

**KENTUCKY EMPLOYERS' MUTUAL
INSURANCE AUTHORITY
DBA KENTUCKY EMPLOYERS' MUTUAL
INSURANCE**

STATUTORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

As of and for the Years Ended December 31, 2023 and 2022

And Report of Independent Auditor

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
DBA KENTUCKY EMPLOYERS' MUTUAL INSURANCE
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Report of Independent Auditor

Board of Directors
Kentucky Employers' Mutual Insurance Authority
dba Kentucky Employers' Mutual Insurance
Lexington, Kentucky

Report on the Audit of the Statutory Basis Financial Statements

Opinions

We have audited the accompanying statutory financial statements of Kentucky Employers' Mutual Insurance Authority, dba Kentucky Employers' Mutual Insurance ("KEMI"), which comprise the statutory statements of admitted assets, liabilities and policyholder surplus as of December 31, 2023, and 2022 and the related statutory statements of income, changes in surplus, and cash flows for the year then ended, and the related notes to the statutory financial statements.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital surplus of KEMI 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 Department of Insurance of the Commonwealth of Kentucky as described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "*Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*" section of our report, the statutory financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of KEMI 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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Statutory Financial Statements* section of our report. We are required to be independent of KEMI 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 unmodified audit opinion on the statutory basis of accounting and our adverse opinion on U.S. generally accepted accounting principles.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2, the statutory financial statements are prepared by KEMI on the basis of the accounting practices prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky, which is a basis of accounting other than accounting principles generally accepted in the United States of America to comply with the requirements of Department of Insurance of the Commonwealth of Kentucky. The effects on the statutory financial statements of the variances between the statutory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Prior Period Financial Statements

The financial statements as of December 31, 2022 were audited by MCM CPAs & Advisors LLP, which was acquired by Cherry Bekaert LLP as of October 31, 2023, and whose report dated April 6, 2023, expressed an unmodified opinion on the statutory basis of accounting and an adverse opinion on U.S. Generally Accepted Accounting Principles statements.

Responsibilities of Management for the Statutory Financial Statements

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

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

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

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory 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 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 KEMI'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KEMI'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.

Uncertainties Regarding the Reserve for Losses and Loss Adjustment Expenses

As discussed in Note 2 in the accompanying statutory financial statements, the reserve for unpaid losses and loss adjustment expenses reflected in the accompanying statutory financial statements is based upon an evaluation by an independent actuary. Although management believes that this estimate is reasonable, because of inherent uncertainties in estimating loss reserves, it is reasonably possible that changes in such estimates may occur and can be material in relation to the statutory financial statements as a whole. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic statutory financial statements as a whole. The accompanying Summary Investment Schedule as of December 31, 2023, Supplemental Investment Risks Interrogatories as of and for the year then ended December 31, 2023, and Reinsurance Interrogatories as of December 31, 2023 ("Supplementary Information") are presented for purposes of additional analysis and are not a required part of the basic statutory financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The effects on the Supplementary Information of the variances between the statutory basis accounting practices and the accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Supplementary Information does not present fairly, in accordance with accounting principles generally accepted in the United States of America, such information of KEMI as of and for the year then ended December 31, 2023. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to the prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Cherry Bekaert LLP

Louisville, Kentucky
April 19, 2024

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
DBA KENTUCKY EMPLOYERS' MUTUAL INSURANCE
STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND POLICYHOLDER SURPLUS -
STATUTORY BASIS

DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Long-term bonds	\$ 983,132,973	\$ 976,371,857
Common stocks	67,295,904	64,492,962
Preferred stocks	1,751,725	1,751,725
Cash, cash equivalents, and short-term investments	37,373,444	18,973,642
Real estate	4,025,000	4,025,000
Other invested assets	12,801,986	12,809,215
Investment income due and accrued	8,427,549	7,428,816
Premiums in course of collection	12,941,470	11,211,644
Premiums booked but deferred and not yet due	44,452,815	35,145,692
Funds on deposit with reinsurers	1,770,000	1,150,000
Reinsurance receivable on losses and loss adjustment expenses	15,539	76,154
Electronic data processing equipment at cost, less accumulated depreciation of \$485,770 and \$503,353 in 2023 and 2022, respectively	137,670	66,124
Receivable for securities	35,611	500,000
Deductibles receivable	6,157	1,249
Total Admitted Assets	\$ 1,174,167,843	\$ 1,134,004,080
LIABILITIES AND POLICYHOLDER SURPLUS		
Unpaid losses, net	\$ 616,863,107	\$ 604,836,168
Unpaid loss adjustment expenses, net	53,093,803	52,567,958
Commissions payable	13,533,573	12,030,188
Unearned premiums, net	69,635,390	62,865,476
Amounts withheld or retained for others	13,052,398	11,290,374
Reinsurance premiums payable, net	808,745	513,156
Funds withheld under reinsurance treaties	2,013,337	1,684,846
Remittances and items not allocated	1,016,554	1,115,361
Retroactive reinsurance reserves assumed	32,096,306	35,888,900
Funds withheld on retroactive reinsurance ceded	2,087,828	1,472,783
Minimum pension and postretirement benefits	-	6,813,141
Provision for Reinsurance	119,695	-
Other liabilities	6,826,855	6,033,825
Total Liabilities	811,147,591	797,112,176
Policyholder surplus	363,020,252	336,891,904
Total Liabilities and Policyholder Surplus	\$ 1,174,167,843	\$ 1,134,004,080

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

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
DBA KENTUCKY EMPLOYERS' MUTUAL INSURANCE
STATEMENTS OF INCOME - STATUTORY BASIS

YEARS ENDED DECEMBER 31, 2023, AND 2022

	<u>2023</u>	<u>2022</u>
Premiums Earned:		
Direct	\$ 156,323,825	141,242,108
Assumed	5,844,723	5,126,094
Ceded	<u>(7,390,247)</u>	<u>(6,683,340)</u>
	<u>154,778,301</u>	<u>139,684,862</u>
Losses and Loss Adjustment Expenses Incurred:		
Direct	76,946,868	76,109,995
Assumed	4,824,313	3,193,940
Ceded	(1,177,736)	(2,043,705)
Loss adjustment expenses, net of ceded	<u>29,023,216</u>	<u>25,499,737</u>
	<u>109,616,661</u>	<u>102,759,967</u>
Commissions and brokerage fees	18,203,263	16,171,723
Other underwriting expenses	<u>20,048,847</u>	<u>17,560,719</u>
Total Underwriting Expenses	<u>147,868,771</u>	<u>136,492,409</u>
Net Underwriting Income	<u>6,909,530</u>	<u>3,192,453</u>
Other Income (Expense):		
Investment income, net of investment expenses of \$2,757,586 and \$1,873,822 in 2023 and 2022, respectively	34,736,450	30,122,140
Net realized capital gains	1,074,707	289,694
Pension and postretirement benefits expense	(5,032,298)	(1,956,625)
Dividends to policyholders	(15,458,044)	(7,784,954)
Retroactive reinsurance gain	-	9,414,248
Bad debt and other expenses	<u>(1,205,724)</u>	<u>(1,960,872)</u>
Total Other Income (Expense)	<u>14,115,091</u>	<u>28,123,631</u>
Net Income	<u>\$ 21,024,621</u>	<u>\$ 31,316,084</u>

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

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
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STATEMENTS OF CHANGES IN POLICYHOLDER SURPLUS - STATUTORY BASIS

YEARS ENDED DECEMBER 31, 2023, AND 2022

	2023	2022
Policyholder surplus, beginning of year	\$ 336,891,904	\$ 310,770,840
Net income	21,024,621	31,316,084
Changes in net unrealized gains (losses) on investments	2,250,298	(7,543,971)
Change in non-admitted assets	(3,840,017)	(1,115,286)
Change in provision for reinsurance	(119,695)	-
Change in projected pension and postretirement benefits	6,813,141	3,464,237
Policyholder surplus, end of year	<u>\$ 363,020,252</u>	<u>\$ 336,891,904</u>

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

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
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STATEMENTS OF CASH FLOWS - STATUTORY BASIS

YEARS ENDED DECEMBER 31, 2023, AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Premiums collected, net of reinsurance	\$ 148,274,118	\$ 137,823,801
Investment income, net of investment expenses	35,670,202	30,941,918
Miscellaneous income (expenses)	(6,238,021)	5,496,751
Benefit and loss related payments, net	(68,505,892)	(75,881,397)
Commissions and expenses paid	(64,253,423)	(58,659,601)
Dividends paid to policyholders	(15,458,044)	(7,784,954)
Net cash flows from operating activities	<u>29,488,940</u>	<u>31,936,518</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured	110,927,187	141,253,623
Cost of investments acquired	<u>(117,963,912)</u>	<u>(180,525,943)</u>
Net cash flows from investing activities	<u>(7,036,725)</u>	<u>(39,272,320)</u>
Cash flows from financing and miscellaneous activities:		
Other cash (applied) received	<u>(4,052,413)</u>	1,628,613
Net cash flows from financing activities	<u>(4,052,413)</u>	1,628,613
Net change in cash, cash equivalents, and short-term investments	18,399,802	(5,707,189)
Cash, cash equivalents, and short-term investments, beginning of year	<u>18,973,642</u>	<u>24,680,831</u>
Cash, cash equivalents, and short-term investments, end of year	<u>\$ 37,373,444</u>	<u>\$ 18,973,642</u>

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

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
DBA KENTUCKY EMPLOYERS' MUTUAL INSURANCE
NOTES TO THE STATUTORY FINANCIAL STATEMENTS**

DECEMBER 31, 2023 AND 2022

Note 1—Nature of organization and operations

Kentucky Employers' Mutual Insurance Authority dba Kentucky Employers' Mutual Insurance ("KEMI") is a non-profit, independent, self-supporting de jure municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"). KEMI was established by legislation of the Commonwealth enacted April 4, 1994 to serve as a competitive state fund for the purpose of providing both a market of last resort for employers in the Commonwealth and another competitive source of insurance in the voluntary market through which employers may secure and maintain their workers' compensation coverage as required by state law. KEMI began writing business effective September 1, 1995.

Note 2—Summary of significant accounting policies

Basis of Presentation – The accompanying statutory basis financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky (the "Department"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("U.S. GAAP"). Prescribed statutory accounting policies include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting policies other than those prescribed. The NAIC *Accounting Practices and Procedures Manual* (NAIC SAP Version March 2023) has been adopted as a component of prescribed practices by the Commonwealth of Kentucky. KEMI does not employ any practices not prescribed by the NAIC or the Department in the preparation of its statutory basis financial statements. The more significant differences between statutory accounting practices and U.S. GAAP are as follows:

- Investments in bonds with an NAIC rating of 1 or 2 are carried at NAIC determined value or amortized cost, with all other bonds being recorded at the lower or amortized cost or fair value; common stocks and nonredeemable preferred stocks are carried at fair value; redeemable preferred stocks with an NAIC rating of 1 or 2 are carried at amortized cost, with all other redeemable preferred stocks recorded at the lower or amortized cost or fair value; bonds with a NAIC rating of 3 through 6 are assigned specific year-end values by the NAIC and are written down to Securities Valuation Office ("SVO") assigned values (if less than amortized cost) by charging statutory policyholder surplus. Under U.S. GAAP, bonds are classified into three categories: held to maturity, available for sale and trading. Bonds held to maturity are stated at amortized cost; bonds available for sale are stated at fair value and the resulting unrealized gains or losses, net of applicable income taxes, are charged or credited to policyholder surplus; and bonds held for trading are reported at fair value and the resulting gains and losses are reported in earnings net of related taxes.
- For loan-backed and structured securities, if the company determines that a security is impaired and management intends to sell the security or no longer has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security shall be written down to fair value. For statutory purposes, if the company subsequently changes their assertion, and now believe they do not intend to sell the security and have the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security will continue to be carried at the lower of cost or market with any future decreases in fair value charged through operations until the security is disposed. For U.S. GAAP purposes, once the company alters their assertion, that security's amortized cost basis will not be decreased for future reductions in fair value unless an other-than-temporary impairment is determined to have occurred.

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NOTES TO THE STATUTORY FINANCIAL STATEMENTS**

DECEMBER 31, 2023 AND 2022

Note 2—Summary of significant accounting policies (continued)

- For U.S. GAAP purposes, other-than-temporary impairment losses related to debt securities (for non-loan-backed and structured securities) are bifurcated between credit and non-credit, whereas for statutory purposes the total other-than-temporary impairment loss is reported in earnings.
- Changes in the unrealized gains (losses) of common stock investments are recorded as a component of policyholder surplus under statutory accounting principles. Under U.S. GAAP, common stocks are carried at fair value with unrealized changes in fair value recognized in operations.
- Assets having economic value other than those that can be used to fulfill policyholder obligations are categorized as "non-admitted assets" and are not permitted to be included in the statutory basis financial statements of admitted assets, liabilities, and policyholder surplus, whereas, for U.S. GAAP, these assets are recognized in the balance sheet. Included with non-admitted assets are furniture, equipment and supplies, prepaid expenses, certain receivables, pension net assets overfunding, and other items that do not meet statutory criteria for admitted assets.
- Receivables over 90 days outstanding are not admitted in the statutory basis financial statements and charged to policyholder surplus, whereas, for U.S. GAAP, the company assesses the collectability of premiums receivable and any credit losses assessed is charged to the income statement.
- The statutory basis financial statements are presented net of the effects of reinsurance, whereas for U.S. GAAP, the financial statements are presented gross of the effects of reinsurance.
- Commissions allowed by reinsurers on business ceded are reported as income when received rather than being deferred and, to the extent recoverable, amortized with deferred policy acquisition costs as required under U.S. GAAP.
- Comprehensive income is not determined for statutory reporting purposes, whereas, for U.S. GAAP, such income is recognized.
- Costs incurred in connection with acquiring new insurance business, including commissions, are charged against statutory earnings as such costs are incurred, while under U.S. GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective periods covered by the related policies.
- A statutory liability is established and charged to policyholder surplus for amounts due from unauthorized reinsurers in excess of letters of credit, funds held, and premiums payable. Under U.S. GAAP, no such liability is provided.
- Cash, cash equivalents, and short-term investments in the statements of cash flows statutory basis represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash and short-term investments (also referred to as cash equivalents) would include cash balances and investments with maturities, when purchased, of three months or less. Additionally, negative cash balances are recorded as a negative asset whereas under U.S. GAAP, these balances would be reclassified to a liability account.
- All leases, except leveraged leases for lessors, are treated as operating leases with rental expense being recognized on a straight-line basis over the lease term, without recognition of a right-to-use asset or lease liability as provided for under U.S. GAAP (ASC 842).

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
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NOTES TO THE STATUTORY FINANCIAL STATEMENTS**

DECEMBER 31, 2023 AND 2022

Note 2—Summary of significant accounting policies (continued)

- The statutory basis financial statements are prepared in a form using language and groupings substantially the same as the annual statements that KEMI files with the NAIC and the state regulatory authorities, which differ from the presentation and disclosures of financial statements presented under U.S. GAAP reporting.

The effect of the differences between statutory accounting practices and accounting principles generally accepted in the United States of America has not been determined but is presumed to be material.

Risks and Uncertainties – Certain risks and uncertainties are inherent to KEMI's day-to-day operations and to the process of preparing its statutory basis financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to the statutory basis financial statements.

Use of Estimates – The preparation of the statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of unpaid losses and loss adjustment expenses ("LAE"). In connection with the determination of this liability, management uses the methodology described in Unpaid Losses and Loss Adjustment Expenses as discussed below. While management uses the best information available to estimate unpaid losses and LAE, future changes to the liability may be necessary based on claims experience and changing claims frequency and severity conditions, as well as changes in doctrines of legal liability and damage awards in Kentucky. The future changes will be charged or credited to expense when they occur.

Loss Reserves – KEMI estimates unpaid losses and LAE based on the accumulation of case estimates and loss reports, as well as estimates of incurred but not reported ("IBNR") losses, net of applicable policy deductibles and deduction of amounts for reinsurance ceded on reported and unreported claims and incidents. KEMI also offers its Kentucky-based policyholders multi-state coverage through the use of assumptive reinsurance agreements, under which unaffiliated Cedents write certain policies for which KEMI assumes 100% of the business. The liability for LAE is provided by estimating future expenses to be incurred in settlement of the claims provided for in the reserve for losses, net of reinsurance ceded. Actual results could differ from these estimates.

Reinsurance – Reinsurance contracts do not relieve KEMI from its obligations to insureds. Failure of reinsurers to honor their obligations could result in losses to KEMI. KEMI evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Management believes that any liability arising from this contingency would not be material to KEMI's financial position.

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NOTES TO THE STATUTORY FINANCIAL STATEMENTS**

DECEMBER 31, 2023 AND 2022

Note 2—Summary of significant accounting policies (continued)

Investment Risk – KEMI is exposed to risks that issuers of securities owned by KEMI will default or that interest rates will change and cause a decrease in the value of its investments. With mortgage-backed securities, KEMI is exposed to credit risk and prepayment risk. As interest rates change, the velocity at which these securities pay down the principal will change as well. Management mitigates these risks by conservatively investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities. KEMI maintains balances at financial institutions that may exceed federally insured limits; however, it also utilizes repurchase agreements and money market funds to mitigate this risk. KEMI's management regularly evaluates the financial stability of these financial institutions and does not believe they are exposed to unnecessary risk. Amounts held in financial institutions in excess of FDIC limits totaled \$22,286,945 at December 31, 2023.

Since most of KEMI's investments consist of securities that are traded in the public securities markets, they are subject to risk related to fluctuations in overall market performance and are potentially subject to heightened levels of market risk attributable to issuer, industry, and geographic region concentrations. KEMI's investment portfolio is regularly reviewed, and the extent of its diversification, is considered in the context of statutory requirements and other risk management and performance objectives.

External Factors – KEMI is highly regulated by the state in which it is domiciled. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and types of investments. In addition, from time to time, KEMI may be affected by changes in federal regulations such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") or the Patient Protection and Affordable Care Act ("PPACA"). Additionally, the PPACA contained an amendment with specific language related to black lung claims (the "Byrd Amendment"). KEMI continues to monitor the impact of such regulations and will assess any potential impact of these changes on the accompanying statutory basis financial statements.

Risk-based Capital – The NAIC has developed property-casualty risk-based capital ("RBC") standards that relate an insurer's reported statutory basis capital and policyholder surplus to the risks inherent in its overall operations. The RBC formula uses the statutory basis annual statement to calculate the minimum indicated capital level to protect KEMI from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. KEMI continues to monitor its internal capital requirements and the NAIC's RBC requirements. KEMI has determined that its capital levels are in excess of the minimum capital requirements for all RBC action levels. Management believes that KEMI's capital levels are sufficient to support the level of risk inherent in its operations.

Investments – Investments, excluding residential mortgage-backed securities not guaranteed by federal or federally sponsored agencies, are stated at values prescribed by the NAIC's SVO, which generally are as follows:

Non loan-backed bonds rated 1 and 2 by the NAIC are stated at amortized cost using the scientific (constant yield) interest method with bonds containing call provisions being amortized to the call or maturity date, which ever results in a lower asset value. Loan-backed bonds rated 1 and 2 by the NAIC are stated at amortized cost using the scientific (constant yield) interest method including anticipated prepayments. Bonds rated 3 through 6 are carried at fair value with the change included within policyholder surplus.

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
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NOTES TO THE STATUTORY FINANCIAL STATEMENTS**

DECEMBER 31, 2023 AND 2022

Note 2—Summary of significant accounting policies (continued)

Investments in residential mortgage-backed securities not guaranteed by federal or federally sponsored agencies utilize a financial model commissioned by the NAIC to determine credit ratings, and ultimately the NAIC designation/rating. This financial model requires a two-step process. KEMI first determines the initial rating designation based upon each security's amortized cost in relation to security specific prescribed valuation points. This initial rating designation determines whether the security will be stated at amortized cost or fair value, based on the same criteria noted in the preceding paragraph. (The lower the amortized cost relative to par, the higher the NAIC designation, and the more likely the security will be carried at amortized cost.) If the security is to be carried at fair value, KEMI then determines the final rating designation based upon each security's fair value in relation to the same security specific prescribed valuation points used in the first step. If the security is to be carried at amortized cost, the final designation remains the same as what was determined in the first step. The final designation is used for RBC purposes as well as for NAIC designation disclosure purposes.

Investments in preferred stocks with an NAIC rating designation of 1 or 2 are stated at amortized cost; all other preferred stocks are stated at the lesser of amortized cost or fair value.

Investments in common stocks are stated at fair value with unrealized gains and losses being reported as a separate component of unassigned policyholder surplus.

Realized gains or losses are determined on the specific-identification method. Investment income is recognized as earned, net of related investment expenses. Bond premiums and discounts are amortized by the scientific-yield method and are charged or credited to net investment income. For mortgage-backed securities, KEMI anticipates prepayments utilizing published data in determining interest income.

The assessment of other-than-temporary impairments is performed on a case-by-case basis. Factors considered by management in determining whether an other-than-temporary impairment exists (in other than loan-backed or structured securities) include: the financial condition, business prospects and creditworthiness of the issuer, the length of time and extent to which fair value has been less than cost for equity securities or amortized cost for fixed income securities, and KEMI's intent and ability to retain such investments until the fair value recovers. If it is determined that the decline in fair market value is other-than-temporary, the carrying amount of the investment is written down to fair value as its new basis and the amount of the write down is recorded as a realized loss.

For loan-backed or structured securities, factors considered by management in determining whether another-than temporary impairment exists include: KEMI's stated intent to not sell, KEMI's ability to hold such investments until the fair value recovers, and the discounted cash flows of the security based on the yield at the date of acquisition. If KEMI intends to sell or if KEMI does not have the ability and intent to hold the security for a period of time sufficient to recover its amortized cost basis, an other-than-temporary impairment exists, and the security is written down to fair value with the amount of the write-down recorded as a realized loss. If KEMI does not intend to sell the security and has the ability and intent to hold the security for a period of time sufficient to recover the amortized cost basis, KEMI calculates the cash flows expected to be collected. In this calculation, KEMI compares the present value of cash flows expected to be collected, discounted at the security's effective interest rate at date of purchase, to the amortized cost basis. If the present value of cash flows is less than the amortized cost basis, a realized loss is recorded for the difference. The present value of cash flows then becomes the new cost basis.

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Note 2—Summary of significant accounting policies (continued)

For fixed-rate agency mortgage-backed securities, KEMI's investment managers calculate prepayment speeds utilizing Mortgage Industry Advisory Corporation ("MIAC") Mortgage Industry Medians ("MIMs"). MIMs are derived from a semi-monthly dealer consensus survey of long-term prepayment projections. For other mortgage-backed, loan-backed, and structured securities, KEMI's investment managers use prepayment assumptions from Moody's Analytics ("Moody's"). Moody's applies a flat economic credit model and utilizes a vector of multiple monthly speeds as opposed to a single speed for more robust projections. In instances where Moody's projections are not available, KEMI's investment managers use data from Reuters, which utilizes the median prepayment speed from contributors' models.

As part of its investment strategy, KEMI holds investments in loan-backed securities and, therefore, KEMI has subprime risk exposure related to these investments. These securities subject KEMI to unrealized gains and losses due to changes in asset values; future sales could result in realized losses and a reduction of future cash flows. As of December 31, 2023, none of KEMI's loan-backed securities were considered subprime. KEMI mitigates its subprime risk by adhering to conservative investment strategies and by actively monitoring investment performance.

Investments in Federal Home Loan Bank ("FHLB") common stock are carried at par value and are considered restricted investments until redeemed by FHLB. Dividends are recognized in net investment income when received.

KEMI occasionally holds passive, non-controlling interests in limited partnership REITs which, during the funding and acquisition phase, are valued at initial cost plus subsequent capital contributions less any distributions received. Once the funding and acquisition phase is complete, the carrying value is adjusted for KEMI's proportionate share of earnings or losses and other equity changes.

KEMI uses the prospective method to accrete the amortized cost basis to the ultimate expected cash flows.

Premiums – Premiums are earned on the daily pro-rata method over the policy period and are stated after deduction for reinsurance. Unearned premiums represent the portion of initial premiums written that are applicable to the unexpired terms of policies in force. Initial premiums are recorded as premiums written on the policy effective date except for certain premiums that are recorded on an installment basis. Any subsequent additional premiums or refunds that occur as a result of policy audits are recorded as written premiums at the time the policy audits are finalized. Earned but unbilled premiums include management's estimate of future audit premiums and are included in premiums booked but deferred and not yet due.

Premiums in course of collection which are customer obligations due under normal terms requiring payment by the policy due date, and premiums booked but deferred and not yet due are valued at their carrying amount, which approximates fair value. Receivables over 90 days outstanding are not admitted in the statutory basis financial statements.

Unpaid Losses and Loss Adjustment Expenses – The estimated liability for losses is based on the accumulation of case estimates for claims and incidents reported, net of applicable policy deductibles and deduction of amounts for reinsurance ceded on reported claims and incidents. Also included in the liability are estimates of incurred but not reported losses based on historical loss experience adjusted for current trends. The reserves for unpaid losses are net of anticipated subrogation. The liability for LAE is provided by estimating future expenses to be incurred in settlement of the claims provided for in the reserve for losses, net of reinsurance ceded.

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Note 2—Summary of significant accounting policies (continued)

To reflect the time value of money, KEMI began discounting the indemnity portion of black lung reserves effective December 31, 2017. Both case reserves and IBNR reserves have been discounted on a tabular basis at a rate of 3.5% using the following tables: Male—2020 Social Security Administration Table Adjusted for Black Lung Mortality for Males, and Female - 2020 U.S. Lives Table for Females at 50% and 2017 CSO Smokers at 50%. See Methodologies and Assumptions Used in Calculating the Liability in Note 5.

Management believes that the provisions for losses and LAE are adequate to cover the net cost of claims incurred and incidents reported; however, the provisions are based upon estimates and, therefore, the ultimate liability may be less than or exceed such estimates. As adjustments become necessary in these estimates, such adjustments are reflected in the results of operations in the period in which they are determined.

Reinsurance – Reinsurance premiums, losses, and loss adjustments expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, losses, and loss adjustments expenses are reported net of reinsured amounts. KEMI evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. KEMI holds collateral as security under reinsurance agreements in the form of letters of credit for any reinsurers not subject to the regulations of the Kentucky Commissioner of Insurance. In the opinion of management, all amounts due from reinsurers at December 31, 2023 and 2022 are recoverable.

Cash, Cash Equivalents, and Short-term Investments – The Company considers all highly liquid instruments purchased with a maturity of one year or less to be cash equivalents. Cash equivalents are short-term investments that are both readily convertible to known amounts of cash and so near their maturity they present an insignificant risk of changes in value because of changes in interest rates. The Company generally maintains balances in excess of federally insured limits. Accordingly, at various times during the years, cash balances on deposit were uninsured and uncollateralized (see above for amounts).

Concentrations of Geographic and Credit Risk – All of KEMI's total direct gross written premiums of \$161,837,132 and \$142,864,950 for the years ended December 31, 2023 and 2022, respectively, were for insureds in Kentucky. KEMI also offers multi-state coverage to its Kentucky based policyholders through the use of assumptive reinsurance agreements as described in Note 6.

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Note 2—Summary of significant accounting policies (continued)

The credit quality of the long-term bond portfolio at December 31, 2023 is presented as follows:

	<u>Carrying Value</u>	<u>Percentage</u>
Class 1 - highest quality	\$ 676,017,228	68.8%
Class 2 - high quality	281,518,209	28.6%
Class 3 - medium quality	22,480,809	2.3%
Class 4 - low quality	1,411,792	0.1%
Class 6 - in or near default or unclassified	1,704,935	0.2%
	<u>\$ 983,132,973</u>	<u>100.0%</u>

All Bonds with ratings from AAA to BBB as assigned by Standard & Poor's Corporation are generally considered as investment grade securities. Some securities issued by the U.S. government or an agency thereof are not rated but are considered to be investment grade. The NAIC regards U.S. Treasuries and agencies and all A ratings as Class 1 (highest quality), BBB ratings as Class 2 (high quality), BB ratings as Class 3 (medium quality), B ratings as Class 4 (low quality), C ratings as Class 5 (lower quality), and D ratings as Class 6 (in or near default or unclassified).

Property and Equipment – Electronic data processing equipment, including operating software, is stated at cost less accumulated depreciation. Depreciation expense on such property was \$109,075 and \$63,028 in 2023 and 2022, respectively. Furniture, office equipment, and application software are non-admitted assets under statutory accounting practices. Depreciation expense on such property was \$80,653 and \$98,995 in 2023 and 2022, respectively.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Gains and losses on the sale of property and equipment are recorded in the year of disposition. Maintenance and repairs are expensed as incurred; replacements and betterments are capitalized.

Advertising – KEMI expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2023 and 2022, was \$426,469 and \$622,245 respectively.

Subsequent Events – All of the effects of subsequent events that provide additional evidence about conditions that existed at the statement of admitted assets, liabilities and policyholder surplus date, including the estimates inherent in the process of preparing the statutory basis financial statements, are recognized in the statutory basis financial statements. KEMI does not recognize subsequent events that provide evidence about conditions that did not exist at the statement of admitted assets, liabilities and policyholder surplus date but arose after, but before the statutory basis financial statements are available to be issued. In some cases, non-recognized subsequent events are disclosed to keep the statutory basis financial statements from being misleading.

Subsequent events for KEMI have been considered through the date of the Independent Auditor's Report, April 19, 2024, which represents the date the statutory basis financial statements were available to be issued. There were no events during the evaluation period that required recognition or disclosure in the statutory basis financial statements.

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Note 3—Investments

Long-term Bonds – The statement value, gross unrealized gains, gross unrealized losses, and the estimated fair value of investments in long-term bonds are summarized as follows:

	<u>Statement Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
As of December 31, 2023				
U.S. government securities	\$ 19,883,157	\$ 227,177	\$ (649,991)	\$ 19,460,343
U.S. agency residential mortgage-backed securities	3,558,045	181,516	-	3,739,561
U.S. special revenue bonds	125,742,078	110,523	(13,245,826)	112,606,775
Commercial mortgage-backed securities	88,998,296	-	(13,590,229)	75,408,067
Commercial asset-backed securities (\$0 carried at fair value)	103,081,341	240,677	(3,961,496)	99,360,522
Corporate bonds (\$16,891,015 carried at fair value)	624,089,226	3,653,927	(47,988,653)	579,754,500
All other bonds	17,780,830	-	(1,912,689)	15,868,141
	<u>\$ 983,132,973</u>	<u>\$ 4,413,820</u>	<u>\$ (81,348,884)</u>	<u>\$ 906,197,909</u>
	<u>Statement Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
As of December 31, 2022				
U.S. government securities	\$ 27,113,029	\$ -	\$ (918,091)	\$ 26,194,938
U.S. agency residential mortgage-backed securities	85,735	2,014	-	87,749
U.S. special revenue bonds	134,967,905	108,387	(15,810,285)	119,266,007
Commercial mortgage-backed securities	96,613,342	-	(16,203,051)	80,410,291
Commercial asset-backed securities (\$320,013 carried at fair value)	95,855,336	-	(7,507,984)	88,347,352
Corporate bonds (\$29,360,299 carried at fair value)	603,576,413	306,335	(66,427,572)	537,455,176
All other bonds	18,160,097	-	(2,558,894)	15,601,203
	<u>\$ 976,371,857</u>	<u>\$ 416,736</u>	<u>\$ (109,425,877)</u>	<u>\$ 867,362,716</u>

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Note 3—Investments (continued)

The carrying value and estimated fair value of long-term bonds at December 31, 2023, by contractual maturity, are as follows. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Statement Value	Estimated Fair Value
Less than one year	\$ 27,363,969	\$ 27,001,517
One year through five years	286,958,349	274,857,533
Six years through ten years	279,525,701	256,409,820
After ten years	389,284,955	347,929,039
	<u>\$ 983,132,973</u>	<u>\$ 906,197,909</u>

Proceeds from sales of bonds during 2023 and 2022 were \$82,557,164 and \$127,967,229, respectively. Gross gains of \$5,605 and \$480,210, and gross losses of \$1,639,920 and \$1,286,156 were realized on those sales in 2023 and 2022, respectively.

During 2023 and 2022, bonds which were previously rated as NAIC level 1 or level 2 investments were downgraded to NAIC level 3 investments. KEMI believed these downgrades to be temporary and as such they have reported these bonds at their estimated fair value and recorded unrealized losses in the amount of \$1,293,360 and \$3,046,005 as of December 31, 2023 and 2022, respectively.

Preferred Stock – Gross unrealized capital gains on preferred stock during 2023 and 2022 were \$13,858 and \$11,269, respectively. Gross unrealized capital losses on preferred stock during 2023 and 2022 were \$44,438 and \$75,866, respectively. The Company's investments in preferred stocks are in NAIC designated 1G securities and are therefore, carried at amortized cost.

Common Stock – Gross unrealized capital gains and losses on common stock are included in policyholder surplus as follows:

	2023	2022
Cost	\$ 59,270,460	\$ 56,965,170
Gross unrealized capital gains	10,488,805	10,880,907
Gross unrealized capital losses	<u>(2,463,361)</u>	<u>(3,353,115)</u>
Net unrealized capital gains	<u>8,025,444</u>	<u>7,527,792</u>
Fair value	<u>\$ 67,295,904</u>	<u>\$ 64,492,962</u>

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Note 3—Investments (continued)

Proceeds from sales of common stocks during 2023 and 2022 were \$13,477,463 and \$13,320,353, respectively. Gross gains of \$2,394,982 and \$2,470,055 and gross losses of \$1,334,892 and \$1,016,188 were realized on those sales in 2023 and 2022, respectively.

Real Estate – In September of 2016, KEMI purchased a parcel of land upon which it planned to construct a home office building. This parcel of land was reported at cost, plus capitalized legal and professional fees, of \$5,020,818. In 2019, KEMI extended their current lease and terminated all plans to develop a home office building. The property was reclassified to held for sale. On January 19, 2020, a third-party certified appraiser valued the land at \$4,025,000, which was lower than carrying value at that time, and the carrying value was adjusted to reflect the lower appraised value.

Other Invested Assets – During 2020, KEMI purchased a minority limited partnership interest in Elmtree U.S. Net Lease Fund IV-A, L.P. (the "Elmtree Fund IV-A") for a total commitment of \$20 million. The Fund was formed in July 2020 to invest in real estate development. During the year 2023, CB noted that a release of funds was made consequent to consent filed to sell the ElmTree Fund IV. During the year 2023, KEMI consented to sell the Fund for a gain of \$1,648,932 with unfunded commitment balance of \$650,901 as of December 31, 2023. KEMI's book adjusted carrying value for ElmTree IV-A was \$0 and \$12,809,215, respectively. Any final distributions from settlement by Elmtree Fund IV will be reflected when received.

During 2023, KEMI purchased a minority limited partnership interest in Elmtree U.S. Net Lease Fund V-A, L.P. (the "Elmtree Fund V-A") for a total commitment of \$30 million. The Fund was formed in April 2023 to invest in real estate development. As of December 31, 2023, KEMI had made capital contributions totaling \$12,801,986 leaving a remaining commitment of \$17,198,014. Subsequent to year-end, Fund V returned working capital net of expenses of \$3,555,035 and in March 2024, prior to this report release, KEMI funded an additional \$5,099,558 leaving the unfunded commitment balance of \$15,653,491. As of December 31, 2023, KEMI's book adjusted carrying value for ElmTree V-A was \$12,801,986. KEMI reports the investment at cost less quarterly management fees. KEMI earns an annual return of 7% on this investment, which is paid quarterly and reflected in investment income.

Other-than-temporary Impairment – The following table illustrates the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2023:

	December 31, 2023					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government	\$ -	\$ -	\$ 12,505,015	\$ (649,991)	\$ 12,505,015	\$ (649,991)
U.S. special revenue	2,998,085	(107,482)	105,284,663	(13,138,344)	108,282,748	(13,245,826)
Mortgage-backed	49,884	(305)	75,358,183	(13,589,924)	75,408,067	(13,590,229)
Commercial asset-backed	2,798,726	(32,458)	79,831,397	(3,929,037)	82,630,122	(3,961,496)
Corporate bonds	33,656,597	(652,291)	474,100,829	(48,629,722)	507,757,426	(49,282,012)
All other bonds	1,754,931	(5,069)	14,113,210	(1,907,620)	15,868,141	(1,912,689)
Common stock	9,747,903	(909,551)	5,831,790	(1,553,809)	15,579,693	(2,463,360)
Preferred stock	-	-	1,185,562	(44,438)	1,185,562	(44,438)
Total	\$ 51,006,126	\$ (1,707,156)	\$ 768,210,649	\$ (83,442,886)	\$ 819,216,775	\$ (85,150,042)

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Note 3—Investments (continued)

The following table illustrates the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2022:

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government	\$ 26,136,892	\$ (918,091)	\$ -	\$ -	\$ 25,119,000	\$ (918,091)
U.S. special revenue	83,201,929	(7,214,928)	47,175,835	(8,595,357)	130,377,764	(15,810,285)
Mortgage-backed	40,802,943	(5,321,556)	55,810,399	(10,881,495)	96,613,342	(16,203,051)
Commercial asset-backed	51,412,370	(3,356,963)	44,122,953	(4,151,021)	95,535,323	(7,507,984)
Corporate bonds	452,272,520	(44,348,732)	112,122,788	(22,078,840)	564,395,308	(66,427,572)
All other bonds	9,314,712	(874,907)	8,845,384	(1,683,987)	18,160,096	(2,558,894)
Common stock	9,235,155	(1,661,446)	4,567,883	(1,257,726)	13,803,038	(2,919,172)
Preferred stock	1,230,000	(75,866)	-	-	1,230,000	(75,866)
Total	<u>\$ 673,606,521</u>	<u>\$ (63,772,489)</u>	<u>\$ 272,645,242</u>	<u>\$ (48,648,426)</u>	<u>\$ 945,233,871</u>	<u>\$ (112,420,915)</u>

KEMI evaluates impairment at each reporting period for each of the securities whereby the fair value of the investment is less than its amortized cost. It is expected that the securities would not be settled at a price less than the amortized cost of the investment, as KEMI has the ability and intent to hold the investment until there is not an unrealized loss on the investment. For valuing loan-backed and structured securities, KEMI's asset manager uses a proprietary model for loss assumptions and widely accepted models for prepayment assumptions with inputs from major third-party data providers. Model assumptions are specific to asset class and collateral types and are regularly evaluated and adjusted where appropriate.

KEMI evaluated the credit ratings of these holdings, noting neither a significant deterioration since purchase nor other factors which may indicate an other-than-temporary impairment, such as the length of time and extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and KEMI's intent and ability to hold the investment for a sufficient time in order to enable recovery of cost. In 2023, KEMI had recorded no other-than-temporary impairments. In 2022, KEMI held one corporate bond for which it recorded an other-than-temporary impairment loss of \$358,228. KEMI reduced the book adjusted carrying value of this bond from \$1,997,002 to its December 27, 2022 market value of \$1,638,800 (bond was further valued at market value of \$1,553,000 as at December 31, 2022 since its NAIC designation was rated at 6). The other-than-temporary impairment loss is reflected in KEMI's net realized capital gains on the 2022 statement of income - statutory basis.

KEMI continues to review its investment portfolio under its impairment review policy. Given the fluctuating market conditions and the significant judgment involved, there is a continuing risk that further declines in fair value may occur and additional other-than-temporary impairments may be experienced in future periods.

As of December 31, 2023 and 2022, KEMI has \$18,654,703 and \$20,883,524, respectively, of investments pledged as collateral related to funds withheld under adverse development coverage policies and line of credits.

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Note 4—Fair value measurements

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2023 and 2022. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these statutory basis financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practical to estimate that value:

Cash, Cash Equivalents, and Short-term Investments – Valued at cost. The carrying amounts reported in the statements of admitted assets, liabilities and policyholder surplus approximate their fair value due to their short-term maturity.

Bonds, Loan-backed and Structured Securities, and Common Stock – Valued at fair value by reference to identical trades in active markets and by a third-party portfolio manager. Fair values are based on values published by the SVO, quoted market prices, or dealer quotes. For bonds not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, are estimated by discounting the expected future cash flows using current market rates applicable to the yield, credit, and maturity of the investment.

KEMI's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets that KEMI has the ability to access at the measurement date.

Level 2 – Valuations derived from inputs other than quoted market prices included within Level 1 that are observable for the asset, either directly or indirectly, such as:

- Quoted prices for similar assets in active markets.
- Quoted prices for identical or similar assets in markets that are not active.
- Inputs other than quoted prices that are observable for the asset.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Valuations are derived from techniques that require significant unobservable inputs. The unobservable inputs reflect KEMI's own assumptions about the assumptions that market participants would use in pricing the asset.

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Note 4—Fair value measurements (continued)

KEMI holds common stocks and other securities that are measured at fair value on a recurring basis. In addition, KEMI sometimes holds certain financial assets, primarily certain bonds valued at the lower of cost or fair value in accordance with NAIC reporting guidelines and assets that are impaired during the current reporting period and carried at fair value, that are considered to be measured at fair value on a recurring basis.

For informational purposes, the following table summarizes the fair value of all of KEMI's financial instruments whether or not they are carried at fair value on the statement of admitted assets, liabilities and policyholder surplus - statutory basis. Management has elected not to further disaggregate the investments displayed below as additional risk information is not deemed material to the statutory basis financial statements.

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Note 4—Fair value measurements (continued)

	December 31, 2023			
	Fair value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Investments:				
U.S. government securities	\$ 19,460,343	\$ -	\$ 19,460,343	\$ -
U.S. agency residential mortgage-backed securities	3,739,561	-	3,739,561	-
U.S. special revenue bonds	112,606,775	-	112,606,775	-
Commercial mortgage-backed securities	75,408,067	-	75,408,067	-
Commercial asset-backed securities	99,360,522	-	99,360,522	-
Corporate bonds (\$16,891,015 carried at fair value)	579,754,500	-	579,754,500	-
All other bonds	15,868,141	-	15,868,141	-
Common stock	67,295,904	66,856,600	439,304	-
Other invested assets	12,801,986	-	-	12,801,986
Real estate	4,025,000	-	4,025,000	-
Total assets at fair value	<u>\$ 990,320,799</u>	<u>\$ 66,856,600</u>	<u>\$ 910,662,213</u>	<u>\$ 12,801,986</u>
	December 31, 2022			
	Fair value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Investments:				
U.S. government securities	\$ 26,194,938	\$ -	\$ 26,194,938	\$ -
U.S. agency residential mortgage-backed securities	87,749	-	87,749	-
U.S. special revenue bonds	119,266,007	-	119,266,007	-
Commercial mortgage-backed securities (\$320,013 carried at fair value)	-	-	-	-
Commercial asset-backed securities	80,410,291	-	80,410,291	-
Commercial asset-backed securities	88,347,352	-	88,347,352	-
Corporate bonds (\$29,360,299 carried at fair value)	537,455,176	-	537,455,176	-
All other bonds	15,601,203	-	15,601,203	-
Common stock	64,492,962	64,492,962	-	-
Other invested assets	12,809,215	-	-	12,809,215
Real estate	4,025,000	-	4,025,000	-
Total assets at fair value	<u>\$ 948,689,893</u>	<u>\$ 64,492,962</u>	<u>\$ 871,387,716</u>	<u>\$ 12,809,215</u>

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Note 5—Losses and loss adjustments expenses

As of December 31, 2023 and 2022, the following table provides a reconciliation of the beginning and ending reserve balances for LAE:

	<u>2023</u>	<u>2022</u>
Gross reserves for losses and LAE, beginning of year	\$ 688,570,947	\$ 686,005,980
Less reinsurance recoverables	31,166,821	29,432,682
Net reserves for losses and LAE, beginning of year	<u>657,404,126</u>	<u>656,573,298</u>
Provision for claims, related to		
Current year	109,816,840	121,440,616
Prior years	(200,179)	(18,680,649)
Total incurred	<u>109,616,661</u>	<u>102,759,967</u>
Payments for claims, related to		
Current year	(40,619,501)	(37,259,222)
Prior years	(56,444,377)	(64,669,917)
Total paid	<u>(97,063,878)</u>	<u>(101,929,139)</u>
Net reserves for losses and LAE, end of year	669,956,910	657,404,126
Plus reinsurance recoverables	<u>30,838,224</u>	<u>31,166,821</u>
Gross reserves for losses and LAE, end of year	<u>\$ 700,795,134</u>	<u>\$ 688,570,947</u>

As a result of changes in estimates of insured events in prior years, including changes in discount rates, the liability for unpaid losses and loss adjustment expenses (net of reinsurance recoverable and discounting) decreased by \$200,179 and \$18,680,649 in 2023 and 2022, respectively. Estimated subrogation recoverable on unpaid losses was approximately \$3,000,000 as of both December 31, 2023 and 2022.

Methodologies and Assumptions Used in Calculating the Liability – KEMI discounts its black lung indemnity claims. Both case reserves and IBNR reserves have been discounted on a tabular basis at a rate of 3.5% using the following tables: Male - 2020 Social Security Administration Table Adjusted for Black Lung Mortality for Males, and Female - 2020 U.S. Lives Table for Females. Tabular discounting of indemnity reserves is a permitted practice of the NAIC and the Department, and it is a common industry practice to discount the indemnity portion of black lung claim reserves given the long-term nature of the payment pattern. KEMI does not discount indemnity claims other than black lung, nor does it discount any medical or loss expense reserves.

Tabular discounts were \$152,022,693 and \$89,929,259 as of December 31, 2023 and 2022, respectively. KEMI recognized discount accretion of approximately \$1,800,000 and \$1,800,000 for 2023 and 2022, respectively, through direct losses incurred on the statements of income statutory basis.

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Note 6—Reinsurance

KEMI limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with various reinsurers under excess of loss agreements. These agreements cede premium on an earned basis. Ceded reinsurance is treated as the risk and liability of the assuming companies; however, these reinsurance contracts do not relieve KEMI from its original obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to KEMI; consequently, allowances are established for amounts deemed uncollectible, if any. KEMI evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

KEMI maintains Excess of Loss reinsurance coverage (including terrorism) with unaffiliated reinsurers for losses and loss adjustment expenses in excess of \$3 million per occurrence and up to \$125 million per occurrence. The Excess of Loss reinsurance agreements apply to KEMI's net retained liability, covering direct and assumed business in force as of each effective date, as well as new business and renewal business from the effective date through the end of the contract term. Unpaid losses and loss adjustment expenses as of December 31, 2023 and 2022 included estimated reinsurance recoverables under the Excess of Loss agreements of \$29,904,850 and \$30,373,944, respectively.

KEMI also maintains a facultative reinsurance agreement with unaffiliated reinsurers for catastrophe coverage (including terrorism) in certain geographical locations where KEMI has heavy concentrations of covered lives. This facultative contract provides 100% coverage of losses and loss adjustment expenses in excess of \$125 million per occurrence up to \$305 million per occurrence.

Effective November 1, 2017, KEMI entered into a quota share reinsurance treaty with Automobile Dealers Management Insurance Company ("ADMIC") under which KEMI cedes to ADMIC 50% of the premiums, losses and loss adjustment expenses for a group of approximately forty to fifty car dealerships. The agreement is renewable annually, and each contract year may be commuted no sooner than five years after expiration. Ceded premiums earned under the agreement were \$693,639 and \$768,352 in 2023 and 2022, respectively. Unpaid losses and loss adjustment expenses as of December 31, 2023 and 2022 included estimated reinsurance recoverables of \$933,374 and \$792,878, respectively, under the agreement. The ADMIC quota share contracts are secured by funds withheld accounts and collateral deposits totaling \$2,013,337 and \$1,684,846 as of December 31, 2023 and 2022, respectively.

KEMI offers multi-state coverage to its policyholders through the use of assumptive reinsurance agreements, under which unaffiliated cedents write certain policies for which KEMI assumes 100% of the business. This coverage is only available to Kentucky-based businesses that have similar operations in other states. KEMI's liability for unpaid losses and loss adjustment expenses as of December 31, 2023 and 2022 includes \$6,577,783 and \$6,103,984 respectively, related to these agreements. The cedents require KEMI to maintain standby letters of credit totaling \$14.4 million. The letters of credit are collateralized by U.S. Treasury Bonds.

KEMI had no unsecured net reinsurance recoverables outstanding for losses and loss adjustment expenses, paid and unpaid, including IBNR and unearned premium that individually exceeded 3% of policyholder surplus at December 31, 2023 and 2022.

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Note 6—Reinsurance (continued)

The effects of KEMI's assumed and ceded reinsurance transactions for the years ended December 31, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Written premiums:		
Direct	\$ 161,837,132	\$ 142,864,950
Assumed	5,879,421	6,183,282
Ceded	<u>(7,358,964)</u>	<u>(6,613,330)</u>
Net	<u>\$ 160,357,589</u>	<u>\$ 142,434,902</u>
Earned premiums:		
Direct	\$ 156,323,825	\$ 141,242,108
Assumed	5,844,723	5,126,094
Ceded	<u>(7,390,247)</u>	<u>(6,683,340)</u>
Net	<u>\$ 154,778,301</u>	<u>\$ 139,684,862</u>
Incurred losses and LAE:		
Direct	\$ 104,738,284	\$ 100,799,012
Assumed	6,053,175	4,087,284
Ceded	<u>(1,174,798)</u>	<u>(2,126,329)</u>
Net	<u>\$ 109,616,661</u>	<u>\$ 102,759,967</u>
Unearned premiums:		
Direct	\$ 66,947,644	\$ 60,243,710
Assumed	3,122,761	3,088,064
Ceded	<u>(435,015)</u>	<u>(466,298)</u>
Net	<u>\$ 69,635,390</u>	<u>\$ 62,865,476</u>
Adjustment for earned but unbilled premiums	<u>(4,817,659)</u>	<u>(3,627,033)</u>
Net	<u>\$ 64,817,731</u>	<u>\$ 59,238,443</u>

KEMI has evaluated its assumed and ceded reinsurance arrangements and believe they appropriately transfer risk in accordance with SSAP No. 62R, Property and Casualty Reinsurance, and have therefore accounted for them as prospective reinsurance.

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Note 7—Loss portfolio transfers

Kentucky School Boards Insurance Trust Loss Portfolio Transfer – Effective October 31, 2014, KEMI entered into a loss portfolio transfer agreement with the Commissioner of Insurance of the Commonwealth of Kentucky, Rehabilitator of the Kentucky School Boards Insurance Trust ("KSBIT") Workers' Compensation Self Insurance Fund. Pursuant to this loss portfolio transfer, approximately \$35 million in workers' compensation claims liabilities for the period July 7, 1978 through June 30, 2013, were transferred to KEMI by KSBIT's Rehabilitator. In exchange for assuming responsibility for these claim liabilities and the handling thereof, KEMI received \$35 million in cash and guaranteed receivables. Final installments under the guaranteed receivables program were received in 2020. As a result of efficient claims handling practices, actuarially determined claim liabilities were less than originally projected; therefore, KEMI was able to return a total of \$16.3 million of transferred funds to the Rehabilitator in 2019 and 2020. As of December 31, 2023, KSBIT's cash balance was \$8,205,795, reinsurance receivables on paid losses and loss adjustment expenses was \$132,914, net reported loss and loss adjustment expense reserves were \$6,514,245 and net incurred but not reported loss and loss adjustment expense reserves were \$1,824,464. KSBIT reserves for unpaid losses and loss adjustment expenses are not discounted.

The net liability for KSBIT unpaid claims and the receivable for retroactive reinsurance assumed activity for the years ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Net liability for KSBIT unpaid claims, beginning of year	\$ 8,718,575	\$ 8,721,111
Losses and LAE paid	(888,069)	(681,071)
Reinsurance received	375,289	678,535
Net liability for KSBIT unpaid claims, end of year	<u>\$ 8,205,795</u>	<u>\$ 8,718,575</u>

Kentucky Workers' Compensation Funding Commission Loss Portfolio Transfer – Effective July 7, 2017, KEMI entered into a loss portfolio transfer agreement with the Kentucky Workers' Compensation Funding Commission (the "Funding Commission"). Pursuant to this loss portfolio transfer, approximately \$40 million in workers' compensation claims liabilities for claims incurred on or after December 12, 1996, which were filed on or before June 30, 2017 (known as the "Kentucky Coal Workers' Pneumoconiosis Fund" or "KCWPF"), were transferred from the Funding Commission to KEMI. In exchange for assuming responsibility for these claim liabilities and the handling thereof, KEMI received approximately \$19.3 million in cash. In addition, the Funding Commission continued to impose assessments until both the Funding Commission and KEMI agreed that the liabilities were fully funded. Assessments ceased effective January 1, 2020. As of December 31, 2023, KCWPF's cash balance was \$6,404,864 and net loss and loss adjustment expense reserves were \$6,404,864. KCWPF reserves for unpaid losses and loss adjustment expenses are not discounted.

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Note 7—Loss portfolio transfers (continued)

The net liability for KCWPF unpaid claims and the receivable for retroactive reinsurance assumed activity for the years ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Net liability for KCWPF unpaid claims, beginning of year	\$ 8,192,448	\$ 13,456,139
Losses and LAE paid, net	(1,751,228)	(4,729,794)
Adjustments to estimated losses and LAE	-	(33,597)
Excess funds to be returned	-	331,228
Assessment audits refunded to Kentucky WC funding commission	-	(831,528)
Settlement distributions to KY Coal Employers Self-Insured Guarantee Fund	(36,356)	-
Net liability for KCWPF unpaid claims, end of year	<u>\$ 6,404,864</u>	<u>\$ 8,192,448</u>
Excess funds to be returned, beginning of year	\$ -	\$ 2,611,093
Excess funds adjustments	36,356	(331,228)
Settlement distributions to KY Coal Employers Self-Insured Guarantee Fund	(36,356)	(1,078,135)
Settlement distributions to active coal operators	-	(1,201,730)
Excess funds to be returned, end of year	<u>\$ -</u>	<u>\$ -</u>

AIK Comp Loss Portfolio Transfer – Effective July 1, 2022, KEMI entered into a loss portfolio transfer agreement with the Commissioner of Insurance of the Commonwealth of Kentucky, Rehabilitator of the AIK Comp (AIK) self insurance fund. Pursuant to this loss portfolio transfer, approximately \$5.7 million of AIK workers' compensation claim liabilities incurred prior to March 1, 1997 were transferred to KEMI by the Rehabilitator. In exchange for assuming responsibility for these claim liabilities and the handling thereof, KEMI received \$5.7 million in cash. As of December 31, 2023, AIK's cash balance was \$4,416,227. AIK reserves for unpaid losses and loss adjustment expenses are not discounted.

The net liability for AIK unpaid claims and the receivable for retroactive reinsurance assumed activity for the year ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Net liability for AIK unpaid claims, beginning of year	\$ 5,255,097	\$ -
Retroactive reinsurance reserves assumed	-	5,719,371
Losses and LAE paid, net	(797,560)	(436,693)
Reinsurance received	-	14,928
Other direct expenses paid	(41,310)	(42,509)
Net liability for AIK unpaid claims, end of year	<u>\$ 4,416,227</u>	<u>\$ 5,255,097</u>

Kentucky Coal Producers' Self-Insurance Fund Loss Portfolio Transfer – Effective July 1, 2022, KEMI entered into a loss portfolio transfer agreement with the Commissioner of Insurance of the Commonwealth of Kentucky, Rehabilitator of the Kentucky Coal Producers' Self-Insurance Fund ("KCP"). Pursuant to this loss portfolio transfer, approximately \$14.1 million of KCP workers' compensation claim liabilities incurred prior to November 1, 1991 were transferred to KEMI by the Rehabilitator. Any KCP claims arising under the Federal Black Lung Benefits Act are specifically excluded from this loss portfolio transfer agreement. In exchange for assuming responsibility for these claim liabilities and the handling thereof, KEMI received \$14,073,195 in cash. As of December 31, 2023,

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Note 7—Loss portfolio transfers (continued)

KCP's cash balance was \$13,069,420. KCP reserves for unpaid losses and loss adjustment expenses are not discounted.

The net liability for KCP unpaid claims and the receivable for retroactive reinsurance assumed activity for the year ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Net liability for KCP unpaid claims, beginning of year	\$ 13,722,780	\$ -
Retroactive reinsurance reserves assumed	-	14,073,195
Losses and LAE paid, net	(604,600)	(301,165)
Other direct expenses paid	(48,760)	(49,250)
Net liability for KCP unpaid claims, end of year	<u>\$ 13,069,420</u>	<u>\$ 13,722,780</u>

Note 8—Adverse development coverage

Effective December 31, 2019, KEMI entered into an agreement for adverse development coverage with two unaffiliated reinsurers, Swiss Reinsurance America Corporation (67.5%) and Hannover Ruck SE (22.5%); KEMI retained 10% of this coverage. The agreement relates to direct and assumed business, excluding all loss portfolio transfers, and provides KEMI with reinsurance protection against unfavorable development arising from existing and/or newly reported claims for accident years 2015 through 2019. In exchange for a total premium of \$30.5 million, KEMI obtained \$75 million of additional protection against unfavorable development for those accident years. The agreement provides for a Funds Withheld balance and includes a provision wherein KEMI may share in the reinsurer's ultimate profit, if any. As of December 31, 2023 no reserves have been ceded under this contract.

As of December 31, 2023 and 2022, Funds Withheld under this contract consisted of the following:

	<u>2023</u>	<u>2022</u>
Funds withheld	\$ 25,217,828	\$ 24,602,783
Profit sharing receivable	(23,130,000)	(23,130,000)
Total	<u>\$ 2,087,828</u>	<u>\$ 1,472,783</u>

Effective December 31, 2015, KEMI entered into an agreement for adverse development coverage with an unaffiliated reinsurer, Munich Reinsurance America, Inc. This agreement relates to direct and assumed business, excluding all loss portfolios, providing KEMI with reinsurance protection against unfavorable development arising from existing and/or newly reported claims for accident years 1995 through 2014. The contract was commuted, with a commutation effective date of September 30, 2022 at which time KEMI recognized a commutation gain of \$9,414,248 that was reflected in the 2022 statement of operations. As of December 31, 2022, retroactive reinsurance reserves ceded were \$17,062,629.

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Note 9—Leases

KEMI leases space for its main office under a noncancelable operating lease which expires December 31, 2034. The agreement also includes an option to extend the lease for an additional 60 months following the expiration on December 31, 2034. Rental expense under the lease was \$814,975 and \$803,167 for 2023 and 2022, respectively. KEMI also leases space for a satellite office under a noncancelable operating lease which expires May 31, 2027. Rental expense under this lease was \$68,139 and \$96,904 for 2023 and 2022, respectively.

The following is a summary of future minimum rental commitments for these leases:

2024	\$	826,245
2025		501,096
2026		502,436
2027		463,125
2028		434,643
Thereafter		<u>2,826,439</u>
	\$	<u><u>5,553,984</u></u>

Note 10—Retirement plans

Defined Benefit Pension and Postretirement Benefit Plans – Prior to July 1, 2016, all full-time KEMI employees were enrolled in a mandatory defined benefit pension plan regulated by the Kentucky Retirement Systems ("KRS"). KEMI voluntarily ceased participation in KRS effective June 30, 2016.

Effective July 1, 2016, KEMI established a contributory 401(a) defined benefit pension plan for which it is the plan sponsor. The plan provides pension benefits and a partial subsidy of retiree health insurance premiums for eligible KEMI employees who have chosen to participate in the plan. Benefit amounts are determined based on retirement age, salary history, participation date and years of service. Participating employees are required to contribute 6% of their salary to the defined benefit pension plan. These employer contribution rates will be evaluated as deemed necessary to ensure the financial soundness of the plan.

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Note 10—Retirement plans (continued)

As of December 31, 2023 and 2022, KEMI recorded the actuarially determined liabilities, non-admitted assets and net periodic costs for both the defined benefit pension plan and the retiree health insurance plan. A summary of assets, obligations and assumptions of these plans are as follows:

	Pension Benefits		Postretirement Benefits	
	2023	2022	2023	2022
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 43,955,617	\$ 44,893,267	\$ 2,379,909	\$ 3,048,949
Service cost	783,511	1,320,577	109,071	153,414
Interest cost	2,098,544	1,175,846	118,649	83,735
Contribution by plan participants	386,070	429,404	-	-
Actuarial (gain) loss	(1,107,802)	(3,568,281)	1,928,633	(864,174)
(Decrease) in PBO due to settlement	(10,235,100)	-	-	-
Benefits paid	(475,630)	(295,196)	(50,891)	(42,015)
Benefit obligation, end of year	<u>\$ 35,405,210</u>	<u>\$ 43,955,617</u>	<u>\$ 4,485,371</u>	<u>\$ 2,379,909</u>
	Pension Benefits		Postretirement Benefits	
	2023	2022	2023	2022
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 37,142,476	\$ 34,615,889	\$ 4,768,236	\$ 5,369,377
Actual return on plan assets	2,672,447	(3,735,729)	380,844	(559,126)
Reporting entity contribution	7,480,000	6,184,000	-	-
Plan participants' contributions	333,756	373,512	-	-
Benefits paid	(8,888,617)	(295,196)	(50,891)	(42,015)
Fair value of plan assets, end of year	<u>\$ 38,740,062</u>	<u>\$ 37,142,476</u>	<u>\$ 5,098,189</u>	<u>\$ 4,768,236</u>
Funded status:				
Asset (liability) for pension benefits	<u>\$ 3,334,852</u>	<u>\$ (6,813,141)</u>	<u>\$ 612,819</u>	<u>\$ 2,388,327</u>
Asset (liability) recognized:				
Assets (nonadmitted):				
Prepaid benefits costs	<u>\$ 10,367,322</u>	<u>\$ 8,577,618</u>	<u>\$ 1,535,842</u>	<u>\$ 1,557,844</u>
Components of net periodic benefit cost:				
Service cost	\$ 783,511	\$ 1,320,577	\$ 109,071	\$ 153,414
Interest cost	2,098,544	1,175,846	118,649	83,735
Expected return on plan assets	(1,475,952)	(1,422,403)	(189,327)	(212,867)
Recognized gains and losses	883,469	488,803	(156,856)	(148,705)
Settlement cost	799,208	-	-	-
Prior service cost recognized	2,935,272	2,935,272	140,465	140,465
Total net periodic benefit cost	<u>\$ 6,024,052</u>	<u>\$ 4,498,095</u>	<u>\$ 22,002</u>	<u>\$ 16,042</u>

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Note 10—Retirement plans (continued)

	Pension Benefits		Postretirement Benefits	
	2023	2022	2023	2022
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:				
Items not yet recognized as a component of net periodic cost - prior year	\$ 15,390,759	\$ 16,795,579	\$ (830,483)	\$ (746,542)
Net prior service cost or credit recognized	(2,935,272)	(2,935,272)	(140,465)	(140,465)
Net gain and loss arising during the year	(1,918,227)	2,019,255	1,737,115	(92,181)
Amount recognized due to Curtailment during the fiscal year	(2,621,321)	-	-	-
Net gain or loss recognized				
Items not yet recognized as a component of net periodic cost - current year	(883,469)	(488,803)	156,856	148,705
	<u>\$ 7,032,470</u>	<u>\$ 15,390,759</u>	<u>\$ 923,023</u>	<u>\$ (830,483)</u>
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost				
Net prior service cost or credit	\$ 2,935,272	\$ 2,935,272	\$ 140,465	\$ 140,465
Net recognized gains and losses	-	883,469	-	(156,856)
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost				
Net prior service cost or credit	\$ 3,669,086	\$ 6,604,358	\$ 862,684	\$ 1,003,149
Net recognized gains and losses	3,363,384	8,786,401	60,339	(1,833,632)

Weighted-average assumptions used to determine net periodic benefit cost as of December 31, 2023 and 2022:

	Pension Benefits		Postretirement Benefits	
	2023	2022	2023	2022
Weighted average discount rate	4.75%	4.95%	4.83%	5.06%
Expected long-term rate of return on plan assets	4.50%	4.00%	4.00%	4.00%
Rate of compensation increase	4.00%	3.00%	N/A	N/A

The amount of the accumulated benefit obligation for the defined benefit pension plan was \$31,031,271 and \$39,318,999 as of December 31, 2023 and 2022, respectively.

Measurement of postretirement health care benefits requires the use of certain assumptions about future health care costs. A maximum benefit of \$400 per month in subsidies for retiree health insurance premiums was assumed for 2020 and thereafter.

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Note 10—Retirement plans (continued)

For the defined benefit pension plan, retirees have the option of selecting either an annuity stream or a lump sum distribution discounted to present value at 6%. The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

	Pension Benefits	Postretirement Benefits
2024	\$ 1,479,782	\$ 85,237
2025	2,196,502	80,276
2026	3,100,400	91,241
2027	2,429,117	101,707
2028	1,899,633	137,811
2029 through 2033	18,369,907	892,663

The discount rate utilized in valuing the defined benefit pension obligation is determined by matching the FTSE Pension Discount Curve to the expected benefit payout stream and determining a single equivalent discount rate. The impact of the assumption changes identified in the tables above during 2023 resulted in an increase in the projected benefit obligation of \$1,811,010.

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Note 10—Retirement plans (continued)

Fair Value Measurements of Plan Assets as of December 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Defined benefit pension plan				
Assets:				
Money market mutual fund	\$ 1,362,519	\$ -	\$ -	\$ 1,362,519
Short-term bonds	92,260	-	-	92,260
Intermediate-term bonds	19,286,636	-	-	19,286,636
High yield bonds	73,873	-	-	73,873
Large-cap stocks	390,536	-	-	390,536
Mid-cap stocks	59,286	-	-	59,286
Small-cap stocks	40,683	-	-	40,683
Foreign stocks	260,041	-	-	260,041
Specialty	18,792	-	-	18,792
Cash Sweep	47,450	-	-	47,450
US Treasury Notes	-	13,805,906	-	13,805,906
Certificate of deposit	2,491,024	-	-	2,491,024
Investment Real Estate LP	-	-	811,056	811,056
Total plan assets	<u>\$ 24,123,100</u>	<u>\$ 13,805,906</u>	<u>\$ 811,056</u>	<u>\$ 38,740,062</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Postretirement benefit plan				
Assets (mutual funds)				
Short-term bonds	\$ 968,656	\$ -	\$ -	\$ 968,656
Intermediate-term bonds	3,058,914	-	-	3,058,914
High yield bonds	203,928	-	-	203,928
Large-cap stocks	407,855	-	-	407,855
Mid-cap stocks	50,982	-	-	50,982
Small-cap stocks	50,982	-	-	50,982
Foreign stocks	254,909	-	-	254,909
Specialty	101,964	-	-	101,964
Total plan assets	<u>\$ 5,098,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,098,190</u>

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
DBA KENTUCKY EMPLOYERS' MUTUAL INSURANCE
NOTES TO THE STATUTORY FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

Note 10—Retirement plans (continued)

Fair Value Measurements of Plan Assets as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Defined benefit pension plan:				
Assets:				
Short-term bonds	\$ 5,269,567	\$ -	\$ -	\$ 5,269,567
Intermediate-term bonds	22,132,180	-	-	22,132,180
High yield bonds	1,405,218	-	-	1,405,218
Large-cap stocks	3,161,740	-	-	3,161,740
Mid-cap stocks	351,304	-	-	351,304
Small-cap stocks	351,304	-	-	351,304
Foreign stocks	1,756,522	-	-	1,756,522
Specialty	702,609	-	-	702,609
Cash sweep	163,684	-	-	163,684
US Treasury notes	1,707,750	-	-	1,707,750
Investment Real Estate LP	-	-	140,598	140,598
Total plan assets	<u>\$ 37,001,878</u>	<u>\$ -</u>	<u>\$ 140,598</u>	<u>\$ 37,142,476</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Postretirement benefit plan :				
Assets (mutual funds):				
Short-term bonds	\$ 905,965	\$ -	\$ -	\$ 905,965
Intermediate-term bonds	2,860,941	-	-	2,860,941
High yield bonds	190,729	-	-	190,729
Large-cap stocks	381,459	-	-	381,459
Mid-cap stocks	47,682	-	-	47,682
Small-cap stocks	47,682	-	-	47,682
Foreign stocks	238,412	-	-	238,412
Specialty	95,364	-	-	95,366
Total plan assets	<u>\$ 4,768,234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,768,236</u>

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
DBA KENTUCKY EMPLOYERS' MUTUAL INSURANCE
NOTES TO THE STATUTORY FINANCIAL STATEMENTS**

DECEMBER 31, 2023 AND 2022

Note 10—Retirement plans (continued)

Defined Contribution Plans – Effective July 1, 2016, KEMI established a 401(a) defined contribution plan for which it is the plan sponsor. Participation in the plan is not mandatory; however, employees who elect to participate are required to contribute 6% of their salary to the plan. Employees who have chosen to participate in the 401(a) defined benefit pension plan are not eligible to participate in the 401(a) defined contribution plan. KEMI provides matching funds of 6% for participants hired on or after July 1, 2016; an enhanced match and access to the retiree health insurance plan is provided for participants hired prior to July 1, 2016 who were previously members of KRS. KEMI also established a 457(b) plan effective July 1, 2016, for which it is the plan sponsor and to which employees may elect to contribute additional elective deferrals. During 2023 and 2022, KEMI contributed matching funds of \$1,410,279 and \$1,234,440, respectively, to the 401(a) defined contribution plan. KEMI does not contribute matching funds to the 457(b) plan. Participants are fully vested after sixty months of service.

Note 11—Federal income taxes

As described in Note 1, KEMI is a political subdivision of the Commonwealth and was created by legislation to serve as the insurer of last resort as well as a competitive force to stabilize the workers' compensation market in Kentucky. The Commonwealth provided KEMI's initial funding and continues to influence KEMI through Governor appointed board members and through the role of oversight. The Internal Revenue Service has determined that KEMI is a tax-exempt entity pursuant to Internal Revenue Code section §501(c)(27) and, therefore, is not subject to federal income taxes. Accordingly, the statutory basis financial statements do not include a provision for federal income taxes.

Note 12—Contingencies

KEMI is involved in litigation and may become involved in potential litigation arising in the ordinary course of business. Additionally, KEMI may be impacted by adverse regulatory actions and adverse court decisions where insurance coverages are expanded beyond the scope originally contemplated in the policies. In the opinion of management, the effects, if any, of such litigation and published court decisions to date are not expected to be material to the statutory basis financial statements.

Note 13—Statutory requirements

Under the insurance regulations of the Commonwealth of Kentucky, the amount of dividends that KEMI may pay to its policyholders is limited to the excess of actuarially determined minimum policyholder surplus requirements. Actuarially determined minimum policyholder surplus takes into consideration the company's present liabilities as well as management's expectation of future business volumes, claims activity and investment performance. The Commonwealth of Kentucky's statutory minimum policyholder surplus requirement is \$1,500,000.

SUPPLEMENTARY INFORMATION

ANNUAL STATEMENT FOR THE YEAR 2023 OF THE KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage of Column 1 Line 13	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage of Column 5 Line 13
1. Long-Term Bonds (Schedule D, Part 1):						
1.01 U.S. governments	23,441,202	2.119	23,441,202		23,441,202	2.119
1.02 All other governments	1,023,165	0.092	1,023,165		1,023,165	0.092
1.03 U.S. states, territories and possessions, etc. guaranteed	5,394,909	0.488	5,394,909		5,394,909	0.488
1.04 U.S. political subdivisions of states, territories, and possessions, guaranteed	8,229,671	0.744	8,229,671		8,229,671	0.744
1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	125,742,078	11.365	125,742,078		125,742,078	11.365
1.06 Industrial and miscellaneous	816,168,863	73.767	816,168,862		816,168,862	73.767
1.07 Hybrid securities	3,133,086	0.283	3,133,086		3,133,086	0.283
1.08 Parent, subsidiaries and affiliates		0.000				0.000
1.09 SVO identified funds		0.000				0.000
1.10 Unaffiliated bank loans		0.000				0.000
1.11 Unaffiliated certificates of deposit		0.000				0.000
1.12 Total long-term bonds	983,132,973	88.857	983,132,973		983,132,973	88.857
2. Preferred stocks (Schedule D, Part 2, Section 1):						
2.01 Industrial and miscellaneous (Unaffiliated)	1,751,725	0.158	1,751,725		1,751,725	0.158
2.02 Parent, subsidiaries and affiliates		0.000				0.000
2.03 Total preferred stocks	1,751,725	0.158	1,751,725		1,751,725	0.158
3. Common stocks (Schedule D, Part 2, Section 2):						
3.01 Industrial and miscellaneous Publicly traded (Unaffiliated)	66,856,600	6.043	66,856,600		66,856,600	6.043
3.02 Industrial and miscellaneous Other (Unaffiliated)	439,304	0.040	439,304		439,304	0.040
3.03 Parent, subsidiaries and affiliates Publicly traded		0.000				0.000
3.04 Parent, subsidiaries and affiliates Other		0.000				0.000
3.05 Mutual funds		0.000				0.000
3.06 Unit investment trusts		0.000				0.000
3.07 Closed-end funds		0.000				0.000
3.08 Exchange traded funds		0.000				0.000
3.09 Total common stocks	67,295,904	6.082	67,295,904		67,295,904	6.082
4. Mortgage loans (Schedule B):						
4.01 Farm mortgages		0.000				0.000
4.02 Residential mortgages		0.000				0.000
4.03 Commercial mortgages		0.000				0.000
4.04 Mezzanine real estate loans		0.000				0.000
4.05 Total valuation allowance		0.000				0.000
4.06 Total mortgage loans		0.000				0.000
5. Real estate (Schedule A):						
5.01 Properties occupied by company		0.000				0.000
5.02 Properties held for production of income		0.000				0.000
5.03 Properties held for sale	4,025,000	0.364	4,025,000		4,025,000	0.364
5.04 Total real estate	4,025,000	0.364	4,025,000		4,025,000	0.364
6. Cash, cash equivalents and short-term investments:						
6.01 Cash (Schedule E, Part 1)	15,963,106	1.443	15,963,106		15,963,106	1.443
6.02 Cash equivalents (Schedule E, Part 2)	21,410,338	1.935	21,410,338		21,410,338	1.935
6.03 Short-term investments (Schedule DA)		0.000				0.000
6.04 Total cash, cash equivalents and short-term investments	37,373,444	3.378	37,373,444		37,373,444	3.378
7. Contract loans		0.000				0.000
8. Derivatives (Schedule DB)		0.000				0.000
9. Other invested assets (Schedule BA)	12,801,986	1.157	12,801,986		12,801,986	1.157
10. Receivables for securities	35,611	0.003	35,611		35,611	0.003
11. Securities Lending (Schedule DL, Part 1).....		0.000		XXX	XXX	XXX
12. Other invested assets (Page 2, Line 11)		0.000				0.000
13. Total invested assets	1,106,416,643	100.000	1,106,416,644		1,106,416,644	100.000



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2023
(To Be Filed by April 1)

Of The KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY.....
ADDRESS (City, State and Zip Code) Lexington , KY 40507-1724
NAIC Group Code 0000 NAIC Company Code 10320 Federal Employer's Identification Number (FEIN) 61-1275981

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement.\$ 1,174,167,843

2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Federal National Mortgage Association	CMO, MBS	\$ 58,103,153	4.9 %
2.02	Federal Home Loan Mortgage Corporation	CMO, MBS	\$ 43,376,945	3.7 %
2.03	ElmTree Fund V G.P., L.L.C	Sch BA-Joint Venture	\$ 12,801,986	1.1 %
2.04	Comcast Corporation	Bonds, Equity	\$ 7,290,436	0.6 %
2.05	JPMorgan Chase & Co.	Bonds, Equity	\$ 7,075,760	0.6 %
2.06	Morgan Stanley	Bonds, Equity	\$ 6,815,976	0.6 %
2.07	Target Corporation	Bonds, Equity	\$ 6,412,150	0.5 %
2.08	The PNC Financial Services Group, Inc.	Bonds, Equity	\$ 6,353,968	0.5 %
2.09	CVS Health Corporation	Bonds, Equity	\$ 6,272,562	0.5 %
2.10	RTX Corporation	Bonds, Equity	\$ 6,235,467	0.5 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	Bonds	1	2	Preferred Stocks	3	4	
3.01	NAIC 1	\$ 676,017,228	57.6 %	3.07	NAIC 1	\$ 1,751,725	0.1 %
3.02	NAIC 2	\$ 281,518,209	24.0 %	3.08	NAIC 2	\$	%
3.03	NAIC 3	\$ 22,480,809	1.9 %	3.09	NAIC 3	\$	%
3.04	NAIC 4	\$ 1,411,792	0.1 %	3.10	NAIC 4	\$	%
3.05	NAIC 5	\$	%	3.11	NAIC 5	\$	%
3.06	NAIC 6	\$ 1,704,935	0.1 %	3.12	NAIC 6	\$	%

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]
If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02 Total admitted assets held in foreign investments..... \$117,056,45010.0 %

4.03 Foreign-currency-denominated investments \$ %

4.04 Insurance liabilities denominated in that same foreign currency \$ %

SUPPLEMENT FOR THE YEAR 2023 OF THE KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

	1	2
5.01 Countries designated NAIC-1	\$ 111,231,307	9.5 %
5.02 Countries designated NAIC-2	\$ 3,527,283	0.3 %
5.03 Countries designated NAIC-3 or below	\$ 2,297,860	0.2 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

	1	2
Countries designated NAIC - 1:		
6.01 Country 1: Cayman Islands	\$ 35,596,812	3.0 %
6.02 Country 2: United Kingdom	\$ 28,721,213	2.4 %
Countries designated NAIC - 2:		
6.03 Country 1: Mexico	\$ 2,972,637	0.3 %
6.04 Country 2: Peru	\$ 554,646	%
Countries designated NAIC - 3 or below:		
6.05 Country 1: Virgin Islands, British	\$ 1,497,860	0.1 %
6.06 Country 2: Jamaica	\$ 800,000	0.1 %

7. Aggregate unhedged foreign currency exposure

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

	1	2
8.01 Countries designated NAIC-1	\$	%
8.02 Countries designated NAIC-2	\$	%
8.03 Countries designated NAIC-3 or below	\$	%

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

	1	2
Countries designated NAIC - 1:		
9.01 Country 1:	\$	%
9.02 Country 2:	\$	%
Countries designated NAIC - 2:		
9.03 Country 1:	\$	%
9.04 Country 2:	\$	%
Countries designated NAIC - 3 or below:		
9.05 Country 1:	\$	%
9.06 Country 2:	\$	%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1	2	3	4
	Issuer	NAIC Designation		
10.01 Barclays PLC	2FE	.....	\$ 5,331,870	0.5 %
10.02 BNP Paribas SA	1FE, 2FE	.....	\$ 3,802,757	0.3 %
10.03 UBS Group AG	1FE	.....	\$ 3,133,086	0.3 %
10.04 Macquarie Group Limited	1FE	.....	\$ 3,033,881	0.3 %
10.05 Diageo Capital plc	1FE	.....	\$ 2,769,103	0.2 %
10.06 Vodafone Group Public Limited Company	2FE	.....	\$ 2,526,912	0.2 %
10.07 Lsega Financing PLC	1FE	.....	\$ 2,498,587	0.2 %
10.08 BPCE S.A.	1FE	.....	\$ 2,494,841	0.2 %
10.09 Scentre Group Trust 1	1FE	.....	\$ 2,178,371	0.2 %
10.10 GlaxoSmithKline Capital plc	1FE	.....	\$ 2,093,450	0.2 %

SUPPLEMENT FOR THE YEAR 2023 OF THE KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.

	1	2	
11.02 Total admitted assets held in Canadian investments	\$	\$	%
11.03 Canadian-currency-denominated investments	\$	\$	%
11.04 Canadian-denominated insurance liabilities	\$	\$	%
11.05 Unhedged Canadian currency exposure	\$	\$	%

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3	
12.02 Aggregate statement value of investments with contractual sales restrictions	\$	\$	\$	%
Largest three investments with contractual sales restrictions:				
12.03	\$	\$	\$	%
12.04	\$	\$	\$	%
12.05	\$	\$	\$	%

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]
 If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Issuer	2	3	
13.02 ELMTREE FUND V G.P., L.L.C	\$	12,801,986	1.1	%
13.03 Carlyle Tactical Private Credit Fund	\$	1,751,725	0.1	%
13.04 Broadcom Inc.	\$	1,461,171	0.1	%
13.05 CVS Health Corporation	\$	1,403,672	0.1	%
13.06 Morgan Stanley	\$	1,403,319	0.1	%
13.07 Caterpillar Inc.	\$	1,401,771	0.1	%
13.08 QUALCOMM Incorporated	\$	1,357,786	0.1	%
13.09 The PNC Financial Services Group, Inc.	\$	1,356,176	0.1	%
13.10 Texas Instruments Incorporated	\$	1,336,918	0.1	%
13.11 Bank of America Corporation	\$	1,323,938	0.1	%

SUPPLEMENT FOR THE YEAR 2023 OF THE KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 14.01 above is yes, responses are not required for 14.02 through 14.05.

	<u>1</u>	<u>2</u>	<u>3</u>	
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities .....	\$ .....	.....	%
	Largest three investments held in nonaffiliated, privately placed equities:			
14.03	.....	\$ .....	.....	%
14.04	.....	\$ .....	.....	%
14.05	.....	\$ .....	.....	%

Ten largest fund managers:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	<u>Fund Manager</u>	<u>Total Invested</u>	<u>Diversified</u>	<u>Nondiversified</u>
14.06	First American Funds, Inc. - Government Obligations Fund	\$ 21,410,338	\$ 21,410,338	\$
14.07	\$	\$	\$
14.08	\$	\$	\$
14.09	\$	\$	\$
14.10	\$	\$	\$
14.11	\$	\$	\$
14.12	\$	\$	\$
14.13	\$	\$	\$
14.14	\$	\$	\$
14.15	\$	\$	\$

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	<u>1</u>	<u>2</u>	<u>3</u>	
15.02	Aggregate statement value of investments held in general partnership interests .....	\$ .....	.....	%
	Largest three investments in general partnership interests:			
15.03	.....	\$ .....	.....	%
15.04	.....	\$ .....	.....	%
15.05	.....	\$ .....	.....	%

SUPPLEMENT FOR THE YEAR 2023 OF THE KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
	Type (Residential, Commercial, Agricultural)		
16.02	\$ %
16.03	\$ %
16.04	\$ %
16.05	\$ %
16.06	\$ %
16.07	\$ %
16.08	\$ %
16.09	\$ %
16.10	\$ %
16.11	\$ %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans
16.12	Construction loans	\$ %
16.13	Mortgage loans over 90 days past due	\$ %
16.14	Mortgage loans in the process of foreclosure	\$ %
16.15	Mortgage loans foreclosed	\$ %
16.16	Restructured mortgage loans	\$ %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan to Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%.....	\$ %	\$ %	\$ %
17.02 91 to 95%.....	\$ %	\$ %	\$ %
17.03 81 to 90%.....	\$ %	\$ %	\$ %
17.04 71 to 80%.....	\$ %	\$ %	\$ %
17.05 below 70%.....	\$ %	\$ %	\$ %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description	2	3
	1		
18.02	\$ %
18.03	\$ %
18.04	\$ %
18.05	\$ %
18.06	\$ %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02	Aggregate statement value of investments held in mezzanine real estate loans:	\$ %
	Largest three investments held in mezzanine real estate loans:		
19.03	.....	\$ .....	..... %
19.04	.....	\$ .....	..... %
19.05	.....	\$ .....	..... %

SUPPLEMENT FOR THE YEAR 2023 OF THE KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year End		1st Quarter 3	At End of Each Quarter		3rd Quarter 5
	1	2		2nd Quarter 4		
20.01 Securities lending agreements (do not include assets held as collateral for such transactions) \$		%	\$	\$	\$	
20.02 Repurchase agreements		%	\$	\$	\$	
20.03 Reverse repurchase agreements		%	\$	\$	\$	
20.04 Dollar repurchase agreements		%	\$	\$	\$	
20.05 Dollar reverse repurchase agreements		%	\$	\$	\$	

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		3	Written	
	1	2		4	
21.01 Hedging	\$	%	\$		%
21.02 Income generation	\$	%	\$		%
21.03 Other	\$	%	\$		%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year End		1st Quarter 3	At End of Each Quarter		3rd Quarter 5
	1	2		2nd Quarter 4		
22.01 Hedging	\$	%	\$	\$	\$	
22.02 Income generation	\$	%	\$	\$	\$	
22.03 Replications	\$	%	\$	\$	\$	
22.04 Other	\$	%	\$	\$	\$	

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year End		1st Quarter 3	At End of Each Quarter		3rd Quarter 5
	1	2		2nd Quarter 4		
23.01 Hedging	\$	%	\$	\$	\$	
23.02 Income generation	\$	%	\$	\$	\$	
23.03 Replications	\$	%	\$	\$	\$	
23.04 Other	\$	%	\$	\$	\$	

GENERAL INTERROGATORIES

PART 2 - PROPERTY AND CASUALTY INTERROGATORIES

- 6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss?
 KEMI limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by maintaining adequate excess of loss reinsurance contracts with various unaffiliated reinsurers.
- 6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process.
 KEMI writes workers' compensation coverage in the Commonwealth of Kentucky. Actuarial consulting, rate analyses and reserve analyses are performed by KEMI's third party actuarial firm Milliman, Inc.
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?
 KEMI does not write property insurance coverage.
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? Yes [X] No []
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to unreinsured catastrophic loss.

- 7.1 Has this 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 [X] No []
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions: 1
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?..... Yes [X] No []
- 8.1 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 [X]
- 8.2 If yes, give full information

- 9.1 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 is noncancellable by the reporting entity during the contract term;
 (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 (c) Aggregate stop loss reinsurance coverage;
 (d) 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 [X]
- 9.2 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
 (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 [X]
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
 (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 9.1 or 9.2; and
 (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 36 of SSAP No. 62R - 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 [X]
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.
- 9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:
 (a) The entity does not utilize reinsurance; or, Yes [] No [X]
 (b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or Yes [] No [X]
 (c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement. Yes [] No [X]
10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? Yes [X] No [] N/A []