obtained from third party pricing

services. If not available, the quoted market values or estimated values using the current interest rates available to the Company for investments with similar terms and remaining maturities are used. See Note 10 for additional fair value disclosures.

2. INVESTMENTS

Bonds, Common Stocks, and Mutual Funds—The amortized cost/adjusted carrying value, gross unrealized capital gains and losses, and fair value of investments are as follows:

| | December 31, 2023 | | | |
|---|---|---------------------------------------|--|------------------------|
| | Amortized Cost/Adjusted Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$1,114,014,275 | \$ 7,640,397 | \$ (49,271,913) | \$1,072,382,759 |
| Foreign government | 4,189,354 | | (488,667) | 3,700,687 |
| Industrial and miscellaneous | 2,374,919,561 | 22,527,323 | (108,181,458) | 2,289,265,426 |
| Mortgage-backed securities | 532,308,660 | 3,723,719 | (34,145,542) | 501,886,837 |
| Asset-backed securities | 344,617,813 | 2,268,512 | (6,666,952) | 340,219,373 |
| Collateralized mortgage obligations | <u>514,617,119</u> | <u>1,092,301</u> | <u>(34,692,164)</u> | <u>481,017,256</u> |
| Total bonds | 4,884,666,782 | 37,252,252 | (233,446,696) | 4,688,472,338 |
| Common stocks and mutual funds | <u>556,832,504</u> | <u>377,133,394</u> | <u>(8,897,347)</u> | <u>925,068,551</u> |
| | <u>\$5,441,499,286</u> | <u>\$414,385,646</u> | <u>\$(242,344,043)</u> | <u>\$5,613,540,889</u> |
| | December 31, 2022 | | | |
| | Amortized Cost/Adjusted Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$1,125,872,373 | \$ 277,806 | \$ (83,429,570) | \$1,042,720,609 |
| Foreign government | 8,951,488 | 673 | (678,411) | 8,273,750 |
| Industrial and miscellaneous | 2,344,033,873 | 3,089,158 | (190,096,026) | 2,157,027,005 |
| Mortgage-backed securities | 411,683,310 | 243,267 | (39,395,043) | 372,531,534 |
| Asset-backed securities | 318,648,017 | 528,435 | (15,503,420) | 303,673,032 |
| Collateralized mortgage obligations | <u>598,630,760</u> | <u>1,514,669</u> | <u>(49,694,257)</u> | <u>550,451,172</u> |
| Total bonds | 4,807,819,821 | 5,654,008 | (378,796,727) | 4,434,677,102 |
| Common stocks and mutual funds | <u>620,598,411</u> | <u>416,156,778</u> | <u>(20,888,917)</u> | <u>1,015,866,272</u> |
| | <u>\$5,428,418,232</u> | <u>\$421,810,786</u> | <u>\$(399,685,644)</u> | <u>\$5,450,543,374</u> |

The amortized cost/adjusted carrying value and estimated fair value of bonds, short-term investments, and cash equivalents are shown below by contractual maturities as of December 31, 2023. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations without call or prepayment penalties.

| | December 31, 2023 | |
|--|---|------------------------|
| | Amortized Cost/Adjusted Carrying Value | Fair Value |
| Due in one year or less | \$ 161,687,954 | \$ 159,304,917 |
| Due after one year through five years | 1,872,375,731 | 1,810,099,876 |
| Due after five years through ten years | 1,590,946,586 | 1,536,577,688 |
| Due after ten years | <u>1,287,712,578</u> | <u>1,210,613,193</u> |
| | <u>\$4,912,722,849</u> | <u>\$4,716,595,674</u> |

Proceeds from the sale of bonds for the years ended December 31, 2023 and 2022, were \$3,138,265,976 and \$3,012,061,678, respectively. Gross gains of \$12,948,063 and \$8,786,550, and gross losses of \$71,197,943 and \$97,534,440, were realized from the sales of bonds for the years ended December 31, 2023 and 2022, respectively.

Proceeds from the sale of stocks for the years ended December 31, 2023 and 2022, were \$316,408,981 and \$273,142,961, respectively. Gross gains of \$77,122,618 and \$90,297,185 and gross losses of \$21,950,345 and \$21,764,645, were realized from the sales of stocks for the years ended December 31, 2023 and 2022, respectively.

The Company's sales of investment securities in an unrealized loss position are due primarily to perceived changes in financial or other circumstances of an issuer.

Also included in the bond portfolio are securities considered below investment grade. The Company defines below investment grade securities as those securities rated below a 2 by the NAIC. At December 31, 2023 and 2022, the value of these securities was \$153,190,140 and \$159,770,384, respectively, making up less than 2% of total admitted assets.

During the years ended December 31, 2023 and 2022, the fair value of certain securities was lower than the related cost basis and these declines in value were determined to be other than temporary. Within the scope of SSAP No. 30. *Unaffiliated Common Stock* (SSAP No. 30), \$123,430 and \$23,561,663 was recorded for the years ended December 31, 2023 and 2022, respectively. Within the scope of SSAP No. 26R. *Bonds* (SSAP No. 26R), \$808,155 and \$2,964,372 was recorded for the year ended December 31, 2023 and 2022, respectively.

Within the scope of SSAP No. 43R for the year ended December 31, 2023, the Company recognized \$203,542 in other-than-temporary impairments due to lack of intent to hold the security.

The following table summarizes other-than-temporary impairments for loan-backed securities held at December 31, 2023 based on the inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis.

| | December 31, 2023 | | | Date of Financial Statement Where Reported |
|--|--|--|----------------------------|--|
| | Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI | Recognized Other-Than-Temporary Impairment | Fair Value at Time of OTTI | |
| Aggregate intent to sell | \$ - | \$ - | \$ - | |
| Aggregate inability & lack of intent to hold | 1,012,252 | <u>203,542</u> | 808,710 | 12/31/2023 |
| | | <u>\$ 203,542</u> | | |

For the year ended December 31, 2022, the Company recognized \$1,419,262 in other-than-temporary impairments due to present value of cash flow for securities. The following table summarizes other-than-temporary impairments for loan-backed securities held at December 31, 2022 based on the fact that the present value of projected cash flows expected to be collected was less than the amortized cost of the securities.

| CUSIP | December 31, 2022 | | | | | |
|-------------|--|---------------------------------------|--|--|----------------------------|--|
| | Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI | Present Value of Projected Cash Flows | Recognized Other-Than-Temporary Impairment | Amortized Cost After Other-Than-Temporary Impairment | Fair Value at Time of OTTI | Date of Financial Statement Where Reported |
| 3622E8-AE-5 | \$1,537,313 | \$ 977,911 | \$ 559,401 | \$ 977,911 | \$ 977,911 | 12/31/2022 |
| 02150J-AV-4 | 1,377,546 | 1,015,715 | 361,832 | 1,015,715 | 1,015,715 | 12/31/2022 |
| 02151A-BK-5 | 1,145,052 | 689,227 | 455,825 | 689,227 | 689,227 | 12/31/2022 |
| 12668A-PH-2 | 206,783 | 164,579 | <u>42,204</u> | 164,579 | 164,579 | 12/31/2022 |
| | | | <u>\$1,419,262</u> | | | |

The following two tables reflect securities whose fair values were lower than the related cost basis at December 31, 2023 and 2022, respectively. However, these declines in value were not deemed to be other than temporary. Substantially all of the unrealized losses were due to the rising interest environment. The tables show the fair value and the unrealized losses, aggregated by investment category and category of duration that individual securities have been in a continuous unrealized loss position.

| | December 31, 2023 | | | |
|---|-------------------------|----------------------|--------------------------|------------------------|
| | Less than Twelve Months | | Twelve Months or Greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 59,626,819 | \$(1,013,929) | \$ 623,149,803 | \$ (48,257,984) |
| Foreign government | | | 3,700,687 | (488,667) |
| Industrial and miscellaneous | 50,676,096 | (1,974,634) | 1,465,963,610 | (106,206,824) |
| Mortgage-backed securities | 63,186,204 | (953,512) | 304,061,240 | (33,192,030) |
| Asset-backed securities | 13,112,624 | (176,437) | 128,375,795 | (6,490,515) |
| Collateralized mortgage obligations | <u>18,525,594</u> | <u>(321,345)</u> | <u>406,101,693</u> | <u>(34,370,819)</u> |
| Total bonds | 205,127,337 | (4,439,857) | 2,931,352,828 | (229,006,839) |
| Common stocks and mutual funds | <u>35,653,375</u> | <u>(3,083,772)</u> | <u>41,674,015</u> | <u>(5,813,575)</u> |
| | <u>\$240,780,712</u> | <u>\$(7,523,629)</u> | <u>\$2,973,026,843</u> | <u>\$(234,820,414)</u> |

| | December 31, 2022 | | | |
|---|-------------------------|------------------------|--------------------------|------------------------|
| | Less than Twelve Months | | Twelve Months or Greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 565,178,836 | \$ (31,738,401) | \$ 417,409,708 | \$ (51,691,170) |
| Foreign government | 3,753,725 | (342,458) | 1,546,664 | (335,953) |
| Industrial and miscellaneous | 1,493,842,630 | (125,904,985) | 386,269,461 | (64,191,041) |
| Mortgage-backed securities | 270,525,486 | (21,117,766) | 86,010,362 | (18,277,277) |
| Asset-backed securities | 134,239,646 | (7,554,527) | 110,019,463 | (7,948,894) |
| Collateralized mortgage obligations | <u>413,296,504</u> | <u>(31,143,193)</u> | <u>111,147,488</u> | <u>(18,551,062)</u> |
| Total bonds | 2,880,836,827 | (217,801,330) | 1,112,403,146 | (160,995,397) |
| Common stocks and mutual funds | <u>88,359,617</u> | <u>(17,867,389)</u> | <u>12,195,079</u> | <u>(3,021,528)</u> |
| | <u>\$2,969,196,444</u> | <u>\$(235,668,719)</u> | <u>\$1,124,598,225</u> | <u>\$(164,016,925)</u> |

Other Invested Assets—Other invested assets consist mainly of ownership interests in limited liability companies and limited partnerships with underlying characteristics primarily consisting of real estate and private credit representing over 60% of other invested assets. The remaining portfolio is a combination of mainly public fixed income and common stock funds. The other invested assets portfolio has historically exhibited relatively lower correlations with public equity and fixed income investments and provides strategic diversification, including relative downside protection during periods of severe market sell-offs. There were no other invested asset holdings that exceeded 10% of admitted assets.

As of December 31, 2023, the Company recognized an other-than temporary impairment for one limited partnership totaling \$21,399,865 in accordance with SSAP No. 48. The impairment was due to declines in the fair value of the underlying investments and was deemed to be other-than-temporary. Fair value was determined based on an assessment of the market value of the partnership's investments. The Company recognized no such impairments for the year-ended December 31, 2022.

Subsidiary, Controlled and Affiliated Entities—Recorded Within Other Invested Assets—The Company holds 100% interest in TXM Holdings, LLC with an initial funding commitment of \$60,000,000. The asset had a value of \$3,711,632 and (\$233,061) at December 31, 2023 and 2022, respectively. As of December 31, 2023, the investment did not have audited financial statements and was therefore non-admitted in accordance with SSAP No. 97. The Company has agreed to provide certain services to the subsidiary, which are provided based on a written agreement and require settlement within 30 days.

Additionally, the Company holds 100% ownership interest in two co-investment vehicles, Carlyle Credit Opportunities TX Co-Investment, LLC and Audax DLS Co-Investment Fund 5, LP. The Company participates as a limited partner with 100% ownership interest by providing capital contributions to the manager. As of December 31, 2023 and 2022, these investments had a total carrying value of \$22,478,221 and \$12,333,172, respectively.

Investment Income—Net investment income consists of the following:

| | For the Year Ended December 31, | |
|---|--|---------------------------|
| | 2023 | 2022 |
| Net interest, dividend and other investment income earned: | | |
| Bonds | \$ 167,882,399 | \$ 138,216,144 |
| Common stocks and mutual funds | 22,263,418 | 27,391,085 |
| Cash equivalents and short-term investments | 8,099,989 | 1,771,654 |
| Other invested assets | 75,964,877 | 60,069,231 |
| Miscellaneous investments | 251,770 | 62,107 |
| Net real estate income (loss) | 767,032 | (35,541) |
| Less interest expense on borrowed funds | (70,633) | (407,308) |
| Less investment expenses | <u>(29,287,242)</u> | <u>(41,192,627)</u> |
| Total net interest, dividend and other invested income earned | <u>245,871,610</u> | <u>185,874,745</u> |
| Net realized gains (losses) on investments: | | |
| Bonds | (59,261,578) | (93,131,524) |
| Common stocks and mutual funds | 55,048,838 | 44,970,876 |
| Cash equivalents and short-term investments | (803) | 23,527 |
| Other invested assets | <u>(10,554,780)</u> | <u>33,883,279</u> |
| Total net realized gains (losses) on investments | <u>(14,768,323)</u> | <u>(14,253,842)</u> |
| Net investment income | <u>\$ 231,103,287</u> | <u>\$ 171,620,903</u> |

Amounts pertaining to prepayment penalty and/or acceleration fees for callable bonds, loan-back and structured securities are reported as investment income pursuant to SSAP No. 26R and SSAP No. 43R. As of December 31, 2023 and 2022, net investment income included prepayment penalties amounting to \$40,305 and \$1,735,947, respectively.

Restricted Assets—As of December 31, 2023 and 2022, the Company has pledged as collateral fixed income securities with a book/adjusted carrying value of \$406,224,144 and \$405,171,833, respectively. In addition, the Company has other restricted assets of \$7,409,886 as of December 31, 2023, including \$3,387,800 of Federal Home Loan Bank (“FHLB”) Capital and Activity Stock.

The following table provides information about the Company’s assets pledged to others as collateral or otherwise restricted at book/adjusted carrying value as of December 31, 2023 and 2022.

| | <u>December 31,</u> | | Increase/ (Decrease) | Admitted Restricted to Total Admitted Assets |
|---|----------------------|----------------------|-------------------------|--|
| | 2023 | 2022 | | |
| Pledged as collateral: | | | | |
| FHLB Loan (Note 6) | \$271,442,335 | \$280,397,897 | \$(8,955,562) | 3.22 % |
| FHLB LOC Collateral | 654,903 | 1,217,098 | (562,195) | 0.01 |
| Argonaut reinsurance | 129,645,876 | 119,089,149 | 10,556,727 | 1.54 |
| Federal Longshore and Harbor Workers’ Compensation Act | <u>4,481,030</u> | <u>4,467,689</u> | <u>13,341</u> | <u>0.05</u> |
| Total pledged as collateral | <u>406,224,144</u> | <u>405,171,833</u> | <u>1,052,311</u> | <u>4.82</u> |
| Other restricted assets: | | | | |
| Argonaut reinsurance | 3,737,086 | 4,987,338 | (1,250,252) | 0.04 |
| Chesapeake Employers’ Ins Fund reinsurance | 285,000 | 202,000 | 83,000 | 0.00 |
| FHLB capital stock (Note 6) | <u>3,387,800</u> | <u>3,340,900</u> | <u>46,900</u> | <u>0.04</u> |
| Total other restricted assets | <u>7,409,886</u> | <u>8,530,238</u> | <u>(1,120,352)</u> | <u>0.08</u> |
| Total admitted restricted assets | <u>\$413,634,030</u> | <u>\$413,702,071</u> | <u>\$ (68,041)</u> | <u>4.90 %</u> |

Real Estate—The Company owns land and a commercial building for its main office at 2200 Aldrich Street in Austin, Texas. Depreciation expense on the building as of the years ended December 31, 2023 and 2022 totaled \$2,671,478 and \$2,676,784, respectively. Accumulated depreciation on the building as of the years ended December 31, 2023 and 2022, totaled \$13,889,753 and \$11,218,275, respectively.

The Company also owns land and a commercial building for its regional office in Lubbock, Texas. Depreciation expense on the building totaled \$99,599 for both years ended December 31, 2023 and 2022. Accumulated depreciation on the building as of the years ended December 31, 2023 and 2022, totaled \$1,466,369 and \$1,366,770, respectively.

3. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

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

| | For the Year Ended December 31, | |
|--|--|--------------------------------|
| | 2023 | 2022 |
| Reserve for losses and LAE, net of reinsurance, at January 1 | <u>\$ 2,829,935,372</u> | <u>\$ 2,824,646,939</u> |
| Incurring losses and LAE, net of reinsurance: | | |
| Provision for insured events of the current year | 638,573,960 | 640,337,802 |
| Change in provision for insured events of prior years | <u>(151,884,526)</u> | <u>(206,282,660)</u> |
| Total incurred losses and LAE, net of reinsurance | <u>486,689,434</u> | <u>434,055,142</u> |
| Payments for losses and LAE, net of reinsurance: | | |
| Attributable to insured events of the current year | (198,035,172) | (188,377,527) |
| Attributable to insured events of the prior years | <u>(267,965,402)</u> | <u>(240,389,182)</u> |
| Losses and LAE paid during the year, net of reinsurance | <u>(466,000,574)</u> | <u>(428,766,709)</u> |
| Reserve for losses and LAE, net of reinsurance, at December 31 | <u><u>\$ 2,850,624,232</u></u> | <u><u>\$ 2,829,935,372</u></u> |

Incurring losses and LAE of \$486,689,434 and \$434,055,142 included decreases of \$151,884,526 and \$206,282,660 due to favorable development of prior year estimates for the years ended December 31, 2023 and 2022, respectively. The development is mainly driven by lower than anticipated medical inflation.

4. POLICYHOLDERS' SURPLUS

Policyholder dividends totaled \$361,652,075 and \$350,858,453 for the years ended December 31, 2023 and 2022, respectively. Included in this amount are dividends paid to safety group policyholders totaling \$22,004,245 and \$21,373,238 for the years ended December 31, 2023 and 2022, respectively. TDI is notified of all dividends declared by the Company prior to payment. Future dividends to policyholders, if any, will be determined based on future operating results, and will be expensed as declared by the Board. The portion of unassigned surplus represented or (reduced) by each item below is as follows:

| | December 31, | |
|------------------------------|---------------------|----------------|
| | 2023 | 2022 |
| Net unrealized capital gains | \$ 682,593,891 | \$ 634,764,078 |
| Non-admitted asset values | (23,146,398) | (17,686,381) |
| Provision for reinsurance | | (200) |

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

6. BORROWED FUNDS

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

| | Current Year | Prior Year |
|--|---------------------|-------------------|
| Membership stock—Class B | \$ 3,387,300 | \$ 3,340,400 |
| Activity stock | 500 | 500 |
| Maximum amount pledged during reporting period | 261,182,020 | 298,366,541 |
| Maximum debt during reporting period | 16,000,000 | 70,000,000 |

Throughout 2023 and 2022, the Company borrowed funds from the FHLB of Dallas which was all repaid at December 31, 2023 and 2022 including \$70,633 and \$407,309, respectively, in interest. At December 31, 2023 and 2022, the Company had fixed income securities pledged as collateral with a carrying value of \$272,097,238 and \$280,397,897 and fair value of \$256,388,815 and \$257,270,626, respectively. The collateral constitutes restricted assets and represents 3.22% and 3.40% of total assets and admitted assets at December 31, 2023 and 2022, respectively.

7. RETIREMENT PLANS

The Company sponsors a defined contribution retirement plan (the “Plan”) as provided for under Section 401 of the Internal Revenue Code. All employees who are 18 years of age and older automatically participate in the Plan. Under the terms of the Plan, the Company makes nonelective employer contributions to the Plan on behalf of plan participants in the amount equal to 4% of each participant’s salary plus 4% of the excess of each participant’s salary over the Social Security wage base. Each participant may elect to contribute a percentage of their eligible compensation into the Plan, subject to IRS limitations. The Company matches 100% of participant contributions to the Plan, up to a maximum matching contribution by the Company of 6% of the participant’s salary. The Company’s contributions totaled \$10,011,265 and \$9,897,789 for the years ended December 31, 2023 and 2022, respectively.

8. COMMITMENTS AND CONTINGENCIES

Leases—The Company has entered into various operating leases that expire over the next five years. The leases contain various renewal options. For financial reporting purposes, rent expense is charged to operations on a straight-line basis over the term of the lease, resulting in a liability for deferred rent of \$321,969 and \$380,658 included in other liabilities at December 31, 2023 and 2022, respectively. The deferred rent represents the difference between the actual lease payments and the rent expense recognized. Rental expense for operating leases totaled \$7,093,344 and \$6,503,281 for the years ended December 31, 2023 and 2022, respectively. The future minimum rental payments required under operating leases for office space and equipment that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2023 is \$9,622,015 in the aggregate, and amounts due for the succeeding 5 years are as follows:

| | |
|------------|--------------------|
| 2024 | \$4,357,709 |
| 2025 | 2,850,263 |
| 2026 | 1,755,489 |
| 2027 | 698,554 |
| 2028 | |
| Thereafter | |
| Total | <u>\$9,662,015</u> |

Commitments—As of December 31, 2023 and 2022, the Company has made total commitments of \$573,796,654 and \$439,261,828, respectively, to provide additional funds to limited partnership investments and SCA entities recorded within other invested assets. The Company understands and has agreed that the commitment for additional investment could be due and payable at one or more closings of subscriptions for interests in the limited partnership and SCA entities over the life of the fund. In addition, the closings could be held on dates reasonably selected and in amounts to be determined by the General Partner in their sole and absolute discretion, but not to exceed, in the aggregate, the total amount of the commitment for additional investment.

The Company has made commitments to provide additional funds as needed to the following limited partnerships and SCA entities:

December 31, 2023

| | |
|---|------------------------------|
| Limited partnerships: | |
| Churchill Mid Mkt Sr Ln Fund V LP | \$ 91,769,547 |
| Ares Pathfinder Fund II LP | 69,253,252 |
| Arrow Credit Opportunities Fund II LP | 52,549,065 |
| Audax DLS Fund II B-1 Feeder LLC | 52,142,478 |
| NML Four Columns JR CAP FD VI LP | 44,100,000 |
| Churchill Mid Mkt Sr Ln Fund IV LP | 35,022,064 |
| Ares Pathfinder Fund LP | 26,833,228 |
| Crestline Opportunity Fund IV LTD | 24,222,332 |
| Principal RE Debt Fund II LP | 18,391,474 |
| Carlyle Credit Opportunities Fund II LP | 17,354,951 |
| Encap Energy Capital Fund XII LP | 16,753,127 |
| Principal RE Debt Fund III LP | 15,419,745 |
| Partners Group RE SEC 2013A LP | 14,269,301 |
| GSO Credit Alpha Fund II LP | 11,675,212 |
| Sixth Street TAO Partners E LP | 10,019,809 |
| AMFAM VC Fund IV LP | 7,748,106 |
| Crestline Opportunity Fund III LTD | 5,072,749 |
| Elliott Associates LP | 4,791,953 |
| AMFAM VC Fund III LP | 1,283,625 |
| Encap Grayson Mill III Co-Invest | 964,942 |
| Golub Capital Pearls DLP LP | 663,816 |
| Encap Double Eagle IV Co-Invest | 498,845 |
| NML Monarch Co-Invest | 71,206 |
| CL Gas Co-Invest LP | 58,495 |
| CL Raiders Co-Invest | <u>27,886</u> |
| Limited partnerships total | <u>520,957,208</u> |
| SCA entities: | |
| TXM Holdings, LLC | 48,399,900 |
| Audax DLS Co-Invest Fund 5 LP | 2,948,794 |
| Carlyle Credit Opportunities TX Co-Invest LLC | <u>1,490,752</u> |
| SCA entities total | <u>52,839,446</u> |
| Total commitments | <u><u>\$ 573,796,654</u></u> |

Litigation—The Company is party to lawsuits and claims generally incidental to its business, which are expected to be adequately covered by loss reserves established at December 31, 2023. The ultimate disposition of these matters is not expected to have a significantly adverse effect on the Company’s financial position, results of operations or cash flows.

Guaranty Fund Assessments—Effective January 1, 2000, the Company became a member of the Texas Property and Casualty Insurance Guaranty Association (“TPCIGA”). The TPCIGA is a non-profit, unincorporated association of all Texas-licensed property and casualty insurers and exists to protect

Texas policyholders by providing payment for covered claims of insolvent insurance companies. The TPCIGA assesses member insurers based on premium written in the year preceding the assessment. The Company records liabilities for these assessments when it is probable that an assessment will be imposed and the amount can be reasonably estimated. The State of Texas provides premium tax credits for all TPCIGA assessments paid, allowing recovery of these payments ratably over a ten-year period. Due to the anticipated recoverability of the assessed amounts through premium tax offsets, the Company records guaranty fund assessments as an asset that is amortized in conjunction with the corresponding offset to premium taxes. The assets will be recovered through premium tax credits over a ten-year period for each applicable assessment.

As of December 31, 2023 and 2022, guaranty fund assets totaled \$81,417 and \$122,125, respectively. An assessment was not incurred for the years 2023 and 2022. The Company does anticipate future assessments; however, no liabilities have been accrued as these future assessments cannot currently be reasonably estimated.

9. HIGH DEDUCTIBLES

As of December 31, 2023 and 2022, the Company had no reserve credit recorded for high deductibles on unpaid losses and the deductible amounts billed and recoverable on paid claims were \$116,732 and \$102,325, respectively. These amounts were not in excess of collateral specifically held, and therefore were admissible as assets.

10. FAIR VALUE MEASUREMENTS

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

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

Level 1 Financial Assets—These assets include actively traded exchange-listed common stocks and mutual funds. Unadjusted quoted prices for these securities are provided by various independent pricing services.

Level 2 Financial Assets—The assets in this category include bonds with fair values provided by independent pricing services, utilizing observable inputs. The Company has obtained an understanding of the methods, models and inputs used in pricing, and controls in place to validate that amounts provided represent current fair values.

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

Level 3 Financial Assets—These assets include bonds with fair values provided by independent broker quotations, utilizing inputs that cannot be corroborated by observable market data.

Fair Value Measurements at Reporting Date—The following two tables provide information about the Company's financial assets measured and reported at fair value, excluding those accounted for under the equity method (limited partnership and limited liability company interests), as of December 31, 2023 and 2022, respectively.

| | December 31, 2023 | | | |
|-------------------------------------|--------------------------|----------------------|----------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Bonds | | | | |
| Industrial and miscellaneous | \$ - | \$ 62,577,693 | \$ - | \$ 62,577,693 |
| Asset-backed securities | | 10,387,623 | | 10,387,623 |
| Collateralized mortgage obligations | | 3,117,538 | | 3,117,538 |
| Foreign government | | | | - |
| | <u>-</u> | <u>76,082,854</u> | <u>-</u> | <u>76,082,854</u> |
| Total bonds | | | | |
| Common stock and mutual funds | <u>921,680,751</u> | | | <u>921,680,751</u> |
| Total stocks and mutual funds | <u>921,680,751</u> | <u>-</u> | <u>-</u> | <u>921,680,751</u> |
| Total assets at fair value | <u>\$ 921,680,751</u> | <u>\$ 76,082,854</u> | <u>\$ -</u> | <u>\$ 997,763,605</u> |

| | December 31, 2022 | | | |
|-------------------------------------|-------------------|----------------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Bonds | | | | |
| Industrial and miscellaneous | \$ - | \$ 128,610,874 | \$ - | \$ 128,610,874 |
| Asset-backed securities | | 11,521,576 | | 11,521,576 |
| Collateralized mortgage obligations | | 1,056,512 | | 1,056,512 |
| Foreign government | | 943,361 | | 943,361 |
| Total bonds | - | 142,132,323 | - | 142,132,323 |
| Common stock and mutual funds | 1,012,525,372 | | | 1,012,525,372 |
| Total stocks and mutual funds | 1,012,525,372 | - | - | 1,012,525,372 |
| Total assets at fair value | \$ 1,012,525,372 | \$ 142,132,323 | \$ - | \$ 1,154,657,695 |

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

| | December 31, 2023 | | | | |
|---|-------------------|-----------------|-----------------|--------------|--------------------------------|
| | Fair Value | Level 1 | Level 2 | Level 3 | Not Practicable Carrying Value |
| Financial instruments: | | | | | |
| Bonds | \$4,688,472,338 | \$ - | \$4,649,132,468 | \$39,339,870 | \$ - |
| Common stocks and mutual funds | 925,068,551 | 921,680,751 | | | 3,387,800 |
| Cash, cash equivalents and short-term investments | 90,435,499 | 62,312,163 | 28,123,336 | | |
| Total assets | \$5,703,976,388 | \$983,992,914 | \$4,677,255,804 | \$39,339,870 | \$3,387,800 |
| | December 31, 2022 | | | | |
| | Fair Value | Level 1 | Level 2 | Level 3 | Not Practicable Carrying Value |
| Financial instruments: | | | | | |
| Bonds | \$4,434,677,102 | \$ - | \$4,398,082,562 | \$36,594,540 | \$ - |
| Common stocks and mutual funds | 1,015,866,272 | 1,012,525,372 | | | 3,340,900 |
| Cash, cash equivalents and short-term investments | 111,456,365 | 111,456,365 | | | |
| Total assets | \$5,561,999,739 | \$1,123,981,737 | \$4,398,082,562 | \$36,594,540 | \$3,340,900 |

11. STRUCTURED SETTLEMENTS

Structured settlements are arrangements under which claimants agree to fixed financial payments for a determinable period, or for life in return for releasing the Company from its claim liabilities. In current and prior years, the Company has purchased annuities from various life insurance companies for the settlement of certain Employer Liability (EL) and other claims as allowed by statute. For each annuity purchased, the claimant is the payee and has signed a full release of liability. The purchase of these annuities allows the Company to reduce reserves for unpaid losses. The related amount of reserves no longer carried by the Company is \$23,086,862 and \$20,064,411 as of December 31, 2023 and 2022, respectively. Since a full release of liability from the claimant has been obtained, the Company is not contingently liable for payments in the event of default or insolvency of the life insurer.

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

12. EVENTS SUBSEQUENT

The Company has considered subsequent events through February 28th, 2024 the date statutory-basis financial statements were available to be issued. There were no events occurring subsequent to the end of the year that merited recognition or disclosure in these statements.

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